

# ADVANCE REFUNDING AND DEBT MANAGEMENT

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## HEARINGS

BEFORE THE

### COMMITTEE ON FINANCE

### UNITED STATES SENATE

EIGHTY-SEVENTH CONGRESS

SECOND SESSION

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MARCH 14 AND 16, 1962

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# ADVANCE REFUNDING AND DEBT MANAGEMENT

WEDNESDAY, MARCH 14, 1962

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

The committee met, pursuant to notice, at 10:20 a.m., in room 2221, Senate Office Building, Senator Harry F. Byrd (the chairman) presiding.

Present: Senators Byrd, Kerr, Long, Anderson, Douglas, Gore, Williams, Carlson, Bennett, Curtis, Morton, and Hartke.

Also present: Elizabeth Springer, chief clerk.

The CHAIRMAN. The committee will come to order.

The purpose of this meeting is to hear the Secretary of the Treasury with respect to advance refunding.

You may proceed, Mr. Secretary.

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

Secretary DILLON. Mr. Chairman, I welcome the opportunity to discuss with this distinguished committee the Treasury's debt management policies and, in particular, our use of advance refunding as a tool in achieving our debt management objectives.

The management of the debt is one of the major financial responsibilities of the Federal Government and it is, in addition, an important arm of economic policymaking. If the Federal debt were small, we could afford to manage it much like the treasurer of a corporation manages his company's debt, without giving much thought to the impact of our operations on the money markets and the economy. This is not, however, the case. The magnitude of the Federal debt is such that the decisions made in managing the debt can have profound effects on the money markets, on the structure of interest rates and on the magnitude of the flow of funds into corporate and municipal bonds and mortgages. Moreover, debt management decisions can have a significant impact on the liquidity of the economy, on the effectiveness of monetary policy and on the balance of payments.

All of this means that the management of the debt is a continuous and unrelenting task. Even in a year in which the Federal budget is in balance, debt operations on a very large scale must be carried out both to meet the seasonal financial needs of the Government and to refund maturing obligations.

The primary objective of debt management is to assure a satisfactory placement of the debt, and our aim must always be to minimize the burden on the American taxpayer of the interest cost of the debt. An important objective of economic policy with respect to debt management is to help create conditions in the money and capital

markets which are most conducive to the orderly growth of the economy without inflation. A further objective, now of very great importance, is to conduct operations in such a way as to contribute toward the achievement of equilibrium in our balance of payments. We must constantly blend these objectives so as to obtain the overall result that most clearly reflects the national interest at the moment, as well as over the long term.

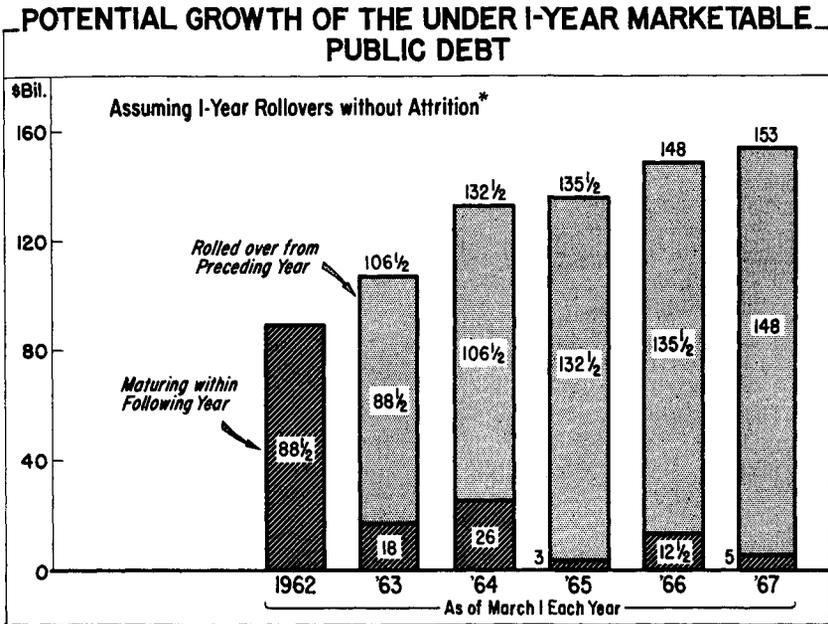
In seeking to attain these debt management objectives, we are continually striving to produce a more balanced maturity structure for the debt—that is, a broad distribution of the outstanding debt among holders interested in short-term securities, others who want issues of intermediate term, and those whose needs are for long-term bonds. This will enable us to reach all types of demand for Government securities and to avoid the problems produced by an excessive concentration of debt in a particular maturity area.

One of the Treasury's principal instruments in working toward the needed restructuring of the debt over the past few years has been the advance refunding. I would like to emphasize, however, that the achievement of a more balanced debt structure is not an end in itself. It is a necessary means toward achieving all of the other goals that I have already mentioned. We do not advocate lengthening the debt structure merely for its own sake. If it were possible to accomplish all of our objectives with a Federal debt entirely composed of short maturities, our problem, in some respects, might be easier. In that same light, the shortest maturity of all would be that of printing money. But merely to mention that extreme result—the ultimate result of continually shortening the maturity of the debt—is to give the answer. The eventual breakdown of the entire payments mechanism would be the inevitable end of that kind of course.

One fact of life which bears heavily on any debt manager is that unless he moves in a fairly regular fashion to put out reasonable amounts of intermediate and long term debt, he will, within the space of a few years, find himself with a debt that is predominantly short term in character, and getting shorter every day. In this connection, I would like to call your attention to chart 1.

(Chart 1 is as follows:)

CHART 1



\*Without any future change in the marketable debt or in the volume of seasonal bills. Partially tax-exempt bonds to earliest call date.

Office of the Secretary of the Treasury

B-1435

Secretary DILLON. This chart shows what would happen to the size of the under 1-year debt if, beginning today, we were to refund all maturing securities with 1-year issues during the next 5 years. With no change in the total size of the debt, the amount of debt maturing within 1 year would rise from the present level of \$88.5 billion to \$132.4 billion in 2 years and to \$153.1 billion in 5 years. As a percentage of the present total of outstanding marketable debt, this would mean a rise from 45 to 67 percent, to 77 percent.

Granted that the printing press extreme is out of the question, why, though, should a concentration of debt in the short-term area cause serious economic problems? Why are we seeking a balanced maturity structure which includes reasonable amounts of intermediate and long-term debt? These are the questions I would like to discuss further before considering the subsequent question; namely, if it should be agreed that we ought to put out some long-term debt, why use the advance refunding technique rather than offering long-term issues for cash or in regular refunding operations?

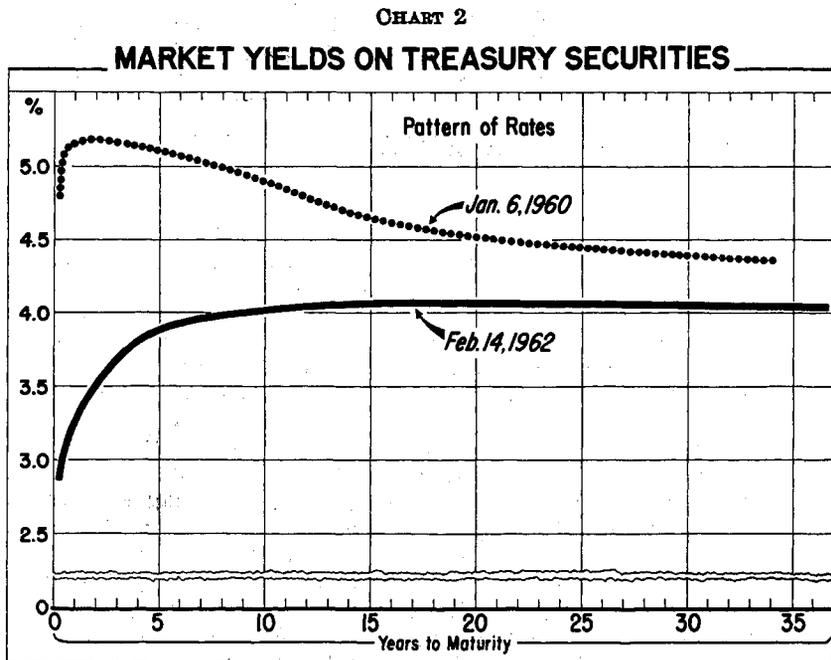
Offhand, looking at the smooth manner in which our short-term security operations have usually been carried out, with relatively little disruptive impact on the money markets, and at interest rates usually lower than on longer term issues, one might ask why we do not put the entire Federal debt in short-term securities.

The answer is that the short debt only behaves this way now because we have kept its size down to the present relative magnitudes. While it is true that there is a strong demand for short-term Govern-

ment securities, the demand is not without limits. If the Federal Government were to try to increase the supply of short-term securities far beyond the needs of the economy for this kind of instrument, yields would be certain to rise sharply. As a consequence, if we were to concentrate the entire Federal debt in maturities of 5 years or less, the average interest cost of the debt would probably be at least as high as it is with our present debt structure.

A good example of what can happen when the Federal Government pushes more debt into a particular maturity area than the economy wishes to hold is provided by the experience of 1959. Because, under the interest rate ceiling, it could not offer securities with a maturity over 5 years bearing a coupon higher than  $4\frac{1}{4}$  percent, while the market demanded a higher rate, the Treasury concentrated all of its financing operations from April 1959 through March 1960 in the 5-year-or-under area. During that period you will recall that the debt increased by \$9.1 billion. I would like to call your attention to chart 2, which shows the effect on yields of this concentration of relatively short term financing.

(Chart 2 referred to is as follows:)



Office of the Secretary of the Treasury

F-646

Secretary DILLON. Chart 2 shows the pattern of yields on Government securities in January 1960, when short-term issues from 91-day bills out to 5-year notes were selling at higher yields than bonds maturing in 25 to 35 years. I need not remind you that we have only one outstanding U.S. Government security bearing a coupon of 5

percent. This was a 4-year-and-10-month obligation sold on October 6, 1959. Without reviewing the experience of 1959 and early 1960 in detail or the related role of Federal Reserve action and other market factors at that time, the events of that period provide a vivid demonstration that concentrating an excessive amount of Treasury securities in short maturities, a greater quantity than the market desires to absorb, produces higher rather than lower interest costs.

As time passes and the economy grows, the demand for short-term Government securities for use as liquidity reserves will also grow, and it would be quite appropriate for the Treasury to expand the outstanding volumes of the short-term Government securities consistent with this growing demand. During 1961, the outstanding amount of Government securities maturing within 1 year was increased by \$10.6 billion. Thus far in 1962, the under-1-year debt has been increased by an additional \$2.6 billion. We have not been reluctant to increase the outstanding short-term debt in those quantities which we felt the economy could appropriately absorb, and we will continue to do so in the future.

Increasing the supply of short-term securities, of course, tends to put upward pressure on short-term rates. One of the Treasury's purposes in increasing the volume of under 1-year debt during the past year has been to do just that—to put upward pressure on short-term interest rates and, thereby, to keep our short-term rates in reasonable equilibrium with rates in other countries. The objective was to deter outflows of short-term money to foreign countries stemming from interest rate differentials, outflows which would weaken our balance-of-payments position. In substantially increasing the supply of under 1-year debt, the Treasury did help to push short-term rates higher, as illustrated by the fact that yields on 3-month Treasury bills have moved up from around 2.25 percent in January 1961 to 2.80 percent at present.

Even if it were possible to reduce substantially the burden of interest costs by concentrating on relatively short-term security offerings, which we do not believe to be true, there is a vital economic reason for avoiding an excessive concentration of short-term debt; that is, the undesirable effects of such an excessive concentration on the liquidity of the economy and the effectiveness of monetary policy.

Short-term Government securities are close substitutes for money. They can be turned into cash quickly, with little marketing cost and relatively little risk of loss. A banking system holding excessive quantities of short-term Government securities will respond only slowly to monetary controls. This means that to achieve a given level of monetary restraint the Federal Reserve would be required to adopt more restrictive measures than would otherwise be necessary.

An excessive volume of short-term debt hampers an effective monetary policy in still another way. The shorter the maturity structure of the debt, the more often the Treasury must come to the market in sizable refunding operations. Because of the magnitude of Treasury debt operations, it has always been considered essential that the Federal Reserve maintain an "even keel" in the market during such operations. However, if the Treasury is almost continually in the market, the Federal Reserve will find itself with very little room to operate in carrying out its responsibilities. A balanced debt structure, which reduces the number of occasions during the year

that the Treasury must carry out sizable refunding operations, will make for the exercise of more effective monetary control by the Federal Reserve.

For all of these reasons, it is essential that the Treasury, from time to time, put out some longer term debt. If this must be done, why is it often more advantageous to put out longer term debt through advance refunding rather than through direct cash sales or regular refunding operations?

There are three important and unique advantages to the Treasury in the advance refunding approach. First, and most important, the advance refunding technique does not immediately pull large blocks of long-term funds out of the capital markets, funds which otherwise would go into corporate and municipal bonds or mortgages. What this means is that job-creating business investments and the financing necessary to build schools, roads, other public improvements, and homes will not be curtailed. Were the Treasury to sell any substantial quantity of long-term bonds for cash, it would immediately reduce the quantity of long-term funds available for private investment and investment by State and local governments and, thereby, slow down our economic expansion. With the economy still operating well below capacity levels, we believe that this would be poor economic policy.

The advance refunding, however, has the least possible immediate impact on the current flow of new long-term savings. It merely changes the form in which old savings are held by lengthening the maturity of the obligation. New cash funds are not involved, except to the relatively minor extent that some investors buy the eligible securities in the market in order to make the exchange, and even in such cases an equivalent amount of funds is freed for other uses.

By use of the advance refunding technique, the Treasury can assure the retention of its regular customers for genuine long-term investments. This is not possible if long-term securities are only sold as part of regular refundings since, for a considerable period before the maturing securities come due, they have become liquid money market instruments; and their ownership has largely been shifted out of the hands of long-term investors into the hands of short-term investors who are not likely to be interested in long-term securities.

A second important advantage of advance refunding is that, through this technique, a substantial quantity of long-term bonds can be added to the Government's debt structure with an absolute minimum of upward pressure on long-term interest rates. This was the experience in earlier advance refundings, and it was certainly the experience in our most recent operation. In last month's advance refunding, we placed an additional \$1.4 billion in bonds maturing in 1990 and 1998 in the hands of the public. Yet the level of long-term Government bond yields is somewhat lower today than it was at the time we announced the advance refunding on February 15. The level of long-term interest rates in both the corporate and the municipal bond markets is lower now than on February 15. If we had attempted to sell \$1.4 billion of long-term bonds in the current market as a cash offering or regular refunding, we would certainly have put substantial and immediate upward pressures on long-term bond yields.

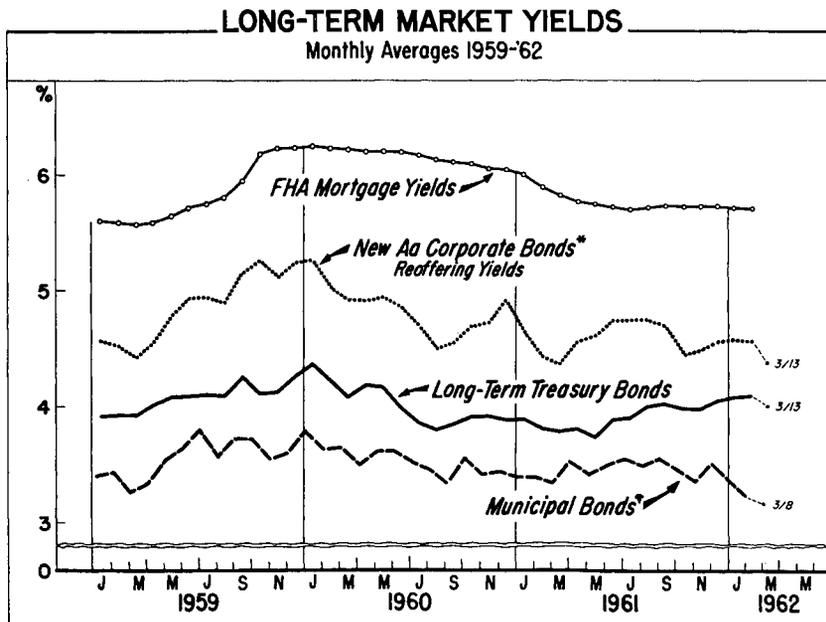
The administration's policy on long-term interest rates has been stated on many occasions during the past year. We have continually sought to avoid putting upward pressures on long-term interest rates,

in order to provide the kind of atmosphere in the capital markets conducive to a large flow of long-term funds into private investment. Our debt management policies have been and are being directed toward this end. We feel that our efforts in this direction have been successful, for 1961 saw the largest combined flow of funds into corporate bonds, municipal bonds and mortgages in our history; and, despite this fact, long-term interest rates, on the whole, are no higher today than they were a year ago, when we were close to the bottom of the recession, and this is shown on chart 3. While yields on long-term U.S. Government bonds are about one-fourth of 1 percent higher than a year ago, yields on corporate bonds are approximately unchanged; and those on municipal bonds and mortgages are lower. In considering these results, we should realize that the most important long-term rates from the point of view of the economy are those for new corporate borrowing, for the sale of new municipal bonds and for mortgages, since they finance new jobs and new schools, roads and homes.

A third important reason for using the advance refunding approach is that it is usually the cheapest way for the Treasury to put out long-term securities. There is one simple reason for this. When the Treasury puts out long-term securities for cash or in a regular refunding, we must appeal to investors who have complete freedom of action. They are free to choose among our Treasury offerings, corporate bonds, corporate equities, municipal bonds, mortgages, and still other alternatives. The yields on our long-term cash or refunding issues must be fully competitive with these alternatives.

(Chart 3 referred to is as follows:)

CHART 3



\* Estimate of average yields on Moody's Aa rated new Corporate bonds.  
 † Bond Buyers average of 20 bonds on first Thursday in each month.

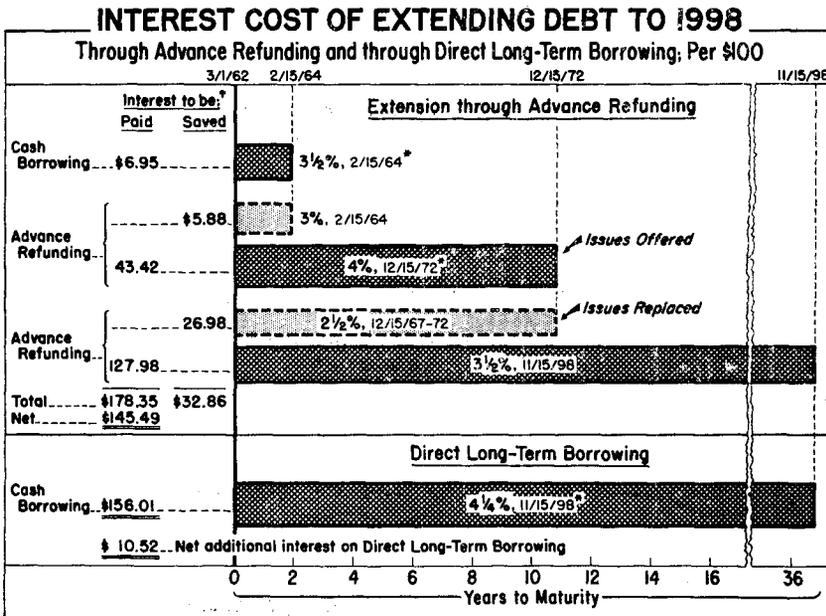
Secretary DILLON. However, in an advance refunding we are appealing to a group of investors who do not have complete freedom action. To move out of their present holdings many of these investors would have to realize substantial capital losses on market sales. Through the advance refunding, these investors may extend the maturity of their holdings without putting capital losses on their books and with a minimum of inconvenience and uncertainty. It is because of this special appeal of an advance refunding to those who otherwise would not wish to disturb their holdings that the Treasury can in this way put out larger quantities of long-term bonds at lower interest costs to the taxpayer than would be possible by other means.

I mentioned earlier that we placed in the hands of private investors \$1.4 billion of bonds maturing in 1990 and 1998 in last month's advance refunding. To have attempted to sell such a large quantity of long-term bonds for cash would have required a greater total interest cost to the Treasury than we paid in our advance refunding offering.

I would like to present a numerical example, which, I believe, illustrates this last point. While the situation is hypothetical, it rather closely parallels the form of last month's advance refunding. The details of the example are shown in chart 4, but I will attempt to summarize the principal features.

(Chart 4 referred to is as follows:)

CHART 4



\* Hypothetical issues based on market pattern of rates on 2/14/62: 3-1/2% note due 2/15/64 "sold" at a discount to yield 3.55%; 4% bond due 12/15/72 "exchanged" for 3% bond due 2/15/64 plus \$0.25 per \$100 payable by the Treasury; and 4-1/4% bond due 11/15/98 "sold" at par. Other issues were actually involved in the latest advance refunding.

† Interest figures are simple arithmetic totals. They are not discounted to present value. Even when discounted at 4.25% (the rate for 1998 cash borrowing directly) the net discounted cost through advance refunding is lower.

Secretary DILLON. In the example, we assume that the Treasury needs to borrow \$1 billion in cash and that, to improve the debt structure, it is desirable to place this \$1 billion out in the 1998 maturity area. We can accomplish these objectives in one of two ways. One way, of course, is to sell a \$1 billion 1998 bond directly for cash. An alternative is to place \$1 billion in bonds out in the 1998 area through advance refunding and to raise the required cash through the sale of a short-term issue in the maturity area vacated by the advance refunding.

We will assume that the \$1 billion of 1998 bonds could have been sold for cash in the present market with a 4¼-percent coupon, placed at par. In the opinion of the Treasury, this interest cost assumption for the sale of such a large quantity of new long-term bonds is most conservative. Even on the basis of this conservative assumption the total interest payments on these 4¼-percent bonds through their maturity in 1998 would amount to \$156.01 per \$100 of bonds sold.

Now let us look at an alternative way of handling the situation which, as I noted earlier, rather closely parallels last month's advance refunding operation. It is, in effect, a way of putting an issue into the long-term area while drawing funds from the shorter term area. This is done by what some market observers have called "leap frogging." Not all of the leaps may occur at once; but to make this example clear, I will assume that they do. What happens is that a 10-year issue, for example, is converted into a 36-year issue; then, following behind that, a 2-year issue is converted into a 10-year issue. There are two leaps involved; one from 10 out to 36 years; the second from 2 out to 10 years. In effect, the second move has filled in the space vacated when the first move occurred.

After that, the third step is an easy one—borrow for cash at a 2-year maturity. In the end, then, the Treasury will have its cash. It will have borrowed the cash at the 2-year rate of interest, but it will have no more 2-year debt outstanding than before the operation began. Nor will it have any more 10-year debt than before. The only increase will have occurred in the 36-year debt.

Now, let me repeat the example more precisely, using issues and prices now in the market. What we have here is a combination "junior" and "senior" advance refunding. The "senior" portion involves the advance refunding of \$1 billion of 2½-percent bonds maturing in 1972 into 3½-percent bonds maturing in 1998. To fill the 1972 vacancy in the maturity structure created by this "senior" advance refunding, there is a "junior" advance refunding of 3-percent bonds maturing in 1964 into 4-percent bonds maturing in 1972. Finally, to meet the \$1 billion cash requirement, the 1964 gap in the maturity structure created by the "junior" advance refunding is filled by selling for cash \$1 billion of 3½-percent notes maturing in 1964.

