

PUBLIC DEBT LIMIT

HEARING
BEFORE THE
COMMITTEE ON FINANCE
UNITED STATES SENATE
EIGHTY-SEVENTH CONGRESS
FIRST SESSION
ON
H.R. 7677

AN ACT TO INCREASE FOR A 1-YEAR PERIOD THE PUBLIC
DEBT LIMIT SET FORTH IN SECTION 21 OF
THE SECOND LIBERTY BOND ACT

JUNE 27, 1961

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PUBLIC DEBT LIMIT

TUESDAY, JUNE 27, 1961

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

The committee met, pursuant to notice, at 10:25 a.m., in room 2221, New Senate Office Building, Hon. Harry F. Byrd (chairman) presiding.

Present: Senators Byrd, Long, Smathers, McCarthy, Hartke, Williams, Carlson, Bennett, Butler, Curtis, and Morton.

Also present: Elizabeth B. Springer, chief clerk.

The CHAIRMAN. The committee will come to order.

The bill before the committee is H.R. 7677.

(The bill referred to, H.R. 7677, follows:)

[H.R. 7677, 87th Cong., 1st sess.]

AN ACT To increase for a one-year period the public debt limit set forth in section 21 of the Second Liberty Bond Act.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That, during the period beginning on July 1, 1961, and ending on June 30, 1962, the public debt limit set forth in the first sentence of section 21 of the Second Liberty Bond Act, as amended (31 U.S.C. 757b), shall be temporarily increased by \$13,000,000,000.

Passed the House of Representatives June 26, 1961.

Attest:

RALPH R. ROBERTS, *Clerk.*

The CHAIRMAN. We are ready to hear the distinguished Secretary of the Treasury, Mr. Dillon.

Please proceed, Mr. Dillon.

STATEMENT OF THE HONORABLE DOUGLAS DILLON, SECRETARY OF THE TREASURY

Secretary DILLON. Thank you, Mr. Chairman.

Mr. Chairman and members of the committee, I am here today in support of a new temporary limit of \$298 billion on the public debt for the fiscal year 1962.

Under the existing legislation, the current temporary ceiling of \$293 billion reverts at the end of this month to \$285 billion. On that date, June 30, 1961, which is now just a few days away, we estimate that the public debt subject to limitation will be about \$289 billion. This is expected to include a cash balance of approximately \$5½ billion, which is about the usual balance for the end of the fiscal year.

During the next 12 months—the fiscal year 1962—we expect revenues to fall short of expenditures. On the assumption that we are able to close out fiscal year 1962 with a minimum working cash balance as low as \$3.5 billion, we estimate a total public debt subject

to limitation of about \$290 billion on June 30, 1962. Because of normal seasonal factors, however, the end-of-June debt position is generally well below the high point reached during the fiscal year. Our current projections—as shown in the attached table—indicate a net increase of about \$6 billion in the public debt for the rest of the calendar year to a high of about \$295 billion in December.

In addition, it is prudent to set the debt limit at a level that makes a reasonable provision 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 margin, I believe that an allowance of \$3 billion—the same allowance that has been made in previous years—should be added to the projected high point of \$295 billion in the public debt during fiscal year 1962. This clearly indicates the need for a temporary debt ceiling of \$298 billion in the forthcoming fiscal year.

As you know, setting the temporary debt limit at \$298 billion is by no means a “license” to spend freely out of borrowings up to that amount. Federal expenditures are determined on the basis of congressional authorizations and appropriations, and I am wholeheartedly in support of observing strict discipline in weighing the merits of the many competing demands for additional expenditures.

If the Congress wished to set limits on its own actions in authorizing expenditures, it could do so directly by placing a ceiling on new spending authorizations in any year. There is no way by which the debt ceiling can be effective in limiting congressional authorizations to spend, because there is no direct and immediate connection between congressional authorizations and their effects on the public debt which will be felt months or even years later, when the spending actually takes place.

In arriving at the projected need for a temporary debt ceiling of \$298 billion, the latest budget estimates have been taken into account, including full allowance for all of the new or expanded programs recommended by the President in his message of May 25 on “Urgent National Needs.”

Budget outlays for fiscal 1962 are now estimated at \$85.1 billion. The increase of \$800 million from the \$84.3 billion figure reported in late March largely represents additional funds for space exploration, defense and military assistance, expanded lending to small business, and programs to alleviate structural unemployment. Budget revenues are still estimated at \$81.4 billion, the same as reported in March, indicating a deficit of \$3.7 billion.

These spending and revenue projections have been based on the assumption that the Congress would act favorably on the President’s recommendations to put the highway building program on a fully self-sustaining basis, to eliminate the postal deficit by raising postal rates, and to maintain various tax rates otherwise scheduled for reduction or termination.

Since the preparation of these estimates the Congress has acted favorably on the President’s request for continuation of existing tax rates. In addition, the Congress has completed action on the highway financing bill which avoids any diversion of general revenues during fiscal 1962.

However, there has as yet been no action on postal rate increases which were recommended in the amount of \$741 million. If the Con-

gress fails to act on this legislation the expected fiscal 1962 deficit would be increased to \$4.4 billion, and the Treasury's margin of flexibility would be reduced to \$2¼ billion.

I might add that the currently projected budget deficit of \$3.7 billion for the fiscal year 1962 compares with deficits of \$4.2 billion and \$12.4 billion in the fiscal years following the two previous business recessions, the fiscal years 1955 and 1959.

It may seem incongruous that with a vigorous recovery already underway, we nonetheless expect a deficit next year. The reason for this deficit is simple. Corporate income tax revenues, as you know, are highly important in our overall revenue structure. But the corporate tax revenues which will be available to us in fiscal 1962 will be based on corporate profits during the present calendar year which includes the lowest point of the recession.

In effect, while the economy is recovering, our corporate income tax revenues will still be at recession levels. The same applies to a somewhat lesser extent to individual income tax collections above the standard withholding deductions, because these collections are largely dependent on incomes realized during calendar year 1961. Therefore, the coming fiscal year will be one of a continued recession revenues as far as the Federal Government is concerned.

On the spending side, the latest estimates indicate that the January budget underestimated expenditures for going programs by about \$400 million. In addition, President Kennedy has proposed certain national defense, promoting a healthy and vigorously growing economy at home, and meeting the challenge of space exploration.

Total budgetary expenditures for these new proposals in fiscal year 1962 are expected to amount to \$3.8 billion. The main increases in spending that we expect for 1962, compared with those in the January budget message, are for defense, extended unemployment compensation, aid to education, agricultural programs, and space exploration.

The spending for unemployment compensation is under a program very similar to what was done in 1958. A substantial portion of the additional spending on agricultural programs represents the use of more realistic assumptions in preparing our spending estimates.

In the areas of defense spending and space exploration, the force of external events has called for additional programs that would and should have been undertaken, in some form, whatever administration was in office. In short, in my view the budget changes since January simply do not add up to the picture of unrestrained spending that some have sought to draw.

Moreover, the deficit now anticipated for fiscal year 1962 will not have an inflationary impact on our economy. For while we do expect the economy throughout this period to be recovering sturdily, the period as a whole will not be one of full prosperity. For today there is substantial unused capacity in every part of our industrial structure, and most seriously in our labor force. Rather than creating the inflationary pressures that are inevitably associated with deficits in times of full employment, the deficit we anticipate in the coming fiscal year will be helpful in putting our unused plant capacity and labor force to work.

Looking further ahead we can and do foresee a sharp increase in revenues in fiscal year 1963. This follows the same pattern as in previous recovery periods.

Revenues increased very substantially in the fiscal years 1956 and 1960. In fact, during fiscal year 1960 the increase over the preceding year amounted to \$9.8 billion. While naturally we cannot make any firm prediction at this point, I believe it is a reasonable expectation that we will be able to present a budget for fiscal year 1963 in which receipts exceed expenditures. 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 when revenues decline and the economy needs the stimulus of additional expenditures, and running a surplus in years of prosperity, thus curbing inflation, reducing the public debt, and freeing funds for private investment.

This statement by President Kennedy clearly outlines our budgetary policy, a policy from which we have never wavered.

Our projections of the public debt at semimonthly intervals during the fiscal year 1962 are shown in the first table attached to my statement. One important assumption in preparing these projections is that the Treasury's operating balance at the Federal Reserver banks and private commercial banks would hold steady throughout the period at \$3.5 billion.

This is actually a rather low working balance for an operation as large and as subject to sharp fluctuations in receipts and expenditures as is the management of the Treasury's cash position. A balance of \$3.5 billion 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 the averaged business corporation.

In fact, as shown in the second attached table, the operating balance has been more often above than below \$3.5 billion during the fiscal year now ending. It has averaged closer to \$5 billion than to \$3.5 billion, and this has provided a highly desirable and 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 revenues and expenditure estimates that the \$3 billion margin has been added to our calculation of the appropriate debt ceiling.

As you can see from the first table, our debt projections, plus the \$3 billion allowance for flexibility, will reach a high point of \$298 billion during the winter months. A temporary limit of that amount should give us sufficient elbowroom for maximum efficiency of operations and yet not impair any useful 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 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 addition the Treasury in its own borrowings has at times had to defer borrowings because of the limitations of too little margin under the debt ceiling.

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 prompt approval by this committee.

(Tables I and II, referred to, follow:)

TABLE I.—Forecast of public debt outstanding, fiscal year 1962, based on constant operating cash balance of \$3,500,000,000 (excluding free gold) (based on assumed budget deficit of \$3,700,000,000)¹

[In billions]

	Operating balance, Federal Reserve banks and depositories (excluding free gold)	Public debt subject to limitation	Allowance to provide flexibility in financing and for contingencies	Total public debt limitation required ²
<i>1961</i>				
June 30.....	\$3.5	\$286.4	\$3	\$289.4
July 15.....	3.5	288.6	3	291.6
July 31.....	3.5	289.6	3	292.6
Aug. 15.....	3.5	289.9	3	292.9
Aug. 31.....	3.5	290.1	3	290.1
Sept. 15.....	3.5	291.9	3	294.9
Sept. 30.....	3.5	288.2	3	291.2
Oct. 15.....	3.5	290.7	3	293.7
Oct. 31.....	3.5	292.2	3	295.2
Nov. 15.....	3.5	293.0	3	296.0
Nov. 30.....	3.5	292.8	3	295.8
Dec. 15.....	3.5	294.9	3	297.9
Dec. 31.....	3.5	292.4	3	295.4
<i>1962</i>				
Jan. 15.....	3.5	294.9	3	297.9
Jan. 31.....	3.5	294.0	3	297.0
Feb. 15.....	3.5	294.1	3	297.1
Feb. 28.....	3.5	293.2	3	296.2
Mar. 15.....	3.5	294.7	3	297.7
Mar. 31.....	3.5	291.2	3	294.2
Apr. 15.....	3.5	293.4	3	296.4
Apr. 30.....	3.5	292.7	3	295.7
May 15.....	3.5	291.9	3	294.9
May 31.....	3.5	292.3	3	295.3
June 15.....	3.5	293.6	3	296.6
June 30.....	3.5	290.1	3	293.1

¹ Incorporates estimated budget revenues of \$31,400,000,000 and estimated expenditures of \$85,100,000,000. 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.

² 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 depositories (excluding free gold)	Public debt subject to limitation.
July 15, 1960.....	\$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
Jan. 15, 1961.....	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 billion. Thereafter it will revert to \$285 billion.

The CHAIRMAN. Thank you very much, Mr. Secretary.

Mr. Secretary, what was the debt on June 30, 1960?

Secretary DILLON. The public debt on June 30, 1960, was \$286 billion.

The CHAIRMAN. Is it the same, then, on June 30, 1961?

Secretary DILLON. On June 30, 1961, the forthcoming fiscal year end, we estimate about \$289 billion.

The CHAIRMAN. You mean on June 30, 1960, the debt was \$286 billion?

Secretary DILLON. Yes.

The CHAIRMAN. You have in your statement here, on June 30, 1961, it was \$286 billion.

Secretary DILLON. That is on the table that we are looking at.

The CHAIRMAN. That is not the actual debt.

Secretary DILLON. It has a star there opposite that and a footnote, which indicates that because the actual operating balance on June 30 is expected to be considerably larger—

The CHAIRMAN. The actual debt a year ago was \$286 billion. What is the actual debt today?

Secretary DILLON. \$289 billion.

The CHAIRMAN. Then the increase in 1 year is \$3 billion?

Secretary DILLON. Yes; that is right.

The CHAIRMAN. What is the estimated debt on June 30, 1962?

Secretary DILLON. The estimated debt at that date, including an estimated cash balance of \$3½ billion, would be \$290 billion. If we had the same cash balance June 30 next year as we will have this June 30, it will be about \$292 billion.

The CHAIRMAN. Are you not estimating the same cash balance for each of these years?

Secretary DILLON. We always, for this purpose, estimate a steady and fixed cash balance of \$3½ billion. That has been the custom. Actually, it varies as tax collections come in. The end of the fiscal year happens to be a period when the cash balance is often a little higher, because we have a lot of receipts on June 15. That is one of our times of largest receipts.

The CHAIRMAN. What will be the deficit for the fiscal year that ends on Friday?

Secretary DILLON. For the fiscal year that ends on Friday, we are estimating a deficit of about \$3 billion. It may be slightly under that.

The CHAIRMAN. That does not include the recommendations to increase taxes? Of course, we could not pass any in that time anyway.

Secretary DILLON. No.

The CHAIRMAN. What will be the deficit for next fiscal year?

Secretary DILLON. The deficit for next fiscal year is estimated at \$3.7 billion. However, as I pointed out in my statement, that assumes the Congress will take action on postal rates, which they have not yet done. If they do not take such action, as I pointed out in my statement the deficit will be \$700 million larger, or a total of \$4.4 billion.

The CHAIRMAN. And the deficit for the 2 years would be \$3.7 billion and \$4.4 billion; is that correct?

Secretary DILLON. The deficit for this year would be \$3 billion or something just under, and for next year, either \$3.7 billion or \$4.4 billion, whichever we want to figure it, so it is somewhere between \$6.7 billion and \$7.4 billion for the 2 years.

The CHAIRMAN. For the 2 years, it would be between \$7 billion and \$8 billion?

Mr. DILLON. If there is no action on postal rates this year.

The CHAIRMAN. Now, Mr. Secretary, you have been quoted repeatedly in the newspapers that you think deficits are "appropriate." Does that word "appropriate" have any relation to the size of the debt? Suppose we owed \$350 billion or something. What did you mean—I was a little puzzled when I saw it—that any deficit would be appropriate if it could not be avoided.

Secretary DILLON. That was just quoted as "deficits are appropriate," which I never said. I said certain very specific deficits in amount and in time, depending on the economy, are appropriate, because when the economy is in recession, our incomes fall very abruptly. In fact, expected income for this fiscal year fell a total of about \$5 billion from the time the first estimates were made, before it was obvious that there was going to be a recession.

I do not feel that it is proper, at such a time, to try to cut back expenditures to meet the drop in recession revenues, because that would just put more people out of work and increase the severity of the recession.

In the part of President Kennedy's message which I read, he said that the budget—and that is my belief also—

should be in balance over the years of the business cycle, running a deficit in years of recession when revenues decline and the economy needs the stimulus of additional expenditures.

At such a time, I think a deficit, provided it is a moderate and reasonable deficit, is appropriate. I do not think that deficits as

deficits, or all the time, are appropriate at all. I never have thought that and never have said that.

The CHAIRMAN. Is it not a fact that we have only balanced the budget three times in the last 30 years?

Secretary DILLON. No; I count 5 in the last 14 years. I am counting here from 1948.

The CHAIRMAN. I think we have had fewer balances, perhaps, of any consequence.

Senator CURTIS. Will the chairman yield on that?

The CHAIRMAN. Yes.

Senator CURTIS. Does that include back there about 1945 or 1946, the war ended abruptly and we had borrowed more money than we needed and it was really turned back to the purchasers of Government bonds? Is that counted as one of the years in which the budget was balanced?

Secretary DILLON. These figures go back to 1948, and in that year there was a very substantial surplus of \$8.4 billion. The other surpluses are later and much smaller. The next biggest one was in 1951, which was \$3½ billion. Then there were surpluses of about a billion and a half dollars each in 1956 and 1957, and a billion and a quarter in 1960.