Adding the interest payments to maturity on the 1964 note which we would sell for cash, and the interest payments on the 1972 bonds placed through the "junior" advance refunding and the 1998 bonds placed through the "senior" advance refunding, we find that the total interest cost resulting from this three-part operation over the entire period to 1998 is \$145.49 per \$100 borrowed. Thus, we would have achieved our objectives of raising \$1 billion in cash and placing

\$1 billion in bonds out in the 1998 area through advance refunding at a total interest cost during the period of \$10.52 less per \$100 borrowed than if we had issued \$1 billion of 4¼ percent, 1998 bonds directly for cash. The total interest cost savings on the \$1 billion of debt over the period would have amounted to \$105.2 million.

Moreover, the debt management objectives would have been achieved without draining new long-term funds out of the capital markets or placing any overall upward pressure on long-term interest rates.

The basic reason that the advance refunding approach resulted in a lower total interest cost to the Treasury is that, in the "senior" advance refunding, holders of the 1972 maturities were induced to extend an additional 26 years with a 3½-percent coupon, three-fourths of 1 percent below the minimum coupon that would have been required for a direct cash sale of 1998 bonds. In order to induce the holders of the 1972 bonds to extend to 1998 at 3½ percent, the Treasury had to offer to increase their return from 2½ to 3½ percent during the 10 years from 1962 to 1972, but this was an exchange that the Treasury could well afford to make. It represented a payment of 1 percent in additional interest for the next 10 years in return for a saving of three-fourths of 1 percent in interest over the following 26 years—a fair offer but no bonanza.

The calculated interest costs and interest savings in the five advance refundings are summarized in the tables attached to the appended correspondence with Senator John J. Williams.

(The documents referred to are as follows:)

U.S. SENATE,  
*Washington, D.C., March 5, 1962.*

Hon. DOUGLAS DILLON,  
*Secretary of the Treasury,*  
*Washington, D.C.*

MY DEAR MR. SECRETARY: In connection with the series of advance refunding operations of the Treasury Department, I would appreciate the following information:

1. The maturity date and the coupon rate of the outstanding bonds involved in the refunding operation and the maturity date and coupon rate of the new bonds offered in transfer.

2. The total amount of these bonds of each series which were traded for the new issue (if more than one issue is involved, give the amount involved in each transfer).

3. In connection with each refunding operation, please furnish the total amount of additional interest which will be paid by the Government to these new bondholders during the period between the date of the refunding operation and the original date of maturity of the bonds traded in.

What I am trying to establish is how much additional interest the Federal Government will be paying during the next 5 to 10 years above the amount which would have been paid had these low coupon bonds been allowed to mature in a normal manner.

Yours sincerely,

JOHN J. WILLIAMS.

THE SECRETARY OF THE TREASURY,  
*Washington, March 13, 1962.*

Hon. JOHN J. WILLIAMS,  
*U.S. Senate, Washington, D.C.*

DEAR JOHN: In response to your letter of March 5, I enclose two tables which provide the information you requested on the five advance refundings which the Treasury has undertaken in the past 2 years.

One of the tables presents the additional interest costs incurred by the Treasury in the five advance refundings. In addition, it shows the interest savings to the Treasury in these advance refundings on the assumption that the original issues are to be refunded at maturity into the issues offered in exchange at today's interest rate levels. Looking at both the additional interest costs to the Treasury and the interest savings involved in advance refundings places the interest cost issue in its proper perspective.

You will note that only the June 1960 and March 1961 "junior" advance refundings resulted in a net interest cost to the Treasury on these assumptions and that, in taking the five advance refundings as a whole, these calculations indicate a net interest savings to the Treasury of \$541 million over the entire period through fiscal year 1999.

With best wishes,  
Sincerely,

DOUGLAS DILLON.

5 advance refundings, 1960-62

Old issues			New issues							For non-taxable holders or before tax				
Description	Amount outstanding (millions of dollars)	Term to maturity	Description		Term to maturity	Extension	Amount exchanged		Percent exchanged		Effect on average length of marketable debt (months)	"Boot" paid to Treasury (\$100 (+) per \$100)	Approximate investment yield from exchange date to maturity <sup>1</sup>	Approximate minimum reinvestment rate for period adjusted for "boot"
			Percent	Date			Total (millions of dollars)	Publicly held (millions of dollars)	Total	Publicly held				
June 1960: 2½ percent, Nov. 15, 1961	\$11,177	Yrs. Mos. 1 5	3½	May 15, 1964	3 11	2 6	\$3,893	\$3,814	34.8	34.7	0.8		4.24	4.51
			3½	May 15, 1968	7 11	6 6	320	264	2.9	2.4			4.14	4.22
Total	11,177					2 10	4,214	4,077	37.7	37.1				
October 1960: 2½ percent, June 15, 1962-67	2,109	6 8½	3½	Nov. 15, 1980	20 1½	13 5	643	512	30.5	27.8			3.92	4.23
2½ percent, Dec. 15, 1963-68	2,815	8 2½	3½	Feb. 15, 1960	29 4½	21 2	993	777	35.3	32.5			3.96	4.17
2½ percent, June 15, 1964-69	3,738	8 8½	3½	Nov. 15, 1968	38 1½	29 5	1,095	903	29.3	30.3			3.97	4.09
2½ percent, Dec. 15, 1964-69	3,812	9 2½	3½	Nov. 15, 1968	38 1½	28 11	1,248	1,113	32.7	33.9			3.99	4.14
Total	12,474					24 7	3,979	3,395	31.9	31.4	6.3			
March 1961: 2¼ percent, June 15, 1959-62	5,262	1 3	3½	Nov. 15, 1967	6 8	5 5	1,266	1,226	24.6	25.9			3.75	3.98
2¼ percent, Dec. 15, 1959-62	3,449	1 9	3½	Nov. 15, 1967	6 8	4 11	1,177	819	34.1	30.2		+80.30	3.75	4.10
2½ percent, Feb. 15, 1963	3,971	1 11	3½	Nov. 15, 1967	6 8	4 9	1,131	908	28.5	26.3			3.75	4.08
2½ percent, Aug. 15, 1963	6,755	2 5	3½	Nov. 15, 1966	5 8	3 3	2,438	2,399	36.1	35.8			3.63	4.09
Total	19,436					4 4	6,041	5,442	31.1	30.3	1.6			
September 1961: 2½ percent, Mar. 15, 1965-70	4,088	8 6	3½	Nov. 15, 1980	19 2	10 8	1,035	589				+2.25	4.16	4.31
			3½	Feb. 15, 1960	28 5	19 11	722	622				-1.00	4.23	4.36
			3½	Nov. 15, 1968	37 2	28 8	495	469	48.0	50.1		-2.00	4.19	4.25

	2 1/2 percent Mar. 15, 1966-71.	9 6	3 1/2 3 3/4 3 3/2	Nov. 15, 1980 Feb. 15, 1990 Nov. 15, 1998	19 2 28 5 37 2	9 8 18 11 27 8	238 576 692	203 515 428	51.4	52.6	{ +3.50 +1.25 -1.00	4.15 4.21 4.19	4.30 4.36 4.30
Total.	2,927	9 6	{	Nov. 15, 1980 Feb. 15, 1990 Nov. 15, 1998	19 2 28 5 37 2	9 8 18 11 27 8	238 576 692	203 515 428	51.4	52.6	{ +3.50 +1.25 -1.00	4.15 4.21 4.19	4.30 4.36 4.30
	7,615						3,757	2,826	49.3	51.1	4.5		
March, 1962:													
3 percent:													
Feb. 15, 1964	3,854	1 11 1/2	4	Aug. 15, 1971	9 5 1/2	7 6	\$1,154	\$1,104	29.9	29.9		4.11	4.32
2 1/2 percent	6,896	2 11 1/2	4	Aug. 15, 1971	9 5 1/2	6 6	\$1,651	\$1,293	32.1	27.5	+2.00	4.10	4.36
Feb. 15, 1965	1,756	10 3 1/2	3 1/2	Feb. 15, 1990	17 11 1/2	15 0	\$2,333	\$2,384	23.5	23.1	+1.25	4.20	4.37
2 1/2 percent	2,716	10 6 1/2	3 1/2	Nov. 15, 1998	36 8 1/2	26 5	\$2,180	\$2,165	19.1	18.0	+1.50	4.21	4.30
June 15, 1967-72.	3,512	10 9 1/2	3 1/2	Feb. 15, 1990	27 11 1/2	17 5	\$2,345	\$2,185	18.7	18.0	+1.75	4.19	4.38
2 1/2 percent	18,734		3 1/2	Nov. 15, 1990	36 8 1/2	25 2	\$2,420	\$2,299	27.7	24.6	+1.75	4.19	4.38
Sept. 15, 1967-72.	69,435		3 1/2	Feb. 15, 1990	36 8 1/2	25 11	\$2,322	\$2,281	23.4	23.0	+1.50	4.17	4.30
Dec. 15, 1967-72.				Nov. 15, 1998	36 8 1/2	13 0	\$5,198	\$4,174	27.7	24.6	4.1		
Total.						11 11	\$23,180	\$19,915	33.4	33.0	16.6		

1 Based on price of bonds eligible for exchange—mean of bid and ask prices at noon on day before announcement, adjusted for "boot" payments.  
 2 Based on debt level of Mar. 1, 1962.

Source: Office of the Secretary of the Treasury, Office of Debt Analysis.  
 NOTE.—All items on table were made public or are derivable from public sources.

5 advance refundings—Interest costs and interest savings; Added interest cost over remaining life of issues eligible for exchange and estimated interest savings from maturity of eligible issues to maturity of issues offered in exchange<sup>1</sup>

[Dollar figures are in millions]

Fiscal year	June 1960		October 1960		March 1961		September 1961		March 1962		Total of 5 advance refundings	
	Added interest to maturity of eligible issue	Interest savings from maturity of eligible issue to maturity of offered issue <sup>2</sup>	Added interest to maturity of eligible issue	Interest savings from maturity of eligible issue to maturity of offered issue <sup>2</sup>	Added interest to maturity of eligible issue	Interest savings from maturity of eligible issue to maturity of offered issue <sup>2</sup>	Added interest to maturity of eligible issue	Interest savings from maturity of eligible issue to maturity of offered issue <sup>2</sup>	Added interest to maturity of eligible issue	Interest savings from maturity of eligible issue to maturity of offered issue <sup>2</sup>	Added interest to maturity of eligible issue	Interest savings from maturity of eligible issue to maturity of offered issue <sup>2</sup>
1960	\$1.0											
1961	53.1		\$29.5		\$15.9		\$3.3		\$30.8		\$1.0	
1962	19.9		39.8		65.9		37.6		69.3		98.5	
1963		-\$1.8	39.8		35.8	6.2	37.6		56.0		91.5	
1964		-2.5	39.8		2.7	15.0	37.6		37.3	\$0.3	136.0	
1965			39.8			15.9	37.6		18.3	1.2	114.7	
1966		.2	39.8			15.9	37.6		18.3	2.0	95.4	
1967		.2	39.5	\$0.2		11.3	37.6		18.3	2.0	95.4	
1968		.2	33.4	4.4		3.2	37.6		18.3	2.0	89.3	
1969			27.5	8.7			37.6	\$4.7	18.3	2.0	83.4	
1970			5.7	24.8			31.0	19.2	18.3	2.0	55.1	
1971				29.0				26.9	18.2	1.4	51.2	
1972				29.0				26.9	18.2	1.4	51.2	
1973				29.0				26.9	18.2	1.4	51.2	
1974				29.0				26.9	18.2	1.4	51.2	
1975				29.0				26.9	18.2	1.4	51.2	
1976				29.0				26.9	18.2	1.4	51.2	
1977				29.0				26.9	18.2	1.4	51.2	
1978				29.0				26.9	18.2	1.4	51.2	
1979				29.0				26.9	18.2	1.4	51.2	
1980				29.0				26.9	18.2	1.4	51.2	
1981				26.3				26.9	18.2	1.4	51.2	
1982				24.6				26.9	18.2	1.4	51.2	
1983				24.6				26.9	18.2	1.4	51.2	
1984				24.6				26.9	18.2	1.4	51.2	
1985				24.6				26.9	18.2	1.4	51.2	
1986				24.6				26.9	18.2	1.4	51.2	
1987				24.6				26.9	18.2	1.4	51.2	
1988				24.6				26.9	18.2	1.4	51.2	
1989				24.6				26.9	18.2	1.4	51.2	
1990				21.9				15.2	11.0	4.6	48.1	



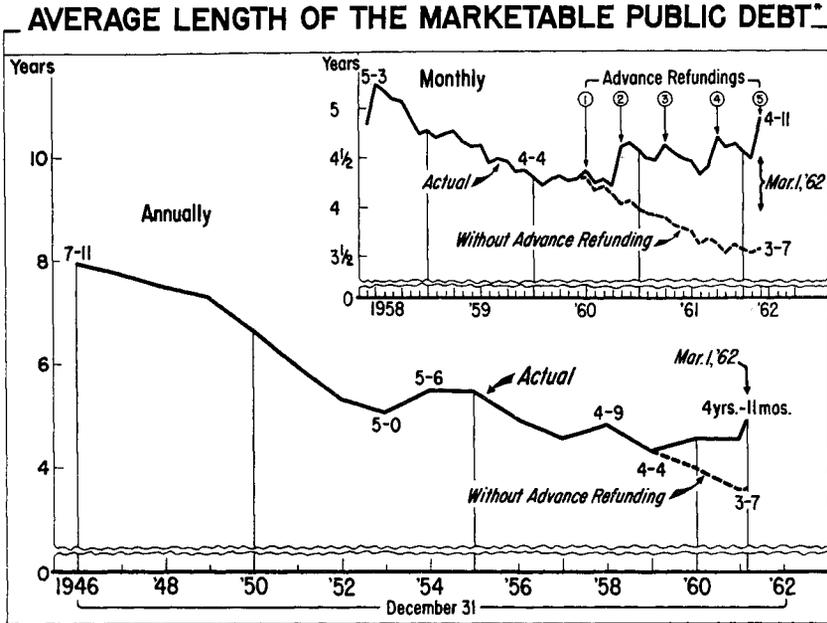
Secretary DILLON. In our last advance refunding, 19 percent of the public holdings of the 2½ percent bonds of 1967-72 were exchanged for 3½ percent bonds maturing in 1990 and 1998. This was a response with which the Treasury was well satisfied. But if this had been a windfall offering, something which involved an undeserved gain for the investor, one would have to conclude that American investors holding 81 percent of the bonds did not know a windfall when they saw one, because 81 percent of the bonds were not exchanged.

To sum up, the advance refunding offers a number of unique advantages to the Treasury. Through this device, it is possible to put out substantial quantities of long-term Treasury bonds with the least possible drain of new long-term funds out of private investment channels and with the minimum of upward pressures on long-term interest rates. In addition, this technique has enabled the Treasury to place long-term bonds in private hands at lower interest costs than could have been possible through cash offerings or regular refunding offerings of any comparable size. To be sure, as market conditions shift about, there will be times when long-term cash issues or refunding exchanges will also be appropriate. But the appraisal will depend in large part upon analysis of alternates such as I have tried to outline here. Clearly, in the tool-kit of debt management, advance refunding must be recognized as an instrument of major importance.

Advance refunding was first used by my predecessor, Secretary Anderson, who conducted two advance refunding operations in 1960. Last month's operation was this administration's third use of this technique, making a total of five advance refundings in all. These advance refunding operations have accomplished much in producing a more balanced maturity structure for the debt. The average length of the debt today is 4 years and 11 months, the longest it has been since the fall of 1958. If the five advance refundings had not been undertaken, the average length of the debt would now be only 3 years and 7 months, almost 30 percent shorter. See this on chart 5.

(The chart referred to is as follows:)

CHART 5



\*Adjusted to exclude 2½% bonds exchanged for nonmarketable 2¾% bonds. Partially tax-exempt bonds to earliest call date; all other callable bonds to maturity.

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Secretary DILLON. We now have \$15.2 billion in outstanding debt maturing beyond 20 years. \$7.7 billion, or just over half of this total, was placed through advance refunding.

In conclusion, advance refunding is a technique that we would hope to use again in the future, whenever circumstances are appropriate for its use. In seeking to conduct our debt management operations in a responsible manner, we will continue to be mindful of the need to minimize the interest burden of the debt, and we will also continue to be mindful that our debt management policies, through their impact on the money and capital markets, must contribute toward our major economic objectives of sound economic growth, reasonable price stability and equilibrium in our balance-of-payments position.

Thank you, Mr. Chairman.

The CHAIRMAN. Thank you, Mr. Secretary.

Mr. Secretary, I think we can all agree that with the Federal debt at its present level, a substantial portion in long-term issues eases management problems. But there are some questions in my mind about the manner in which this can be brought about.

What is the total of advance refunding under this administration?

Secretary DILLON. The total we have done, is shown on the table on the back page. It shows that in March 1961 we did a total of \$6 billion; in September of 1961 a total of \$3.8 billion—

Senator KERR. When?

Secretary DILLON. In March 1961, \$6.0 billion; and in September 1961, \$2.8 billion; and in March 1962, \$5.2 billion. Those totals add up to about \$15 billion.

And in 1960, in the preceding administration, they had two which added up to a total of about \$8 billion.

The CHAIRMAN. Was it your purpose to refund approximately \$19 billion as of March 1, 1962 in the categories——

Secretary DILLON. We offered this refunding to the holders of \$18,734 million worth of debt at that time, and it was accepted by the holders of a total of \$5.2 billion, including Government accounts.

This is somewhat less than the average acceptance; the average acceptance over all has been a third, 33 percent, and this was just under 28 percent.

So we did not expect when we made the offering to do any better than the average, and we were well satisfied with the amount we got.

The CHAIRMAN. For purposes of this discussion, I would like to take as a base this March 1, 1962 offering of \$18,736 million.

In that offering there was \$3.8 billion in 3 percent bonds which had 1 year and 11 months still to run.

And you offered to refund that now at 4 percent until 1972.

Secretary DILLON. That is correct.

The CHAIRMAN. Now, how long did that 4 percent bond run?

Secretary DILLON. It ran to August 15, 1971, which is just over 9 years from now, about 9½ years.

The CHAIRMAN. Then on March 1 the Treasury offered the holders of these bonds 1 percent more than it promised to pay for nearly 2 years.

Now, the next March 1 refunding was for \$6.896 billion, on which the interest rate has been 2½ percent?

Secretary DILLON. That is right.

The CHAIRMAN. Now, the increase on these bonds was 1⅜ percent, bringing the interest on them to approximately 4 percent for nearly 3 years to the original maturity date.

The next one is \$1.757 billion which originally was sold at 2½ percent interest.

When would these bonds expire?

Secretary DILLON. These were a series of bonds which become due eventually in 1972, some in June, some in September and some in December. The first batch come due in June.

The CHAIRMAN. That was approximately 10 years and 3 months, I believe.

Secretary DILLON. Yes.

The CHAIRMAN. Had all of those bonds been traded for higher rate bonds in the March 1 refunding, the Treasury would have lost \$180 million; is that correct?

Secretary DILLON. We have some overall figures which we prepared for Senator Williams which showed that on this whole March operation we would have lost, on that computation, \$256 million, which, of course, is offset by what we would have gained during the extension. But the initial additional cost is \$256 million.

The CHAIRMAN. All right let's take the total of all of the \$18,736 million in bonds offered for advance refunding on March 1.

By my figures——

Secretary DILLON. I see. You mean, Senator, if everyone had taken —

The CHAIRMAN. I calculate that if all of these bonds had been refunded at the higher rate offered on March 1, the increased interest cost to the Treasury—over the period from now to original maturity dates—would have been \$1.2 billion.

Senator KERR. No. One percent on \$18 billion for 10 years.

Secretary DILLON. No.

Senator KERR. You could not get a billion something at 1 percent a year for 10 years on a billion something.

Secretary DILLON. It is a complicated thing Senator, there are only about \$8 billion of the 10-year bonds on which there is that amount of interest, and the others are for the shorter term that the Senator talked about first.

The CHAIRMAN. The point I am trying to make is that the Government offered to pay a penalty, so to speak, of \$1.194 billion to lengthen the life of the bonds; it offered to increase interest rates approximately 40 percent during the remainder of the original life of the bonds is that correct?

Secretary DILLON. For the 10 years, that is correct. But at the same time we are getting people to accept a bond for another 26 years of maturity beyond 1972 at a rate that is three-quarters of 1 percent lower than we could otherwise get in the market today.

The CHAIRMAN. That is goes beyond the point.

What I want to know is what is the loss on these bonds during the original life of the bonds?

Secretary DILLON. If you say during the life of the lower interest rate bonds, then your figures are correct.

The CHAIRMAN. My figures show that paying the higher interest on the \$18 billion block of bonds over this period would cost the Government \$1.194 billion.

Secretary DILLON. That would be correct, Senator, up to 1972, and thereafter you would recoup from 1972 to 1998.

The CHAIRMAN. Don't you think it is likely that 10 years from now there may be another refunding—

Secretary DILLON. No, sir.

The CHAIRMAN. And thereby you would pay an increased interest rate on the 30-year bonds that you are replacing?

Secretary DILLON. No, sir; I would think these approximately 30-year bonds would stay out pretty well until their maturity. Certainly there would be no refunding of them in such a short period as 10 years.

The CHAIRMAN. That is just supposition on your part; isn't it?

Secretary DILLON. I think it is very reasonable.

The CHAIRMAN. How can you predict what the interest rates are going to be 10 years from now?

Senator BENNETT. May I ask a question at this point, Mr. Chairman?

Assuming that these 30-year bonds are refunded again by an advance refunding 10 years from their maturity, have you calculated that, assuming you treat them the same way you are treating the present bonds and refund them?

Secretary DILLON. No, we haven't attempted to calculate what the interest rates would be in 1988, which would be 10 years before they became due, and I don't think anyone could.

But certainly unless interest rates changed materially from the present level, there wouldn't be any advance refunding at that time. And our basic assumption—and I think it is the only conservative assumption that we can make—is that interest rates will stay about at the level which they have now arrived at rather than trying to foresee that they will either go up or down.

It is our assumption that they will stay about level.

The CHAIRMAN. Mr. Secretary, that assumption hasn't been correct in the past 10 years at all.

Secretary DILLON. In the past 10 years interest rates have been adjusting upward to a new level. We think that this adjustment is pretty well completed, and we would hope that we are entering into a period where there will be much less fluctuation in interest rates than has been the case in the last 10 years.

The CHAIRMAN. You hope for that?

Secretary DILLON. We expect that.

The CHAIRMAN. But you have no assurance that 10 years from now the interest rates will not go up, have you?

Secretary DILLON. No; if we have a war or something of that nature—

The CHAIRMAN. If you have inflation, they will go up, and we have that now, and we will have much of it.

Secretary DILLON. If we have very serious inflation interest rates would, of course, go up.

The CHAIRMAN. I would not think that, as one of the best Secretaries of the Treasury we have had, you would try to predict what interest rates will be 10 or 20 years from now?

Secretary DILLON. No.

The CHAIRMAN. What we are getting into is a policy of refunding Government bonds when interest rates go up.

Secretary DILLON. Actually, only a small percent of the holders took this; and in the second place, and on our assumption that we need more long-term debt now and we don't want to wait 10 years before putting this long-term debt out, we are putting it out in this way cheaper than we could put it out any other way.

The CHAIRMAN. It seems to me you are putting a 3½ percent floor under the interest rate, on long-term bonds; you are not putting any ceiling on it. And these particular bonds, and others that you are handling in this same way, may be refunded again on a still higher interest rate.

If you have done it now, and you say it is a successful operation, and conditions change 10 years from now, then you may do it again. On a 30-year bond you may do it twice.

Secretary DILLON. If we were to sell a 30-year bond for cash now, or a 35-year bond, as I pointed out, it would have to be a 4¼ percent bond, and that would mean that we were operating at the 4¼ percent ceiling for Government debt.

The CHAIRMAN. These people who bought these bonds did it with the understanding that they would be paid 2½ percent interest; did they not?

Secretary DILLON. Originally?

The CHAIRMAN. Yes.

Secretary DILLON. That is right.

The CHAIRMAN. And did they buy them below par or not?

Secretary DILLON. It depends on whether they were original purchasers or not. Bonds in recent years have been selling well below par. The original purchasers paid par, but purchasers since have bought well below par.

The CHAIRMAN. This is a windfall for these particular people, is it not?

Secretary DILLON. No, I have looked into that and prepared a table on that which, if you would like, we would be glad to give to you.

The computation would indicate that there is a net differential in favor of exchanging into the 3½s of 1998 of 18 cents over the period from now until the due date of 1972.

(The table referred to follows:)

*Comparison of total returns to an investor from alternative courses of action in advance refunding of 2½s of Dec. 15, 1967-72 into 3½s of 1998 (total proceeds per \$100 face value from Mar. 1, 1962, to Dec. 15, 1972)*

	Continuing to hold 2½s of Dec. 15, 1967-72	Exchanging into 3½s of Nov. 15, 1998
Interest received Mar. 1, 1962, to Dec. 15, 1972.....	\$26.98	<sup>1</sup> \$37.27
Value on Dec. 15, 1972.....	100.00	<sup>2</sup> 89.89
Total.....	126.98	127.16
Net differential in favor of exchanging into the 3½s of 1998.....		0.18

<sup>1</sup> \$37.77 less \$0.50 cash payment to the Treasury on account of issue price of the 3½s of 1998.

<sup>2</sup> Price on Dec. 15, 1972 based on market yield as of Feb. 28, 1962, of issue closest in maturity to the term of the extension (25 years, 11 months) of maturity in the exchange.

The CHAIRMAN. I submit to you that that is not an answer to my question.

If I own a million dollars of these bonds, I am going to get a hundred thousand dollars more in interest in the next 10 years.

Secretary DILLON. That is correct, Senator.

But you give up a bond that will be worth \$100 ten years from now in exchange for one that is only going to be worth \$90 ten years from now.

The CHAIRMAN. Are not some of these bonds worth \$100 now?

Secretary DILLON. Not at these interest rates, and unless there should be a marked cheapening of money over the next 10 years, these 3½ percent bonds of 1998 will only be worth a little less than \$90 in 1972.

The CHAIRMAN. Nobody can predict what the bond will be worth 10 years from now.

Secretary DILLON. No; that is why I assume the market will stay the same, I am not predicting it will get better.

The CHAIRMAN. Who can predict that this particular person will or will not sell the bond. Consider a man that is going to continue to hold the bond for 10 years. What is he going to get? He gets a high interest rate for 30 years, as a matter of fact, but for the 10 years, when he was to get only 2½ percent, the man, if he has \$1 million in these bonds, would get \$100,000 more; would he not?

Secretary DILLON. That is correct. But the original fellow would have \$100 left at the end to reinvest in new Government bonds, whereas the other fellow would only have \$90.

The CHAIRMAN. Suppose he does not sell them? These are 30-year bonds.

Secretary DILLON. I say, if the fellow retains his holding of  $2\frac{1}{8}$ s and they were paid off in 1972 he would get \$100, and he could use that to buy a \$110 face value of the  $3\frac{1}{8}$ s at that time.

The CHAIRMAN. He may not sell; is that right? He can keep the bond for 30 years?

Secretary DILLON. The long-term holders; yes.

The CHAIRMAN. And he has the possibility, at least, of another refunding in the 20 years beyond the first 10 years?

Secretary DILLON. It could possibly take place.

The CHAIRMAN. And that would be a good gamble; would it not?

Secretary DILLON. I don't think that anyone would be particularly likely to gamble on that. I think that is the reason why only 19 percent of the public—

The CHAIRMAN. Suppose he retained the bonds, you do not deny that a man who bought a million dollars worth of them is going to get \$100,000 more in the next 10 years than he would have received under the older bonds?

Secretary DILLON. From a financial point of view I respectfully have to say that that is not going to be the end result. He will get \$100,000 more in interest, but he will have something at the end that is worth approximately \$100,000 less.

The CHAIRMAN. Nobody knows that.

Secretary DILLON. That is assuming the market stays the same; the loss to him in the price of his bonds will be greater if interest rates are higher than now.

The CHAIRMAN. It depends on what the bonds are worth at the end of 10 years, and what the interest rate is, and it looks to me like you are putting a floor on the interest rate at  $3\frac{1}{2}$  percent, yet there is no ceiling on it.

I am just stating my opinion. Maybe I am wrong about it. But that is what disturbs me about it.

Have you noticed any speculation in these bonds?

Secretary DILLON. Very little, Senator.

The CHAIRMAN. You don't think there will be any more refunding on these bonds we are now advance refunding for 30 years? What do you base that on?

Secretary DILLON. I don't think there will be any until shortly before their due date at the earliest, certainly not for 20 years.

The CHAIRMAN. The usual time is 10 years before they become due; is it not?

Secretary DILLON. That would be about right, for a senior advance refunding.

The CHAIRMAN. I have a feeling that when a man makes a contract and buys a bond at  $2\frac{1}{2}$  percent interest, there is no reason to give him a present or a windfall.

Secretary DILLON. I agree with you, Senator.

I think our difference is that we don't think we are giving him a windfall, and I think the way the public responded to this—

The CHAIRMAN. Did you ever hear of a business corporation doing anything like this? Most of the business corporations that I know of, when they refund them, they pay a smaller rate of interest, not a higher rate of interest.

Secretary DILLON. Most business corporations don't have as much debt as the United States. But I think most business corporations have had to make up their mind as business people whether they wanted to take this exchange or not, and the great majority did not want to, so they certainly felt this was not any bonanza or windfall, or they would have accepted it.

The CHAIRMAN. Did you ever hear of a business corporation calling in bonds at a low rate of interest and reissuing a higher rate?

Secretary DILLON. Yes, sir, I think there have been some occasions when they could retire debt—the comparison is, if you can retire a 5-year bank loan and refund it into a 30-year bond at a slightly higher rate of interest, I think many good businessmen do that.

The CHAIRMAN. There are not many that do it. The A.T. & T. refunded some at a lower rate of basis, and a longer term.

Senator WILLIAMS. Did you ever hear of them calling in a bond issue and refinancing it?

Secretary DILLON. Not usually, no. But this is quite a different operation.

The CHAIRMAN. There is just one more point I want to make, and then I will let other members of the committee ask questions.

What this actually means is about 6 percent of the total of the debt; is it not?

Secretary DILLON. The debt is approximately \$300 billion; yes, sir.

The Chairman. And this relates to 18 and you have not consummated the entire 18.

Secretary DILLON. That is what the offer was, the offer is now closed, and about \$5.2 billion accepted.

The CHAIRMAN. And how many actually traded?

Secretary DILLON. \$5.2 billion.

The CHAIRMAN. So \$5.2 billion is about 2 percent.

The point I am trying to get at is that we are paying a penalty, a very substantial penalty, and we are converting only a small percent of the debt into long-term bonds; is that not right?

Secretary DILLON. I do not think we are paying a penalty. But we are converting enough into longer term bonds so that over half of our longer term debt now consists of bonds put out there through advance refundings.

The CHAIRMAN. I am speaking of this particular method of advance refunding. Let us take all of them, you say there have been five?

Secretary DILLON. Yes, sir.

The CHAIRMAN. What percent of the debt has been extended, say, for 20 years, or whatever the time may be, on this refunding basis?

Secretary DILLON. We have extended for about 20 years a total of about \$10 billion.

The CHAIRMAN. In other words, there is \$10 billion that would be put on a longer term basis at about 3 percent?

Secretary DILLON. Yes, a little over.

The CHAIRMAN. And yet in this single issue the Government was willing to pay a penalty of \$1.194 billion—

Senator ANDERSON. I do not think that figure is right, Mr. Chairman.

The CHAIRMAN. What is wrong with it?

Senator ANDERSON. You figured against the total issues the amount refunded.

The CHAIRMAN. I am figuring a loss of \$1.194 billion acceptable to the Treasury.

Senator ANDERSON. I am only suggesting that what you have done is this. You have said that if you refunded the whole \$300 billion a certain thing would happen. If you refund the whole \$11 billion it certainly would happen, but you only refunded a portion of it, and, therefore, the charges would be against only the portion and not the outstanding issue.

The CHAIRMAN. Let's get that clear.

The Secretary says that he has refunded \$10 billion out of \$300 billion. That is correct; is it not?

Secretary DILLON. That is the total that has been done.

The CHAIRMAN. That is the total of all of it. Your recent plan up to date has only refunded \$5 billion.

Secretary DILLON. That is right.

The CHAIRMAN. What I am trying to make clear is that this plan is not an answer, because only a small percent of the debt has been extended.

Secretary DILLON. That is right. As I pointed out in my statement, this is only one of the useful tools that we have in our—

The CHAIRMAN. It is useful to the extent of 3 percent; yes. But in the case of only one of these issuances, if it all went through, the Government would pay a penalty of about a billion, \$1.194 billion.

Of course, I will concede in that case a larger total of the bonds would be put on a long-term basis.

Senator GORE. Will you yield for a question, Mr. Chairman?

The CHAIRMAN. Yes.

Senator GORE. If this useful tool has cost a billion dollars thus far, what will be the cost of using this tool in the course of 8 years of the Kennedy administration if the country should be so fortunate?

The CHAIRMAN. This billion covers a period—

Senator GORE. You say what percentage of the debt has been refunded?

The CHAIRMAN. Three percent.

Senator GORE. All right, suppose that 3 percent is refunded each year, suppose that extra interest cost adds an additional billion dollars each year to the budget?

The CHAIRMAN. I have just one more comment to make: I am in favor of the long-term bonds. I think when you have a plan under which you can refund only 3 percent, at a high cost, you had better look for another plan. I am very frank to say I do not like the idea of the Government, after selling bonds on the basis of a fixed time and rate, coming in and offering to substitute other bonds at a higher rate of interest; this policy is even more objectionable when it does not substantially accomplish the purpose.

Senator Long?

Senator LONG. Mr. Secretary, what concerns me about this is whether we Democrats are doing what we said we were going to do when we ran for office.

The Republicans tried to make me pay for a news item that rates were going to be lower under the Democrats. I heard President Kennedy debate Vice President Nixon, and I was discouraged to hear him say he was going to reduce the interest rates on the national debt, I thought he was going to cut it by about \$3 billion.

Can you tell me how the interest payment this year will compare with last year on the national debt?

Secretary DILLON. I think our total interest cost will be about the same as last year.

Senator LONG. Could you give me the figures?

Secretary DILLON. The average interest rate on debt, marketable debt——

Senator LONG. Not average, let's get it in dollars first, how many billions and millions is it going to be?

Secretary DILLON. It is in the budget, and I think that the figure is about \$9 billion.

Senator LONG. Let's get it down to millions.

Secretary DILLON. Here we are, I have got it.

The fiscal year figure is—for this fiscal year—is \$8.9 billion.

Senator LONG. \$8.9 billion what, now?

Secretary DILLON. \$8.9 billion.

Senator LONG. Is that an even or rounded figure?

Secretary DILLON. That is the rounded figure that we use.

Senator LONG. Every time you round off at a hundred million, it seems to me as though——

Secretary DILLON. That is an estimate; you cannot come any closer. The actual figure for fiscal 1961 was \$9.0 billion; and \$9.3 billion in 1960.

Senator LONG. \$9.0 billion for 1961, and \$8.9 billion for this year?

Secretary DILLON. Yes, sir.

Senator LONG. So you estimate that you are going to be——

Senator ANDERSON. You cannot use those two figures, because one is an estimate, and purposely down a little bit.

Secretary DILLON. The actual for 1961 is \$9.0 billion, fiscal 1961, and for fiscal 1962, which is pretty near over, our estimate has been \$8.9 billion, it could run over that by maybe 50 or a hundred million for the years at the end, but no more, it is going to be a substantial reduction this year from what it was in fiscal 1960, when it was \$9.3 billion.

Senator LONG. So you think it will be a hundred million dollars below what it was last year?

Secretary DILLON. In fiscal 1961, that is right.

Senator LONG. What do you estimate it is going to be in the following year?

Secretary DILLON. In the following year our figure in the budget is \$9.3 billion, which is back up again, but, of course, we are, as you all know, carrying a very considerably larger debt.

So the rate will have to be somewhat lower to carry that larger debt at about the same cost.

Senator LONG. My impression on this thing was that in the last year of the Eisenhower administration interest rates were dropped, and I said in this newsletter that I thought that the administration was deliberately putting interest rates down to fix the election. And they were lower prior to that.

Can you tell me what has happened to the interest rates since this administration took over?

Secretary DILLON. Yes. I mentioned in my statement that they have performed very well. Municipal bond rates, which is an important rate, are at the lowest levels in 3 years, and considerably

below what it was when this administration took over. Corporate bond rates are the same as they were last year, which again was a low point for 2 or 3 years, and we have equaled it again just yesterday when a bond issue, a 30-year bond issue of Pacific Gas & Electric, was sold for 4%. General mortgage rates have been lower by about a quarter of 1 percent than they were a year ago. So, generally—and this is in the first year of substantial recovery, in past periods the trend has always been tighter money as soon as you start a recovery—we have had slightly cheaper money.

Senator LONG. Do you feel that at this time the general level of interest rates is somewhat less than it was at the time that President Kennedy took office?

Secretary DILLON. Except for long-term Government bonds, I do, and I think that these other interest rates are more important. Long-term Government bonds are a quarter of 1 percent higher.

Senator LONG. How about the short-term rate on Government bonds?

Secretary DILLON. On short-term rates I mentioned that, particularly for balance-of-payments reasons, we have tried to keep that rate up, and that rate is now about half of 1 percent higher than it was before. But it has not affected the long-term rate at all, and we have been able to make that increase without any corresponding increase, and in fact with a decrease, in long-term rates.

Senator LONG. As I understand it, you say that the short-term rates are a half of 1 percent higher than they were at the time this administration came in?

Secretary DILLON. Yes.

Senator LONG. Now, do I understand you to say that the long-term rates are lower than they were at the time the administration came in?

Secretary DILLON. General long-term rates for mortgages, for municipals, for corporate financing, all put together are lower than when we came in.

Senator LONG. Now, you gave us this chart here as a part of your testimony.

First, let me ask you this: What is the legal rate on long-term bonds described by Congress?

Senator GORE. Ceiling.

Senator LONG. Ceiling.

Secretary DILLON. The coupon is  $4\frac{1}{4}$  percent for any bond over 5 years; that is the definition.

Senator LONG. Then Congress has fixed at  $4\frac{1}{4}$  percent the legal ceiling that this Government can pay on Government bonds, is that correct?

Secretary DILLON.  $4\frac{1}{4}$  percent is the highest coupon rate on Government bonds, which are defined as being anything over 5 years.

Senator LONG. I was on the committee when we discussed that matter, and I know the purpose for this, and I think the purpose for some of the others was that we didn't want legally for this Government to issue a bond or to pay more than  $4\frac{1}{4}$  percent on Government obligations, that was the purpose that we had in mind.

Now, I understand that the previous administration had a refund where they by the refunding technique exceeded  $4\frac{1}{4}$  percent. In my opinion, I felt that that was violating the spirit of the law, if not the letter of the law.

I assume that you do not agree with that statement?

Secretary DILLON. This has to do with a complicated method of figuring interest rates which we don't feel is the method that actually counts. We look at the actual rate on the bond issue, and we have not as yet sold a new issue where the rate on that issue at the time it was sold, the investment yield based on the price at which it was sold, was more than  $4\frac{1}{4}$  percent.

Senator LONG. What you are telling us in this chart that you prepared in your Department is that you have broken the spirit of that law in 10 different cases. For example, on your June 1960  $2\frac{1}{8}$ s, you are trading those for a bond that would go at  $3\frac{1}{4}$  or  $3\%$ , depending upon the date of maturity, and if you take the  $3\frac{1}{4}$ , if you look at what you are giving them plus what they are earning, they are making 4.51,  $4\frac{1}{2}$  percent, so you have broken the spirit of the law there if you have not broken the letter of it.

Secretary DILLON. We didn't think so. The table we used, we think, governs the approximate investment yield from exchange date to maturity, and on that table the highest one of those in any advance refundings that we have done was in September last year, when there was one that was 4.23. And in this latest issue the highest is 4.21. And that is what we think governs.

Senator LONG. I am looking at the second to the last page of your prepared statement here, at that chart, five, advance refundings.

Secretary DILLON. That is the same chart I am looking at, Senator.

Senator LONG. Now, you started in June 1960, and by the time you get through tabulating you come out with what I want to know, if I was holding some of these bonds, what do I make when I exchange them compared to what I make if I hold these bonds?

And in the final column you have what I regard as the payoff figure, what do I make if I make this deal? And the answer is 4.51 percent, which is slightly more than  $4\frac{1}{2}$  percent.

Secretary DILLON. That was in June 1960, for a short-term issue, yes.

Senator LONG. Now, you come on down to March 1962, every one of those breaks—

Secretary DILLON. They all are on that basis, but we don't think that is actually the rate on which the bonds are sold. That is based on a different assumption which was prepared to indicate at what rate an individual who kept the original issue at the original rate up to the time of its maturity would have to reinvest his money for the extended period to come out the same as he would by taking our offer.

Senator GORE. Will the Senator yield there?

Senator LONG. Yes.

Senator GORE. I have here a pamphlet from the Department of the Treasury, September 1960, entitled "Debt Management and Advance Refunding."

Secretary DILLON. That is correct.

Senator GORE. This pamphlet, Mr. Chairman, contains the method of calculating yields and interest rates which was described to the committee at the time the committee approved the refunding bill in 1959. Perhaps we were misled.

But according to this method of calculating the yield, some of these most recent refundings go up as high as 4.38.

Senator LONG. Mr. Secretary, it would take a college graduate to understand all this, I am a college graduate and it gets too complicated for me. I am sure someone with financial experience can understand it.

But, to me, it looks as though if you are going to extend the maturity date of your debt you ought to do it at the time the interest rates are low rather than at the time interest rates are breaking through the ceiling.

You say here that you are at the mercy of the money market. But my impression is that under the law this Government has the market pretty much at its mercy if it wants to use the powers available to it, especially if the Federal Reserve Board wants to expand the amount of money and currency in circulation, and they have that function; is that correct?

Secretary DILLON. The Federal Reserve certainly has control of monetary operations. I think there is a basic problem in debt management which I pointed out early in my testimony, and that is that if you want to sell long-term debt at the cheapest possible price, the time to do it is in the middle of a recession when interest rates are low. Then you sell long-term bonds at the lowest possible price and increase interest rates.

Well, from the point of view of the general economy that is just the time I don't want to do that, because you want to keep money freely available and interest rates as low as possible.

On the other hand, at the time when business is booming and there is no problem about availability of credit, and money is available, and you can sell at a longer date, and probably it is good to have some restrictive effect on the economy at that time, then your interest cost would possibly be higher.

So the two things are in conflict, and we have to work them out as between these two objectives as best we can.

Senator LONG. Would you agree that monetary and fiscal policies are a relatively inefficient and sometimes ineffectual method for controlling inflation?

Secretary DILLON. Certainly I think there are a whole lot of things that enter into inflation besides monetary and fiscal policies, if that is the purport of your question. You can have the wage-price type of inflation, even with the best possible use of monetary and fiscal policies; you can have inflation without misuse of this type of policy.

On the other hand, the misuse of monetary and fiscal policy can produce inflation by itself.

Senator LONG. We passed a minimum wage law, we have passed various labor laws, the President right now is trying to head off an increase in the price of steel.

Would you recognize that those matters are probably more effective as far as controlling the general level of prices than a fluctuation in interest rates?

Secretary DILLON. Today I think you are quite right; I think the most important thing right now is this type of thing.

Senator LONG. Mr. Secretary, all I can say is that for my part I am not prepared to go out here and defend these high interest rates, and this advance refunding. It looks to me as though the Democrats in this administration are trying to outbid the support of the people who should logically be Republicans. And I suspect that our Re-

publican friends will come back and top your bid, and all we will find is that people who are interested in lower interest rates don't have anybody looking after them. And I hate to see this refunding at higher rates.

The CHAIRMAN. Senator Williams?

Senator WILLIAMS. First I join my friend from Louisiana in wishing that we had a good old Republican administration in power managing the debt.

Secretary DILLON. It was pointed out that this advance refunding technique was not initiated by this administration.

Senator WILLIAMS. To get back to just how much interest we are paying over and above what would have been paid had these bonds not been called in and refinanced at a higher maturity rate, how much additional did you pay under the first advance refunding in June 1960?

Secretary DILLON. \$74 million.

Senator WILLIAMS. That is over and above what would have been paid on the same bonds.

Now, in the advance refunding of October 1960 how much additional interest will be paid to those bondholders?

Secretary DILLON. \$335 million.

Senator WILLIAMS. And in 1961, March 1961, you had another advance refunding. How much additional interest will be put out by the Government over and above what would have been required?

Secretary DILLON. \$120 million.

Senator WILLIAMS. And in the refunding of September 1961 another advance refunding, and how much additional interest will be paid there?

Secretary DILLON. \$301 million.

Senator WILLIAMS. Now, in March 1962 how much advance interest in that refunding—I mean additional interest?

Secretary DILLON. \$256 million.

Senator WILLIAMS. And the most recent refunding operation, how much additional interest will you pay on this most recent one, Mr. Secretary?

Secretary DILLON. That was the one I just gave you, \$256 million.

Senator WILLIAMS. That is the last one?

Secretary DILLON. Yes.

The CHAIRMAN. Mr. Secretary, you have offered the, but the haven't all been taken; is that it?

Secretary DILLON. No, sir; the offering is closed, it is all finished.

Senator WILLIAMS. And this is what has been taken?

Secretary DILLON. Yes. The offering is closed, and it is all finished.

Senator WILLIAMS. These figures which you have given me is interest which will be paid on those bonds which have been traded?

Secretary DILLON. That is right.

Senator WILLIAMS. And that totals altogether \$1.085 billion additional interest?