Senator CURTIS. I beg the chairman's pardon for intruding, but there was a year when we reduced the national debt and yet operated at a deficit, because we borrowed more money than we needed.

Senator WILLIAMS. But that is reflected as a debt and does not change the budgetary balance as to surpluses and deficits.

Senator CURTIS. That is right.

The CHAIRMAN. Mr. Secretary, I came to the Senate about 29 years ago, and as I recollect, the debt then was \$16 billion. It has increased now to the figure of approximately \$300 billion. I just wonder when you use the word "appropriate" whether you should not take into consideration the size of the debt and also the fact that you have to pay the interest on the debt.

Now, we are paying, every taxpayer when he pays his bill now, 11 percent of what he pays goes for interest on the debt.

So I think it would just seem to me, when you say it is appropriate to increase it, you have other factors beyond whether it is a recession or whatever it may be. You have to consider the size of the debt, you have to consider that you have to pay interest on what you borrow—all of which falls on the taxpayer.

Now, in connection with that word "appropriate," how large a debt do you think this country could stand?

Secretary DILLON. Mr. Chairman, I think the size of the public debt has to be considered in connection with the economic strength of the country. The situation since the end of the war has indicated that the burden of our national debt, our Federal debt, has steadily and continually decreased in relation to our overall economic strength. Whereas in 1946 our debt was 128 percent of our gross national product, it has fallen as a percentage continuously since then in every year except 1958, and it is presently, for this year, estimated at 56 percent of our gross national product. And we estimate for 1962 that despite this increase in the debt which we are talking about, there will be a further decrease in its proportion of gross national product down to 53 percent.

The burden of the Federal public debt is presently expanding at a very much slower rate than our economy is expanding and at a very much slower rate than other debt has expanded.

Another way to put it is that our public debt has increased about 12 percent since the end of the war, whereas State and local debt has increased some 430 percent, corporate debt has increased some 320 percent, and individual debt some 470 percent.

I think that we ought to have the very lowest public debt we can possibly have and still run our economy effectively. I think in times of prosperity we ought to have budget surpluses and reduce our public debt, because that makes funds available for investment in the private sector and reduces the interest burden of the debt.

But I do think it is impossible to set a fixed limit of some dollar figure under which everything would be all right and over which everything would be wrong. I think we have to look at this problem in a relative manner, and particularly in connection with our gross national product.

The CHAIRMAN. What is the total of the public debt?

Secretary DILLON. The total of the Federal public debt is about \$289 billion.

The CHAIRMAN. I mean the total, the States and localities.

Secretary DILLON. The State and local debt is about \$67 billion and corporate debt is \$352 billion.

The CHAIRMAN. Do the States include the localities in that figure?

Secretary DILLON. Yes; State and local.

The CHAIRMAN. And that is \$67 billion?

Secretary DILLON. \$67 billion. Corporate debt is about \$352 billion, and individual debt, \$287 billion. The total figure overall is just over \$1 trillion—a thousand billion dollars.

The CHAIRMAN. When you talk about the Federal debt and associate it with the economic prosperity, it seems to me you have to take into consideration all the debts to do that.

Secretary DILLON. I think that is correct. The Federal debt is 29 percent of all the debts now, whereas at the end of the war it was 58 percent of all the debts.

The CHAIRMAN. Furthermore, when increase the debt at one period because of national prosperity, that prosperity may decline and you still have the debt.

Secretary DILLON. That is correct.

The CHAIRMAN. And many businessmen that attempted to expand their businesses on account of earnings have gone into bankruptcy because they found out they could not maintain it. So I respectfully differ with you on predicating a debt on a temporary business prosperity.

Secretary DILLON. At times of business prosperity, I quite agree.

The CHAIRMAN. I suggest that you add the other 71 percent of debt, totaling nearly \$1 trillion—what is the total of all the debt?

Secretary DILLON. \$1 trillion—\$1,000 billion.

Senator BUTLER. Mr. Chairman, may I ask a question of the Secretary.

The CHAIRMAN. Yes.

Senator BUTLER. Mr. Secretary, you said the local debt was increasing more rapidly than the national debt. Have you any figures to show the amount of local indebtedness or the amount of the in-

crease that has been generated by Federal funds going into the States on a matching basis?

Secretary DILLON. I am afraid I do not have that available. It probably could be developed.

Senator BUTLER. I get the impression that while you were speaking of the relationship of the debt and prosperity, that that is but a reflection of increasing inflation, is it not?

Secretary DILLON. No; because while our gross national product has gone up since 1946, by well over double—nearly three times—since that time inflationary pressures have been only about 30 percent.

The CHAIRMAN. Mr. Secretary, could you furnish for the record a statement of the total debt beginning in 1930?

Secretary DILLON. Yes.

(The information requested is as follows:)

Gross public and private debt, 1929-60¹

[In billions of dollars]

End of year	Public						Private						
	Public and private total	Total	Federal ²	State and local ³	Total	Corporate	Farm		Individual and noncorporate				
							Production ⁴	Mortgage ⁴	Nonfarm mortgage		Other nonfarm		
									1- to 4-family residential	Multi-family residential and commercial	Commercial	Financial ⁶	Consumer
1929	214.0	34.7	17.5	17.2	179.3	107.0	2.6	9.6	18.0	13.2			28.9
1930	214.3	35.8	17.3	18.5	178.5	107.4	2.4	9.4	17.9	14.1			27.3
1931	203.3	38.6	19.1	19.5	164.7	100.3	2.0	9.1	17.2	13.7			22.4
1932	195.2	42.4	22.8	19.6	152.8	96.1	1.6	8.5	15.8	13.2			17.6
1933	190.5	47.5	27.7	19.8	143.0	92.4	1.4	7.7	14.6	11.7			15.2
1934	197.3	57.1	37.9	19.2	140.2	90.6	1.3	7.6	14.8	10.7			15.1
1935	200.2	61.0	41.7	19.3	139.2	89.8	1.5	7.4	14.7	10.1			15.7
1936	205.9	64.7	45.1	19.6	141.2	90.9	1.4	7.2	14.6	9.8			17.3
1937	208.5	67.4	47.8	19.6	141.1	90.2	1.6	7.0	14.7	9.6			18.0
1938	203.6	67.0	47.4	19.6	136.6	86.8	2.2	6.8	15.0	9.5			16.4
1939	207.7	70.1	50.1	20.0	137.6	86.8	2.2	6.6	15.5	9.5	3.8	6.0	7.2
1940	215.8	73.8	53.6	20.2	142.0	89.0	2.6	6.5	16.5	9.6	4.3	5.2	8.3
1941	242.3	89.2	69.0	20.2	153.1	97.5	2.9	6.4	17.4	9.7	5.0	5.0	9.2
1942	299.1	142.9	123.2	19.7	156.2	106.3	3.0	6.0	17.3	9.5	4.1	4.0	6.0
1943	364.5	205.4	186.7	18.7	159.1	110.3	2.8	5.4	16.9	9.2	3.8	5.7	4.9
1944	430.9	271.2	253.7	17.5	159.7	109.0	2.8	4.9	17.0	9.0	3.7	8.1	5.1
1945	463.3	309.2	292.6	16.6	154.1	99.5	2.5	4.8	17.7	9.3	4.4	10.3	6.7
1946	457.9	288.0	272.1	15.9	169.9	109.3	2.7	4.9	21.9	10.6	6.2	5.9	8.4
1947	485.6	286.6	269.8	16.8	199.0	128.2	3.5	5.1	26.8	12.0	7.1	4.8	11.6
1948	498.6	276.7	258.0	18.7	221.9	138.8	5.5	5.3	31.6	13.5	7.8	5.1	14.4
1949	520.3	287.0	266.1	20.9	233.3	139.6	6.4	5.6	35.7	14.9	7.9	6.0	17.3
1950	566.4	290.6	266.4	24.2	275.8	167.0	6.2	6.1	42.9	16.5	8.9	6.9	21.4
1951	607.5	297.2	270.2	27.0	310.3	190.6	7.0	6.6	49.1	18.3	9.5	6.7	22.6
1952	646.0	308.9	279.3	29.6	337.1	201.6	8.0	7.2	55.6	19.6	10.3	7.5	27.4
1953	683.9	322.0	289.3	32.7	361.9	211.5	9.1	7.8	62.8	21.0	9.9	8.5	31.5
1954	714.1	332.3	294.4	37.9	381.8	216.3	9.3	8.3	71.9	22.7	10.4	10.4	32.5
1955	786.4	345.0	301.8	43.2	441.3	251.0	9.7	9.1	83.8	24.9	12.4	11.6	38.9
1956	831.1	348.5	300.5	48.0	482.6	274.9	9.8	9.9	94.1	27.2	13.3	11.1	42.5
1957	869.1	354.2	301.7	52.5	514.9	293.4	12.1	10.5	102.2	29.4	13.2	11.1	45.3
1958	913.1	367.8	310.6	57.2	545.3	305.0	11.8	11.3	111.8	32.8	14.1	12.8	45.5
1959	986.0	384.4	322.0	62.4	601.7	335.9	11.4	12.4	124.4	36.6	15.4	13.4	52.1
1960	1,026.8	387.6	320.5	67.2	639.2	352.3			134.7	39.2	17.3	14.2	56.0

See footnotes on p. 12.

PUBLIC DEBT LIMIT

11

Gross public and private debt, 1929-60—Continued

12

PUBLIC DEBT LIMIT

¹ Data for State and local governments are for June 30 of each year.

² Includes categories of debt not subject to the statutory debt limit.

³ Includes State loans to local units.

⁴ Comprises debt of farmers and farm cooperatives to institutional lenders and Federal Government lending agencies; farmers' financial and consumer debt is included under the "nonfarm" category.

⁵ Includes regular mortgages, purchase money mortgages, and sales contracts.

⁶ Comprises debt owed to banks for purchasing or carrying securities, customers' debt to brokers, and debt owed to life insurance companies by policyholders.

Sources: U.S. Department of Agriculture, Agricultural Research Service; Board of Governors of the Federal Reserve System; U.S. Department of the Treasury; U.S. Department of Commerce, Bureau of the Census, and Office of Business Economics.

The CHAIRMAN. Separating them, of course.

Going back to the word "appropriate" I would like to know when you think it is appropriate to pay something on a public debt.

Secretary DILLON. I think it is appropriate as soon as we have a year when our revenues are not recession revenues. As I pointed out in my statement, I expect that to be the case in the fiscal year 1963, and I said that I expected that we would be able to present a budget 6 months from now which would forecast a surplus for that fiscal year.

Senator BUTLER. Mr. Chairman, may I ask a question?

The CHAIRMAN. Wait, I have one more question.

You indicated the other day when you made your statement of an increase in revenue of \$10 billion, that you were going to recommend a tax reduction. Did you indicate that you were going to recommend anything to reduce the debt?

Secretary DILLON. That was in answer to a question from the floor. I said there would be a surplus left over and it would be a question of deciding how much of that surplus should be used for debt reduction and how much might be used for tax reduction.

The CHAIRMAN. In view of this overwhelming debt, do you not think it would be well to make a payment on the debt rather than reduce taxes?

Secretary DILLON. I am not sure that we cannot do both.

The CHAIRMAN. At this, if your estimate of \$10 billion more income is realized, that would mean a period of prosperity, would it not?

Secretary DILLON. That is certainly correct.

The CHAIRMAN. Then certainly in a period of prosperity, bearing out your own logic, you should reduce your debt.

Secretary DILLON. That is right.

The CHAIRMAN. And not reduce taxes.

Secretary DILLON. Well, Mr. Chairman, there has been considerable evidence that our tax system has now become a heavier tax system than it was originally intended to be because of inflation and the steady upgrading of incomes. People are now in a considerably higher tax bracket than they used to be for doing the same sort of job. Therefore this burden is quite heavy, and there are clear indications that this was one of the causes of arresting the recovery in the spring of 1960.

But concerning tax reform, when we are talking about individual tax reduction, we certainly look to achieving a very substantial part of it, a major part of it, through a rearrangement of the tax law rather than just a straight reduction and through closing various loopholes to provide the funds that would enable you to make these reductions.

The CHAIRMAN. Do you not think, though, that the tax reductions should come from reducing expenditures and any increased revenue due to temporary prosperity, whatever the prosperity may be, should go toward reducing the debt?

Now, of the increased expenditures for this fiscal year and next fiscal year, what percentage was for military and what percentage was for so-called domestic?

Secretary DILLON. Of the increased expenditures for fiscal year 1962, totaling about \$3.8 billion, about \$700 million was for military, which is nearly 20 percent.

The CHAIRMAN. Military was what?

Secretary DILLON. About 20 percent.

The CHAIRMAN. Is space in the 80 percent?

Secretary DILLON. Yes; the 80 percent includes space exploration.

The CHAIRMAN. Then of the increased expenditures, only one-fourth of it is due to the military?

Secretary DILLON. That is correct, though there is a substantial other element in there. About \$700 million, another 20 percent, is due to extended unemployment insurance and aid to dependent children of unemployed, which are temporary measures to handle the recession.

So the more or less permanent type of increases in the domestic would come to about \$2.3 billion out of the \$3.8 billion.

The CHAIRMAN. Do you visualize a steady increase in expenditures?

Secretary DILLON. I am not an expert in that, but I have been impressed by the study that was made by the Bureau of the Budget last fall which was completed in January shortly before the changeover in administrations and was made under the aegis of Mr. Stans. This study indicated that as the country grew in population, there would be an increase.

The CHAIRMAN. How soon do you think it will reach a hundred billion dollars?

Secretary DILLON. I would hesitate to make a guess about that, Senator.

The CHAIRMAN. What concerns me is the constantly increasing debt on which interest must be paid, and I think you would agree with me that it is not beneficial or wise to increase the interest payments on a Government debt, because that has to be raised by taxes.

Secretary DILLON. That is correct.

The CHAIRMAN. But then, on the other hand, to talk about lowering taxes and when the debt should be paid off, to my way of thinking, at least, and then constantly extending domestic spending in the way of State grants and other things—Federal aid to education, that in the opinion of many of us, we believe to be a local and State responsibility—I would like to have a statement for the record to what extent the Federal Government has increased the grants to the States by legislation that has actually been enacted and by what it would be increased in the event the present recommendations now pending in Congress should be adopted.

Secretary DILLON. I would be glad to get that.

The following table includes increases under (1) existing legislation, (2) legislation enacted during current session of the Congress, and (3) recommendations now pending before the Congress.

Federal aid to State and local governments based on existing and proposed legislation

[In thousands of dollars]

Function, agency, and program	Functional code	1960 actual	1961 estimate	1962 estimate
BUDGET ACCOUNTS				
GRANTS-IN-AID				
Veterans' services and benefits				
Veterans' Administration				
Aid to State homes ¹	105	6, 128	7, 536	7, 574
State supervision of schools and training establishments ¹	106	1, 752	1, 560	1, 450
Total, veterans services and benefits.....		7, 880	9, 096	9, 024
International affairs and finance: Department of State				
East-West Cultural and Technical Interchange Center.....	153		2, 163	10, 500
Labor and Welfare:				
General Services Administration: Hospital facilities in the District of Columbia (private nonprofit) ²				
	213	1, 455	600	200
Department of Agriculture:				
National school lunch and special milk programs ¹	217	231, 868	242, 634	153, 234
Proposed legislation: Special milk program.....	217			94, 300
Department of Health, Education, and Welfare:				
Public assistance.....	212	2, 058, 896	2, 158, 901	2, 285, 800
Hospital construction ¹	213	143, 578	154, 000	167, 100
Portion to private nonprofit institutions.....	213	(80, 411)	(86, 000)	(93, 700)
Community health activities ^{1 2}	213	14, 971	19, 400	24, 220
Control of venereal diseases ^{1 2}	213	2, 371		
Control of tuberculosis ^{1 2}	213	3, 993	4, 000	
Mental health activities ¹	213	4, 905	6, 000	6, 000
National Heart Institute ¹	213	2, 905	3, 500	3, 500
National Cancer Institute ¹	213	2, 203	3, 500	3, 500
Maternal and child welfare.....	213	47, 433	51, 261	53, 506
Mental health facilities, Alaska.....	213	356	1, 823	3, 321
Environmental health activities ^{1 3}	213	2, 659	3, 000	3, 000
Hospital and medical care, Hawaii ¹	213	1, 065	1, 100	1, 100
Construction grants for waste treatment facilities.....	213	40, 295	40, 600	43, 000
Grants for construction of health research facilities ¹	213	504	520	500
Poliomyelitis vaccination program.....	213	-1, 287		
Assistance for school construction and operation in federally affected areas:				
School construction ¹	214	70, 553	63, 350	57, 382
Maintenance and operation of schools ¹	214	166, 661	181, 000	93, 500
Vocational education.....	214	39, 140	40, 257	40, 442
Colleges for agriculture and the mechanic arts.....	214	5, 052	7, 277	10, 744
Defense educational activities ¹	214	68, 507	78, 314	88, 083
Grants for expansion and teaching in education of the mentally retarded ¹				
Education of the blind.....	214	71	450	500
Grants for library services.....	214	400	400	400
Grants for library services.....	215	7, 037	7, 986	8, 416
Vocational rehabilitation.....	217	48, 607	55, 176	59, 270
White House Conference on Aging ¹	217	759	41	
Proposed legislation:				
Medical benefits for the aged.....	212			25, 000
Maintenance and operation of schools in federally affected areas.....	214			60, 000
Department of the Interior: Bureau of Indian Affairs: Education and welfare services ¹				
	214	5, 378	5, 450	6, 950
Department of Labor: Unemployment compensation and employment service administration ^{1 4}				
	211	317, 156	2, 246	
Total, labor and welfare.....		3, 287, 490	3, 132, 786	3, 292, 968
Agriculture and agricultural resources:				
Department of Agriculture:				
Commodity Credit Corporation and removal of surplus agricultural commodities: Contributions to school lunch program and to other public agencies.....				
	351	148, 994	162, 901	168, 829
Watershed protection ³	354	18, 522	22, 929	34, 700
Flood prevention ¹	354	14, 169	13, 852	16, 500
Cooperative agricultural extension work ¹	355	61, 303	65, 000	67, 390
Agricultural experiment stations ¹	355	31, 085	32, 060	34, 018
Payments to States, territories, and possessions, Agricultural Marketing Service.....	355	1, 195	1, 195	1, 195
Total, agriculture and agricultural resources.....		275, 267	297, 937	322, 632

See footnotes at end of table, p. 19.

Federal aid to State and local governments based on existing and proposed legislation—Continued

[In thousands of dollars]

Function, agency, and program	Functional code	1960 actual	1961 estimate	1962 estimate
BUDGET ACCOUNTS—Continued				
GRANTS-IN-AID—Continued				
Natural resources:				
Department of Agriculture: Forest protection and utilization, and assistance to States for tree planting ¹	402	11, 447	11, 496	12, 290
Department of the Interior:				
Bureau of Reclamation:				
Disposal of Coulee Dam community and other grants ¹	401	101	17	2
Grants, Boulder City disposal ¹	401	239	150	
Grants for small reclamation projects ¹	401		130	
Bureau of Indian Affairs: Resources management ¹	401	627	700	750
Drainage of anthracite mines.....	403	1, 232	1, 365	500
Federal aid in fish restoration and management ¹	404	4, 318	4, 500	5, 000
Federal aid in wildlife restoration ¹	404	17, 610	14, 900	15, 200
Total, natural resources.....		35, 575	33, 258	33, 742
Commerce and housing:				
Office of Civil and Defense Mobilization:				
Federal contributions.....	520	4, 923	7, 370	20, 500
Research and development ¹	520	26		
Funds appropriated to the President: Disaster relief ¹	521	1, 473	3, 800	3, 800
Federal Aviation Agency: Federal-aid airport program ¹	512	57, 113	83, 305	82, 153
Small Business Administration: Grants for research.....	518	2, 028	800	900
Housing and Home Finance Agency:				
Slum clearance and urban renewal, capital grants ²	515	101, 705	152, 253	199, 721
Urban planning grants.....	515	2, 554	3, 500	6, 000
Low-rent housing program, annual contributions ³	516	127, 373	148, 200	172, 800
Defense community facilities and services ⁴	517	93		
Department of Commerce:				
State marine schools ¹	510	524	550	550
Public lands highways ¹	511	1, 871	3, 897	4, 431
Surveys and plans.....	511	98	98	
Forest highways ¹	511	26, 935	29, 581	31, 555
Federal aid highway (liquidation of contract authority).....	511	-250		
Proposed legislation:				
Forest and public lands highways ¹	511			-35, 986
Area assistance activities ¹	518			4, 000
Department of the Interior:				
Virgin Islands public works.....	515	12		
Alaska public works ⁵	515	2, 164	600	200
Total, commerce and housing.....		328, 641	433, 954	490, 624
General Government:				
National Capital Planning Commission: Acquisition of lands in Maryland.....	609	138	162	1, 200
Department of the Interior: Grants to American Samoa, Guam, and the Trust Territories ¹	609	6, 819	7, 582	10, 258
District of Columbia: Federal contributions ¹	609	25, 000	33, 700	36, 000
Funds appropriated to the President: Transitional grants to Alaska.....	610	10, 386	6, 098	6, 000
Total, general government.....		42, 343	47, 542	53, 458
Total, grants-in-aid.....		3, 977, 196	3, 956, 736	4, 212, 948

See footnotes at end of table, p. 19.

Federal aid to State and local governments based on existing and proposed legislation—Continued

[In thousands of dollars]

Function, agency, and program	Functional code	1960 actual	1961 estimate	1962 estimate
SHARED REVENUE				
Natural resources:				
Federal Power Commission: Federal Power Act.....	401	59	55	67
Tennessee Valley Authority: Payments in lieu of taxes.....	401	6,313	6,483	6,862
Department of Agriculture:				
National forests fund, to States for counties and schools.....	402	29,904	35,663	28,663
Submarginal land program.....	402	453	425	425
Department of Defense: Corps of Army Engineers—Civil: Flood Control Act of 1954 to States.....	401	1,454	1,492	1,600
Department of the Interior:				
Submarginal land program.....	401	108	286	292
Grazing receipts to States.....	401	433	518	562
Payments to States, sales of public land and materials.....	401	274	304	422
Alaska school lands, income and proceeds.....	401	34	12	-----
Columbia Basin project, payments in lieu of taxes.....	401	13	15	15
Boulder Canyon project, payments to Arizona and Nevada.....	401	600	600	600
Oregon and California land-grant fund, to counties.....	402	14,762	16,259	18,400
Payment to Coos and Douglas Counties, Oreg., Coos Bay Wagon Road grant lands.....	402	137	100	100
Payments to Oklahoma from oil and gas royalties.....	403	19	11	11
Mineral Leasing Act, to States.....	403	36,431	34,183	38,297
Payments to Alaska, coal leases.....	403	79	-----	-----
Payments to counties, Migratory Bird Conservation Act.....	404	506	487	477
Payments to Alaska, seal and game receipts.....	404	831	1,032	539
Payment to Wyoming in lieu of taxes, Grand Teton National Park.....	405	30	29	30
Total, natural resources.....	-----	92,438	97,974	97,362
General government:				
Department of the Interior: Internal revenue collections, Virgin Islands.....	609	4,918	6,500	5,000
Treasury Department: Tax collections for American Samoa, Puerto Rico, and Guam.....	609	22,934	22,990	23,000
The judiciary: U.S. courts, receipts, Alaska.....	610	710	-----	-----
Total, general government.....	-----	28,562	29,490	28,000
Total, shared revenue.....	-----	121,000	127,464	125,362
NET LOANS AND REPAYABLE ADVANCES				
Labor and welfare: General Services Administration:				
Hospital facilities in District of Columbia (private nonprofit).....	213	1,455	600	200
Agriculture and agricultural resources:				
Watershed protection.....	354	138	3,128	2,103
Flood prevention.....	354	-----	1,570	600
Natural resources: Department of the Interior: Bureau of Reclamation: Loans for irrigation projects.....	401	8,821	15,402	24,857
Commerce and housing:				
Office of Civil and Defense Mobilization: Procurement fund.....	520	-70	100	100
Small Business Administration: Loans to State and local development companies.....	518	2,269	8,322	13,908
Housing and Home Finance Agency:				
Public facility loans.....	515	13,295	18,800	24,800
Public works planning.....	515	4,473	5,000	5,350
Slum clearance and urban renewal.....	515	2,814	3,004	2,000
Low-rent housing program.....	516	3,264	726	996
Community facilities.....	517	-706	-700	-400
College housing.....	517	121,710	103,200	120,000
Department of the Interior: Alaska public works.....	515	2,474	1,090	198
Proposed legislation: Department of Commerce: Area assistance loans.....	518	-----	-----	1,000

See footnotes at end of table, p. 19.

Federal aid to State and local governments based on existing and proposed legislation—Continued

[In thousands of dollars]

Function, agency, and program	Functional code	1960 actual	1961 estimate	1962 estimate
SHARED REVENUE—Continued				
NET LOANS AND REPAYABLE ADVANCES—continued				
General government:				
District of Columbia: Loans for capital outlays.....	609	900	11,614	27,260
Department of Defense: Corps of Engineers—Civil: Construction of power systems—Ryukyu Islands.....	609			3,000
Total, loans and repayable advances.....		160,837	171,856	225,972
Total, all net budget expenditures.....		4,259,037	4,256,056	4,564,282
TRUST FUNDS				
Labor and welfare: Treasury Department: Unemployment trust fund:¹				
Grants ⁴	200		358,962	345,366
Loans.....	200	2,004		
Commerce and housing: Department of Commerce: Highway trust fund:²				
Federal-aid highway grants.....	500	2,912,999	2,839,963	2,959,000
Proposed legislation: Forest and public lands highways ⁴	500			35,986
Total, trust funds.....		2,915,003	3,198,925	3,340,352
Total, net budget and trust fund expenditures for grants-in-aid, shared revenue, loans, and repayable advances.....		7,174,036	7,454,981	7,904,634
SUMMARY				
Grants-in-aid, loans, and repayable advances for civil public works:				
Budget accounts.....		423,831	498,431	537,492
Trust funds.....		2,912,999	2,839,963	2,994,986
Grants and loans for hospital construction to private nonprofit institutions.....		83,321	87,200	94,100
Other grants-in-aid, shared revenue, loans, and repayable advances.....		3,753,885	4,029,387	4,278,056
Total, net budget and trust fund expenditures for grants-in-aid, shared revenue, loans, and repayable advances.....		7,174,036	7,454,981	7,904,634

¹ Part of a larger appropriation account.² Control of venereal diseases transferred to community health activities beginning in 1961 and control of tuberculosis will be transferred to community health activities beginning in 1962.³ Environmental health activities formerly classified as water pollution control.⁴ Grants to States for administering unemployment compensation and employment services transferred to unemployment trust fund beginning in 1961.⁵ Part of a larger appropriation account. A related part of this appropriation is shown under repayable advances.⁶ To be transferred to highway trust fund in 1962.⁷ Part of a larger appropriation account. A related part of this appropriation is shown under grants-in-aid.⁸ Part of a larger account.

The CHAIRMAN. It occurred to me, too, that when we talked about this national product, we have to consider the whole debt, not just the debt of the Federal Government, which as you say is more than 25 percent of the total. There is such a thing as getting too much debt. This interest payment, 11 percent, is a serious burden upon the Government, is it not?

If we did not have this interest payment to make, to what extent could we reduce the taxes? It comes to \$9 billion, does it not?

Secretary DILLON. Eleven percent.

The CHAIRMAN. It is a complicated thing and I am not going back to this appropriate statement again, but it just seems to me that that

statement was along the lines of encouraging deficits and I think we ought to resist those deficits. I do not think deficits should be tied to whether we have prosperity or whether we have a recession or what we have. Because when we add to the public debt, then that continues throughout the years.

I thank you.

Any questions?

Senator WILLIAMS. Mr. Secretary, first I would compliment you and call attention to the fact that you are about the first Secretary of the Treasury we have had down who has used the term "trillion" in terms of debt. It seems to be a word that is going to be added to the dictionary from here on. I hope we can forget it.

Secretary DILLON. That did not refer to the Federal debt, though;

Senator WILLIAMS. No, but it referred to the overall.

What is your estimate for the deficit for 1961? That is, this June 30?

Secretary DILLON. Our estimate is somewhere in the neighborhood of \$3 billion, hopefully maybe slightly short of that. We will not know until all the final checks come in.

Senator WILLIAMS. What is your estimate of the expenditures for fiscal year 1961?

Secretary DILLON. Fiscal year 1961 is \$81 billion.

Senator WILLIAMS. And your estimate for the receipts for this year would be—

Secretary DILLON. At the moment, it is slightly over \$78 billion.

Senator WILLIAMS. The House committee report I think referred to it as 78.2?

Secretary DILLON. That is right and I think we estimate expenditures about \$500 million higher than the figure that is shown in that House report, because there have been a lot of bills, defense bills, from contractors that have come in somewhat more rapidly than were expected and have been paid.

The CHAIRMAN. That would bring your estimated expenditures to \$81.2 billion and your receipts to \$78.2 billion?

Secretary DILLON. That is right.

Senator WILLIAMS. I notice you state that on the spending side, the latest estimates indicate that the January budget underestimated expenditures for going programs by about \$400 million.

Secretary DILLON. That is right.

Senator WILLIAMS. Now, the January budget estimated budgetary expenditures at \$78.9 billion. In other words, they—

Secretary DILLON. That was for fiscal 1961.

Senator WILLIAMS. Fiscal 1961 and the budgetary receipts they estimated at \$79 billion. In other words, they underestimated, based upon this, the receipts by about \$800 million; is that right? Or overestimated their receipts, rather?

Secretary DILLON. Overestimated their receipts for fiscal 1961.

Senator WILLIAMS. By about \$800 million?

Secretary DILLON. That is right.

Senator WILLIAMS. Now, they had expenditures estimated at \$78.9 billion and you have \$81.2 billion. They underestimated expenditures by \$2.3 billion; is that correct?

Secretary DILLON. For fiscal 1961 that was not a question entirely of underestimates. That was made up both of underestimates and

of increases by the new administration. Underestimates were about \$400 million in 1961, as they are also in 1962.

Senator WILLIAMS. Then \$400 million of it was underestimates and the rest of it increased expenditures of the administration?

Secretary DILLON. That is correct, of which the biggest amount was temporary unemployment compensation.

Senator WILLIAMS. But as I understand it, of this estimated deficit of around \$3 billion, \$2¼ billion is accounted for by the increased expenditures during the past 6 months of the new administration, over and above the estimated expenditures in the budget of January, is that correct?

Secretary DILLON. That may well be. I do not have that exact figure in my mind.

Senator WILLIAMS. I was not clear on the \$400 million, because as I had it figured here, the \$3 billion deficit which we have is accounted for by about \$700 million or \$800 million, an overestimation of the revenues, and about \$3.2 billion, an underestimate of the spending ability of Congress and the administration.

Secretary DILLON. The underestimate for spending in 1961 was about \$2.3 billion.

As to the main place where there was a big swing in the estimates, it was in the defense expenditures, an acceleration of which was started last summer and last fall when the recession was in view. That acceleration took hold somewhat faster than anybody thought would be possible.

Those expenditures, as of March, were estimated in that one Department alone to be \$760 million higher than in the January estimate. Since then, they have gone even higher than that, to about a billion dollars more.

Senator WILLIAMS. That may be so, but the acceleration which took place last year was presumably included in the January estimate.

Secretary DILLON. No; it was not. The January estimate was in error and they did not realize how far the acceleration, once they started in the fall, would actually take hold.

Senator WILLIAMS. Only by \$400 million. The January estimate was nearer. They did not realize how fast the new administration could spend.

Secretary DILLON. It had nothing to do with that. It is just that when they placed an order in December, they did not realize that the actual outflow of money would come quite so quickly.

Senator WILLIAMS. Without trying to fix responsibility, I am going to the budget estimate to which you refer. The January estimated budget receipts at \$79 billion. You are today estimating them to be at \$78.2 billion. That is a reduction of \$800 million below the January estimates.

The low January expenditures were estimated at \$78.9 billion and they are estimated now to be \$81.2 billion and I think those figures represent changes which have taken place since the January budget was submitted to Congress.

Now, whether the earlier figures were correct or your figures were correct, time alone will tell.

Senator BENNETT. May I point out to my friend that the overspending of the Defense Department, according to these figures on page 7

of the report of the House, were \$761 million, but there was an offset on military assistance of \$200 million, which reduced it to \$561 million.

There were then some additional offsets, so that this \$400 million overestimate is a composite of which the military were actually nearly twice that high.