Secretary DILLON. That is right. And that is offset by savings of \$1.627 billion on longer term issues that have been sold at a lower rate than if we had tried to sell them for cash at the same time. So there is a net saving to the Treasury of \$541 million in the whole operation.

Senator WILLIAMS. Now, that saving is determined by projecting to 1998 the fact that interest rates will never be any lower than they are at the present time; is that correct?

Secretary DILLON. No. It assumes that we wanted to sell 1998 issues now rather than wait until 10 years from now and find out what we could sell them at at that time and gamble on that. We wanted to sell them at this time at a rate which was cheaper than that at which we otherwise could sell them on the market.

Now, if we wanted to gamble and hope that in 10 years the interest rate would be cheaper, we could have done that, but we didn't choose to do that.

Senator WILLIAMS. You chose not to gamble, and you proceeded on the premise that interest rates would remain stable; is that right?

Secretary DILLON. That was our premise.

Senator WILLIAMS. So that is my question, this whole refinancing is based on the premise that there is no anticipation of lower interest rates between now and the maturity of the bond which is being put out?

Secretary DILLON. I think there are two assumptions. One is that it was wise to have some long terms put out at this time. If we had to wait until 1972, we wouldn't have put out any until 1972. And we think you should move now, and if you have to move now this is the cheapest way to do it.

Senator WILLIAMS. But you would have achieved the same answer, and this is the same result as it would be in going out in the open market and selling at 3½ percent bond that is maturing in 1990 or 1998 at 89 to 90 percent of par; is that correct?

Secretary DILLON. Well, the only difference is that you would (in the kind of offering you describe) have taken many billions of dollars out of savings that are readily available in the long-term market for homes, for schools, and other things, and you would have affected the general levels of interest rates. But the interest cost assumption that you are making is correct.

Senator WILLIAMS. I am not debating the merits, I am just speaking of the mathematics of it. The mathematics of it are that you have in effect sold 30- to 35-year 3½-percent bonds at 88 to 90.

Secretary DILLON. At a price of about 4.20, as against a price of 4.25 or more that we would have had to pay if we had sold them for cash in the market.

Senator WILLIAMS. I would agree with you, because that is what galls me a little, even admitting that we are selling a Government bond at 89 percent of par. But is it not in effect in reality what we have done?

Secretary DILLON. What we have done is allow the people who own one Government bond that sells at 88 or 89 to exchange this piece of paper for another Government bond which is already in the market which is already selling at 88 and 89. And still they have a piece of paper that is worth 88 or 89.

Senator WILLIAMS. This billion dollars, when you roll off this billion dollars of new bonds, 3½-percent bonds, they are not already in the market, there is a similar issue in the market, but the bonds which you put out are new bonds?

Secretary DILLON. That is correct.

Senator WILLIAMS. And you are putting new bonds out in exchange for a piece of paper which is worth \$88 to \$89; is that not correct?

Secretary DILLON. That is correct.

Senator WILLIAMS. And the mathematics of it are the same as if the Government went out in the money market and sold this 3½-percent bond at 88 to 89? I am not speaking about the net results and the good of changing this debt, I am speaking of the mathematics of it.

Secretary DILLON. Well, the mathematics, maybe interestwise, are the same, but they are not the same principalwise, because what we have done is we have exchanged a \$100 face value Government bond for another \$100 face value Government bond, so we have not increased the total of the Government debt.

If you sold in the market at 90 you would only get \$90, but you would owe a hundred, so you would increase the face value of the Government debt. So there is a difference there.

Senator WILLIAMS. We will approach it from this angle: These 2½-percent bonds maturing in 1972 are a hundred par bonds, and if the bondholder holds them to 1972 they will be paid \$100.

Secretary DILLON. That is correct.

Senator WILLIAMS. Now, and at that time under this refinancing we will have what in effect is a 20-year 3½ bond; is that correct?

Secretary DILLON. Which will be worth \$90 at that time.

Senator WILLIAMS. Maybe and maybe not. But what you have done, you have gone to this bondholder who owns this 2½-percent bond today, and we will say—Senator Byrd pointed out the example of a man who had a million dollars' worth of these 2½-percent bonds—you have gone to him and said, "If you will buy in 1972, contract in 1972 for a 3½-percent 20-year bond at par, we will give you an additional \$100,000 in the interval." Is that not what you have done, in additional interest?

Secretary DILLON. I think that is exactly correct. And that additional \$100,000 in interest will be just the difference between paying par for a 3½-percent bond in 1972 and buying it in the market at 90, which would be the price that it is worth, based on the present level of what a 28-year or 36-year bond is now worth in the market.

Senator WILLIAMS. And this is all justified on the premise that looking into the future in 1972 you don't conceive of any possibility that you will be able to sell the 3½-percent 20-year bond at higher than 90 percent of the Government bond; is that not correct?

Secretary DILLON. No; it is based on the feeling that it is desirable to put out some long-term debt at this time, and we are trying to put it out at the lowest cost possible. We feel it is preferable to put some out now rather than to wait until 1972 to do it and see what the market is then.

Senator WILLIAMS. I will phrase my question another way.

Do you think that in 1972 you will be able to sell a 3½-percent, 20-year bond at higher than 90?

Secretary DILLON. Not unless interest rates change from and are lowered from where they are now. If they are at the same level as they are now, we would not be able to sell 3½-percent bonds due in 1998 for as much as 90.

Senator WILLIAMS. If you can sell a 3½-percent bond at 90, a 20-year bond in 1972, the Government will have lost as a result of this transfer; will it not?

Secretary DILLON. If interest rates are going to decline and be considerably lower 10 years from now, then, of course, you are right.

You could sell long-term bonds cheaper then and it would be better to wait. That argument is merely that we should never sell long-term Government bonds until such time as we decide interest rates are at their very bottom, and that is a speculative thing. No one can decide that. It is our feeling, and I think it is the only conservative feeling for a manager of the public debt, that we have to put out a certain amount of long term continually, year in and year out, when we think the general conditions are average good as we think they are now.

Senator WILLIAMS. I am in complete agreement with this principle of putting more in a long-term debt, and I regret that we haven't been following that more. In arriving at that there may be a difference of opinion. But I still get back to the question that this whole thing is premised on the assumption that there will be no lower interest rates in the next 10 years.

Secretary DILLON. I don't think it is.

Senator WILLIAMS. But, in effect, you are paying out \$1 billion additional interest to these bondholders in return for an agreement from them that they will buy in 1972, that they will contract now for a 20-year 3½-percent bond at par.

Secretary DILLON. Yes—it is 26-year, but it is the same thing.

Senator WILLIAMS. In computing your projected savings here, did you take into consideration that you are going to have to borrow the money and pay interest on this billion dollars extra interest which you are paying?

Secretary DILLON. You can take that into the computation.

Senator WILLIAMS. Did you?

Secretary DILLON. No. We can make a computation that does, but, also, if you wanted to be fair, you would have to take into account the fact that on the extra billion dollars worth of interest you get some tax revenue, you get very substantial tax revenue. So it wouldn't be a billion dollars. If you want to net out the final Government cost on this thing, it is very complex, and in your favor would be working this tax revenue, and against you the accumulated cost of borrowing interest.

Senator WILLIAMS. You are not going to justify this additional billion dollars of interest as being profitable to the Government solely on the basis that they are going to have to pay taxes on it?

Secretary DILLON. No, I am not trying to at all.

Senator WILLIAMS. How much of our debt today——

Secretary DILLON. But certainly the taxes it would collect would more than offset the interest cost on the billion dollars that might have to be raised gradually over that period to pay it, Senator.

Senator WILLIAMS. Would you repeat that?

Secretary DILLON. I said, the amount of taxes that would be paid on the billion dollars would certainly be more than the interest cost on the billion dollars that would have to be borrowed, not all now, but year by year over the period to pay this extra billion.

Senator WILLIAMS. I am lost, but I am going to ask you this question. To satisfy everybody, why don't you give them an extra \$2 billion and we will pay off the national debt, if the Government is going to make money out of this?

Secretary DILLON. The real reason is that the Government is getting a pretty good deal on this, when you come down to the end result. Although the financial brains of the country feel that these advance refundings are good for this particular purpose, the result has been that the great majority have felt it is better to hold the shorter term security at the lower rate of interest than to take these long-term offerings.

Senator WILLIAMS. How much of our public debt, of our national debt is in the hands of the public?

Secretary DILLON. About \$200 billion of marketables.

Senator WILLIAMS. About \$200 billion?

Secretary DILLON. \$196 billion.

Senator WILLIAMS. What is the average maturity of the debt that is in the hands of the public? Do you have that separated to drop out the hundred billion that is in the trust funds?

Secretary DILLON. I don't think I have that particular figure; someone may be able to get that for you.

(The information requested is as follows:)

The average length of the total public marketable debt on March 1, 1962, was 4 years 11 months. Excluding the holdings of the Federal Reserve banks and Government investment accounts, the average length increases less than a month and the rounded number in years and months remains 4 years 11 months.

Senator WILLIAMS. How much of over \$200 billion debt represents less than 5 years maturity?

Secretary DILLON. Less than 5 years maturity—I have it here. Of the marketable public debt of the total of \$200 billion, approximately \$150 billion is under 5 years.

Senator WILLIAMS. \$150 billion?

Secretary DILLON. Out of the \$200 billion, yes, approximately, Senator.

Senator WILLIAMS. And do you have that broken down as to how much is less than 3 years?

Secretary DILLON. Under 1 year—this is as of March 1—the grand total of the publicly held debt is \$197.7 billion. Under 1 year is 88½ billion, or 44.8 percent; from 1 to 2 years, it is 17.9 billion, or 9 percent. And 2 to 5 years is 41.7 billion or 21.1 percent. From 5 to 10 years is 23.7 billion or 12 percent. And over 10 years is 25.9 billion or 13.1 percent.

So 25.1 percent of that total is over 5 years.

Senator WILLIAMS. Now, could you give me those comparable figures for 2 years ago, or 1 year ago?

Secretary DILLON. I don't know that I have those right here, but I certainly can give them to you for the record. I think that they will show that there has been an increase in the under 1-year debt, and an increase, also, in the very long debt, which is more or less offset, and the middle part that stays the same.

(The following was later received for the record:)

*Maturity distribution of marketable debt*

Maturity classes	Mar. 1, 1960		Mar. 1, 1961	
	Amount outstanding (billions)	Percentage distribution	Amount outstanding (billions)	Percentage distribution
0 to 1 years.....	\$76.7	40.5	\$80.1	42.2
1 to 2 years.....	22.2	11.7	24.7	13.0
2 to 5 years.....	50.6	26.7	42.3	22.3
5 to 10 years.....	15.3	8.1	18.7	9.8
10 years and over.....	24.6	13.0	24.2	12.7
Total.....	189.4	100.0	189.9	100.0

Senator WILLIAMS. It was my understanding that in reality the real short-term debt has increased substantially, and these averages of an extended debt are as a result of this 30-year rollover.

Secretary DILLON. This isn't all broken down, but it shows that the total of 5 years and over altogether has stayed about the same since from 1953 to 1961, but there has been a very big increase in the very long term, the 20 years and over. In 1953 there was only about \$1½ billion over 20 years, and the figures we have now show about \$15 billion over 20 years.

Senator WILLIAMS. I won't press for that. But I wish you would furnish them for the record.

Secretary DILLON. Yes.

Senator WILLIAMS. The ceiling, 4¼-percent ceiling on the rate that you can pay, as I understand it, the basis for considering that that is applicable to coupon rate only and not to yield is based upon a ruling by Attorney General Kennedy; is that correct?

Secretary DILLON. That is correct. That is a ruling based on the Attorney General's view of what the law as passed means, and we ourselves have not in our view surpassed the yield.

Senator WILLIAMS. And prior to this ruling there had been two or three attempts by the Treasury Department to get Congress to repeal this ceiling?

Secretary DILLON. That is correct.

Senator WILLIAMS. And when Congress did not repeal the ceiling, then the Attorney General's ruling came in, that you could in effect sell a 5-, 6-, or 10-percent yield bond if you so wished, so long as you kept the coupon at 4¼ or under and give them the yield by depreciating the price of the bond, is that not true?

Secretary DILLON. That was the Attorney General's ruling, that isn't what we have done.

Senator WILLIAMS. I am not speaking of that.

But that is the ruling, that there is in effect under this ruling no limit on the yield rate of a Government bond provided you can sell them for 50 percent of par or 75 or 90 or whatever it is?

Secretary DILLON. That is the Attorney General's ruling based on the law, which I think was passed 40 or so years ago; it is a very, very old law.

Senator WILLIAMS. But prior to that ruling it was the opinion of the Treasury Department that the clear intent of Congress was that that was to be a ceiling on yield; was it not?

Secretary DILLON. I think that the opinion of the Treasury Department is probably no different from what it was before as to the legal interpretation of the law. And their interpretation is based more on what they felt was appropriate in view of what they thought were the desires of the Congress at this time. And I think they were right.

I know what the desires of the Congress are. And I don't think we have any intention of flying in the face of them, even though there is this ruling as to what the law means.

Senator WILLIAMS. Are you going to ask for a repeal of the 4½-percent ceiling?

Secretary DILLON. The 4½-percent ceiling, Senator, could, once again, if interest rates should go up, which I hope they won't, become a difficulty in handling the finances of the Government. And I think, if that time came, we would probably discuss with the President whether he wished to recommend such a change. So far it has not been a problem, and we have not seen why it was necessary to enter what would be an area of very great controversy, or what had proved to be an area of great controversy, when there wasn't an immediate necessity for our operations.

Senator WILLIAMS. Do you foresee any prospective need for the repeal?

Secretary DILLON. This could happen. We are right close to it. As I say, if we wanted to sell for cash a long-term bond now, it would be right at the ceiling. So if interest rates should go up we could not sell really long-term bonds for cash without increasing the ceiling.

Senator WILLIAMS. Accepting the principle that it was the intent of Congress that this 4½ percent be a ceiling, would you approve of a rollover or transfer proposition such as you had recently if in that transfer the yield, computed yield, was in excess of 4½ percent?

Secretary DILLON. As a matter of policy, we have kept the yield on the new securities, when they were issued, under 4½ percent.

Senator WILLIAMS. But suppose in computation it was 4.35 or 4½ percent?

Secretary DILLON. We haven't made any such offers. The highest offer on the table, as I pointed out, was last fall. There was one issue that computed at 4.23 and there have been several at 4.21.

Senator WILLIAMS. I appreciate that point. My question is, would you approve such a transfer without coming back to Congress and getting a change in the law?

Secretary DILLON. I think as a matter of policy I probably would not, because I think that it has been our thought that certainly this was something that Congress did not desire us to do, therefore we didn't want to do it.

But I would like to reserve my judgment as to what I would do until the time comes when I have to do it, because, as I say, if we needed a change in the 4½ percent ceiling we would have no hesitancy in recommending to the President that he consider making such a recommendation to the Congress. But we haven't found that necessary.

The CHAIRMAN. Senator Kerr?

Senator KERR. Mr. Secretary, when was the law passed under which this refunding is being done?

Secretary DILLON. 1959.

Senator KERR. Was that the recommendation of the administration at that time?

Secretary DILLON. Yes, sir.

Senator KERR. Now, there has been a number of questions asked on the basis of indulging assumptions.

I presume if you wanted to indulge in making assumptions you could just as readily assume higher interest rates as lower interest rates, or lower interest rates as higher interest rates, or even indulge in the assumption of steady interest rates.

Secretary DILLON. That is correct.

Senator KERR. You wouldn't be limited in the indulgence of assumptions to any one of the three general classifications?

Secretary DILLON. If one wanted to make assumptions, you could make any of those.

Senator KERR. In 1957 or 1958, this committee had a rather extended investigation into the fiscal policies, the monetary control policies, the debt management policies of the administration, at which time Mr. George Humphrey was the Secretary of the Treasury, and Burgess was his assistant, I believe, charged primarily with the responsibility of the management of the public debt. At that time Mr. Burgess frankly admitted that the monetary control policies had been handled on a basis to promote and bring about a higher level of interest rates not only on Government bonds but generally in the economy. You are aware of that?

Secretary DILLON. Yes.

Senator KERR. The Senator from Oklahoma took quite a vigorous part in that investigation. And, as I recall, the underlying basis of defense by Mr. Humphrey and Mr. Burgess, and by Mr. William McChesney Martin of the Federal Reserve Board, of policies inevitably resulting in higher interest rates was that the Federal Reserve Board or bank or system had to be independent of the control of the Treasury Department of the U.S. Government.

Secretary DILLON. I understand that position; yes.

Senator KERR. The Senator from Oklahoma frankly was violently opposed to the principle that the Federal Reserve System should be independent of the executive branch of the Government either directly or indirectly through the Treasury. But the fight that he and others made in that regard was lost. And the independence of the Federal Reserve Board and System was not only clearly established but definitely exercised; is that correct?

Secretary DILLON. That is correct.

Senator KERR. Now, is it a fact that insofar as the supply of credit is concerned in this country, both as to the total available and the relation of the total supply of credit to the total demand for credit is determined exclusively by the management of the Federal Reserve System?

Secretary DILLON. Yes, sir, they make those decisions, we don't make them.

Senator KERR. And their policies determine the results in relationship to the supply of credit to the demand for credit?

Secretary DILLON. That is correct.

Senator KERR. The Treasury Department under the law has no authority to fix those policies or make those decisions?

Secretary DILLON. No.

Senator KERR. And in the preceding administration, whether it was right or wrong, we were confronted with a situation wherein the Federal Reserve Board was demanding independence of the executive branch of the Government and of the Treasury Department, and wherein the Treasury Department was supporting the Federal Reserve in achieving that objective.

Secretary DILLON. I wasn't aware of the Treasury Department's position at that time, but I do know they thought they achieved the objective.

Senator KERR. Well, for your information, I would say—and I refer to the record of the hearings and the testimony both of Mr. Humphrey, the Secretary of the Treasury, and his assistant, Mr. Burgess, in which they defended that principle just as stoutly as did the representatives of the Federal Reserve System—and in view of what I thought was the wide publicity given to the evidence of Mr. Humphrey and Mr. Burgess, I thought their position in the matter was fully known and widely publicized and understood.

Secretary DILLON. Undoubtedly it was; yes.

Senator KERR. And, therefore, naturally I would assume that you were aware of that fact.

Secretary DILLON. Well, I accept that; I am sure it is the fact.

Senator KERR. So that when you became Secretary of the Treasury the battle for the independence of the Federal Reserve System and the recognition of their claim that they were the agency to determine the supply of credit in relation to the demand for credit had become a firmly fixed element in the economic environment of the Nation.

Secretary DILLON. I think that is correct, absolutely.

Senator KERR. Now, in one period of the examination of Mr. Humphrey, the Senator from Oklahoma asked him at what rate he thought he could sell long-term Government bonds, and the Secretary said he didn't know. The Senator from Oklahoma asked him if the Treasury could sell them at  $4\frac{1}{4}$  percent or less if he sold them at par, and he said that he could not. The Senator from Oklahoma asked him at what rate he thought he could sell long-term Government bonds and get par for them, and Secretary Humphrey said he didn't know at what rate he could sell them.

I want to congratulate you upon the fact that you at least are sufficiently familiar with the economic environment and the situation of debt management that you are in a position to have a knowledgeable opinion and one that you can defend and establish and maintain and answer the question, at what rate you could sell long-term Government bonds.

Now, as I understand it, you believe that one of the sound principles in the matter of debt management is that certain percentages of the public debt should be in long-term securities or maturities?

Secretary DILLON. That is correct, Senator, yes.

Senator KERR. What would be today the overall average term of the total public debt as to its maturity, its average maturity, had there been none of the refunding operations which have been carried out under the law which the Congress passed in 1959?

Secretary DILLON. Three years and seven months, approximately.

Senator KERR. Now, the Senator from Oklahoma remembers that under cross-examination, or direct examination, both Mr. Humphrey and Mr. Burgess stoutly maintained to the committee that economic

chaos would prevail if the average length of the entire public debt ever got below a period which I believe they referred to as between 4¼ years, at least that was the only interpretation I could give to their positive statements to this committee in the hearings that we had. They also advised this committee that the two worst aspects of the debt management policies of the administration that preceded them were these, No. 1, the effort by the administration to control the policies of the Federal Reserve System to cause it to give that degree of cooperation to the Treasury that would maintain low interest rates; No. 2, that the preceding administration had managed the public debt in such a way as to bring about what they described as a fiscal mess because the overall average of the maturities of the public debt had reached a level nearly as low as 5 years. And they stated that the two most necessary things to accomplish to establish sound monetary control and fiscal policies and debt management policies, No. 1, was to make the Federal Reserve System free of any control of the executive branch of the Government; No. 2, extend a greater percentage of the total public debt in to maturities of longer term than those existing when they came into office in January 1953. And while the Senator from Oklahoma didn't agree with them, yet the result that was achieved during that administration brought about a situation where the Federal Reserve System was free of domination or control of the executive, and where the Treasury Department had to do its borrowing in the open money market on the basis of the availability of credit in comparison with the demand for it and actually compete with other borrowers for the available supply of credit.

Secretary DILLON. That is correct.

Senator KERR. And that was the situation that confronted you when you took this office.

Secretary DILLON. That is correct.

Senator KERR. And that was the basis of the recommendation of the previous administration that the refunding legislation be passed.

Secretary DILLON. I think that is correct.

Senator KERR. And their claim was that if that were passed, the Treasury Department could take advantage of that law to convert existing bonds which when issued had been long term bonds, but which due to the passage of time had become bonds maturing in a much shorter period of time, into bonds which would be of a maturity 25 years or longer into the future.

Secretary DILLON. That is correct.

Senator KERR. Now, if you are to achieve the objective of having a certain percentage of the public debt in long-term bonds under existing circumstances, the only two alternatives available to you is whether to sell a long-term bond or to convert a medium-term bond into a long-term bond.

Secretary DILLON. That is correct, sir.

Senator KERR. And if you are going to achieve the situation of a certain percentage or a larger percentage of the debt being placed into long-term bonds, you have to do it now on the basis of what the interest rates are now and on the basis of what the money market will permit now.

Secretary DILLON. That is correct, absolutely.

Senator KERR. I want to say, Mr. Secretary, I think you are a very able—I am not going to say brilliant, but you may be brilliant—

but I do not have the opinion of you that permits me to think that you can tell this committee today what the economic environment will be in 1972 as to the availability and cost of credit.

Secretary DILLON. No, sir; I don't pretend to.

Senator KERR. You have some confidence in your ability, I presume.

Secretary DILLON. That is right.

Senator KERR. But not that much?

Secretary DILLON. No, sir.

Senator KERR. Accepting the thesis, therefore, that the Treasury is to some extent another borrower in the money market, it is to that extent subject to the economic laws which control that market?

Secretary DILLON. That is correct, sir.

Senator KERR. And so long as the Federal Reserve System is independent of the executive branch of the Treasury, that environment will prevail and be a reality in which you must manage the public debt?

Secretary DILLON. That is correct.

Senator KERR. So, therefore, that environment will prevail so long as the Federal Reserve System has the degree of independence that it now has, and operates under the law to maintain the economic environment which determines the availability and the cost of credit.

Secretary DILLON. That is correct.

Senator KERR. Now, every borrower that goes into the money market has to pay some cost for borrowing.