Secretary DILLON. That is right.

Senator BENNETT. They overspent nearly twice as much as \$400 million, but there were some other offsets.

Secretary DILLON. That is absolutely correct and those are the sorts of things that continue. Actually, we found that our estimate of March of defense expenditures under just permanent ongoing programs was low, and they spent even faster than that.

So the defense expenditures are the primary reason, in this one year of 1961, that our deficit is bigger than we had originally expected.

Secretary WILLIAMS. Well, we have a deficit estimated here of fiscal 1961 of \$3 billion. Now, I think you gave the estimate of next year's deficit at \$4.4 billion?

Secretary DILLON. I gave it at \$3.7 billion and said if Congress did not take action on postal rates, it would be \$4.4 billion.

Senator WILLIAMS. I think you would just as well figure \$4.4 billion, because even if Congress takes action on that, Congress will be acting on something else too which may more than offset it on some of the relations. But the picture as it stands now, assuming no action is taken to either increase expenditures or increase taxes, would be \$4.4 billion. Is that right?

Secretary DILLON. Assuming all the programs that the President has requested are voted, that there is no action on postal rates and no additional programs above what the President has recommended, it will be \$4.4 billion.

Senator WILLIAMS. And that will mean including this year and the next fiscal year, we will have an increase in the debt of around \$7.4 billion.

Secretary DILLON. That is about correct; yes, sir.

Senator WILLIAMS. Now, approximately how much interest rates are you going to have to pay in borrowing that additional \$7 billion?

Secretary DILLON. That would depend, Senator, on how it is borrowed, on the length of the instrument, on how we manage the public debt. The average cost of interest on the public debt is somewhat just over 3 percent. Maybe that is the fairest figure to use.

Senator WILLIAMS. That average is not realistic. You are taking into consideration in that average the 2½-percent bonds which were outstanding. Do you think you can sell these bonds on a 2½-percent yield?

Secretary DILLON. No; I do not think we can sell them on a 2½-percent yield at all, but there are also some bonds that are outstanding that are shortly becoming due at a higher rate. So it balances out fairly well. That is a rough and easy figure. If you wanted to take 3¼ percent, that would be all right.

Senator WILLIAMS. Is it the intention to finance this increased debt in short-term money, or are you going to try to stretch the debt out in long term?

Secretary DILLON. That is a question which we will have to face concretely in July, when there will have to be a very substantial refinancing of maturities coming due in August. We have asked for

all of the various committees that advise us on this, some five different committees, to come in and meet with us early in July, and our decision will be based on what we find the market will accept. Certainly, we would like, at that time, to issue some of the debt, at least in the intermediate range.

Senator WILLIAMS. It would cost at least in the neighborhood of 3, 3¼, or 4, to finance that long term?

Secretary DILLON. The very longest term Treasury bonds are selling at a yield basis of just under 4 percent.

Senator WILLIAMS. Well, then, that would mean that if you financed it on such a basis, you would be increasing our interest charges on our debt as a result of this expanded borrowing by around a quarter of a million dollars a year.

Secretary DILLON. Yes, I think that is correct. Somewhere in that area.

The CHAIRMAN. If the Senator yields, I would like to ask if you have included the cost of going to the moon in your estimates. It would cost \$40 billion to send a man to the moon. Have you included that in your estimate of future expenditures?

Secretary DILLON. The cost of the President's recommendations is included, which includes next year's costs on that, if Congress approves.

The CHAIRMAN. Did the President not indicate it would be \$4 billion a year?

Secretary DILLON. I think there was some very big area of give in that, and I think, as I recall, what he said was that the extra expenditures over and above what we have been budgeting for space anyway, which were planned to go very high, was something like \$7 billion to \$9 billion over that period. I think the total was somewhere between \$20 billion and \$40 billion to get to the moon, and that is a very big spread.

The CHAIRMAN. It was an estimate of somewhere around \$40 billion to get to the moon.

Secretary DILLON. Somewhere around \$20 billion or \$40 billion, a very big spread.

The CHAIRMAN. Now, there is one question I failed to ask. You have given us the direct debt to the Federal Government. What is our contingent debt?

Secretary DILLON. I will have to give you that figure.

The CHAIRMAN. Will you give it in that memorandum?

Senator BENNETT. Is that included in the trillion dollars?

The CHAIRMAN. Is it?

Secretary DILLON. I would think it would be included somewhere in that figure, because that is all debt.

The CHAIRMAN. I do not think all of it is included. I imagine it would run at least \$200 billion or more. Would you not estimate that?

Secretary DILLON. I would rather not give it just offhand.

The CHAIRMAN. If you will give the committee a memorandum showing the direct debt and all the other debts, plus the continued debt to the Federal Government, and give an itemized statement.

Secretary DILLON. That is right, I shall.

Senator WILLIAMS. Do you think there is a possibility that our debt may reach the moon before we do?

Secretary DILLON. No, I do not think so. The moon is a long way away.

(The information requested is as follows:)

Summary of public debt and guaranteed obligations outstanding May 31, 1961

(On the basis of daily Treasury statements)

Title	May 31, 1961	
	Average interest rate ¹	Amount outstanding
Public debt:		
Interest-bearing debt:		
Public issues:		
Marketable obligations:	<i>Percent</i>	
Treasury bills (regular series).....	² 2.607	\$33,403,892,000.00
Treasury bills (tax anticipation series).....	² 2.778	5,006,666,000.00
Certificates of indebtedness (regular series).....	3.073	13,338,019,000.00
Treasury notes.....	3.705	56,245,737,000.00
Treasury bonds.....	2.829	80,849,231,650.00
Other bonds.....	2.902	49,800,000.00
Total marketable obligations.....	3.068	188,893,345,650.00
Nonmarketable obligations:		
United States savings bonds.....	3.405	47,461,102,558.82
Depository bonds.....	2.000	119,475,500.00
Treasury bonds—REA series.....	2.000	18,486,000.00
Treasury bonds, investment series.....	2.730	5,849,803,000.00
Total nonmarketable obligations.....	3.328	53,448,867,058.82
Total public issues.....	3.125	242,342,212,708.82
Special issues:		
Civil service retirement fund.....	2.611	10,061,995,000.00
Federal Deposit Insurance Corporation.....	2.000	551,400,000.00
Federal disability insurance trust fund.....	2.810	2,250,186,000.00
Federal home loan banks.....	2.091	182,400,000.00
Federal Housing Administration funds.....	2.000	87,393,000.00
Federal old-age and survivors insurance trust fund.....	2.662	16,430,477,000.00
Federal Savings and Loan Insurance Corporation.....	2.000	134,000,000.00
Foreign service retirement fund.....	3.958	31,040,000.00
Government life insurance fund.....	3.520	1,048,040,000.00
Highway trust fund.....	3.102	154,895,000.00
National service life insurance fund.....	3.067	5,621,589,000.00
Railroad retirement account.....	3.000	3,098,773,000.00
Unemployment trust fund.....	3.229	4,749,003,000.00
Veterans special term insurance fund.....	2.643	101,913,000.00
Total special issues.....	2.802	44,503,104,000.00
Total interest-bearing debt.....	3.075	286,845,316,708.82
Matured debt on which interest has ceased.....		348,643,319.01
Debt bearing no interest:		
International Monetary Fund.....		2,496,000,000.00
International Development Association.....		57,652,200.00
Other.....		398,028,613.73
Total gross public debt.....		290,145,640,841.56
Guaranteed obligations not owned by the Treasury:		
Interest-bearing debt.....	3.112	224,663,950.00
Matured debt on which interest has ceased.....		732,475.00
Total guaranteed obligations not owned by the Treasury.....		225,396,425.00
Total gross public debt and guaranteed obligations.....		290,371,037,266.56
Deduct debt not subject to statutory limitation.....		396,445,620.83
Total debt subject to limitation ³		289,974,591,645.73

¹ Beginning with the statement for Dec. 31, 1958, the computed average interest rate on the public debt is based upon the rate of effective yield for issues sold at premiums or discounts. Prior to Dec. 31, 1958, the computed average rate was based upon the coupon rates of the securities. This rate did not materially differ from the rate computed on the basis of effective yield. The Treasury, however, announced on Nov. 18, 1958, that there may be more frequent issues of securities sold with premiums or discounts whenever appropriate. This "effective-yield" method of computing the average interest rate on the public debt will more accurately reflect the interest cost to the Treasury, and is felt to be in accord with the intent of Congress where legislation has required the use of such rate for various purposes.

² Computed on true discount basis.

³ Statutory debt limit was established at \$285,000,000,000 by the act approved June 30, 1959. The limit, including temporary increases, was \$290,000,000,000 on June 30, 1959, and \$295,000,000,000 from July 1, 1959, to June 30, 1960. From July 1, 1960, to June 30, 1961, the limit, including a temporary increase of \$8,000,000,000, is \$293,000,000,000. Thereafter it will revert to \$285,000,000,000.

LONG-RANGE COMMITMENTS AND CONTINGENCIES OF THE U.S. GOVERNMENT AS OF DECEMBER 31, 1960

The attached statement covers the major financial commitments of the U.S. Government, except the public debt outstanding and those involving recurring costs for which funds are regularly appropriated by the Congress and are not yet obligated, such as aid to States for welfare programs and participation in employee-retirement systems. The statement is segregated into four categories, namely (a) loans guaranteed and insured, etc., by Government agencies; (b) insurance in force; (c) obligations issued on credit of the United States; and (d) undisbursed commitments, etc.

The items appearing in this statement are quite different from the direct debt of the United States. They are programs of a long-range nature that may or may not commit the Government to expend funds at a future time. The extent to which the Government may be called upon to meet these commitments varies widely. The liability of the Government and the ultimate disbursements to be made are of a contingent nature and are dependent upon a variety of factors, including the nature of and value of the assets held as a reserve against the commitments, the trend of prices and employment, and other economic factors.

Caution should be exercised in any attempt to combine the amounts in the statement with the public debt outstanding for that would involve not only duplication but would be combining things which are quite dissimilar. As indicated by the enclosed statement, there are \$108.1 billion of public debt securities held by Government and other agencies as part of the assets that would be available to meet future losses. The following examples illustrate the need for extreme caution in using data on the contingencies and other commitments of the U.S. Government.

1. The Federal Deposit Insurance Corporation had insurance outstanding as of December 31, 1960, amounting to \$149.7 billion. The experience of the Federal Deposit Insurance Corporation has been most favorable. During the period this Corporation has been in existence, premiums and other income have substantially exceeded losses which has permitted the retirement of Treasury and Federal Reserve capital amounting to \$289.3 million (all repaid to Treasury), and the accumulation of \$2.2 billion reserve as of December 31, 1960. The Corporation's holdings of public debt securities as of that date amounted to \$2.3 billion which already appears in the public debt total. Out of \$291.4 billion of assets in insured banks as of December 31, 1960, \$65.3 billion are in public debt securities (also reflected in the public debt). The assets, both of insured banks and the Federal Deposit Insurance Corporation, as well as the continued income of the Corporation from assessments and other sources, stand between insured deposits and the Government's obligation to redeem them.

2. The face value of life insurance policies issued to veterans and in force as of December 31, 1960, amounted to \$42.1 billion. This does not represent the Government's potential liabilities under these programs since some of these policies will probably be permitted to lapse and future premiums, interest, and the invested reserves amounting to \$6.9 billion of public debt securities should cover the normal mortality risk.

3. Under the Federal Reserve Act of 1913, as amended, Federal Reserve notes are obligations of the United States which, as of December 31, 1960, amounted to \$27.4 billion. The full faith and credit of the United States is behind the Federal Reserve currency. These notes are a first lien against the \$53 billion of assets of the issuing Federal Reserve banks which includes \$27.4 billion of Government securities already included in the public debt. These notes are specifically secured by collateral deposited with the Federal Reserve agents which, as of December 31, 1960, amounted to \$21.1 billion in Government securities and \$9.4 billion in gold certificates.

Long-range commitments and contingencies of the U.S. Government as of Dec. 31, 1960

[In millions of dollars]

Commitment or contingency and agency	Gross amount of commitment or contingency	Public debt securities held by Government and other agencies
Loans guaranteed, insured, etc., by Government agencies:		
Agriculture Department:		
Commodity Credit Corporation.....	(1)	-----
Farmers' Home Administration:		
Farm tenant mortgage insurance fund.....	\$172	-----
Civil Aeronautics Board.....	23	-----
Commerce Department: Federal Maritime Board and Maritime Administration:		
Federal ship mortgage insurance revolving fund.....	2 319	-----
Development Loan Fund.....	4	-----
Export-Import Bank of Washington.....	(2)	-----
Housing and Home Finance Agency:		
Federal Housing Administration:		
Property improvement loans.....	4 387	\$99
Mortgage loans.....	32, 630	608
Office of the Administrator: Urban renewal fund.....	585	-----
Public Housing Administration:		
Local housing authority bonds and notes (commitments covered by annual contributions).....	2, 839	-----
Local housing authority temporary notes (guaranteed).....	790	-----
Interstate Commerce Commission.....	78	-----
Small Business Administration:		
Revolving fund.....	5 19	-----
Reconstruction Finance Corporation liquidation fund.....	(3)	-----
Treasury Department:		
Reconstruction Finance Corporation liquidation fund.....	6 2	-----
Defense Production Act of 1950, as amended.....	6 14	-----
Federal Civil Defense Act of 1950, as amended.....	6 2	-----
Veterans' Administration:		
Defense Production Act of 1950, as amended.....	7 16, 328	-----
.....	190	-----
Total loans guaranteed, insured, etc., by Government agencies.....	54, 382	707
Insurance and guarantees in force:		
Agriculture Department: Federal Crop Insurance Corporation.....	8 263	-----
Commerce Department: Federal Maritime Board and Maritime Administration: War risk insurance revolving fund.....	112	-----
Export-Import Bank of Washington: War risk and expropriation Insurance.....	9 1	-----
Federal Deposit Insurance Corporation.....	149, 684	2, 319
Held by insured commercial and mutual savings banks.....		65, 308
Federal Home Loan Bank Board: Federal Savings and Loan Insurance Corporation.....	58, 620	332
Held by insured institutions.....		4, 329
International Cooperation Administration: Industrial guarantees ¹⁰	444	-----
U.S. Information Agency: Informational media guarantees.....	6	-----
Veterans' Administration:		
National service life insurance.....	40, 679	5, 853
U.S. Government life insurance.....	1, 388	1, 078
Total, insurance and guarantees in force.....	251, 197	79, 219
Obligations issued on credit of the United States: Postal savings certificates:		
U.S. Postal Savings System.....	11 760	778
Canal Zone Postal Savings System.....	11 5	5
Total postal savings certificates.....	765	783
Other obligations: Federal Reserve notes (face amount).....	27, 383	12 27, 384
Undisbursed commitments, etc.:		
To make future loans:		
Agriculture Department:		
Commodity Credit Corporations.....	3	-----
Disaster loans, etc., revolving fund.....	1	-----
Farmers' Home Administration:		
Farm tenant mortgage insurance fund.....	(3)	-----
Loan programs.....	16	-----
Rural Electrification Administration.....	756	-----
Development Loan Fund.....	973	-----
Export-Import Bank of Washington: Regular lending activities.....	1, 817	-----

See footnotes at end of table, p. 27.

Long-range commitments and contingencies of the U.S. Government as of Dec. 31, 1960—Continued

[In millions of dollars]

Commitment or contingency and agency	Gross amount of commitment or contingency	Public debt securities held by Government and other agencies
Undisbursed commitments, etc.—Continued		
To make future loans—Continued		
Housing and Home Finance Agency:		
Office of the Administrator:		
College housing loans.....	\$235	-----
Public facility loans.....	36	-----
Urban renewal fund.....	615	-----
Public Housing Administration.....	175	-----
Interior Department:		
Bureau of Commercial Fisheries: Fisheries loan fund.....	(3)	-----
Defense Minerals Exploration Administration: Defense Production Act of 1950, as amended.....	(3)	-----
International Cooperation Administration: Loans to foreign countries ¹⁰	1,326	-----
Small Business Administration (revolving fund).....	75	-----
Veterans' Administration (veterans' direct loan program).....	57	-----
Total undisbursed commitments to make future loans.....	6,085	-----
To purchase mortgages: Housing and Home Finance Agency: Federal National Mortgage Association:		
Secondary market operations.....	165	-----
Special assistance functions.....	411	-----
Total commitments to purchase mortgages.....	576	-----
To guarantee and insure loans:		
Agriculture Department: Farmers' Home Administration: Farm tenant mortgage insurance fund.....	3	-----
Commerce Department: Federal Maritime Board and Maritime Administration: Federal ship mortgage insurance revolving fund.....	141	-----
Housing and Home Finance Agency: Federal Housing Administration.....	5,681	-----
Defense Production Act of 1950, as amended.....	40	-----
Total commitments to guarantee and insure loans.....	5,865	-----
To purchase investment company debentures: Small Business Administration (revolving fund).....	21	-----
Unpaid subscriptions, etc.:		
International Bank for Reconstruction and Development.....	5,715	-----
Inter-American Development Bank.....	370	-----
International Development Association.....	247	-----
Total unpaid subscriptions, etc.....	6,332	-----

¹ Guaranteed loans and certificates of interest, included in the Corporation's balance sheet with the direct loans, amounted to \$638,000,000 as of Dec. 31, 1960.