Secretary DILLON. Yes.

Senator KERR. Some fee for financing.

Secretary DILLON. That is right.

Senator KERR. The Senator from Oklahoma, maybe on this basis of his limitations, is proportionately the world's greatest living borrower. I definitely recall an experience in 1935 when of my own free will and accord I placed myself to some degree in the hands of operators in the money market, seeking public credit. I inquired as best I could the rules of the game. I finally found a group of investment managers who were frank enough to advise me of some of the rules of the game, and the one I remember most distinctly was this: I said, "How much do you charge for your services in obtaining credit for your borrowers?"

They told me this: "All the traffic will bear."

And before I was through, I learned that they meant every word of it.

And my experience with them since then has confirmed and fortified my conviction that they told me the truth.

Now, so long as an environment is maintained by the one agency of Government that has full and complete power and authority to determine that economic environment, you as the world's biggest borrower are to some extent subject to the same law of the money marketplace?

Secretary DILLON. That is correct.

Senator KERR. Different maturities cost different amounts, don't they, Mr. Secretary?

Secretary DILLON. That is correct, depending on demand and supply.

Senator KERR. Is it a fact that of the credit available it is divided into more than one category with reference to maturity dates?

Secretary DILLON. That is correct. We generally talk about short term, intermediate, and long term.

Senator KERR. Can you tell the committee the total amount of public and private debt in this country?

Secretary DILLON. The exact figure I can furnish, but it is in the order of a billion dollars.

Senator KERR. You mean a trillion?

Secretary DILLON. A trillion, excuse me.

Senator KERR. Now, that credit is available from many sources. Do you have the figure there?

Secretary DILLON. The figure is \$1,058,500 million.

Senator KERR. As of what date?

Secretary DILLON. December 1961.

Senator KERR. December 31, 1961?

Secretary DILLON. That is right.

Senator ANDERSON. We have increased that a little.

Senator KERR. Yes, we have, because I have done some borrowing myself.

Of that amount of debt provided by all of the lenders who make it available, portions of it are available for short-term obligations, portions of it are available for medium-term obligations, and portions of it are available for long-term obligations?

Secretary DILLON. That is correct.

Senator KERR. Now, the trend has been for local governments seeking financing for schools and hospitals and roads and civic improvements, for educational institutions seeking funds for dormitories and other facilities, and for many other borrowers, to obtain their funds on as long a term as possible.

Secretary DILLON. That is correct.

Senator KERR. Congress has moved more and more to preempt portions of the long-term credit available for home building.

Secretary DILLON. That is right.

Senator KERR. I believe that Congress 2 or 3 years ago passed a bill authorizing the TVA to borrow up to \$750 million to finance its operations.

Secretary DILLON. That is right.

Senator KERR. And that is long-term money.

Secretary DILLON. That is correct.

Senator KERR. I believe the Congress passed a bill authorizing the New York State Power Authority to finance and build a great hydroelectric project at Niagara Falls which cost upward of three quarters of a billion dollars.

Secretary DILLON. I think that is right, too; yes, sir.

Senator KERR. And that is long-term money.

Secretary DILLON. It certainly is.

Senator KERR. All of these things are in the picture as the Treasury goes into the market, the money market, to obtain long-term credit?

Secretary DILLON. That is right.

Senator KERR. And if the Treasury is to have certain percentages of its obligations in long-term maturities, as we said awhile ago, it has to do so on the basis either of selling a long-term security for cash, or refunding intermediate term securities into longer term maturities.

Secretary DILLON. That is correct.

Senator KERR. And on the basis of the law available to you, and your judgment of what was the most advisable method and the easiest method and the one that would have the least impact on others seeking long-term credit, the wise course available to you and the wiser policy for you was to follow the course that you have in the refunding of intermediate term maturities to longer term maturities?

Secretary DILLON. Very much so, Senator.

Senator KERR. And the only way that you can do that is on the basis of what today's interest rates are, not on the basis of what even the Treasury of the United States thinks they will be 5 or 10 years from now.

Secretary DILLON. That is correct.

Senator KERR. Now, the present level of interest rates is the result of the operation of the Federal Reserve System in its independent status, which has emerged and become a reality in the last 10 years.

Secretary DILLON. That is correct, sir.

Senator KERR. In view of the fact that prior to 1952 the Federal Reserve System had been operated on the basis of supporting the price of Government bonds, it had maintained a lower interest rate level generally.

Secretary DILLON. I think that is correct.

Senator KERR. Now that any restriction on it or any effort to direct its fixing of its policies has been removed, and it has been left free to meet its responsibilities on the basis of its decisions, the present level of interest rates have come into being and have been relatively stable for a period of some years.

Secretary DILLON. That is right.

Senator KERR. Is that fact a part of the information considered by the Treasury in feeling that we have reached a level of interest rates with reference to which we can expect that there is a greater degree of stability to it than there was at a time when the Federal Reserve System was operated on a basis of being influenced by or controlled by the Executive through the Treasury Department?

Secretary DILLON. I think that the fact that due to these operations, interest rates have stabilized, apparently, for a period of well over a year, maybe a couple of years, here in the United States is one reason we feel that. And we also feel it because apparently trends in other countries are working toward greater stability, in other words, toward somewhat lower interest rates than the very high level, much higher than ours, that has characterized the interest rates in Europe to date. They seem to be tending more toward a level which is not too far different from our long-term rates now. Therefore, it seems that the whole world interest rate picture seems to be coming into an equilibrium that may continue for some time.

Senator KERR. There wasn't any doubt that the interest rates of the country up to 10 years ago were determined in part by the fact that the Federal Reserve System was used in a way to help keep the interest rates at a lower level than would be the case in the ordinary working of the law of supply and demand of credit?

Secretary DILLON. That is correct.

Senator KERR. Those restraints were removed?

Secretary DILLON. That is right.

Senator KERR. And the Federal Reserve System now operates generally on the basis of what they regard to be the law of supply and demand of credit.

Secretary DILLON. That is correct.

Senator KERR. So that would certainly form a basis to feel that we have a level of interest rates with reference to which we can expect it to be more nearly stabilized than it was at a time when the restraints were in existence that kept them at a lower level.

Secretary DILLON. I think that is probably correct, because when the restraints were in existence, the only reason we stayed at the lower level was because of the restraints, and you always had the possibility that they would be removed.

Senator KERR. And they have been removed?

Secretary DILLON. They have been.

Senator KERR. And they now have found the level which has been relatively stable actually for a period of 4 or 5 years.

Secretary DILLON. I think that is probably right; yes.

Senator KERR. I believe that is all, Mr. Chairman.

The CHAIRMAN. I would like to ask the committee, since we cannot finish today, whether it would be satisfactory to those members who have not had an opportunity to question the Secretary to do so Friday morning?

Senator ANDERSON. Would it suit the Secretary?

Secretary DILLON. Friday morning would be all right. I have an engagement tomorrow morning with the House Ways and Means Committee on the trade bill.

The CHAIRMAN. The committee will meet at 10 o'clock Friday morning, and those Senators who have not had a chance to question the Secretary will come first.

(Whereupon, at 12:25 p.m., the committee recessed, to reconvene at 10 a.m., Friday, March 16, 1962.)

## ADVANCE REFUNDING AND DEBT MANAGEMENT

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FRIDAY, MARCH 16, 1962

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

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

Present: Senators Byrd, Kerr, Anderson, Douglas, Gore, Fulbright, Williams, Carlson, and Bennett.

Also present: Elizabeth B. Springer, chief clerk.

The CHAIRMAN. The committee will come to order.

The Chair recognizes Senator Anderson.

Senator ANDERSON. Mr. Secretary, I am not going to have many questions but I was interested in this question of whether or not the handling of bonds in this fashion results in any way in a windfall.

This morning's paper says that the  $2\frac{1}{8}$ s of 72-67 are selling for  $87\frac{3}{32}$ , whereas the  $3\frac{1}{8}$ s of 98 are selling for  $88\frac{2}{32}$ . That is only a single point difference in the value of these maturities.

Would you regard that as a windfall or is that pretty close?

### STATEMENT OF HON. DOUGLAS DILLON, SECRETARY OF THE TREASURY—Resumed

Secretary DILLON. No, Senator; I think that is pretty close.

Senator ANDERSON. I want to say, Mr. Secretary, that the records of this committee would show that I made the motion to strike out the authority for this advance refunding when the bill was in the Senate committee, and it was carried 8 to 6. The chairman didn't vote. I see that the vote on this side in favor of it was Senator Frear, Senator Long, Senator Anderson, Senator Douglas, Senator Gore, Senator Talmadge, and Senator Williams.

It was stricken from the bill and it was put back in conference only after some long extended conferences with the then Secretary of the Treasury.

Now, the one thing that came into that was a letter from the then Secretary, Mr. Robert Anderson, to the chairman of this committee, Mr. Byrd, dated September 9, 1959, with reference to this advance refunding, and promising to report on the results of this to this committee.

Was that letter ever called to your attention?

Secretary DILLON. It never came to my attention until last week after this hearing had been underway. There was some oversight in the Treasury Department because neither Mr. Roosa nor myself have known about it.

Senator ANDERSON. If this was made by your predecessor, you should have lived up to it.

Secretary DILLON. We would have lived up to it. It was an oversight which we regret.

Senator ANDERSON. I am certain that you would have, Mr. Secretary. I just wanted to call your attention to it because I think maybe some of the misunderstanding about how this works out is because of failure to report frequently to the committee.

Now, it happened in the previous refunding, the firm with which I am connected has some bonds they wanted to exchange. They were just about as these, a point difference. Actually when you come to send your old bonds in, insure them, get your new bonds back, put them on the box, take down the figures that you had for amortization and values of your old bonds and set up a new set of amortization figures it is about worth a point to go through that proceeding, and I didn't regard this as an extremely advantageous offering, although it did give a set investment for many years to come. I only want to say to you that the fact there is only a point difference in these two issues as of today after the period for handling this transaction is over, indicates that you guessed the market pretty well, and I want to commend you on it.

I don't think you can predict interest rates, the rest of us can't. They shift around at most unexpected times. I think the important thing is to be sure that you do guess the market reasonably well in these offerings.

Do you depend on any of your advisory groups such as the advisory for Federal Reserve banks in setting the figure at the interest rate at which these bonds are to be offered?

Secretary DILLON. No, Senator, we do not utilize the advisory groups at all for these advance refundings. We do make use of them when we have regular refundings coming up in the regular course, but we did not ever think it was appropriate to utilize them for an advance refunding because they would get advance knowledge of the fact that it was coming.

Senator ANDERSON. As a matter of fact, Mr. Secretary, when this matter was red hot before this committee the last time, and when—as I say, we had stricken it out in the Senate and then it came back in conference, the then Secretary came to talk to me and said to me that he would be perfectly glad to submit in advance a program they had so that there would be a chance to check and see if it was proper.

I told him, I couldn't let him in my office under those circumstances because he would give me inside information on it.

He then promised he would reveal it to the chairman of the committee if he wanted it. I don't think he would, it would be better not to give it out.

But I do think that to follow out what was promised in that letter to report to the chairman of the committee and let him in turn report to the Congress after each refunding how it came out, although the information is available to the daily press so it ought to be available to the Secretary.

Senator Long asked me if I would put in the record the tables so we may have them in the record.

The CHAIRMAN. The tables referred to have already been inserted in the record.

(The tables referred appear on pp. 12 through 15).

Senator ANDERSON. I thank the Senator from Utah for letting me go ahead. I have to go to a meeting downstairs.

Senator BENNETT. Yes.

The CHAIRMAN. Senator Bennett?

Senator BENNETT. Mr. Chairman, I have no very important questions to ask the Secretary.

I have looked over this list and generally these refundings have been made by adding a point to a point, a little more than a point, nearly a point and one-half to the one in March of 1961, a point and three-eighths.

In this last one only  $5\frac{1}{4}$  billion were taken out of 18 billion offered, isn't my memory right on that?

Secretary DILLON. That is correct.

Senator BENNETT. Would a wider margin have resulted in a greater agreement to roll these over, do you think?

Secretary DILLON. Probably a somewhat wider margin would have resulted in somewhat more market acceptance to the offering. But I think there are many holders of certain types who would not accept any reasonable offering because they prefer to hold the shorter term security rather than the longer one irrespective of differences in yield.

Senator BENNETT. If you had been able to, or if there had been an acceptance, say, of 10 billion instead of  $5\frac{1}{4}$ , this could have postponed the time when you must make another advance refunding?

Secretary DILLON. Another advance refunding or another cash offering in the long-term area because we would have gotten just that much more out in that area.

Senator BENNETT. Have you made any cash offerings, has the Treasury made any cash offerings since the first advance refunding in 1960?

Secretary DILLON. I have in my mind only what we have done ourselves in the last year, and we have made some offerings during the course of refundings.

Last fall we offered a choice of  $3\frac{1}{2}$  bonds of 1974, and in August we did the  $3\frac{1}{2}$  of 1968. Last January we sold for cash, not during the refunding, a 4-percent bond of 1969. It was already outstanding but we offered an additional billion dollars.

Senator BENNETT. The 1968 and 1969 bonds are within the 10-year period. The other is just over, a little bit.

But you have made no offering of 20-, 30-year bonds.

Secretary DILLON. No.

Senator BENNETT. As long as you continue to offer these bonds on an advance refunding basis, do you think the market will be interested in accepting sales without an advance refunding?

Secretary DILLON. Well, as I pointed out the other day, I think you could sell long-term bonds without advance refunding, but only at a higher interest rate. I would think the very minimum interest rate now would be  $4\frac{1}{4}$  percent. It was my own feeling that we could sell under present conditions, not tremendous quantities, but substantial quantities, of long-term bonds, at that rate, but doing so would then have had a very real effect on the overall market and we wouldn't be able to continue because the market rates generally would reflect this, and interest rates generally would rise.

Senator BENNETT. The net income to the buyer of the bonds on this particular turnover is approaching the 4.25 rate.

What is going to happen when you run out of  $2\frac{1}{8}$ s, and you want to make an advance refunding, and you only have got three-quarters of a percent left between  $3\frac{1}{2}$  and  $4\frac{1}{4}$ ?

Secretary DILLON. I don't think that there would be very much in it. One big reason for these long-term advance refundings was the fact that there were before they started some \$28 billion of these  $2\frac{1}{2}$ -percent bonds outstanding with various maturity dates running from 1967 to 1972, which all had been issued during the war. This meant they were mostly owned by long-term investors, and, therefore, there was an opportunity to use this technique to the advantage both of the Government and the holder.

With this last operation, we have completed offering an advance refunding to each one of these issues. The technique that was used was that in 1960, the previous administration had started with 1967, 1968, and 1969 ones, and on our first one we picked up 1970 and 1971, and then in this last one 1972, so everyone who bought a bond originally during the war has now had an equal opportunity to have an exchange of this sort.

Senator BENNETT. So you have no more  $2\frac{1}{8}$ s left?

Secretary DILLON. No, unless you went over the ground again, and we are, at least at this time, loath to do that because that would indicate that someone could hold back in the hope of getting a better offer a little later. So I doubt if you would do it again very soon.

The CHAIRMAN. Mr. Secretary, I have a question I would like to ask at that point.

Suppose that you did offer this \$13 billion which, as I understand it, were not taken up. Would you then increase the interest rate above  $3\frac{1}{2}$  percent on the later refunding?

Secretary DILLON. No, we thought it was best to use bond issues that were already outstanding, which were these  $3\frac{1}{2}$  percents of 1990, and  $3\frac{1}{2}$ 's of 1998 that were in the market, because then you have a very clear measure of the market value of the security at the time.

So you can figure out, as the Senator from New Mexico has, what a fair offering is between the two.

The CHAIRMAN. If, at  $3\frac{1}{2}$  percent, you did not refund but 20 percent—was that about it?

Secretary DILLON. About 20 percent took it. But I don't consider that a failure; the average acceptance throughout all these advance refundings has been about a third.

This was a little less. In this particular issue there were probably more individual and private holders than in any of the preceding ones because two of these issues of 1972 were issues that were originally limited to individuals. Banks could not originally acquire them so they had a very broad distribution.

Some 12,000 individual people took advantage in small amounts of this refunding.

The CHAIRMAN. I understand that, but you actually only succeeded in refunding to the extent of—

Secretary DILLON. Just under 20 percent on the 72s.

The CHAIRMAN. \$5 billion plus out of more than \$18 billion, is that right?

Secretary DILLON. That is right.

In the overall operation about 25 percent.

The CHAIRMAN. Would it be useless to offer it again at 3½ percent? You would have to go up to maybe a 4-percent coupon.

Secretary DILLON. We would not plan to do that; no, Senator.

In the past they have always been offered, for these long-term bonds, a 3½-percent coupon.

The CHAIRMAN. Can these same people still come in and take the 3½-percent bond?

Secretary DILLON. It is entirely closed with one technical exception. We were generous in the case of individuals who were absent from their homes and couldn't get to their safe deposit boxes at a certain time. We accepted from them statements of intent. So that when they got back to their boxes they could unlock them, get the actual security and turn it in. But the time for those statements of intent was only during the 10-day offering period, and that was over about the end of February. Except for a few very small amounts of those that still come in, it is closed.

The CHAIRMAN. It is closed now?

Secretary DILLON. Yes, sir, it was closed about the 1st of March.

The CHAIRMAN. I understood in response to Senator Bennett that you don't expect to use this advanced refunding technique except on the 2½-percent bonds?

Secretary DILLON. For the long-term refundings that is the only thing that it has been useful for and it may be that would be about the only ones that it would be useful for.

The CHAIRMAN. That does not offer reason for very high hope for extending the debt by this method.

Secretary DILLON. As I pointed out, this is only one way. I think we have to work everlastingly at keeping the debt extended in every way possible, and that the better part of the results from this method of advance refundings, the really long-term results may well have been obtained by now.

The CHAIRMAN. I was wondering, in view of the small amount taken whether it is justified as far as costs are concerned. It has been developed that all together these advance refundings have increase interest costs by about \$1 million.

Secretary DILLON. Well, it is our view that we more than save that by the difference in costs after 1972 compared to what we would have had to pay if we had sold those same issues today for cash.

The CHAIRMAN. 1972 is 10 years off and you don't know what the interest rate is going to be.

Secretary DILLON. I am not trying to guess that, Senator. I am just saying that if we try to place a long-term bond for cash now we know what we would have had to pay today which would have been 4¼ percent.

We know what we paid on this one today. We know the total interest costs.

The CHAIRMAN. You do not expect, then, to offer again these 2½-percent bonds that were not taken?

Secretary DILLON. Certainly not in any near future, no.

The CHAIRMAN. And if you did try to refund them under the present conditions you would have to offer, say, 3¾?

Secretary DILLON. No, Senator.

The CHAIRMAN. Or 4 percent?

Secretary DILLON. No, I think if we did we would offer the same thing again in the hope there might be some who would still take it.

The CHAIRMAN. It seems to me you are building up an artificially high interest rate by this method.

From my viewpoint interest is a commodity that goes up and down in accordance with the demand and supply—I beg your pardon, Senator Bennett.

Senator BENNETT. Well, I appreciate the questions you have asked because they clarify the point I was trying to make.

We have come pretty close to the end of the successful use of this device for extending the debt.

Secretary DILLON. For the long-term advance refunding?

Senator BENNETT. Yes.

Secretary DILLON. These junior advance refundings which are very useful to meet the congestion that we face in the 2 or 3 years ahead of us, could still be used. I think it is necessary to use them, because we have some tables here showing the debt due in the succeeding 2 years and it is really tremendous. Anything that can help relieve that congestion would be helpful.

Senator BENNETT. May I go on for just a minute?

Senator WILLIAMS. Yes.

Senator BENNETT. The problem of maintaining the right proportion of our debt in very long term bonds still remains, and while this has been a useful device, you still face the problem, and maybe next time you will have to go into the market to get long-term money.

Secretary DILLON. Yes, that is right.

Senator BENNETT. I just wanted to find out how much more leeway you had. Really the only leeway you have left is the opportunity to reoffer some of the same bonds.

Secretary DILLON. That is about right.

Senator BENNETT. When the market seems to be right.

Secretary DILLON. That is right.

Senator BENNETT. If you turned around to offer the 3½ you would bump your head against the ceiling, and the difference of three-quarters of 1 percent would not be attractive enough perhaps to persuade people to make the change.

Secretary DILLON. It might not.

Senator BENNETT. I am happy to yield to my friend from Delaware.

Senator WILLIAMS. Just one point, Mr. Secretary.

Some of these, certain issues of these 2½s as I understand it, are acceptable by the Treasury Department at par in the payment of estate taxes, are they not?

Secretary DILLON. I think that is correct.

Senator WILLIAMS. Now, were any of those issues involved in this offer for—

Secretary DILLON. Since all of these issues were covered they must have been involved, yes.

Senator WILLIAMS. Yes.

When we speak of the fact that there were 12 billion outstanding which did not accept this offer, to a large extent those 2½s are far more attractive, even at a 4 percent, because to someone at an advanced age who may have the possibility of soon being confronted with an estate tax, even though these bonds are selling today at 88 to 90, they are acceptable at par in payment of estate taxes which

means that by keeping them they can in effect drop their estate taxes 10, 12 percent, isn't that true?

Secretary DILLON. That is correct.

Senator WILLIAMS. So there is nothing unusual about the fact that they would not have accepted that offer of yours to call them in at 3½?

Secretary DILLON. That is correct.

Senator WILLIAMS. So that would eliminate the possibility to a large extent of your ability to refinance in this same manner.

I thank the Senator.

Secretary DILLON. I am informed by Mr. Heffelfinger that the new 3½s that were exchanged for the same issues have the same privilege so there is no effect there.

Senator WILLIAMS. These new 3½s that you issued in exchange have this same privilege?

Secretary DILLON. The ones that were issued in exchange for the 2½s have the same privilege.

Senator WILLIAMS. Then those portions of the investors who take these 3½s have got an additional advantage over and above the 3½s quoted generally on exchange; isn't that correct?

Will they be quoted separately? They are worth a lot more money. It was my understanding that this privilege was extended by law, and I am wondering if this is by Executive order being extended?

Secretary DILLON. No, no. I am told that practically all of our long bonds have the same privilege—all Treasury bonds, the 2½s of 1959, 1962, running on through 1963, 1968. It is in this February 28 daily statement of the Treasury on page 6, the statement of the public debt. And all of the Treasury bonds that are there indicated by a footnote No. 4, have this same privilege and those are all of the long-term bonds that I can see here.

Senator WILLIAMS. I am not speaking of those to which this privilege was given at the time they sold the 2½ percents. But how many of the 3 or 3½ that are outstanding for 25 or 30 years of the most recent issues carry that?

Secretary DILLON. Apparently practically all of them do. They all did when they started the issue.

Senator WILLIAMS. When you say practically all, will you furnish for the committee an exact list of those that do and those that don't and the time that they were offered?

Secretary DILLON. I would be glad to; yes.

(The list referred to follows:)

*Treasury bonds outstanding Feb. 28, 1962*

Description of bond	Original issue date	Maturity date	Outstanding (millions of dollars)
Bonds redeemable at par in payment of Federal estate taxes: <sup>1</sup>			
2¼ percent, 1959-62	June 1, 1945	June 15, 1962	3,964
2¼ percent, 1959-62	Nov. 15, 1945	Dec. 15, 1962	2,271
2½ percent, 1962-67	May 5, 1952	June 15, 1967	1,463
2½ percent, 1963-68	Dec. 1, 1942	Dec. 15, 1968	1,818
2½ percent, 1964-69	Apr. 15, 1943	June 15, 1969	2,636
2½ percent, 1964-69	Sept. 15, 1943	Dec. 15, 1969	2,553
2½ percent, 1965-70	Feb. 1, 1944	Mar. 15, 1970	2,428
2½ percent, 1966-71	Dec. 1, 1944	Mar. 15, 1971	1,417
2½ percent, 1967-72	June 1, 1945	June 15, 1972	1,756
2½ percent, 1967-72	Nov. 15, 1945	Dec. 15, 1972	3,512
4 percent, 1969	Oct. 1, 1957	Oct. 1, 1969	2,638
3¾ percent, 1974	Dec. 2, 1957	Nov. 15, 1974	1,171
4¼ percent, 1975-85	Apr. 5, 1960	May 15, 1985	470
3¼ percent, 1978-83	May 1, 1953	June 15, 1983	1,595
4 percent, 1980	Jan. 23, 1959	Feb. 15, 1980	884
3½ percent, 1980	Oct. 3, 1960	Nov. 15, 1980	1,916
3¼ percent, 1985	June 3, 1958	May 15, 1985	1,132
3½ percent, 1990	Feb. 14, 1958	Feb. 15, 1990	4,016
3 percent, 1995	Feb. 15, 1955	Feb. 15, 1995	2,670
3½ percent, 1998	Oct. 3, 1960	Nov. 15, 1998	3,529
Subtotal			43,736
Bonds not redeemable at par in payment of Federal estate taxes:			
2¼ percent, 1960-65	Dec. 15, 1938	Dec. 15, 1965	1,485
2½ percent, 1963	Dec. 15, 1954	Aug. 15, 1963	4,317
3 percent, 1964	Feb. 14, 1958	Feb. 15, 1964	3,854
2¾ percent, 1965	June 15, 1958	Feb. 15, 1965	6,896
3¼ percent, 1966	Nov. 15, 1960	May 15, 1966	3,598
3 percent, 1966	Feb. 28, 1958	Aug. 15, 1966	1,484
3¾ percent, 1966	Mar. 15, 1961	Nov. 15, 1966	2,438
2½ percent, 1967-72	Oct. 20, 1941	Sept. 15, 1972	2,716
3¾ percent, 1967	Mar. 15, 1961	Mar. 15, 1967	3,604
3¾ percent, 1968	June 23, 1960	May 15, 1968	2,460
Subtotal			32,852
Total			76,588

<sup>1</sup> Redeemable, at par and accrued interest, to date of payment, at any time upon the death of the owner at the option of the duly constituted representative of the deceased owner's estate, provided entire proceeds of redemption are applied to payment of Federal estate taxes due from deceased owner's estate.

Senator WILLIAMS. Was this original privilege of the 2½ extended by Executive determination or by congressional action?

Secretary DILLON. That I could not answer. I would be glad to find out how that was done originally.

(The information referred to is as follows:)

The statute under which the Secretary of the Treasury is authorized to issue bonds provides that they shall be subject to such terms and conditions as he may prescribe. The provision in outstanding bonds for acceptance at par in payment of taxes is one of the terms and conditions prescribed by the Secretary under this authority.

The CHAIRMAN. Senator Douglas.

Senator DOUGLAS. Mr. Secretary, we all have great respect for your ability. It is in part due to the fact you sit here and answer these complicated questions with your experts behind you.

Senator GORE. Way behind.

Senator DOUGLAS. Way behind. And I think we all have a very high appreciation of your desire for real public service.

Many of us agree with you on most of the things you are advocating. Some of us may disagree on specific matters. I have been very dubious about advanced refunding when applied to bonds which will not mature for a considerable period of time. I had always assumed

that the two cases in which advanced refunding would be most desirable would be, first, when you can substitute a lower interest bond for a higher interest bond, and second, when you had bonds which were maturing almost immediately and had to face that question even if you had to pay a higher rate of interest than we are doing.

But I must say when Mr. Anderson started this practice of taking up bonds which were not due for some time and then substituting bonds of longer maturities but at a higher rate of interest, I felt very dubious about it and I can't change my doubts just because a new administration has come into being.

Now, the other day, many of the members of the committee, I thought, criticized your statement and criticized it very properly on the ground that it is difficult to make assumptions about the future rate of interest. But the higher rates of interest in the short-term period were certain. I think there is an additional criticism, if I may say so, of your argument, and I would invite your attention to the last chart which you submitted and to the information about the added interest which this issue would certainly bring and the presumed savings which you think it will effect. Do you have that chart?

Secretary DILLON. I can't at the moment identify which one it is.

Senator DOUGLAS. It is not numbered but it is headed "Five Advance Refundings, Interest Costs and Interest Savings."

Secretary DILLON. Yes.

Senator DOUGLAS. If you will look at the two final columns you will find that the added interest is in the earlier years, and comes to a total of about 1,100 million. The claimed savings, and I am not at all certain that there will be savings, amounted to a little over 1,600 million, and with the exception of 200 million, these savings will come in the later years.

Yet you treat a dollar of savings in the later years as equivalent to a dollar loss in the earlier years. And I think it is just as important to get a dollar later as it is to lose a dollar now.

Now, if this were true there would be no rate of interest, because interest is the payment which you make for dollars in the present over dollars in the future. It is what the economists call a time preference—preference for money in the present as compared to money in the future—and, therefore, I am not at all certain that even on a dollar-for-dollar basis that you would effect the savings of \$514 million.

But certainly you would have to discount the projected savings in the future at the rate of interest, either 2½ percent or 3½ percent, whichever you use, and if this is done, though I haven't had time to work out these computations myself, I doubt if you would have any savings at all. It might be that you would have a deficit.

Secretary DILLON. I think that is quite correct, Senator. We can work out those computations. The savings on the gross basis were rather large and I would think when we finished we would still come out about even, and our main point, I think, was to indicate that it was not a costly procedure and we feel that actually net there is some savings.

Senator DOUGLAS. Excuse me.

Secretary DILLON. Yes; we would be glad to do that.

Senator DOUGLAS. To work out what these would be if the future savings were discounted and cumulatively discounted?

Secretary DILLON. That is right.

Senator DOUGLAS. At the——

Secretary DILLON. We would be glad to do that.

Senator DOUGLAS. At given rates of interest?

Secretary DILLON. We would be glad to do that on the same chart.

But our point is that, if you grant that, you want to extend the debt and sell long-term debt if you can do it in a way that does not affect the market immediately; it seemed to us that it is far better from the point of view of the economy to do it in that fashion without disturbing other long-term interest rates. Therefore, if you come out even, we would still prefer this technique for the reason of its effect on the economy.

(The information requested is as follows:)

The five advance refundings taken together involved the exchange of \$23.2 billion of securities. Of this amount, \$9.6 billion was attributable to "senior" exchanges—intermediate-term bonds exchanged into long-term bonds—these took place in October 1960, September 1961, and March 1962; \$13.6 billion of securities were exchanged in "junior" refundings—issues maturing in 1 to 3 years exchanged into intermediate and longer term issues. This type of refunding occurred in June 1960, March 1961, and March 1962.

On a present value basis<sup>1</sup> the total net interest savings on senior exchanges is \$137 million. The junior refundings because of shorter terms to maturity of both existing issues exchanged and new issues offered show relatively little change from current value figures.

Senator DOUGLAS. I have no more questions, Mr. Chairman.

The CHAIRMAN. Senator Carlson?

Senator CARLSON. Mr. Secretary, you are dealing with interest rates in a way that you hope to be of real value and assistance to our balance of payments. I notice in your statement here you say that the objective—you are speaking previously to this of the long-term interest rate:

The objective was to deter outflows of short-term money to foreign countries stemming from interest rate differentials, outflows which would weaken our balance-of-payments position.

I know that's one of our real problems.

I notice, however, that the U.S. gold stocks fell another \$20 million during the past week, and this is in the morning financial roundup

<sup>1</sup> See the following table:

*Comparison of net interest savings or cost on 5 advance refundings on current value basis and discounted basis*

[Amounts are in millions of dollars]

	Junior advance refundings				Senior advance refundings			
	June 1960	March 1961	March 1962	Total	October 1960	September 1961	March 1962	Total
Current value basis: Net savings or added cost (—) over life of issue offered.....	-80.4	-52.7	-55.0	-188.2	383.8	229.8	115.7	729.3
Discounted basis: Net savings or added cost (—) over life of issue offered <sup>a</sup> .....	-78.3	-56.7	-55.8	-190.8	92.5	38.6	5.9	137.0

<sup>a</sup> The Treasury borrows to pay its obligations at many rates: On 3-, 6-, and 12-month bills; on 1-year certificates as well as on notes and bonds. A convenient measure of what the average Treasury borrowing rate might be at a given time is indicated by averaging market yields on all Government issues. This average of market yields over time, based on June 30, each year, from 1955 through 1961, is 3 percent. Accordingly, 3 percent was used as the rate for discounting to present value.

in the Post. What is our status on the balance of payments at the present time?

Secretary DILLON. Well, actually, from the preliminary figures which are available to us to date for January and February—the figures are always preliminary until some 2 months, at least, have elapsed for any particular period—indications are that we are having the same sort of very definite improvement, which may be seasonal, similar to that we had last year as compared to the preceding fourth quarter. I might say that the best indications that we have is that our overall deficit to date is no larger than the amount of gold that has been taken.

In other words, the amount of gold taken, as was the case in January a year ago, is fully equal to our total deficit, and the large takings are more due to redistribution of dollar assets in various countries abroad, moving from countries that don't hold their assets all in gold to countries that do hold their assets in gold, than to any effect on our balance of payments, as such, during this quarter.

Senator CARLSON. How general is this situation where a foreign corporation borrows money in this country for expenditures in its own country?

That is, I believe a southern company or some company yesterday, I don't have the name—Southern Pipeline—a southern corporation is borrowing money in this country to build in foreign countries.

What will happen if that is approved? Will that be a general policy? Is it to their interest to do that.

Secretary DILLON. Well, we have always felt that we should keep our capital markets open. We have never done what other countries in Europe all do which is to have governmental capital committees, from which you have to get authority before a foreign corporation borrows publicly in their market.

We have been working just in the opposite direction, that is, to open up these European markets far more than they have been opened so they will be able to absorb this sort of thing themselves. We have got general agreement from the members of the OECD that this is a desirable course, in general, but it's taken some time to actually implement it.

We had felt it was undesirable and do feel it is undesirable to move in the opposite direction at this time while we are just at the same time trying to get the European countries to liberalize further.

I might say one thing on foreign sales such as this one: It is not necessarily true, and I don't think it is true in this particular issue, which was \$40 million as I recall, that it is a net \$40 million drain on our balance of payments at this time. Because as I understand it, a substantial amount of these securities were sold to European customers, even though they were denominated in dollars and originally offered in New York.

I think the majority of the issue, may be more than a majority, was placed in that way. So those purchasers had to sell their European currencies for dollars, obtain dollars to buy these securities, so to that extent it would not be a drain on our balance of payments.

No doubt it was a drain but not as big as the full \$40 million.

Senator CARLSON. What is the present amount of money in dollars that these foreign countries could call on us for payment in gold?

Secretary DILLON. Well, the official assets are about \$11 billion.

Senator CARLSON. That they could call on us, and what is our gold reserve as of today roughly?

Secretary DILLON. Our gold reserve is about \$16.7 billion, a little over that.

Senator CARLSON. And require about \$11 billion; is that not right?

Secretary DILLON. Yes; I think our free reserves over and above the statutory requirements are about \$5 billion.

Senator CARLSON. And interest rates in several of the foreign countries are much higher than ours, is that not correct?

What about Great Britain's interest rate?

Secretary DILLON. In Great Britain they are considerably higher. They had a crisis in their foreign exchange last year and they put up their bank rate, which is their equivalent to the Federal Reserve discount rate, to 7 percent, which was designed not only to slow down consumption in their country, but also was designed specifically, I think, to attract some foreign funds, up to a point.

And it served both purposes, so it was reduced in two steps last fall to 6 percent and was reduced just last week, or maybe the week before, but early in March, to 5½ percent. So it is now only half a percent higher than it was before the crisis when it was put up by 2 percentage points.

It is much the highest rate in Europe. Most of the European central banks, I think, have a rate of no more than 3½ percent, a good many of them 3 percent, and a few of them less than that, like Switzerland.

Senator CARLSON. At the time the British interest payments were 7 percent and 6 percent, did it attract substantial amounts of money from the United States?

Secretary DILLON. I think it attracted some. It did not attract as much as the difference would seem to suggest, because most American short-term investors, make such transfers on what is called a covered basis.

In other words, they sold forward sterling for dollars and bought the dollars back again to come to them in 90 days, say, or 6 months, whatever the time period may be, and the cost of covered forward transactions at the time of the 7-percent rate was very high.

It got up one time to as much as 4 percent; 4 percent plus our interest rate of, say, 2½, gives 6½ percent so there was only about a half percentage point advantage in moving to Great Britain at that time.

But right now there is no advantage. The cost of cover is actually now a little more than the difference so on that basis there is a small net advantage for short-term investments in U.S. over British Treasury bills.

Senator CARLSON. In other words, the 5½ percent would be no attraction to the—

Secretary DILLON. Unless someone was willing to do it on an uncovered basis which means they are subject to the full exchange risk.

Senator CARLSON. On that basis is there greater danger for demand for loans of foreign countries such as the Southern Pipeline Co. in view of the fact our interest rates are still low?

Secretary DILLON. I think there are two questions: One is the short-term rate question, which I think is probably in somewhat better perspective and is not so dangerous now as it has been, and the other is a continuing advantage in the long-term areas to the extent either

these foreign governments or a company with high credit, such as this pipeline company, apparently are able to sell their bonds like this. There is a substantial interest advantage in that long-term area in our market as compared to practically all European markets because their capital markets on a long-term basis are not as well developed.

The only place in Europe where you can sell long-term bonds generally cheaper than in the United States is Switzerland and they ration that quite carefully, as to the number of companies that can take advantage of it.

But long-term bonds in Switzerland can be sold cheaper than they can here in the United States.

Senator CARLSON. I take it from your statement you feel we are making some progress in equalizing interest rates in the foreign field and there probably would not be as great a demand as there had been in previous years?

Secretary DILLON. I would hope so. Certainly there was progress made last year by the reduction in bank rates of many of the continental banks.

There is one thing that is a problem in this area which is impossible to be sure of, but which many of the best monetary authorities think may be occurring, and that is that in the 1930's and in the period after the war when the situation in Europe was very unsettled, all the money, European money, that could get out of Europe got out, and about the only place that was safe for that kind of money was the United States, so we had quite an inflow of this sort of money.

In the last 2 or 3 years, with convertibility and with economic growth and with greater stability in Europe, many people feel that there may be sort of a fundamental redistribution or repatriation of these funds, that they are gradually going back home, and that that has been one of the reasons on top of interest rate differentials that have led to outflow of capital, short term and longer term, from the United States.

Senator CARLSON. I think we are making progress in the field of interest. But what about our international trade? It is not only a matter of interest that affects our balance of payments but it is international trade.

Secretary DILLON. Very much so. Our surplus, our commercial surplus, on exports last year was the same as it was the year before. It amounted to about \$3 billion. We want to improve that if we possibly can. We have many programs to try to increase commercial exports.

Senator CARLSON. I was just reading, in this same financial article that I was reading here now, it says this:

The Commerce Department announced—  
and this is yesterday's paper—

announced January exports of civilian goods totaled \$1,591,800,000 and showed a seasonally adjusted drop of 3 percent from December. A day earlier the Department announced that imports had risen 2 percent for the same month.

Now, 3 and 2 makes 5, and would that not make quite—have quite an effect on the balance of payments?

Secretary DILLON. For that month; yes.

Imports and exports both notoriously fluctuate month to month for reasons that are not seasonally determinable. Usually those of us

who try to follow this feel that a better measure is a moving 3-month average. The latest moving 3-month average, including January and going back 3 months, compared to the preceding 3 months' average, shows that exports are staying about level, and imports are increasing at about 2 percent, something like that.

So I think that certainly, if the January experience turned out to be general and continued, it would be discouraging. But we have had such fluctuations during the course of last year. One month it would be bad and the next month it would be very good and if you have a very good month you must not think you are out of the woods, either.

Senator CARLSON. It occurs to me that international trade is probably as important as any feature of this balance-of-payments problem as I see it.

Secretary DILLON. It is the most important element because it is the biggest single one. We have about \$17½ billion of exports that are exported commercially and paid for in dollars and we have had about \$14.5 billion of imports a year in the last 2 years. Undoubtedly this year, because of better business at home, the import figure will go up to \$16 billion or maybe a little higher. We would hope that at the same time our commercial exports might increase, but they will not rise that much.

We don't appear to be out of the woods this year.

Senator CARLSON. In other words, it looks as though you are going to get some additional problems.

Secretary DILLON. So far as the commercial merchandise surplus during the last half of last year is concerned, it ran at a rate of about \$2 billion a year; the first half was at a rate of around \$4 billion; the average for the year was about \$3 billion, and we would expect that it would not get any worse than it was in the last half last year. This would mean about a \$2 billion surplus this year. We hope it will be better.

Senator CARLSON. That is all.

The CHAIRMAN. I think Senator Carlson perhaps has mentioned one of the greatest problems confronting us in a fiscal way.

What is the maximum amount of gold we have had at any one time?

Secretary DILLON. I don't have the exact figure here. I can get it for the record, but I think it was \$23 or \$24 billion.

The CHAIRMAN. \$34 billion?

Secretary DILLON. \$23 or \$24 billion.

The CHAIRMAN. Yes. My recollection is that it was between \$24 and \$25 billion.

Secretary DILLON. It may well have been, \$24 billion.

Senator KERR. My recollection is that it was above \$26 billion at one time.

Secretary DILLON. As much as that?

Someone may have that figure for you shortly.

The CHAIRMAN. What is the amount of gold on hand now?

Secretary DILLON. Just over \$16,700 million.

The CHAIRMAN. How much of that is free gold?

Secretary DILLON. Approximagedly \$5 billion.

The CHAIRMAN. \$11 billion is dedicated to our own currency?

Secretary DILLON. About \$11¼ billion.

The CHAIRMAN. So you actually have had a loss in gold of somewhere at least \$8 billion, haven't you?

Secretary DILLON. Well, we have had a loss from whatever the correct high figure was to \$16 billion.

The CHAIRMAN. Approximately \$8 billion?

Secretary DILLON. It would be a large figure; yes, sir.

The CHAIRMAN. Isn't that a very serious situation?

Secretary DILLON. Well, I think that a certain redistribution of what was an excessive concentration of gold in the United States at the end of the war was in our interest and in the interest of world trade generally.

At present we have some 40 percent of the free world's gold stock in the United States. I would think that was adequate.

But what concerns me and concerns me greatly is the situation we find ourselves in with a balance-of-payments deficit, which means the gold losses that go with it.

If our balance of payments now were stable and we could look forward to no further gold losses, I would think our gold stock is perfectly adequate. But it doesn't look very good when you are facing continual losses.

The Chairman. Under the present custom when we make settlements with the central banks of foreign nations they have the right to ask for gold at the value of \$35 an ounce or ask for dollars?

Secretary DILLON. That is correct.

The CHAIRMAN. Is that correct?

Secretary DILLON. That is correct.

The CHAIRMAN. Isn't that the reason why we have lost this \$8 billion of gold, that they have asked for gold instead of dollars?

Secretary DILLON. To the extent they have asked for gold. They build up—

The CHAIRMAN. Suppose the time ever came that we couldn't give the option because we had exhausted our free gold, what would be the result then?

Secretary DILLON. Well, if we were unable to pay out gold the dollar would lose its value in international commerce.

The CHAIRMAN. That would be one of the greatest blows to the free world that could happen, would it not?

Secretary DILLON. It certainly would.

The CHAIRMAN. I wish to ask what is being done to prevent any further loss of gold; but first, I want to mention that I voted for the bill to reduce the amount that tourists may bring in from \$500 to \$100, but I think that, like bringing back the dependents, is a flyspeck on the wall. I do not know of any plan adopted by either the Eisenhower administration or the Kennedy administration which substantially prevents this flow of gold.

Secretary DILLON. Senator, this whole balance-of-payments problem is a very complex one, and it can only be attacked in very many ways across a very broad front.

I only wish there was some one simple way in which we could do one simple thing and have the whole answer.

The CHAIRMAN. Would a simple way be to stop spending more money abroad than we take in, isn't that the simple way?

Secretary DILLON. Well, that would involve bringing our American troops back home.

The CHAIRMAN. That would involve cutting out some foreign aid and some of the other things we are doing abroad.

Secretary DILLON. The dollar cost of foreign aid last year, was about 1.3 billion.

The CHAIRMAN. It would be more than that now, wouldn't it, because we are giving foreign aid to countries in direct cash instead of furnishing materials that are manufactured in this country?

Secretary DILLON. Well, we have a goal, a policy objective which the President has announced and which we are trying to push, of reducing the dollar outflow to no more than 20 percent of the overall foreign aid figure and that would mean a reduction of the release of actual dollars to a billion or less as against 1.3 billion last year, and the 1.3 billion last year was large because we were paying off on commitments made many years before to purchase goods in other parts of the world.

The CHAIRMAN. Take the present request of the President which I see by the papers is more than  $4\frac{1}{2}$  billion.

How much of that  $4\frac{1}{2}$  billion will be sent out of this country in cash?

Secretary DILLON. Well, I think the exact figure was 4.8 billion, and the policy objective is to send not more than 20 percent which would be \$950 million, \$960 million, something like that.

The CHAIRMAN. And the rest of the 4.8 billion is to be sent in materials and equipment?

Secretary DILLON. That is the policy directive which the President has issued, and which he expects the administrators of the program to carry out.

The CHAIRMAN. Have the export figures been corrected? Of course, you and I have talked about this a number of times. Commerce Department includes food and other things that we have given away.

In other words, I think you told me the Commerce Department figures were  $2\frac{1}{2}$  billion too high.

Isn't that misleading—

Senator KERR.  $2\frac{1}{2}$  billion too high insofar as balance of payments are concerned.

The CHAIRMAN. That is what I mean, and so far as cash income is concerned. They have included in the export figure  $2\frac{1}{2}$  billion more than we have taken in because we gave it away.

Secretary DILLON. Yes. That is correct, Senator. We have, as you say, discussed this. We have been trying for some time to work out with the Commerce Department a way to clarify these figures, and I am glad to say that after many months' effort, they are now going to publish in their regular quarterly balance-of-payments presentations a new table which will appear this month for the first time in the March issue, of the Survey of Current Business, and which will very clearly differentiate between commercial exports and the exports that result from our aid program and which are not paid for in dollars.

The CHAIRMAN. It has taken a long time to do this.

The Finance Committee brought this matter up more than a year ago.

Secretary DILLON. We brought it to the Commissioner's attention at that time, but it was very difficult to work out the details.

The CHAIRMAN. If necessary, I suppose we could pass a law to compel them to tell the truth about it.