² Includes accrued interest.

³ Less than \$500,000.

⁴ Represents the Administration's portion of insurance liability. The estimated amount of insurance in force and loan reports in process, as of Dec. 31, 1960, is \$1,609,000,000. Insurance on loans shall not exceed 10 percent of the total amount of such loans.

⁵ Excludes \$17,000,000 deferred participations (guaranteed loans) representing estimated amount not requiring purchase.

⁶ Represents deferred participations.

⁷ Represents the Veterans' Administration portion of insurance liability. The total amount of loans in the hands of private lenders is estimated at \$29,755,000,000.

⁸ Represents estimated insurance coverage for the 1960 crop year.

⁹ Excludes political risk export guaranties amounting to \$107,000,000.

¹⁰ The Export-Import Bank of Washington acts as agent in carrying out this program.

¹¹ Excludes accrued interest.

¹² Includes public debt securities amounting to \$21,065,000,000 that have been deposited with the Federal Reserve agents as specific collateral.

NOTE.—The above figures are subject to the limitations and precautionary remarks, as explained in the note attached to this statement.

Senator WILLIAMS. Mr. Secretary, trying to get back to this financing of the debt, it is the plan of the Treasury to concentrate as much as you can of this debt in long-term financing, is it not, rather than continue the concentration in short term as you have it now?

Secretary DILLON. I would think more accurately in the intermediate ranges, as much as is feasible under present market conditions.

Senator WILLIAMS. That gets back to the question, do you think in order to have the flexibility of financing this debt which you as Secretary need, it would be well for us to repeal the present limitation on the ceiling on long-term interest? Payment of interest on long-term bonds?

Secretary DILLON. On that subject, Senator, we feel we have flexibility now within limits that were set forth by the Attorney General. However, we feel that complete removal of the statutory ceiling would be desirable, since it serves no really useful purpose, and its removal would clarify and simplify things.

We feel that we have this question of this particular debt limit bill, which is so urgent that we did not feel it should be encumbered by any anything that might be controversial, that would hold it up, because it would be a chaotic situation if action on this bill was not completed this week. We have questioned the wisdom of trying to include a provision of that type at this time in view of the past history of extensive debate and controversy over this subject.

Senator WILLIAMS. Well, I might say, I have no intention of delaying this and I recognize its importance, but the reason we are acting at this late date is your failure to come down to Congress with a recommendation for an extension, because the House just passed the bill yesterday and we are acting today.

I think that the House acted promptly at the same time. Perhaps you do not know, but nevertheless, as I understand it, this ceiling, it was recognized by all preceding Secretaries of Treasury, and I think by you, yourself, the importance of repealing this ceiling and the ceiling was recognized as effective under the law until this *Morris* decision of the Attorney General.

Now, as I understand the Attorney General's decision, it is that the 4½ percent covers the amount of the coupon rate only on the bond, is that your interpretation?

Secretary DILLON. That is correct. I would just like to correct one thing.

Previous administrations did not recognize that this was a legal limitation. Secretary Anderson very clearly and publicly stated that his interpretation of the law was the same as the interpretation which the Attorney General has made. But he felt that repeal would clarify the thing and as he said, repeal would be merely affirming in a more convenient form the basic authority granted by the Congress in 1942. This is his testimony of 2 years ago before the Ways and Means Committee.

Senator WILLIAMS. There were several of us who thought that was more or less wishful thinking, unless it was willing to be repealed. But if there is no effective ceiling, why did he waste the committee's time down here asking us to repeal a nonexistent law and why was the committee's time wasted to repeal the limitation on the E bonds. I think you recognize there is a ceiling on E bonds.

Secretary DILLON. That is somewhat different. There is a ceiling on effective yields on the E bonds.

Senator WILLIAMS. If there is a ceiling on E bonds, whereby you cannot go beyond an effective rate, and I understand you can sell those other bonds at 80 to 90, or sell them at 50, under this Attorney General's ruling if he so desires, is that correct?

Secretary DILLON. That is correct. I do not want to give the impression that we so desire, but that is correct. The E bond thing was set quite differently. The language there very specifically talked about effective yield and was quite different from the language on all other bonds. That is an effective ceiling of $4\frac{1}{4}$ percent now.

Senator WILLIAMS. You are not now recommending the limitation of a ceiling on E bonds and boosting of no ceiling on other types of bonds, are you? We are not putting E bonds on a less advantageous position by saying there is a legal ceiling on those but no ceiling on what you can pay, the maximum.

Is that the interpretation being put on this new limit?

Secretary DILLON. No, I would think the interpretation is that there is an effective ceiling on E bonds which does not exist on the others. However, that ceiling is set at $3\frac{1}{4}$ percent, with authority for the President to waive it up to a maximum of $4\frac{1}{4}$ percent. Beyond that, he cannot do so. The E bonds have been selling quite successfully at an interest yield of $3\frac{1}{4}$ percent. So this has been sort of a moot question. They are nowhere near $4\frac{1}{4}$ percent, so it has not really applied.

Senator WILLIAMS. Now, if these bonds are sold at 90, yielding a 4-percent coupon, a 20-year bond, or whatever it may be, will the 10 points appreciation be counted as an appreciation of capital, subject to capital gains, or will it be interpreted by the Treasury Department as a portion of interest payments and therefore subject to tax at a regular tax rate on interest? How will you interpret the appreciation of the bonds which you sell at a discount?

Secretary DILLON. I do not want to pretend to be giving an authoritative legal opinion on that, but that may be correct. However, I would be glad to furnish the opinion of the Internal Revenue Service.

Senator WILLIAMS. If correct, that would mean if you continue this present Attorney General's ruling, you would be extending to the buyers of these bonds long-term bonds who are buying them at discount, a technical tax advantage which would not be extended to the buyers of the E-bonds, is that correct, because the E-bond buyers have to pay regular income tax on the appreciation of their bonds.

Secretary DILLON. The information I will obtain from the Internal Revenue Service, will bear on this subject.

Senator WILLIAMS. It is appreciation from the 75 to 100, which represents interest under the interpretation.

Secretary DILLON. Yes.

Senator WILLIAMS. But the appreciation on these other bonds you are going to interpret as capital gains. That is a tax advantage that will not be extended to the others.

Secretary DILLON. As I have stated, I will be glad to get an authoritative opinion on that.

(Information concerning this subject submitted by the Secretary of the Treasury after the hearing is as follows:)

The Commissioner of Internal Revenue has advised me that the assumption made above by Senator Williams and me was not correct and that the appreciation would in fact be subject to ordinary rather than capital gains rates.

Under section 1232 of the Internal Revenue Code of 1954 the amount of the original issue discount is in general regarded as ordinary income. If a bond is purchased from the Treasury on original issue for \$90 and is redeemed by the original purchaser at maturity for \$100 the entire \$10 gain is treated as ordinary income. If the bond is bought and sold in the market, a pro rata share of the original issue discount is attributable to each holder. In the case of a bond issued at \$90, bought in the market after 5 years at \$95, and redeemed at 10-year maturity for \$100, the \$5 gain of the buyer in the market as well as the \$5 gain of the original purchaser is treated as ordinary income. If, however, this bond were bought in the market after 5 years for \$94, the \$4 gain of the original purchaser would be ordinary income, \$5 of the gain of the buyer in the market would be ordinary income, and \$1 would be capital gain.

In short, the realization of original discount by a bondholder is treated as ordinary income for tax purposes while appreciation attributable to market fluctuations is treated as capital gain. Where bonds are sold in the market, each seller is accordingly taxed on his allocable share of original discount realized plus capital gain, if any, realized.

Senator WILLIAMS. In order to eliminate that, do you not think it would be a better point of sound debt management for the Government always to sell these long-term bonds at par, with a coupon rate which will command their sale in the market?

Secretary DILLON. I think that certainly that would be the sounder policy. At the moment, we do not have any idea of departing from that, with the exception of the technique of advance funding, where we trade one security for another, both of which are below par.

Senator WILLIAMS. I appreciate that and I do not think you have such intentions. But I am pointing out the fact that under this interpretation, you are moving over into a field where we will be adopting, as a standard practice, presumably, the sale of Government bonds at discount rates, which may be 95 today or 90 tomorrow, and conceivably, they may be starting selling at 75 and certainly, that is not, as a businessman, you would not make such a recommendation that any corporation start that as a practice, would you, for sound management.

Secretary DILLON. Well, the only thing I would say to that is that I would hesitate to criticize this, because this was action taken by the Congress in 1942, when, in the Public Debt Act, they specifically repealed the provision that bonds must be sold at par and authorized the sale of bonds at a discount.

I do not know what the history of that is, why they did that, but I just hesitate to criticize an act of the Congress. But I would not sell them myself at such a discount.

Senator WILLIAMS. You would prefer selling the Government bonds at par. You would, as I understand it, prefer to see the ceiling removed, the present legal ceiling, on the interest rates of these bonds, is that correct?

Secretary DILLON. That is correct. That is what we stated in my letter to the chairman.

Senator WILLIAMS. And that you would prefer to see that removed?

Secretary DILLON. That is right.

Senator WILLIAMS. I am going to say we are going to try to comply with your wishes as a part of this bill.

The CHAIRMAN. Senator Smathers?

Senator SMATHERS. I do not have any questions at this time.

The CHAIRMAN. Senator Bennett?

Senator BENNETT. Mr. Chairman, I have sat through a number of hearings on this same basic subject, raising the debt limit, and it

always reminds me of a story which I would like to contribute to lighten up the situation, one of my father's stories about the old saloon.

The proprietor is down at the cash register, the—

Senator MORTON. Why would you with your background be telling a story about an old saloon? That is my story.

Senator BENNETT. If you'll let me finish perhaps I can satisfy your curiosity.

For years, before prohibition, the little business that we operate in Utah stood between two old saloons and the man who owned the one on one side of the business was ashamed to go in and collect his rent. So my father always had to go in and collect the landlord's rent, because it was all right for him to be seen going in, but not the other fellow.

The bartender yelled down to the proprietor, across the length of the bar, and you will pardon me, Mr. Secretary, "Is Doug Dillon good for a glass of beer?"

The proprietor said, "Has he had it?"

The answer was "Yes." "Well, then, he is good for it."

Well, every year we come up here and ask if the United States is good to have a little extra credit extended for raising the debt ceiling, and the question always is, Have they pushed the debt up to the ceiling point where the ceiling has to be raised—have they had the beer—and the answer is "Yes," so they are good for it. So we make a little fuss and ask questions, but we always raise the debt ceiling, which we will do this time.

Mr. Secretary, I am very much interested in your statement where you quote from the President, and I think my questions and my concern about this are also in the minds of other members of the committee.

Your statement is to the effect that Federal revenues and expenditures should be in balance over the years of the business cycle, running a deficit in years of recession when revenues decline and the economy needs the stimulus of additional expenditures, and running a surplus in years of prosperity, thus curbing inflation, reducing the public debt, and that is the point at which I stop.

As I read this statement, it is a statement of policy, which would indicate that over succeeding business cycles, the level of the public debt should be reduced, and that surpluses should outweigh deficits and that we should expect to continue reducing the debt by an amount not mentioned.

Yet, as the chairman has pointed out, that has not been the case. We have gone through four business cycles since World War II, and the debt has been higher than when that war ended.

You point out:

This statement by President Kennedy clearly outlines our budgetary policy, a policy from which we have never wavered.

I assume you mean the present administration and it has only been in office during that part of the business cycle when it is somehow fashionable to believe in deficits.

Under the questioning of the chairman and Mr. Williams, we have discussed the prospect of what you are going to do when you come to the surplus side. Can we assume that before we get into the next

recession, which will come, I am quite sure, during the term of this administration, because we have been in that pattern—

Senator HARTKE. Will the Senator yield? Is this a prediction on the part of the Republicans that we are going into a recession in the next few years?

Senator BENNETT. This is a prediction of the Senator from Utah that if you can depend on the pattern of the last dozen years, we will have a recession before January 1965.

Senator McCARTHY. I thought you were giving us 8 years.

Senator BENNETT. I cannot handle you both at once. Talking to the Senator from Minnesota, I do not think at this point you have any real basis for hoping for 8 years. I think that will be determined between what happens between now and 1965 and how you handle the next recession.

I am very much interested in that flat statement that over the business cycle, and we are just moving out of the trough to the top, with the prospect of another trough before 1965, this administration expects to reduce the total of the public debt. That is the way I read this statement.

Is that a fair reading, Mr. Secretary?

Secretary DILLON. I am not sure the word "expect" is a fair reading. It is a fair reading, I think, to say that it is a basic policy goal that what we should aim at over the business cycle is a balance and some reduction in the public debt.

Naturally, because there are other policy goals that have to be taken into account, I do not think it is a prediction. That is why I say the word "expect" would make it a prediction.

Senator BENNETT. Too strong?

Secretary DILLON. Yes.

Senator BENNETT. As the Chairman has pointed out, we have gone now for more than 30 years and we have failed to do this, both in terms of the number of surplus years and in terms of the way the debt has continued to climb over every cycle.

The Senator from Utah would be delighted if, in this current cycle, in which we are on the upward swing, we could hope for a balanced budget and reduction of the debt. But in terms of the additional expenditures that this Congress is making and in terms of the additional programs which you referred earlier I don't see how you can ever achieve a balanced budget. The President has recommended a program which will write the temporary unemployment program into a permanent law, so we can expect that the cost which we now see as temporary unemployment benefits is going to be largely translated into a permanent cost of Government.

Secretary DILLON. No, sir; not unless long-term unemployment stays at a high level. If we are more prosperous and long-term unemployment falls off, then expenditures will fall off. And also, in the future, that would be handled by a trust fund which would have full self-financing.

Senator BENNETT. In other words, we are going to take it out of the public debt area.

Secretary DILLON. Out of the budget area, yes. I think it is perfectly clear that there is something lacking in our unemployment legislation, compensation legislation, as regards particularly this long-term unemployment, because in both of the last two declines—1958 and

now in 1961—Congress had to take exactly the same action and pass a special temporary law to take care of those who had been unemployed over a long period.

Senator BENNETT. I do not think it is quite accurate to say they took exactly the same action. There was a substantial difference in the approach. One was the program which was financed and passed out. The other set a new pattern of direct Federal concentration of unemployment funds this and part of the program is going to be translated into the new funds. The Federal Government is going to set the standards now.

Secretary DILLON. Setting standards is another question.

Senator BENNETT. Once that is done, they are going to set the amount of money and the States are going to find the power to control their local unemployment situations very much reduced if this new program is adopted. The 1958 pattern did not interfere with the right of the States to set their standards.

I, for one, would be happy to vote to remove the debt limit completely. I think it is fiction, a complete fiction, and we go through the ritual of coming up here and raising it every year. It has no real effect on the programs of the administration or the actions of the Congress in voting appropriations. It actually can be burdensome and difficult for the Treasury in operating its responsibility to manage the debt. The Treasury does not create the debt. It has no power with that respect. It just has to live with it after it is created.

The debt limitation is supposed to be a brake on the spending pattern of Congress, but in the 10 years I have been in the Senate, I have seen no evidence that it has had that effect. But we solemnly raise it to give the Treasury a little more headroom every time.

I think we actually increase the difficulties of the Treasury rather than minimize them. Yet emotionally, if we were to take it off, people out in the country who do not understand the problem, would say we have endorsed runaway spending.

That is all I have to say, Mr. Chairman.

The CHAIRMAN. Senator McCarthy?

Senator McCARTHY. Mr. Chairman, I am going to, I hope with the support of the Treasury, propose an amendment which would raise the debt ceiling as proposed but have the act terminated after 1 year. This may answer the problem of the Senator from Utah. Have the act expire after next year.

The CHAIRMAN. The whole extension is for 1 year, is it not?

Secretary DILLON. Through this particular legislation, we are requesting a temporary 1-year increase.

The CHAIRMAN. It is temporary now.

Senator McCARTHY. I would have the act which establishes the permanent ceiling expire after 1 year.

The CHAIRMAN. Oh, the permanent.

What do you think of that, Mr. Secretary?

Secretary DILLON. I think that is something for the committee to decide, although I think, as has been pointed out, Mr. Chairman, the Treasury itself has the responsibility just for managing the public debt and managing expenditures that have already been approved by the Congress. So I do not think the ceiling has any effective control over public spending.

However, it does give an opportunity to review on an overall basis, publicly, the fiscal policy of the Government as a whole once a year, and I think that has been a useful thing.

Senator McCARTHY. Mr. Chairman, we can do that without this action.

The CHAIRMAN. You would not just consent to making it temporary, the whole thing? Would you consent to making the whole \$289 billion temporary?

Secretary DILLON. Oh, no. We either have to have a permanent ceiling or no ceiling at all.

Senator McCARTHY. You could make it temporary for 1 year with the provision that the act would expire. Then you would have no ceiling.

Secretary DILLON. No ceiling thereafter.

The CHAIRMAN. Is that your suggestion, Senator McCarthy?

Senator McCARTHY. That is my suggestion.

The CHAIRMAN. We will vote on that later on.

Senator BUTLER. Mr. Secretary, has a copy of the ruling of the Attorney General been made a part of the record?

Secretary DILLON. I will be glad to make it a part of the record. (The information requested is as follows:)

THE SECRETARY OF THE TREASURY,
Washington, April 7, 1961.

HON. ROBERT F. KENNEDY,
Attorney General of the United States,
Washington, D.C.

DEAR MR. ATTORNEY GENERAL: I would greatly appreciate your opinion as to whether the Secretary of the Treasury has authority under sections 1 and 20 of the Second Liberty Bond Act, as amended, to issue bonds bearing a coupon rate not in excess of 4¼ percent at a discount which would raise the investment yield or the cost to the Treasury of the bonds above 4¼ percent.

While currently prevailing low interest rates may make the question appear academic, and while no specific borrowing operation to which this opinion could apply is now contemplated, I believe your opinion would be timely in two respects. In the first place, considerable interest in this problem has been and is being expressed by both the Congress and the press. Additionally, to request such an opinion with respect to a specific proposal to issue bonds for cash, exchange, or an advance refunding would inevitably promote speculation and have a generally undesirable effect on the market. Thus it would appear appropriate to obtain your opinion now so that if at some future time the Treasury Department should propose to issue securities at a discount which would raise the investment yield or cost to the Treasury above 4¼ percent, the question would have been resolved and the integrity of Government securities maintained beyond question.

Sincerely yours,

DOUGLAS DILLON.

OFFICE OF THE ATTORNEY GENERAL,
Washington, D.C., April 25, 1961.

The Honorable the SECRETARY OF THE TREASURY.

MY DEAR MR. SECRETARY: This is in reply to your request for my opinion as to whether you have the authority under sections 1 and 20 of the Second Liberty Bond Act to issue bonds for cash, exchange, or on advance refunding¹ where such bonds bear a coupon rate not in excess of 4¼ percent but are issued at a discount which would raise the effective rate or cost to the Treasury of the bonds above the rate of 4¼ percent. For the reasons set forth hereinafter in detail I conclude that you possess such authority.

¹ Sec. 1 of the Second Liberty Bond Act of Sept. 24, 1917, 40 Stat. 288, as amended, 31 U.S.C. 752, authorizes the Secretary of the Treasury, with the approval of the President, to borrow on the credit of the United States for a number of purposes including "the purchase, redemption, or refunding, at or before maturity of any outstanding bonds, notes, certificates of indebtedness, or Treasury bills of the United States * * *."

Section 1 of the Second Liberty Bond Act authorizes the Secretary of the Treasury, with the approval of the President, to borrow on the credit of the United States and to issue therefor bonds of the United States which shall be subject to a "rate or rates of interest, not exceeding 4¼ percent per annum" and shall "be offered at not less than par."

Section 20 of the Second Liberty Bond Act, as amended by section 3 of the Public Debt Act of 1942, 56 Stat. 189, 31 U.S.C. 754b,² provides that the bonds authorized by section 1 of the act:

"may be issued on an interest-bearing basis, on a discount basis, or on a combination interest-bearing and discount basis, at such price or prices and with interest computed in such manner and payable at such time or times as the Secretary of the Treasury may prescribe; and any such obligations may be offered for sale on a competitive or other basis under such regulations and upon such terms and conditions as the Secretary of the Treasury may prescribe; and his decision with respect to any such issue shall be final."

On May 1, 1958, my predecessor concluded that the 1942 amendment of section 20 had repealed the earlier enacted requirement set forth in section 1 that bonds issues thereunder shall "be offered at not less than par" (41 Op. A.G. No. 62). He based this opinion on the conclusions that the two sections are irreconcilable and that the legislative history of the 1942 amendment of section 20 disclosed a congressional purpose "to give the Secretary of the Treasury greater flexibility in determining the terms upon which Treasury bonds, bills, notes, and certificates of indebtedness may be issued."³

That opinion, however, did not purport to consider whether the Secretary of the Treasury is authorized to issue bonds, bearing a stated coupon rate of no more than 4¼ percent, for cash, exchange, or on advance refunding, if, as the result of a discount at which the bonds are issued, or for some related reason, their effective rate, investment yield, or cost to the Treasury should exceed the statutory rate of 4¼ percent per annum.⁴ I base my conclusion that you have this power on the following considerations: First, when Congress uses the term "interest" in connection with bonds without further explanation, it refers to the coupon or stated rate, the usual meaning of that term, and not to the accountants' concept of effective rate; second, when a statute limits only the coupon rate of a security issue, and permits it to be offered at less than par, it authorizes sales at an effective rate in excess of the maximum permissible coupon rate; and third, when Congress seeks to limit the effective rate of securities which may be sold at a discount, it does so expressly.

I

As originally enacted, section 1 of the Second Liberty Bond Act provided that the interest rate of the bonds should not exceed 4¼ percent per annum, and that they should not be issued at less than par. In view of the latter prohibition, the effective rate could not exceed the coupon rate, and it was therefore unnecessary to determine whether the 4¼ interest rate referred to the coupon rate or to the effective rate.

The 1942 amendment of the Second Liberty Bond Act, while leaving the 4¼ percent limitation on "interest" untouched, permits bonds to be issued on a discount basis, or on a combination interest-bearing and discount basis. In view of this amendment, it becomes material to ascertain whether the words "rate or rates of interest" in section 1 refer to the coupon rate or to the effective rate. The pertinent judicial decisions indicate that the first alternative is the correct one; hence, that a limitation on "interest" has no direct bearing on the effective rate.

In *Old Colony R. Co. v. Commissioner*, 284 U.S. 552 (1932), the Supreme Court was confronted with a situation closely related to the one at hand. A corporation which had sold its bonds at a premium sought to deduct the entire interest payments on those bonds from its gross income for income tax purposes. The Government claimed that this was not permissible because these payments included in part the repayment of the premium, which constituted a loan and consequently had to be amortized over the life of the bond. Hence, the "interest" payments constituted in part "genuine interest" which was deductible, and in part payments

² Sec. 20 was added to the Second Liberty Bond Act by sec. 14(a)(4) of the Gold Reserve Act of 1934, 48 Stat. 343.

³ H. Rept. 1876, 77th Cong., 2d sess., p. 4. See also S. Rept. 1173, 77th Cong., 2d sess., pp. 1, 2; Public Debt of 1942, hearings before the Committee on Finance, U.S. Senate, 77th Cong., 2d sess. on H.R. 6691, p. 3; 88 Congressional Record 2184.

⁴ In the interest of brevity I shall use only the term "effective rate" when referring to the three related concepts of "effective rate," "investment yield," and "cost to the Treasury."

on a loan which could not be deducted. In a nutshell, the Government's position was that where bonds were sold at a premium, the effective rate of interest was lower than the coupon rate, and that the excess of the coupon over the effective rate did not constitute deductible interest but a repayment on capital (284 U.S. 552, 559).⁵ The Supreme Court held that when Congress uses the word "interest" without further amplification it refers to the normal meaning of the word, i.e., the stated or coupon rate, and not to the accountants' concept of the effective rate. The Court said (284 U.S. 560-561):

"* * * the usual import of the term [interest] is the amount which one has contracted to pay for the use of borrowed money. He who pays and he who receives payment of the stipulated amount conceives that the whole is interest. In the ordinary affairs of life no one stops for refined analysis of the nature of a premium, or considers that the periodic payment universally called 'interest' is in part something wholly distinct—that is, a return of borrowed capital. It has remained for the theory of accounting to point out this refinement. We cannot believe that Congress used the word having in mind any concept other than the usual, ordinary, and everyday meaning of the term, or that it was acquainted with the accountants' phrase 'effective rate' of interest and intended that as the measure of the permitted deduction."

The holding in *Old Colony* that Congress and courts use and interpret statutory language according to its usual meaning and not on the basis of accounting theories⁶ does not constitute an exception to the general course of decisions.⁷ The State courts also hold that the term "interest" without explanation normally refers to the coupon rather than the effective rate.⁸

II

The limitation on the interest rate set forth in section 1 therefore refers exclusively to the coupon rate of the bonds. The original prohibition on the offering of those bonds below par, however, constituted a bar on their sale at an effective rate in excess of the coupon rate. Indeed, it has been recognized by students of public finance that one of the functions of a statutory prohibition of the sale of securities below par is to prevent their sale at an effective rate in excess of the coupon rate. Thus it was stated by Dr. Love in his treatise on "Federal Financing," at page 210:

"We are accordingly justified in thinking that the ever-present restriction against sale below par is in reality a logical teammate of the restriction on the nominal rate of interest, and that it was only by combining the two that the public's wishes in respect to limiting the net yield on securities were carried out."

It follows that prior to 1942, bonds authorized by section 1 of the Second Liberty Bond Act could not be issued at an effective rate in excess of 4¼ percent because the statute barred the sale of those securities below par. When the Public Debt Act of 1942 repealed that prohibition and expressly authorized the sale of those bonds at a discount, the basis of the restriction on the effective rate of interest disappeared.⁹

⁵ See also Brief for the United States in No. 349, Oct. T. 1931, pp. 6-7, 10-14, 50-52. Significantly, the brief and the accounting authorities quoted in it stressed that these considerations applied conversely where bonds had been sold at a discount.

⁶ The holding in *Old Colony* therefore applies with equal force to an advance refunding of bonds at an increased interest rate which according to some accountants constitutes the issue of the bonds at a discount.

⁷ See, e.g., *Woolford Realty Co. v. Rose*, 286 U.S. 319, 326-327 (1932); *Crane v. Commissioner*, 331 U.S. 1, 3-7.

⁸ This, indeed, has been a source of complaint on the part of accountants, see, e.g., May, "Accounting and the Accountant in the Administration of Income Taxation," 47 Col. L.R. 377; 4 Mertens, "The Law of Federal Income Taxation" (1960 Revision), sec. 23.162.

⁹ *Golden Gate Bridge etc. District v. Filmer*, 217 Cal. 754, 21 P. (2d) 112 (1933); *Stanley v. Mayor etc. of City of Baltimore*, 146 Md. 277, 301-302, 126 Atl. 151, 160 (1924); *Rowland v. Reno County*, 108 Kan. 440, 195 Pac. 863 (1921); *Kiernan v. City of Portland*, 61 Or. 398, 122 Pac. 764 (1912).

⁹ The decisions of the State courts agree that where a statute permits the sale of securities at a discount, the investment yield may exceed the statutory coupon rate; cf. the authorities cited supra, fn. 8, and Jones, "Bonds and Bond Securities" (4th ed., 1935), sec. 369.

Where a statute establishes a limit on the coupon rate and does not expressly authorize the sale of the security below par, the courts are split on the question whether the sale at discount is prohibited because it would result in an evasion of the statutory coupon rate; see, e.g., *Ohio ex rel. Laskey v. Board of Education*, 35 Ohio 519, 524; 43 American Jurisprudence, *Public Securities and Obligations*, sec. 135, 91 A.L.R. 7, 12-13. These considerations, however, are inapplicable where, as here, the sale at a discount has been expressly permitted.

III

In view of the fact that the limitation on the effective rate was tied inextricably to the ban in sales below par, it would appear inappropriate to view the 1942 amendment of section 20 as being designed merely to permit greater flexibility in financing¹⁰ and therefore to conclude that Congress had no intention to modify the then existing limitation on the effective rate. As already explained, once express permission had been given to sell the bonds issued pursuant to section 1 at a discount, there remained no legal basis for a limitation on the effective rate. Moreover, the history of the Second Liberty Bond Act and of its amendments reveals sophisticated awareness on the part of Congress that, if securities may be sold below par, any limitation on the effective rate must be express.

Section 6 of the original Second Liberty Bond Act (40 Stat. 291) authorized the issue of war savings certificates "on which interest to maturity may be discounted in advance." There was no limitation in the interest rate of these certificates; thus, it was not necessary to distinguish between the coupon and effective rates.

Section 14 of the Gold Reserve Act of 1934 (48 Stat. 343) added to the Second Liberty Bond Act a section 20, the predecessor to the present section 20, which authorized the Secretary of the Treasury to issue obligations having a maturity of less than 1 year "on a discount basis and payable at maturity without interest."

Again, there was no limitation on the interest these obligations could bear.

The problem created by the difference between coupon rate and effective rate of securities issued below par was first raised and dealt with in section 6 of the act of February 4, 1935, 49 Stat. 21. That section added to the Second Liberty Bond Act a section 22, 31 U.S.C. 757c, which authorized the issuing of U.S. savings bonds.¹¹ These bonds were to be issued "on a discount basis to mature not less than ten nor more than twenty years * * * : *Provided*, That the issue price of the savings bonds and the terms upon which they may be redeemed prior to maturity shall be such as to afford *an investment yield not in excess of 3 per centum per annum*, compounded semiannually." [Emphasis added.]

Section 3 of the Public Debt Act of 1941 (55 Stat. 7) amended and broadened section 22 of the Second Liberty Bond Act. It provided in pertinent part:

"Savings bonds and savings certificates may be issued on an interest-bearing basis, on a discount basis, or on a combination interest-bearing and discount basis * * *. Such bonds and certificates may be sold at such price or prices, and redeemed before maturity upon such terms and conditions as the Secretary of the Treasury may prescribe: *Provided*, That the interest rate on, and the issue price of, savings bonds and savings certificates and the terms upon which they may be redeemed shall be such as to afford *an investment yield not in excess of 3 per centum per annum*, compounded semiannually." [Emphasis added.]

In the following year the same Congress, which amended section 22 with its express reference to the investment yield, amended section 20 so as to permit the sale of bonds below par. It is significant that when modifying section 20, Congress did not start out from the original version of that section contained in section 14 of the Gold Reserve Act of 1934, but that it followed almost verbatim the language of the 1941 amendment of section 22, with the significant omission of the proviso limiting the investment yield of securities issued at a discount.¹²

The act of April 20, 1957, Public Law 85-17, 71 Stat. 15, amended the proviso in section 22 to read:

"*Provided*, That the interest rate on, and the issue price of, savings bonds and savings certificates and the terms upon which they may be redeemed shall be such as to afford *an investment yield not in excess of 3.26 per centum per annum*, compounded semiannually." [Emphasis added.]

Finally, section 101 of the act of September 22, 1959, Public Law 86-346, 73 Stat. 621, added a section 25 to the Second Liberty Bond Act (31 U.S.C. 757c-1) which is indicative of the full congressional awareness of the difference between interest rate and investment yield:

¹⁰ Cf. *supra*, footnote 3.

¹¹ On the legal and financial history of U.S. savings bonds, see H. Rept. 1148, 86th Cong., 1st sess., pp. 2-7; S. Rept. 909, 86th Cong., 1st sess., pp. 2-7.