Secretary DILLON. I not only brought our own feelings to their attention, but I made very clear your feelings, Mr. Chairman.

The CHAIRMAN. Many newspapers and others are misled by these higher figures in official reports. You advised me that the realistic figure is \$2½ billion less than indicated.

Secretary DILLON. That is right.

The CHAIRMAN. That narrows the figure between the exports and imports.

Secretary DILLON. That is right, that is why I said our surplus has been \$3 billion.

The CHAIRMAN. It is misleading to the public and I am very much surprised that something has not been done about it.

Secretary DILLON. I agree; we have done our best.

The CHAIRMAN. The committee was promised that better reports would be provided, but we got something more confusing than what we had before.

Secretary DILLON. I think this new table will do the trick. It is a table we prepared, in general, first in the Treasury. Commerce Department will publish their original table alongside it. But anyway there will be a table there which does clearly show it.

The CHAIRMAN. Will it be itemized?

Secretary DILLON. Yes, sir.

The CHAIRMAN. You won't count the counterpart money that does not come back to this country?

Secretary DILLON. No, this will show clearly total exports, less the amount that is not paid for.

The CHAIRMAN. It will be on a strict dollar basis, the number of dollars?

Secretary DILLON. That is right.

The CHAIRMAN. It will show what we get back in this country for exports? When is that coming out?

Secretary DILLON. It is coming out in the March issue of the Survey of Current Business which I think is due out sometime in the next week or so.

It always comes out in the latter part of the month or middle of the month.

The CHAIRMAN. That will be for what period?

Secretary DILLON. That will be for the last year. For the last quarter and for the whole of 1961.

The CHAIRMAN. I am very glad you have finally gotten around to it because the public and many others have been misled by the figures published.

Secretary DILLON. There was a great deal of resistance to making any changes in the way the Department of Commerce handles the balance-of-payments figures, and it was very difficult to accomplish changes, but I am glad to say they have been made.

The CHAIRMAN. Why should there be resistance to telling the truth?

Secretary DILLON. Well, the technicians who were in charge of this had their own reasons which were apparently good for them.

The CHAIRMAN. In other words, they don't care whether they mislead the people or not, because they gave out a figure of \$20 billion; wasn't that the figure they gave out?

Secretary DILLON. That was the figure that has come out so far, and I quite agree with you it is a misleading figure.

The CHAIRMAN. I called you up about it on the phone.

Secretary DILLON. That is right.

The CHAIRMAN. And you have been very frank and fair as you always have, let me say, and you told me it was \$2½ billion more than the actual cash that was taken out.

Secretary DILLON. That is right.

The CHAIRMAN. And the same thing occurred a year ago and now we are just getting the correction.

I hope it will be an accurate one.

Senator KERR. May I ask a question?

The CHAIRMAN. Yes.

Senator KERR. These reports are brought out by whom?

Secretary DILLON. Department of Commerce.

Senator KERR. Do you have any control over them?

Secretary DILLON. None whatsoever, except to try to persuade them.

Senator KERR. How long has the practice prevailed which shows as the export figure not only exports for which we receive dollars valid in computing the balance of payments, but also include as exports, without being identified, items which have either been sold, such as agricultural products, much less than the domestic market provides or as the chairman said, food and other items which have been given away.

How long has that been the practice?

Secretary DILLON. As far as I know it has always been the practice. There has been no change in the Department of Commerce figures until right now, and when these types of exports began, they lumped them with other exports. They have always done that.

Senator KERR. I want to say, I want to thank the Secretary of the Treasury for helping this committee get that done because the Senator from Oklahoma has been screaming about it for the last 8 years when the figures were being provided by the Secretary of Commerce, not only during the last 8 years but during the years before that, and probably if it hadn't been for the efforts of this committee and the Treasury Department they would still be doing it.

Secretary DILLON. I think so. I was concerned with it personally quite a while ago, and tried when I was working in the Department of State to get this clarified, but with no success at that time.

The CHAIRMAN. I want to commend the Secretary, too, because he has been completely frank about this matter from the beginning.

An official of the Commerce Department was testifying—I don't recall his name—and he indicated that this was all in cash, in American dollars.

Now, the heading of the publication in regard to it said, "The dollar value," but they have not separated how much is given away or taken in counterpart money or something else and never comes back to this country, and I do hope that it will be a full and complete statement and accurate and I want to thank the Secretary like Senator Kerr has done, for your cooperation and activity in getting it done.

Secretary DILLON. Thank you, Senator.

The CHAIRMAN. I am surprised that it is—it has taken so long. Maybe if you had been Secretary some time ago we would have gotten the facts sooner.

Senator Gore?

Senator GORE. With respect to the subject under discussion for the moment, I would like to ask you, Mr. Secretary, what would be the difference in balance of payments, in the flow of funds, in receipts and disbursements of U.S. dollars, as between this \$2 billion of unilateral transfers which you were discussing with Senators Byrd and Kerr, on the one hand, and the purchase of \$2 billion worth of automobiles, on the other, taking them a hundred miles from shore and letting them drop in the ocean?

Is there any difference?

Secretary DILLON. I don't think there is any. I might say that in these overall balance-of-payments figures, the Commerce overall figure, of course, in the end came out accurately.

The place that was misleading was giving the impression that commercial exports produced a bigger surplus than they actually had.

Senator GORE. Well, to treat unilateral transfers——

Senator KERR. I don't—I would love to understand the Senator's question about putting those automobiles in the ocean.

Senator GORE. Well, I was——

Senator KERR. You are not under obligation to make it so I can understand them because that is a burden that no man should put on you, but if you could I would appreciate it. [Laughter.]

Senator GORE. I would say that, insofar as touching the nerve of comprehension of the senior Senator from Oklahoma, if it were within the capacity of the junior Senator from Tennessee to touch such a nerve in anyone it would be touched in him quicker than in any Senator I know.

The point I was trying to make, with which the Secretary agreed, was that, insofar as balance of payments are concerned, insofar as flow of cash, receipts, and disbursements to the Government, the economic effect of a unilateral transfer of merchandise to a foreign country, from which we expect to receive no goods or benefits in return, is identical with the purchase of \$2 billion worth of oil, automobiles, or any other commodity in the United States and taking that out into the ocean and dropping it on the bottom and forgetting it.

Senator KERR. It doesn't seem to me it would be because if they purchased the \$2 billion worth of automobiles they would have to pay for them.

Senator GORE. Well, they pay for the corn and wheat.

Senator KERR. But they don't. That is the point. If they bought \$2 billion worth of automobiles——

Senator GORE. I am speaking of the case in which the United States does the purchasing of the automobiles.

Senator KERR. If the United States purchased the automobiles in the United States, that would create no outstanding dollar claims in the hands of the foreign central bank that would be a claim against our gold, and as I see it, and I am not trying to start an argument, I am just trying to get a clear picture.

As I see it that would be an entirely different situation than the one that exists when we sell or send \$2 billion worth of agricultural products abroad for which we get soft currency.

Senator GORE. No; we don't get anything.

Senator KERR. We get soft currency for it. Let's say we get nothing for it.

Senator GORE. All right. We get the same amount for it as if it didn't arrive.

Senator KERR. Well, not our agricultural products, Senator.

Senator GORE. Well, you have got soft currencies which can be used only by the recipient country.

Senator KERR. We get soft currency which we can use only in the recipient country. Otherwise, our Congressmen could not go over there and spend so much money. [Laughter.]

Senator BENNETT. Hurray for Lankford. [Laughter.]

Senator KERR. But if somebody here bought \$2 billion worth of automobiles with American dollars in America and took them out and dropped them in the Atlantic that would create no adverse effect on our balance of payments at all.

Senator GORE. Well, I asked the Secretary of the Treasury, insofar as balance of payments are concerned, inflow and outflow of money, cash disbursements and receipts, if unilateral transfers didn't have the same effect as the dropping of \$2 billion worth of automobiles into the ocean, and he said they did.

Senator KERR. I know. But I don't know what a unilateral transfer is.

Senator GORE. Well, if you will look on page——

Senator KERR. I just wanted to make it clear that if I understand the situation, the purchase in this country of anything in this country which does not cause dollars to leave this country and become the property of some foreign central bank in no way touches our balance-of-payments situation.

Does the Senator agree with that?

Senator GORE. That is true with respect to wheat or automobiles or oil.

Senator KERR. Or clothes or medicine or nylon hose for women or shorts for men.

Anything bought in this country does not have any effect nor does our domestic deficit have any effect on our balance of payments.

Senator GORE. The Senator is certainly making one of the points that I was making.

Senator KERR. But what I was trying to do was to relate that to the unilateral transaction, that is all and I just didn't understand him. It isn't necessary that I do.

Senator GORE. Well, I would certainly hope that the Senator would, and I think his comments indicate that he does understand it.

It may be that I have used a term that he has not customarily applied to such an international transaction, but if he will look on page 295 of the Economic Report of the President he will find the term, "Unilateral transfers, net: Total." The figure for 1960 is \$2,489 million and this is treated as a payment item. Economically, it is a net loss. We receive no economic benefits in return, either in goods or services. There is no benefit insofar as balance of payments is concerned.

Secretary DILLON. Not immediately. I think there is this small question of counterpart that can be used to pay administrative expenses and things like that.

Senator GORE. I am speaking of the balance of payments of this country, and it was in that context that I asked the question but I didn't mean to make a major issue of it.

Incidentally, I notice in this same table, Mr. Secretary, that about 20 percent of our payments deficit is treated as unrecorded transactions, errors, and omissions.

Now, as I understand it, this amount, whether it is 19, whether it is 21, 24 or 10 percent, it is merely a balancing item.

Isn't that a rather large item?

Secretary DILLON. This item includes transfers of capital that they cannot account for directly in any one of the various categories that have been reported.

Senator GORE. Yes.

Secretary DILLON. And we have underway a project, which I think will bear fruit, to try to improve our reporting and get better facts and figures on the flow of capital, both short and long term by corporations, by banks, by individuals than we have ever had before, and I think we will be in a better position. It may be, in that way, we may be able to reduce this figure.

Usually what happens is that at the end of each year or immediately after the end we can total up a rough balance; the errors and omissions figure is somewhat larger than it is, maybe, 6 months later when we finally close out the figures, because you then find during the next 6 months that you can identify a certain portion of that and place it up in other identifiable categories. But for the last few years and pretty regularly over the last 10 years there has been an errors and omissions figure running in the neighborhood of \$500, \$600 million either in our favor or against us, one way or the other, recently against us, in our favor before.

Senator GORE. It is true, then, that this is a balancing item?

Secretary DILLON. That is right.

Senator GORE. On which the Government does not have information and it is thrown, in whatever amount is necessary to make the columns balance. That is the errors and omissions figure?

Secretary DILLON. I think in Great Britain they call it a balancing item for that purpose. They have a similar thing in England.

Senator GORE. About 3 years ago, I believe it was, when I initiated the fight which I hope will later this year become successful, of eliminating the preferential tax treatment of income earned abroad, this committee supported, and Congress passed, a bill to require more reporting of oversea activities so that the Government would be able to have more accurate reports, and I congratulate you upon your pushing of this program.

I hope that we can have more correct and more complete reporting.

I wonder if these corrected and improved tables about which you spoke, will show as a separate item such details as exports of machinery to start a new factory abroad when the machinery is not paid for or when the company shipping the machinery merely holds stock in a new foreign subsidiary in lieu of a receipt of dollars?

Do you know whether that will be shown?

Secretary DILLON. That would not be shown on the overall tables that we have been concerned with. I don't know whether the Department of Commerce has figures of that type or not actually.

Senator GORE. Mr. Chairman, to return to the principal subject under study today, the Secretary of the Treasury did me the honor and courtesy of a visit almost a year ago, and we discussed this subject of advance refunding. In the subsequent few days there was an

exchange of letters between us which I would like to have inserted in the record.

(The correspondence referred to follows:)

U.S. SENATE,  
COMMITTEE ON FOREIGN RELATIONS,  
March 13, 1961.

HON. DOUGLAS DILLON,  
*Secretary of the Treasury,*  
*Washington, D.C.*

DEAR MR. SECRETARY: The advance refunding formula which we discussed recently and which is explained in a pamphlet, "Debt Management and Advance Refunding," prepared by the Treasury Department in September 1960, appears to be one logical way of determining yield in an advance refunding operation. I find no fault with this formula. In the example given, the yield is either 4.16 percent or 4 percent, depending on the effect of compounding which might be considered. In either case, this yield is below the statutory 4.25 percent interest rate ceiling.

As you know, there has been some discussion to the effect that not the yield but the coupon rate must be below the statutory ceiling. In this connection, I would like to cite the statement made by Senator Harry F. Byrd on the floor of the Senate on September 12, 1959, when the legislation allowing a tax-free exchange was under consideration. Senator Byrd said that "the use of the tax-free exchange provision in connection with advance refunding will be limited to securities with yields of not in excess of 4½ percent \* \* \*." In my view, also, the yield on the new security must not exceed 4.25 percent, the coupon rate, of course, being somewhat lower.

I have also reviewed the entire matter in the light of current conditions, and I must say that I seriously question the advisability of employing advance refunding as a debt management technique at this time.

In my view, there are two conditions which warrant advance refunding. If the long-range outlook for long-term interest rates is upward, advance refunding might prove to be a method of saving on interest costs over a period of years; or, if a disproportionately large amount of long-term debt is scheduled to mature at one time, it might be well to refund a part of those securities in advance. It does not seem to me that either condition prevails at this time.

I realize that several arguments can be advanced in favor of using this technique. There is some validity in some of these arguments. At the present time, however, I feel that our efforts should be directed toward driving down long-term rates in all fields of investment and, if such a move is successful, it is not likely that there will be any great amount of switching from Government securities to mortgages or other types of bonds.

I think there are two basic problems which must be faced and for which a solution must be found. First, and perhaps most important, is the psychological effect of the expectation of continued rate increases. This has been an almost insurmountable obstacle during the past 8 years since it was obvious that a determined effort was being made to raise long-term rates. If, however, an equally determined effort is made to reduce these rates, the public will soon cease to expect continued rate increases and will be willing to purchase and hold long-term bonds. I think the record of sales and cash-ins of savings bonds during the last 2 months may well be something of a weather vane in this regard.

The other basic problem which must be overcome is faulty marketing technique. Our "pet dealer" marketing system works fairly well for speculators and professionals and serves the short-term market with a reasonable degree of satisfaction. However, I do not believe this type of market serves the true long-term investor. I feel that a broader market needs to be made and that securities of proper types need to be made more readily available for sale to the general public, both individuals and corporations of all sizes and types.

I do indeed appreciate having had the opportunity of discussing this matter with you.

Sincerely,

ALBERT GORE.

THE SECRETARY OF THE TREASURY,  
*Washington, March 23, 1961.*

Hon. ALBERT GORE,  
*U.S. Senate,  
Washington, D.C.*

DEAR SENATOR GORE: As Mr. Lynch has no doubt mentioned to you, following Mr. Roosa's telephone call to your office, your letter of the 13th on advance refunding arrived in the Treasury just as we were announcing our most recent offering. I wanted you to know right away that we had, in working out the terms of this particular offering, had in mind the criticisms which you indicated to me during our earlier conversation. I hope you will agree that this effort to extend by an additional 3 to 5 years, the maturity of issues coming due within the next 2½ years, will be constructive, without encountering the other objections which you state so effectively in your letter.

On the two basic problems which you mention, I think we are also making some progress. We are doing all we can, in our own operations as well as through our other contacts, to develop different expectations with respect to the path of interest rates ahead. It is important to remove the psychological effects of any general view that the only prospect for the future is continued rate increases. On marketing techniques, I think there is an important difference to be noted between the facilities for assuring continuous markets for outstanding securities, as holders want to try to sell or to buy, and the facilities for distributing new issues. With respect to the trading market, I am most hopeful that the one glaring shortcoming, the lack of public information, will be largely removed by a new program which we plan to announce within the next 2 weeks (a copy of the latest material on this is enclosed for your confidential information—pending final action on publication). As to the sale of Treasury securities on original offer, we are already in touch with a broad cross section of potential investors, but recognize the need to do more, and will as rapidly as we can.

My associates and I appreciate very much your thoughtful consideration of these matters and look forward to discussing them further with you, as we move ahead.

Sincerely yours,

DOUGLAS DILLON.

The CHAIRMAN. Without objection.

Senator GORE. Upon that occasion, Mr. Secretary, you and I had some disagreements and also some areas of agreement. One of our points of agreement which you will recall was the danger posed to our international balance-of-payments situation by continuing preferential treatment of income earned abroad. You have since been successful in obtaining some mildly helpful provisions in the House bill, and I understand you will be prepared to support your recommendation in detail when you come before the committee.

Secretary DILLON. That is correct, sir.

Senator GORE. On the tax bill.

One other area which we discussed that day, but upon which studies had not yet been completed, was the tax treatment of certain options known as restricted stock options.

This committee, at my request, held a hearing last year on the subject of restricted stock options. One of your Assistant Secretaries testified and said that the studies had not been completed and, therefore, the Treasury was not in position at that time to make its recommendation, but expected to be this year.

As I understand it, those studies have been completed or are nearing completion and you will be prepared to state the Treasury position on that subject when you come up for the hearings on the tax reform bill.

Secretary DILLON. That is correct, yes.

Senator GORE. One other subject with respect to the tax bill. I had a letter from you this morning with respect to the studies which have been made on percentage depletion allowances.

Will those studies be completed in time for the hearing later this month?

Secretary DILLON. I doubt that. These studies are being undertaken in connection with our overall tax reform bill which we have intended to send and which the President has said he would send up later this session, probably in the summer, some time after this particular bill now before the Congress is completed. It was our intention that we would cover all other matters there that were not included in the particular bill that we suggested last year.

We would have been prepared by that time to make our recommendations on, for instance, the stock options that you mentioned. But in view of your interest in the hearings last year we expedited that so we will be prepared to talk on that.

But I don't think that on any of the many other items which are being studied, we would be prepared to state our position.

Senator GORE. I was pleased to learn that the Treasury had reopened these studies on percentage depletion and I am pleased now to hear that you will later this year present the administration's recommendation on this item. I am, of course, sorry that it will not be ready for treatment in the bill this year, but I am grateful for the expedition of the study on restricted stock options and for the fact that you will be ready with a recommendation on that subject this year.

I was very interested yesterday, Mr. Secretary, to listen to Senator Kerr's questions and your response.

Senator Kerr seemed to me, when he had concluded his questions, to have led you to the position which former Secretary of the Treasury George Humphrey described, in referring to himself as Secretary of the Treasury, as being as helpless as a merchant trying to sell fleece-lined underwear in the summertime.

Senator KERR. Woolen underwear in the summer time.

Senator GORE. I asked my assistant about the terminology. He said he didn't know, but it was some kind of long drawers.

Senator KERR. It was underwear.

Senator GORE. And, to my consternation, after he had left you in this predicament, you seemed to be comfortable in both the condition and the climate.

Secretary DILLON. Well, if you wish me to comment on that, there was one—

Senator GORE. You mean the nature of the garment or the condition?

Secretary DILLON. My condition. [Laughter.]

There was one subject that was not raised in that connection, and that was the type of working relationship that we have had in this past year with the Federal Reserve. Granting that the Federal Reserve has all the powers that the Senator from Oklahoma mentioned, we have been able to develop and maintain a position of understanding with the Federal Reserve and cooperation during the past year in our joint efforts in the balance-of-payments field, and debt management field, and the general monetary field. I think that the actions of the Fed-

eral Reserve in maintaining a much greater degree of credit ease than was the case in any of the preceding recoveries was in accordance with our desires. So we had not chafed under this situation that was mentioned by the Senator from Oklahoma.

I think the fact that long-term money rates generally are, if anything, lower today, after we have proceeded through a year of recovery, than they were a year ago is certainly unusual in recent experience and for that reason we have been happy.

Senator GORE. I appreciate this further elucidation of your position. I certainly do not agree that the Federal Reserve Board is completely independent of the President of the United States; that it can be, or that it ought to be. You have just illustrated the fact that the Board has been voluntarily responsive to the leadership of President Kennedy and yourself.

What disturbed me on Wednesday was your apparent willingness to leave things on that basis. Your further elucidation this morning, as I have said, is certainly welcome.

Another thing that concerned me very much, in response to the questions put by Senator Williams, which answers were certainly inherent in your response to Senator Kerr, was that you foresee no lowering of interest rates for many years. Your refunding operations seem to be based upon the idea that they may go up. In fact, this whole assumption on which we spent so much time, which I think is unworthy of your time or our time, is that interest rates will remain as they are, caused you to suggest that the Government might actually be saving money.

Secretary DILLON. Actually this is a difficult problem. If I am forced to answer a question as to what my own personal views are as to what will happen, I will be glad to do that. But certainly the Treasury policy is not based on any assumptions or looking ahead as to what interest rates are going to be and I don't think it can be.

Our reasons for this particular operation are that, granted that it is desirable, as we thought it was, to place some debt out in the very long-term area today—not 10 years from now, but today—it is our feeling that we can do it at least as cheaply and probably more cheaply through the advance refunding technique. Also, we do have the great advantage of not upsetting current money markets and driving interest rates up.

So we feel it is much better to do it this way rather than to sell substantial quantities, over a billion dollars, of long-term debt in the market, which would certainly have a different effect on interest rates than the way we have operated.

But I think the difficulty is that the individual is asked to make his choice. He may have, in his own mind, to decide what the results are going to be 10 years from now when he makes his choice. But we, in offering him this, we don't make assumptions. We are just looking at the difference between selling the bond for cash—it is a 30-year bond, or 36-year bond—and doing it this other way, today.

Senator GORE. Well, as I said, I don't want to spend much time on this, which seems to me to be a really irrelevant assumption. You say on the one hand, Mr. Secretary, you merely make such an assumption; on the other hand, you presented testimony that you were saving the taxpayers money—some \$500 or \$600 million.

Secretary DILLON. No, no; the assumption is just on what the sum would be in selling a long-term 4½-percent bond today or doing what we also did today.

Senator GORE. Maybe I should say hypothesis instead of assumption.

Secretary DILLON. Both things are done today; they have no connection with what happens in 10 years.

Senator GORE. Really, I don't care to spend any more time on that; I don't think it is worth your time or mine.

Secretary DILLON. Thank you, Senator.

Senator GORE. Would you call a 10-year bond a long-term bond or a short-term bond?

Secretary DILLON. Generally speaking, in the market, it is on the dividing line, just about. Anything over 10 years would be long term; in the area between 4 or 5 and 10 to 12 would be called intermediate.

Senator GORE. Well, I really couldn't understand, and don't yet understand, why you would refund a bond that still has 10 years to run to maturity. Some of your refunding has not even been up to 10 years, and yet, in other cases, you have refunded bonds that have yet 10 years to maturity.

Secretary DILLON. Well, the only reason, Senator, is that we felt it was advisable. This is something which might be debatable, but we do feel it is advisable—and I think the general financial consensus is that it is—to have an appropriate amount of our debt placed out in the very long term area. And because of the problem of Treasury management of this very big debt we feel we have to take very possible opportunity to place appropriate amounts out there without disturbing general interest rates.