¹² The same 77th Congress again showed its awareness of problems resulting from securities sold at a premium or a discount by enacting section 126 of the Revenue Act of 1942, 56 Stat. 822, which added a section 125 to the Internal Revenue Act of 1939 (now I.R.C. 1954, sec. 171). This section permits a bondholder who purchased a bond at a premium to treat part of the bond "interest" as amortization of the premium. Cf. the discussion of the *Old Colony* case, *supra*.

"Section 25. In the case of any offering of U.S. savings bonds issued or to be issued under section 22 of this act, the maximum limits on the *interest rate or the investment yield or both* may be exceeded upon a finding by the President with respect to such offering that the national interest requires that such maximum limits be exceeded: *Provided, however*, That in no event may *the interest rate or the investment yield* exceed 4¼ per centum per annum." [Emphasis added.]

The various sections of the Second Liberty Bond Act are in pari materia. Sections 22 and 25 disclose the congressional awareness, at least since 1935, that when used in that statute the term "interest" refers only to the coupon rate and not to the effective rate. Consequently, I conclude that when Congress permitted the sale at a discount of the bonds referred to in section 1 for cash, exchange, or advance refunding, without placing a limitation on their investment yield, it fully realized that such bonds could be sold or exchanged below par at an effective rate, investment yield, or cost to the Treasury in excess of the statutory coupon rate.

My interpretation of the legal effect of the 1942 amendment of section 20 is not novel. Your predecessor testified before the Committee on Ways and Means of the House of Representatives to the effect that "since March 1942 the Treasury has had the right to offer securities at a discount. It is permissible under present statutory authority, therefore, for the Treasury to issue a bond with a 4¼-percent coupon rate at a price below par to yield any rate of interest to the investor above 4¼ percent which may be required by market conditions."¹³

Secretary Anderson, however, did not wish to exercise that authority without specific congressional leave because he did not consider it appropriate "to circumvent the 4¼ percent ceiling in this way."¹⁴ Considering that the 4¼ percent ceiling applies—as recognized by Secretary Anderson himself—only to the coupon rate, the issue of bonds below par, as authorized by section 20, and bearing a coupon rate of 4¼ percent, as authorized by section 1, does not "circumvent" any congressional prohibition. The power to do so plainly exists,¹⁵ and I cannot see anything inappropriate in exercising it if you believe that the circumstances require such action. I therefore answer your question in the affirmative.

Sincerely,

ROBERT F. KENNEDY *Attorney General.*

Senator BUTLER. I think it should be made a part of the record.

Then, will you explain to me how the United States—would the United States borrow money by issuing bonds without consulting the Congress, if the debt ceiling was removed or if the Attorney General's opinion was held to be a correct ruling?

Secretary DILLON. They are two different subjects, Senator. The Attorney General's opinion has to do only with the coupon rate on bonds.

Senator BUTLER. Only with the rate of interest and not with the principal amount of bonds?

Secretary DILLON. No.

Senator BUTLER. In other words, he does not interfere at all with article I, section 8, provision of the Constitution, that the Congress shall have power to borrow money on the credit of the United States?

Secretary DILLON. No.

Senator BUTLER. That will always be here.

Secretary DILLON. Of course.

Senator BUTLER. And you could always sell the bonds, as I understand it, at a discount and come here and raise the rate of the ceiling?

Secretary DILLON. That is correct.

¹³ Public debt ceiling and interest rate ceiling on bonds, hearings before the Committee on Ways and Means, House of Representatives, 86th Cong., 1st sess., p. 18; see also H. Rept. 1297, 86th Cong., 2d sess., pp. 3, 13.

¹⁴ *Supra*, fn. 13.

¹⁵ I cannot see any significance in the failure of Congress to enact H.R. 10590, 86th Cong., 2d sess., favorably reported by the House Ways and Means Committee in H. Rept. 1297, 86th Cong., 2d sess., which conferred on the Secretary of the Treasury the authority to exceed the effective rate of 4¼ percent in certain circumstances. In view of Secretary Anderson's statements, Congress may have considered this legislation redundant. In any event a statutory power remains in effect until it is repealed, limited, or modified. Its existence is not affected by the failure to enact such repealing, limiting, or modifying legislation.

Senator BUTLER. But you have one of the two things to do.

Now, Mr. Secretary, you refer to the deficit of \$12.4 billion, 1959. Do you have the original and successive revised estimates of the deficits from budget 1959, which I understand resulted right after the last recession we had?

Secretary DILLON. I do not have those with me, but I am certain I can make them available. I am sure it was a very similar situation to what we are facing now.

Senator BUTLER. I would like to have, if you can give it to me, the date of the original statement and also the date of the revised estimate.

Secretary DILLON. We will be glad to do that; yes.

Senator BUTLER. And the final figure, and it is also my recollection, Mr. Secretary, that that deficit of \$12.4 billion which was quite unexpected and we did not realize it was on us until it materialized.

Secretary DILLON. I do not think that is quite the case. I think that there was some realization considerably earlier that it was going to materialize, because spending in that year went up \$9 billion. There was a sharp increase in the public debt in this same legislation that was enacted on September 2, 1958. So at some time in the summer of 1958, which is just about where we stand now, they had a pretty good idea that a sizable deficit was in prospect.

Senator BUTLER. If you can, if you will supply the original statement and then the dates of both. I refer to it because I am just wondering, in connection with your statement, whether we will not have somewhat a similar situation now, that we will have a much larger deficit and it will be on us before we realize it.

Secretary DILLON. I would not expect so. I am led to believe that there must have been a realization of this—maybe not the full size of it, but the general order of magnitude—at least a year earlier, because at that time, the public debt was increased by \$8 billion by congressional action taken on September 2. That was for the year ending the following June, so there was a pretty good idea at that time of the prospective increase in the deficit.

But I will be glad to give you the specific information you request.

Senator BUTLER. I thank you, sir.

(The information requested is as follows:)

Budget operations, fiscal year 1959

[In millions]

	Budget receipts ¹	Budget expenditures ¹	Surplus (+) or deficit (-)
Original estimate in budget document, January 1958.....	\$74,400	\$73,934	+\$466
Revised estimate in review of 1959 budget, September 1958.....	67,000	79,223	-12,223
Revised estimate in budget document, January 1959.....	68,000	80,871	-12,871
Actual.....	68,270	80,697	-12,427

¹ These figures have not been adjusted to give effect to change in reporting effective July 1960, whereby certain interfund transactions (mainly interest payments to Treasury by Government agencies on their borrowings from Treasury) are deducted from budget receipts and expenditures, with no effect on budget surplus or deficit.

The CHAIRMAN. Senator Hartke?

Senator HARTKE. In regard to Senator Bennett's statement, I agree that the limitation serves no useful purpose. Is this not, though, a limitation on the ability of the Treasury Department to borrow rather than a limitation on the debt itself?

Secretary DILLON. Well, Senator, it is a limitation of the total amount of public debt that can be outstanding at any one time. That affects the Treasury because it cannot borrow money that exceeds that limit.

Senator HARTKE. It is not really a limitation on the amount of the public debt in any sense, is it, because if the revenues do not come in or the expenditures exceed what were estimated, the debt has occurred, there is no real meaning at all in the debt. Is this not a misnomer?

Secretary DILLON. I do not think so, but what you are saying is—and that is the fact—that if your revenues do not come in or your expenditures are higher, you would either have to find some complex ways to circumvent this rule—as was done 3 years ago when they sold issues of FNMA in the public market, which are not subject to the public issue, and FNMA then paid the debts off to the Federal Government and the Government came back and got it another way—or get an increase in the ceiling.

Senator HARTKE. There has been a lot of controversy about the national debt and the total cost. Assuming we take out the cost of the war, as I look at the record, the increase in the debt ceiling from 1940 to 1945 is from \$49 billion to \$300 billion, which was an alltime high, is that not right?

Secretary DILLON. That is correct.

Senator HARTKE. Then in the subsequent period from 1945 up until 1954, the only change in the national debt limit was a reduction of \$25 billion, which occurred in 1946.

Secretary DILLON. That is correct.

Senator HARTKE. Then the increase occurred in subsequent years from 1954, during the last administration, is that not true?

Senator BENNETT. The increases started after 1946. They were not down to 275 in 1952, were they?

Senator HARTKE. I would like to just have this clarified for the record. I am talking about the ceiling now.

Secretary DILLON. I think what the Senator from Indiana says is perfectly correct regarding the ceiling.

Senator BENNETT. But not the total debt.

Secretary DILLON. Not the total debt.

Senator HARTKE. If we can agree upon the total debt, let us take the actual total debt and do that once. From 1940, according to what I have here, the Economic Report of the President on January 1941, it shows the increase there was up from 1940 to 1945, which were war years, from \$50.9 billion to \$278.7 billion, or an increase of \$227.8 billion during the war years.

That is where the big increase in the national debt occurred, is that not true?

Secretary DILLON. That is absolutely true; yes.

Senator HARTKE. And this was in the defense of the United States of America, for preservation of our way of life, which is a pretty small price.

Now, from 1945 to 1953, there was the change in the actual debt from \$278.7 billion down to \$275.2 billion, or a decrease of \$2.5 billion, is that not true?

Secretary DILLON. Yes, although actual public debt outstanding reached a high——

Senator WILLIAMS. What was the cash on hand as of the different years?

Secretary DILLON. There was a substantial amount, I think, of excess cash on hand right at the end of the war, which reduced——

Senator WILLIAMS. How much was that?

Secretary DILLON. I do not have that figure. I have the yearend figures here. The highest yearend figure was the end of 1946, \$269 billion. Thereafter the public debt decreased. The next year, the public debt decreased to \$258 billion and there was only a surplus of \$750 million, so it must have been the reduction in cash balance that brought that about.

Senator WILLIAMS. Will you furnish for the record the cash balances in each of the years, because it is my understanding that cash balances dropped about \$18 to \$20 billion over that period.

Senator HARTKE. This is true for 1 year but not true for the entire period from 1945 to 1953

Senator WILLIAMS. No, between the periods. That is what I am asking, the cash balances.

What were the cash balances in this period?

Secretary DILLON. We have that figure here. The highest cash balance when the highest war debt occurred was February 28, 1946, when the total debt was \$279 billion.

At that time, there was a cash balance of just about \$26 billion. At the end of 1946, that same——

Senator WILLIAMS. What was it in 1953 that he was speaking of?

Secretary DILLON. We do not have that figure. But the cash balance at the end of an ordinary year runs about \$5½ billion. For all these years, you can assume that.

Senator WILLIAMS. That is about a \$20 billion drop in the cash balance.

Secretary DILLON. Which would have enabled a reduction from \$279 billion to \$269 billion.

Senator WILLIAMS. \$258 billion.

Senator HARTKE. That is right.

Mr. Secretary, to point out the fact of it, from 1945 to 1956, from April 3 to June 26, there was an actual reduction in the debt limit of \$25 billion?

Secretary DILLON. That is right.

I think maybe an easier way to put it is for the total years after 1946, running up through 1952, there was an overall surplus in the Government's operation, but not a very big one. It was a surplus of about \$4 billion, something like that.

Senator WILLIAMS. Would the Senator yield?

Senator HARTKE. Yes.

Senator WILLIAMS. Would you repeat that, please? I did not get it.

Secretary DILLON. I said in taking the fiscal years 1947, 1948, 1949, 1950, 1951, and 1952, there was a surplus of about \$4 billion. That evaporated in 1953 with the Korean deficit of \$9 billion.

Senator WILLIAMS. If you will yield just a moment.

Senator HARTKE. Oh, certainly. I think this is a fact which has commonly been misstated and should be corrected.

Senator WILLIAMS. In 1947, what was the debt?

Secretary DILLON. At the end, \$258 billion.

Senator WILLIAMS. What was your cash on hand—what date was that? The end of 1947?

Secretary DILLON. These are the fiscal year's end in 1947.

Senator WILLIAMS. In 1947, it was \$258 billion?

Secretary DILLON. Yes, sir.

Senator WILLIAMS. What was your cash on hand that same date?

Secretary DILLON. I guess I have that figure. General fund balance on hand that date was \$3.3 billion.

Senator WILLIAMS. Now, what was it in 1953, you say?

Secretary DILLON. The close of 1952, the public debt was \$259 billion, \$1 billion higher than it was in 1947, but the cash balance was \$7 billion, \$4 billion, roughly, higher. So there was a net improvement of about \$3 billion over those years.

Senator WILLIAMS. And your debt at the end of 1952 was \$259 billion.

Secretary DILLON. Yes.

Senator CURTIS. Now, Mr. Chairman—were you through?

Senator HARTKE. No; I was not. I was yielding to the Senator from Delaware.

Does he have any other questions?

What I was getting back to when I was interrupted, we show in this thing a \$227 billion debt in the war years and a \$3½ billion increase up to 1953. Now, to come back to the increase, from 1953 to 1961, that raised again to \$286.4, which made it a net increase of \$7.7 billion. This occurred entirely during peacetime.

Senator BENNETT. Would the Senator like to put in the record the year in which the Democrats took over the Congress?

Senator HARTKE. I would be happy to do that.

Senator BENNETT. That was the year 1954. So this is the period you are talking about in which we had a split administration, but the power of the purse resided with your party.

Senator HARTKE. I am glad we eliminated that difficulty.

Senator MORTON. And \$9 billion was cut out of the Truman administration by the 80th Congress at his request.

Senator HARTKE. I do not care what you want to argue about. I want to tell you this, that the record clearly shows that during the Truman administration there was a decrease in the debt of \$3½ billion and during the Eisenhower administration, there was an increase in the national debt of \$7½ billion. These figures are in the record and cannot be refuted.

Senator CURTIS. They can.

Will the Senator yield?

Senator HARTKE. Certainly.

Senator CURTIS. Mr. Truman made the statement many times that he reduced the debt more than any other President. What happened? In the last bond drive in the war, the good people of the United States way oversubscribed to bonds. We borrowed money, more money than we needed. The war ended. There was money in the pipeline and that money was used to retire obligations of the United States falling due and the debt was reduced with money that we borrowed that it turned out we did not need, and it was not reduced by surplus financing. I think the record will bear that out.

Senator HARTKE. I do not think the record will bear that out and I would like to call upon the Secretary, if he has the figures there, to show what I understood you to say, that there was——

Secretary DILLON. I think your statement was correct. Certainly the major reduction in the debt from the high was due to this repay-

ment, but there was a reduction, an improvement in the Government's fiscal position, of about \$4 billion over the years 1947 through 1952.

Senator HARTKE. And that did not take into account that there was a reduction in the cash surplus of about \$26 billion and a reduction in the national debt of \$25 billion, which really demonstrates very conclusively that this overall debt ceiling limitation is very misleading in trying to get figures, because we can get a much worse picture of the Eisenhower administration by using the debt limitation than we can by using the actual figures themselves.

Senator WILLIAMS. If you will yield for a moment, your debt for the fiscal year 1953, which begins June 30, 1952, during the Eisenhower administration, that increased the debt \$7½ billion over and above the figures you are using, is that not true?

Secretary DILLON. Yes. I stated in the year ending June 30, 1953, when expenditures reached a high point as a result of the Korean effort, there was a deficit of \$9½ billion, which is the biggest postwar deficit we have had, with the single exception of 1959.

Senator WILLIAMS. That is true, but even that deficit was lower than the deficit was estimated to be by the Truman budget in 1952?

Secretary DILLON. It may be. I would not know about it.

Senator HARTKE. The deficit occurred in 1959 as a result of the 1958 recession, which was the largest peacetime deficit, is that correct?

Secretary DILLON. That is correct.

Senator HARTKE. Was this caused primarily by an increase in expenditures or a decrease in revenues?

Secretary DILLON. The revenues in 1959 were actually slightly below the revenues for 1958. They were about \$600 million less, but expenditures for 1959 were \$9 billion in excess of expenditures for 1958.

Senator HARTKE. Yes, but the real fluctuation here and the real cause—

Secretary DILLON. Was expenditures. Expenditures went up \$9 billion.

Senator HARTKE. Yes, all right. I was interested in a statement by the leading exponent of conservatism, outside of Congress, one Edmund Dale, in which he followed the same pattern as some of the conservatives in Congress today, which was written about 2 or 3 years ago. I have forgotten the exact date. I was also interested in his recent rebuttal in a publication, in which he said that his conclusions, based upon his observations of the European economy were that the approach which was adopted by the conservatives was one which would lead to unemployment and a lack of economic growth.

Is this not true? Or do you want to agree?

Secretary DILLON. I think that is substantially what he said, because I have seen Mr. Dale's latest article and I think he was trying to compare the European fiscal system with our own, which are quite different.

Senator HARTKE. The truth of it is that at the moment, the Western European countries are enjoying unprecedented growth in their economies, with practically no unemployment, is that not true?

Secretary DILLON. I think that is generally true, except possibly when we talk about growth in economies. For example the United Kingdom, which has not been growing.

Senator HARTKE. I understand your recent statements, all you are saying is that if we follow the course of prudence, along with taking

care of our housekeeping here and looking to the future, this coming recession which my dear friend from Utah predicts, does not have to come and we can go forward with years and years of prosperity, too, is that not right?

Secretary DILLON. That can be true, and we hope through the use of wise policies to avoid another recession.

Senator HARTKE. I say this administration is the optimistic one, while the members of the opposition are preaching the theory of gloom and doom, not alone for us all over the picture but as far as the future of the United States is concerned.

Senator WILLIAMS. Would the Senator yield for just one moment? I would like to correct one figure. We were figuring on the 1947 debt, which was \$259 billion, and I think you gave us a figure of the cash on hand as being about \$7 billion.

Based on the Treasury's report, the cash on hand was \$3.3 billion?

Secretary DILLON. That is right, \$3.3 billion in 1947, that is right.

Senator WILLIAMS. Instead of \$7 billion.

Secretary DILLON. I said \$3.3 billion. That \$7 billion was at the end of 1952.

Senator WILLIAMS. Yes. In other words, at which time—we had an increase in cash at that time, did we not?

Secretary DILLON. That is right.

Senator WILLIAMS. In 1953, it had gone back down again?

Secretary DILLON. At the end of the fiscal year in 1953 it had gone back down to \$4.7 billion, yes.

Senator CURTIS. Mr. Chairman, reference has been made to Western Europe. Has not recovery been most in West Germany?

Secretary DILLON. That is correct.

Senator CURTIS. What has been their financial policy, one of deficit spending or not?

Secretary DILLON. Their financial policy has been one of heavy governmental expenditures, that are far higher than in the United States. They run about 33 to 35 percent of their revenues, their expenditures, their income through their Federal budgets of one sort or another, whereas a comparable figure in the United States is about 25 percent.

But with that, they have maintained generally balanced budgets and have operated on—

Senator CURTIS. And they have held the value of the mark?

Secretary DILLON. They certainly have.

Senator CURTIS. And they have done it without deficit financing?

Secretary DILLON. They have.

Senator CURTIS. Now, in comparing what the percent of their gross national product or income is to Government expenditures, under their system, more things are handled by the central Government—by the central Government and fewer by the States, or what we would refer to as States than in this country, is that not true?

Secretary DILLON. I do not pretend to be an expert on that. I think that in Germany, the States, the Laender, have greater authority comparatively than in any other European country and more nearly approach our States, but they are not the equivalent.

Senator CURTIS. At any rate, they have maintained a high level of employment where, at the present time, workers are in demand.

They have done so without deficit financing and they have maintained the value of the mark.

Secretary DILLON. That is correct.

Senator CURTIS. I read an article not long ago that the Germans followed that course in direct opposition to the recommendations of the American mission that was going to tell them how to do things in their reconstruction days. I do not have the article before me.

Now, I would like to ask you, at what time of the year, the calendar year, does the cash balance usually reach its lowest point?

Secretary DILLON. I think that is—

Senator CURTIS. It is high at the time people are paying their tax?

Secretary DILLON. That is right. To reach its lowest point, it depends, of course, on what the Treasury does in the way of borrowing, because if the Treasury replenishes the cash balance by borrowing, then it would not be low. I think it is probably more accurate to say that at certain times it reaches its peak, like right now, when we have had these big tax payments coming in at the end or middle of June, which is the biggest tax payment time we have, rather than to speak of time when it is at its bottom.

Last year, just looking at the figures on our table, actually the lowest balance we had on one of these dates of the 15th and the end of each month, was the 15th of April, where we got down to a balance which was really too low. But it was only for a day or two, because we had the big Treasury financing and tax collections at that same time.

Senator CURTIS. Now, I want to state a hypothetical case which I do not advocate and I think it would be a mistake to permit it to happen.

Suppose we had an absolute debt limitation of a certain number of dollars, but the Congress appropriated and the Executive spent money far beyond and the United States owed bills—they owed contractors who are building roads, contractors who are building missiles, and our employees like the State of Michigan, missed some paydays for their employees.

Our actual debt would be the total amount we owed and not the figure in the national debt ceiling, is that not correct?

Secretary DILLON. I think that is correct, yes.

Senator CURTIS. That leads me to my next question, then: What causes national debts? It is when the Congress appropriates and the Executive spends more money than we take in, is not that right?

Secretary DILLON. That is absolutely correct.

Senator CURTIS. Yes. And now, while a debt ceiling may have a publicity value and a moral restraint when it is publicly reviewed once a year the raising of the national debt ceiling in itself does not create debts, is that not right?

Secretary DILLON. Yes, that is absolutely correct.

Senator CURTIS. Now, so the debt of the country, now and in the future, is going to be determined upon how much taxes we levy and how much money the Congress votes and how much the Executive spends, is that not right?

Secretary DILLON. That is correct.

Senator CURTIS. Now, with few exceptions, is the Executive legally bound to spend all the money the Congress appropriates?

Secretary DILLON. I am not enough of a lawyer to answer that. Certainly I know the President has the right or has exercised the right to impound some appropriations, but that is always a small amount.

Senator CURTIS. Well, it is conceivable that an agency could economize, spread the work, and spend less than was appropriated for it?

Secretary DILLON. That is correct.

Senator CURTIS. And do it without violation of the law.

Secretary DILLON. Oh, yes. There is nothing that requires us to spend the entire appropriation. If we can economize and do the job, we do it.

Senator CURTIS. The amount of Government spending is determined by our philosophy of government and what is a proper function of the Government, is that right?

Secretary DILLON. That is correct, yes.

Senator CURTIS. I do not intend to draw you into a controversy about housing. That is an illustration. Frankly, I am opposed to public housing of all forms. I have gone along with the financing of private housing, insured loans, and so on. But one of the things that the Congress has to face right now is proposals for housing at public expense for middle income people.

Now, it is conceivable that the homeless and the distressed and the people who have no place to go for shelter may have a claim on Government for housing, but it seems to me as we extend the socialistic philosophy, taxing the people or increasing the debt to provide housing for people who admittedly are not classified as distressed, we have to realize that this is going to determine our level of expenditures and may determine the course of our national debt.

Would you agree?

Secretary DILLON. I would agree; yes, sir.

Senator CURTIS. Now, in the figures that have been quoted about the national debt, has that been confined to the direct debt, or has it included any secondary or contingent obligations of the Federal Government?

Secretary DILLON. No, sir. This just includes the debt subject to the legal limitation, which is the direct debt.

Senator CURTIS. And it does not include future direct obligations, does it?

Now, for instance, by way of illustration, if we insure a loan on a house, the man pays off his loan, the Government loses no money on it, other than probably some administrative costs.

So we do not know whether or not the Federal Treasury is going to suffer, unless we know there is a loss on that transaction. But if we vote a benefit for military retirement, that is going to pyramid in years to come, there is nothing contingent about that unless we repeal it, that is going to be a direct obligation?

Secretary DILLON. That is correct.

Senator CURTIS. Now, do these figures that you have quoted as to receipts and expenditures include trust funds?

Secretary DILLON. No, they do not.

Senator CURTIS. But in the Treasury's cash balance sheet, they are included?

Secretary DILLON. We have to take account of them in our cash balance in figuring our overall debt, that is right.

Senator CURTIS. In other words, in the field of social security, we might happen to have collected more social security taxes than paid out in a particular year in social security benefits, and so far as the cash budget is concerned, that shows as an item on the plus side, does it not?

Secretary DILLON. Yes.

Senator CURTIS. Even though the benefits that we have voted, for a year from now, or 5 years from now or 10 years from now, may be tremendous.

Here again, I am not asking you for comment. I just want to express for the record a problem that has worried me. I think our budget system, our financing system, is very hard to understand for the people back home. We have trust funds, we have a cash balance, we have accrued obligations, we have this and we have that.

As a general rule, most taxes are levied and collected on a calendar year basis, are they not?

Secretary DILLON. Yes, that is so.

Senator CURTIS. Some concerns may elect a fiscal year?

Secretary DILLON. That is right.

Senator CURTIS. But the rates are on a calendar year basis and our spending is on a fiscal year basis?

Secretary DILLON. That is correct, and that is the reason for this lag.

Senator CURTIS. So if a Member of Congress or an interested citizen asks the question, is the Government living within its means right now, there has to be a lot of transposition to give the answer?

Secretary DILLON. Yes, there is a thing called the income and product account, which is very complicated.

Senator CURTIS. Yes, and I do hope that can be simplified. I think it would be very helpful to Members of Congress and also to building public opinion for sound financing in the country if all these transpositions were not necessary.

Is it not also true that the Congress can vote an expenditure or an authorization which in the first year of operation does not cost very much, but in a period of a few years, it is a tremendous program even if they do not add to the legislation?

Secretary DILLON. That is perfectly possible.

Senator CURTIS. So it is possible for a spendthrift Congress to come to the end of the year and say, here we ended up with a cash balance of so much, but their votes calling for future expenditures, which probably legally could be canceled but morally they create an obligation and an expectation of the part of the people—such a Congress conceivably could be a very expensive Congress, is that not true?

Secretary DILLON. That is right.

Senator CURTIS. I agree with the expression made around this table that the debt ceiling in itself does not hold down our debts. It is fictitious. I do think it serves a public purpose in this regard, that once a year, or however long we extend it, it does call attention to the Executive and to the Congress and the country of our position and the financial direction in which we are headed.

Does that not have to be taken into view?

Secretary DILLON. That is certainly correct.

Senator CURTIS. I think that is all the time I want to take.

Senator MORTON. I just want to associate myself with those who said that the debt ceiling does not limit the expenditures which are afforded by the Congress, voted by the Congress and subsequently spent by the administration. I think this is a useful exercise to some degree.

I feel sorry for the Secretary of the Treasury, not only this one but his predecessors and those who will follow, having to come up and go through this exercise when they do not have anything to do with controlling the expenditures and we on the Finance Committee have little to do with them.

I think next time we have this operation up, we ought to yield to the Appropriations Committee and let them ask the questions.

That is all, Mr. Chairman.

Senator CURTIS. Mr. Chairman, may I have 10 seconds?

I would like to make an observation here. I am very fond of the Senate, but I did serve 16 years in the House, 10 years on the Ways and Means Committee, which is the oldest committee in the country, it is older than the Republic itself. It was created by the Continental Congress.

And for many, many years, the Ways and Means Committee handled appropriations. So the same committee that levied the taxes determined how much money would be spent. And, of course, the workload has gotten so big that it was impracticable, but it does add to all this confusion that we were mentioning a moment ago of taxing on a calendar year, spending on a fiscal year, trust funds, future obligations, and so on, that it is not a simple matter to determine the exact financial status of the Government.

That is all, Mr. Chairman.

Senator BUTLER. Mr. Chairman, may I ask one question?

Mr. Secretary, you have the right under the law to issue bonds and borrow on the credit of the United States up to the legal limit as set by the Congress.

Secretary DILLON. Yes.

Senator BUTLER. Now, it was suggested by the Senator from Minnesota that we now can put the limit up and then let it expire within the year, then the Congress would have no control whatever over the expenditures other than the appropriation of the money.

Secretary DILLON. That is correct.

Senator BUTLER. And they would have no control whatever over your imbalance in social security, for instance, as pointed out by the Senator from Nebraska.

If you take less in than you pay out, you just issue bonds of the United States. If you collect more in taxes and pay less in balances, you have a credit balance from which you issue a bond and put it in the Treasury of the United States.

Secretary DILLON. That is right.

Senator BUTLER. So the Congress now has no control over that type of financing. Has the question ever been raised in view of article I, section 8, that the Congress shall have the right to borrow money on the credit of the United States—if such bonds are illegally issued?

Senator CURTIS. Those bonds within the limit.

Senator BUTLER. I am talking about after the limit is removed. Where do you go?

Secretary DILLON. That is up to the Congress if the Congress decides it does not want to have a limit. I presume they can do so if they want to.

Senator BUTLER. What I am getting at is this: You come up every year to have the limit renewed. You would come up every year to have financing reviewed.

Secretary DILLON. I do not think you would have to if a law was passed to make it clear there was no fixed limit, but I would certainly think it would be a useful procedure.

Senator BUTLER. If the law was a simple abrogation of a constitutional provision and the Congress said you can borrow any amount you want, we are not interested, then you would not have to come up. But you have to come up for two purposes: To have the debt ceiling adjusted or to have the specific financing authority you asked approval for.

Secretary DILLON. You certainly have to have the authority of Congress on that.

The CHAIRMAN. If the debt was to be extended, is it not true that you would have to have the consent of Congress?

Secretary DILLON. That is true.

The CHAIRMAN. That was repealed in 1915, somewhere along in there.

Secretary DILLON. I would take your word for it, Mr. Chairman.

The CHAIRMAN. And Congress substituted then a ceiling, instead of approving each specific issuance of bonds.

The CHAIRMAN. Any further discussion? Senator Long?

Senator LONG. Mr. Secretary, I believe you have over in your Department—if you do not, the Federal Reserve Board does—certain comparisons of the national debt as it compares to the gross national product and as it compares to personal income. I have seen references made to those relationships, taking into account constant dollars and things of that sort, which indicate that our national debt today, as compared to our national income—that is, the personal income—is not as great as it was in 1946.

I am not trying to endorse the effect of inflation that has occurred and things like that since that time. I would just like to have made available those studies for this record if you can provide some of those.

Secretary DILLON. I will be very glad to do that, sir.

(The information requested is as follows:)

*Public debt related to gross national product and other measures of economic growth*¹

	End of fiscal year debt (billions of dollars)	Gross national product (billions of dollars)	Personal income (billions of dollars)	Ratio of debt to GNP (percent)	Ratio of debt to personal income (percent)	Real per capita debt ² (dollars)
1946.....	269.4	210.7	179.3	127.9	150.3	2,291
1947.....	258.3	234.3	191.6	110.2	134.8	1,874
1948.....	252.3	259.4	210.4	97.3	119.9	1,671
1949.....	252.8	258.1	208.3	97.9	121.4	1,662
1950.....	257.4	284.6	228.5	90.4	112.6	1,648
1951.....	255.2	329.0	256.7	77.6	99.4	1,490
1952.....	259.1	347.0	273.1	74.7	94.9	1,452
1953.....	266.1	365.4	288.3	72.8	92.3	1,460
1954.....	271.3	363.1	289.8	74.7	93.6	1,453
1955.....	274.4	397.5	310.2	69.0	88.5	1,452
1956.....	272.8	419.2	332.9	65.1	81.9	1,397
1957.....	270.5	442.8	351.4	61.1	77.0	1,314
1958.....	276.3	444.2	360.3	62.2	76.7	1,287
1959.....	284.7	482.1	383.3	59.1	74.3	1,287
1960.....	286.3	503.2	404.2	56.9	70.8	1,256
1961 ³	289.0	515.0	(4)	56.1	(4)	(4)
1962 ³	290.0-292.0	555.0	(4)	52.3-52.6	(4)	(4)

¹ Ratios compare debt at end of each fiscal year (June 30) with GNP and other measures for the calendar year including that June 30.

² Public debt divided by consumer price index (1947-49=100) and then divided by total population.

³ Projected.

⁴ Not available.

Senator LONG. I would like to see what they look like.

As you know, Mr. Secretary, there have been some phases of administration spending which I have not endorsed and vigorously opposed. I think you were more aware of that when you were in the Department of State. I have thought that those who are voting on the higher side of spending in some cases should vote for taxes to pay for it, but I do not think we should try to tell you that we are not going to give you the money to pay the bills after the majority vote has voted on spending it so I think we are going to have to go along with you on this.

Secretary DILLON. Thank you.

The CHAIRMAN. Any other questions?

Thank you very much, Mr. Secretary. We will see you tomorrow morning at 10 o'clock on another bill.

(Whereupon, at 12:25 p.m., the committee proceeded into executive session.)