We felt that the time to do some of that was now, and the alternatives we were faced with were either selling it for cash, which would affect interest rates generally, or doing it in a way which would not affect other interest rates in the market through the use of this advance refunding technique. We can do it that way without any increase in cost; indeed, we think it has some savings. Therefore, we chose this method.

But we would not have refunded just for the sake of refunding if we didn't think it was good to have something out in that area. Really the choice was between this and a cash sale and we didn't want to do a cash sale.

Senator GORE. As Senator Byrd pointed out right in the beginning of these hearings, what you are really doing is freezing into the interest rate structure of the country interest rates at the highest level they have reached in many years. Now, I would like to inquire about the amount of marketable Government bonds.

Secretary DILLON. There are about \$197 billion. But I would also like in response to that question to say again that if we sold a long-term bond for cash today, it would have to be with a 4½-percent coupon, and as it is we now have outstanding in our longest debt 3½ percent, three-quarters of 1 percent less.

Senator GORE. Well, as a matter of fact, isn't the total of marketable bonds about \$76 billion?

Secretary DILLON. Above 100, nearly 200.

Senator GORE. That is the total bonded indebtedness.

Secretary DILLON. You mean just what we call bonds alone?

Senator GORE. Yes.

Secretary DILLON. Yes.

Senator GORE. And of that \$76 billion, isn't about \$10 billion worth held by Government trust funds?

Secretary DILLON. Very substantial amounts are held by Government trust funds.

Senator GORE. Well, your assistants will tell you. It is about \$10 billion, isn't it?

Secretary DILLON. He has found the figure, \$10 billion.

Senator GORE. All right.

Secretary DILLON. You are right, Senator.

Senator GORE. All right.

Then that leaves \$65 billion of marketable bonds, in the hands of the public. I believe you testified the day before yesterday that the total outstanding debt in our country was a trillion dollars.

Secretary DILLON. About a trillion dollars is the total public and private debt of all kinds; yes.

Senator GORE. So we have the picture here, with which you seemed to be agreeing on Wednesday, that this \$65 billion, which is only about 6½ percent of the total public and private debt of the country, is really unmanageable. You were really left as a merchant trying to sell woolen underwear in the summertime.

I just don't agree with that at all. I think this is a question of public debt management, a question of monetary policy; and what disturbed me so much was to see you apparently comfortably accepting the highest rate we have had in many years, and projecting 30 years into the future an interest rate structure on that basis. I am not trying to be unpleasant with you, I am just saying we have a basic disagreement on the philosophy of public debt management and monetary policy. I simply do not subscribe to those views, and I hope I can say so without being unpleasant so far as you are concerned.

Secretary DILLON. Very much so. I would just like to point out, though, so far as our debt management responsibilities go, that we don't have only to manage the so-called Treasury bonds, which are issues which were originally sold for over 5 years. Much of that \$76 billion is now very short term. But we have to manage the whole marketable debt which is as of February 28, \$197.5 billion.

Senator GORE. Well, even if you take that total, it is still only a small percentage of the total debt in our country, and yet the vested financial interests of our country manage to use this \$65 billion as the bellwether. I must say that under former Secretary Humphrey, and his assistant, Mr. Burgess, the Government bond rate was used deliberately, purposefully and admittedly to push up the whole interest rate structure.

Mr. Anderson continued those policies, and now, much to my disappointment and regret, in a Democratic administration the same policies are continued and projected for 30 years.

Secretary DILLON. I would like to say one thing there. I do think it is important to say there is a very real difference between the impact of long-term Government bonds on the whole economy and the interest rate structure, and the impact of short-term Government bonds on the rate structure.

Short-term Governments, not just bonds, but certificates, bills, all short-term Government securities, make up the great bulk of the short-term market, and whatever the Government rate is, is the market rate.

When you come to longer term rates, the situation is quite different. I think what happened last year shows that. While the interest rate on long-term Government bonds in the last 12 months has increased on a market yield basis by about a quarter of 1 percent—from about 3.80 to a little over 4 percent—at the same time, the interest rate on other outstanding long-term debt has gone down. Municipal bonds are now selling at the lowest interest level in the last 3 years; corporate bond rates are as low as they have been back 2 or 3 years; mortgage rates have gone down by about a quarter of 1 percent.

So I think that indicates the fact that these things could go in opposite directions. But if the long-term rate on Governments is pushed aggressively by selling for cash large amounts out in the long-term area, this would disturb the relationships.

I quite agree that the Treasury has it in its power, if it wanted to, to offer \$5 billion of 1990 bonds, and we would change the whole interest rate structure of the country. But we have not done that, and we, under the present circumstances of our recovery, certainly don't intend to go into that sort of operation.

Senator GORE. Well, you have just confirmed, it seems to me, Mr. Secretary, the premise I had stated, that this \$65 billion, this 6 or 7 percent of the Nation's debt structure is used as the bellwether to affect interest rates. It is now being used to push rates upward, but it could be used to bring the interest rate structure down.

Secretary DILLON. Certainly the Federal debt could be but that is not just the \$67 billion, because we can take all——

Senator GORE. That is the marketable bonds in the hands of the public?

Secretary DILLON. That is what is out now. But if we wanted to have an effect on the long-term interest rates we would have to put out considerably more and increase the amount.

Senator GORE. Why don't you try to have a downward effect on the long-term interest rate? Why don't you use this power that is vested in you?

Secretary DILLON. We don't have any power that is vested in the Federal Government to reduce arbitrarily the long-term interest rates. We couldn't call these bonds that are outstanding. We do feel that it is good to keep some long-term debt out and certainly, the only way we could influence it is by selling a great deal more of long-term debt than the market wishes to have which, of course, cause interests rates to go up and that certainly is directly contrary to everything we believe in, in all our policies. That is why we didn't push it.

Senator GORE. Mr. Secretary, this is the 10th year now that I have heard the desire to lengthen the debt used as an excuse to increase interest rates.

I certainly think that the national debt structure should be managed as to maturity, but frankly I can't see any virtue that a 30-year bond has over a 25-year bond or that a 20-year bond would have over a 50-year bond. I have never quite understood just how you people who endorse this philosophy and hold it, and hold it sincerely—anyone can be sincerely right or sincerely wrong—attach such great value to a 30-year bond. Why don't you make it 33 or 40?

Secretary DILLON. I think the only reason that we have used these issues of 1990 and 1998 recently are that they happen to be outstanding and they are in the market and we felt it was easier and better to use something of which the value could be measured rather than creating something new. But when you get into the basic economic argument as to whether the Federal debt should have its longest issue 30 years out or 20 years out or 25 or 35, that I quite agree is a difficult and complex subject and is not subject to exact proof one way or the other and economists could differ on that.

Senator GORE. I agree. You are in the position of refunding a 10-year bond, that is, a bond that has 10 years yet to maturity at a greatly added burden to the taxpayer, for a 30-year bond which you say may or may not have any particular virtue over a 20-year bond.

Secretary DILLON. We think it does because it is longer, it puts the debt that much further out. But I admit that is a debatable matter, and one, I suppose, could get economists to argue both sides of that question at quite some length. All I have said is if you once grant that there is virtue in a 30-year bond, then we think the advance refunding technique is the cheapest and the best way to do it. It also has the least effect on the market.

If you question the need for a 30-year bond, then we have, I think, a more substantive question and one that economists may differ on. But it is our feeling, certainly, that it is advisable to have some long bonds and have more of them than we have. We think this is the general consensus in the financial community of the country; I am sure it is. Therefore, the confidence which the country has in the Treasury and its debt management is enhanced in financial circles by the fact we have done what we could do to extend the debt this way.

Senator GORE. In response to a question from Senator Byrd you affirmed that if a holder of \$100 million in 2½-percent bonds, with a 10-year maturity, should receive in exchange therefor 3½ percent bonds of whatever maturity, whether it be 20 or 30 years, that during the 10 years in which the bond originally held at 2½-percent interest had to run, the holder would receive a million dollars a year interest payment to which he would not now be entitled or to which he would not be entitled except for the refunding.

Do I correctly state it?

Secretary DILLON. That is correct.

Senator GORE. Now, in further response to Senator Byrd, you said that this would be true if he were an original purchaser. The total profit to him would accrue if he were the original purchaser. He may have bought his bonds on the market at a higher or lower price. I believe you stated that you didn't know how many of these were original purchasers.

Secretary DILLON. I see your question.

Certainly anyone who owned the bonds and made the exchange, whether he was an original purchaser or had purchased them later in the market, would get the same result.

Senator GORE. In order to obtain this information, Mr. Chairman, I, last week, wrote to Mr. Martin, Chairman of the Federal Reserve Board, and to the Secretary of the Treasury as to the identity of these beneficiaries, the persons or institutions with whom this refunding contract had been consummated.

The Chairman of the Federal Reserve Board wrote back, very promptly, that the Federal Reserve System did not have such information, that it served as the agent of the Treasury, and quoting from Mr. Martin's reply, "since I understand that you have also written the Treasury for this information"—I was glad to find there was that much cooperation, that the Federal Reserve knew I had on the same day dispatched a letter to the Secretary of the Treasury—Mr. Martin referred me to the Secretary of the Treasury.

Subsequently, one of Secretary Dillon's assistants came to my office and said that the Treasury Department likewise did not have such information, but that they could get it. I believe Mr. Knight said it would cost approximately \$50,000 to accumulate this information, and he was kind enough to say, Mr. Chairman, that if I wanted it, they would get it.

I didn't feel inclined to insist because of the expense involved, but I do suggest for your consideration, Mr. Chairman, that, at least for this last refunding, it would be helpful not only to this committee but to the Treasury Department to know whether these are speculators, whether they are original purchasers, or just who these people are who have received this great benefit. The benefit may be great or it may be small. It would depend to some extent upon the type of holder, and I suggest that it might be helpful to the committee and to the Treasury to have this data collected for at least one of these five refundings.

THE CHAIRMAN. Have you got that information, Mr. Secretary?

SECRETARY DILLON. We don't have it; no. As the Senator said, we would have to get it. We do, I think, have adequate information in overall terms. I would quite agree that it would be new information, and might be useful to us. We do have one problem with that as far as publication of data would be concerned. That is that the Treasury has always operated under a regulation whereby we do not make available for publication or for public use the names and the amounts that specified individuals hold. I would hope we would not have to do that in this circumstance but certainly if we could get the overall figures and break them down in any way by classes or types, I think that would be useful.

SENATOR GORE. Well, Mr. Chairman, I agree with the Secretary—at least temporarily, I will agree—that for our purposes confidential information to this committee would be sufficient.

However, I wouldn't be satisfied with just a classification. I would like the committee to have and for the Treasury to have an actual identification of the people who have received this refunding, with whom the refunding contracts have been consummated, but I would request this detailed information, because of the expense and work involved, only for the last refunding.

SECRETARY DILLON. I don't know, Senator, how we figured out that cost. It might be very substantially higher if we tried to find out everybody. There were all in all in the last refunding a total of 32,693 individual subscribers, and I think that to get detailed information from that many people might cost considerably more than \$50,000.

SENATOR GORE. Well, I don't want to impose any great burden or expense. After all, 32,000 transactions is not an enormous volume. So far as I am concerned, you can cut it off at a hundred thousand

dollars, and get this information for those people exchanging bonds totaling a hundred thousand dollars or more of face value. A hundred thousand, two hundred thousand, five hundred thousand, a million, et cetera.

Secretary DILLON. I think that would be very helpful, because I think very many are under \$50,000.

Senator GORE. That would be agreeable to me, Mr. Chairman. I am only trying to get helpful information.

Senator KERR. Would the Senator yield?

Senator GORE. Yes.

Senator KERR. Why would you want it for only the last refunding?

Senator GORE. Because of the expense and work involved. That is the only reason. I thought it would be easier for one than for all five refundings.

Senator KERR. How about getting that on the first refunding?

Senator GORE. I would like to have it for all five refundings. I was merely trying to make my request as reasonable and economic as possible. I will leave it to the chairman of the committee. I would not want to substitute the first for the fifth, because that is a very short one, and a comparatively small one. The last one is the big one.

Senator KERR. What were the sizes of the ones that you had?

How many have there been, five?

Secretary DILLON. There have been a total of five, Senator.

Senator KERR. Give us the dates and the amounts.

Secretary DILLON. The first one was in July of 1960, and the offering was for a short term advance refunding of \$11 billion, of which \$4.2 billion was taken. That was the amount exchanged.

The second was in October 1960, and the total offered—this was a long term exchange—the total offered was \$12.5 billion roughly, and roughly \$4 billion exchanged.

In March of 1961, there was another short term operation, 19.5 billion were offered, and roughly 6 billion were exchanged.

Senator KERR. Which one was that?

Secretary DILLON. That was March 1961.

In September 1961, which was the smallest one, a long one again, a total of \$7.6 billion was offered, and of that a rather high percentage, about  $3\frac{3}{4}$  billion, were taken.

In the last issue, which for the first time combined the two quite different operations, the short term kind of refunding and the longer term, a total for both transactions of \$18 $\frac{3}{4}$  billion was offered and \$5.2 billion accepted.

Senator KERR. And of the \$5.2 billion, which were in exchange for 72s and which were in exchange for short terms, do you have that?

Secretary DILLON. Yes; the exact figure in exchange for the 72s was about \$1.9 billion, something like that—a billion eight hundred and thirty-two million.

Senator KERR. That is the one with reference to which the information is desired, Senator?

Senator GORE. I suggested the last one. The first one, Senator Kerr, has pretty well come full circle. It was refunded in June of 1960, and involved 2 $\frac{1}{2}$ -percent bonds due in November 1961. So this wouldn't be of particular value to us. I think the larger one would be more beneficial to the Treasury and to the committee.

Secretary DILLON. Could I ask a question, Senator, so I understand that clearly?

Did I understand that you are primarily interested in the long-term segment of 2½-percent bonds of 72, the longer term ones, or do you wish the other one, too?

Senator GORE. What I would like is a breakdown on the most recent refunding.

Secretary DILLON. Yes; including the short term?

Senator GORE. Yes.

Secretary DILLON. Fine.

Senator GORE. I think, as you indicated, it probably would be useful to you.

Secretary DILLON. Yes, sir.

Senator GORE. It should be. The Treasury ought to know these things and I am sure you would like to know.

Secretary DILLON. Well, we will do that for all categories that you suggested of a hundred thousand dollars and up.

(The following was later received for the record:)

The information referred to is being gathered by the Treasury from its own records and those of the Federal Reserve banks. When the material is compiled the Department will inform the chairman of the committee.

Senator GORE. Incidentally, twice you have referred to the lowering of interest rates for municipal bonds, and I thought perhaps the inference might be that the Treasury claims major credit for that.

Do you think the Treasury is entitled to credit for that or is it due to the fact that commercial banks have started buying municipal bonds in a big way?

Secretary DILLON. I think that latter is a most important element in what has happened.

Senator GORE. So do I.

More important than what the Treasury has done.

Secretary DILLON. It may be. But certainly the general climate which has led corporate bonds to sell at the same price they were a year ago, the lowest since 1959, and which reduced all mortgage rates through the year, must have had some effect in this area, too.

Senator GORE. Well, I don't wish to take any credit from you, if you are entitled to any, for lowering interest rates. I wish you were entitled to more, but I didn't want that to stand.

I think that the movement of the commercial banks into this field has been the major thing, and I would like to read from the New York Times of March 11, 1962:

The other breather was a decision of commercial banks in December to extend the maturity limit of their holdings of State and municipal bonds from 5 to 20 years. The banks became big purchasers of such bonds of extended maturity in early December and kept up their buying all winter. A consequence was to give the municipal bonds maturing in up to 20 years their sharpest price rise in years.

Do you find any disagreement with that?

Secretary DILLON. Well, I think that, in general, is one of the things that very strongly affected the market in municipal bonds. I think it is somewhat oversimplified saying that all commercial banks suddenly decided on one day just exactly what they were going to do.

But I certainly think it is true there has been a substantial volume of additional commercial bank purchase of municipal bonds in recent

months since December, no doubt of that. And that has had a real effect on the market.

Senator GORE. Well, it is now approximately 12 o'clock and I will ask a question on only one more point and then desist.

When you and I conferred about refunding a year ago, we discussed it on the basis of the manner of calculating yield which is contained in the pamphlet of the Treasury entitled "Debt Management and Advance Refunding."

Now, based upon that publication, in preparation for this hearing, my staff did some calculation of yield, and called a member of the technical staff of your Department, and your own Department calculated a yield of 4.38 percent which, it seemed to me, violates, as one member said yesterday, I believe Senator Long, the spirit of the law if not the actual letter, of the 4.25 percent interest rate ceiling.

But you discussed that and I just wanted to point out to you that your own technical staff gave us a yield of 4.38.

Secretary DILLON. That is all listed in this table in the back of the statement.

Senator GORE. Thank you, Mr. Chairman.

The CHAIRMAN. Senator Fulbright.

Senator FULBRIGHT. Mr. Chairman, I think it is a little late for me, I don't wish to delay the committee, but the line of questioning that was proceeding when I first came in gave rise to one or two questions which are very short.

I would like to ask the Secretary about this balance of payments.

I noticed in the paper a rather large sale of \$40 million of bonds to build a pipeline in France, I think, earning 5½ percent and I believe 25 years.

Why is this allowed and why shouldn't these sales have the approval of the Treasury?

Secretary DILLON. We had a brief discussion on this earlier, and I think the point is this, Senator.

The European countries have what they call capital committees or something of that nature, whose permission is required before a foreign borrowing is permitted in their country. This is the general situation in Europe.

We are working hard to try to free up European controls on capital, so that their capital will be freer to come to the United States, to be invested here, so it will be freer to go anywhere.

We have made some progress. We obtained a general agreement in the OECD that this is a proper objective, and now there are attempts to move in that direction, and some countries—I happen to know of a case in Italy—have relaxed some of their regulations recently.

We felt that it was inconsistent for us to be moving in the opposite direction.

Also it would pose some questions regarding our different position from other countries as the world banker if we would to some extent start to control the flow of capital which we have prided ourselves on not having to do.

For those reasons we have not done it and do not feel that it is necessary or advisable at this time.

I also pointed out in the case of this \$40 million issue—and I think it is true in many of these foreign issues that have been floated on our market that the whole issue is generally not sold here.

The general practice is that a substantial part, usually a majority, and I think it is well over a majority in the case of this particular \$40 million issue, is actually bought by Europeans, and in so doing they must put up their own European funds. To that extent there is an offset to the \$40 million drain on our balance of payments.

So while it is a drain, it is not as large a drain as would otherwise be the case.

Senator FULBRIGHT. Do you have any figures, say, for the last year or longer, as to how much of our deficit is accounted for by this kind of transaction, and including such things as the purchase of Ford stock last year, how much that amounts to, how much of an impact that has had on the market?

Senator KERR. Purchase of what?

Senator FULBRIGHT. When the Ford Co. bought all of the outstanding—

Senator KERR. That was the year before last.

Senator FULBRIGHT. I thought it was last year.

Secretary DILLON. The year before last.

Senator FULBRIGHT. It was very substantial.

Senator KERR. \$350 million.

Senator FULBRIGHT. Do you have any figures, cumulative figures, as to how much this has amounted to?

Secretary DILLON. We can furnish you with figures of portfolio investments and of sales in our market of this sort of thing, and the type of thing that you refer to would include the Ford transaction which is listed as a direct foreign investment. I do not know any way to single that type out from any other direct foreign investment in Europe. I think we would have to give you the overall figures.

Senator FULBRIGHT. But you do have figures?

Secretary DILLON. Oh, yes.

Senator FULBRIGHT. Do you know how much it amounts to?

Secretary DILLON. Oh, yes.

Senator FULBRIGHT. Is it a substantial amount?

Secretary DILLON. U.S. long-term private investment abroad is a very substantial amount. It runs to about \$2.5 billion a year. But the American investment going abroad—

(See pp. 77, 78.)

Senator FULBRIGHT. Well, that has as much effect on the outflow of gold as anything else.

Secretary DILLON. It has a very large effect. The flow of capital, as I pointed out, has a large effect.

Senator FULBRIGHT. It would be much larger than the effect of the foreign aid bill, would it not?

Secretary DILLON. It is about twice the size.

Senator FULBRIGHT. Twice the size.

But you think if this continues there is a possibility of some restriction?

Secretary DILLON. Well, there is a possibility that would have to be looked at. Of course, in the overall, foreign investment is one of the important reasons why we favor a revision in our taxation of foreign income, because it would bring a substantial benefit to our balance of payments.

Senator FULBRIGHT. Do you have any figures as to the amount of interest in cash to this country from its foreign investments?

Secretary DILLON. Oh, yes.

Senator FULBRIGHT. Are they substantial?

Secretary DILLON. Very substantial. They exceed the annual outflow; that is, what we get in from our total long-term private foreign investment, which has been built up over the years, which is over \$50 billion, is now larger by a relatively small amount than what goes out each year. This is only true on an overall basis.

We have a very substantial surplus in our dealings with the underdeveloped countries, where the inflow to the United States is much larger than the outflow; and we have a substantial deficit in our dealings with Europe and Canada, where the outflow is much greater than the inflow.

The reason for that is primarily the extractive industries, such as oil and mining industries, which are situated in underdeveloped countries, generally.

Senator FULBRIGHT. If those figures are available, not only are they interesting to this committee but I think they would be interesting to the Foreign Relations Committee in its consideration of the foreign aid bill.

We are all worried, and we will be worried; we have much to be concerned with in this problem—I mean, of course, the biggest reason has always been given because it has a serious impact on our balance-of-payments problem, as has been made here, and I thought this was a good time, as good a time as any, to ask you for some of these figures, because we will need them, I think.

Secretary DILLON. We will be glad to put a series of these figures into the record here if you would like.

Senator FULBRIGHT. I would like them. I think they would be useful generally, and I know they would be useful to us in consideration of that bill.

(The information referred to follows:)

*U.S. private long-term capital outflow by area, calendar year 1960 and calendar year 1961*

[In millions of dollars]

	Calendar year 1960			Calendar year 1961		
	Total outflow	Direct	Long-term portfolio	Total outflow	Direct	Long-term portfolio
Total, all areas.....	2,544	1,694	850	2,568	1,601	967
Total, developed countries.....	1,732	1,433	299	1,597	973	624
Western Europe.....	1,099	962	137	1,042	664	378
Canada.....	633	471	162	555	309	246
Total, less-developed countries <sup>1</sup> .....	812	261	551	971	628	343
Latin America.....	349	95	254	280	203	77
All other countries.....	333	154	179	723	437	286
International.....	130	12	118	-32	-12	-20

<sup>1</sup> Includes several developed countries including Japan and also international shipping companies operating under flags of 4 less-developed countries.

NOTE.—Excludes reinvested earnings of subsidiaries. Details may not add to totals because of rounding.

Source: Based on data from Department of Commerce, Office of Business Economics.

*Income on U.S. private long term capital investment by area, calendar year 1960 and calendar year 1961*

[In millions of dollars]

	Calendar year 1960			Calendar year 1961		
	Total income	Direct	Long-term portfolio	Total income	Direct	Long-term portfolio
Total, all areas.....	2,743	2,338	405	3,129	2,652	477
Total, developed countries.....	1,065	780	285	1,293	968	325
Western Europe.....	505	418	87	661	551	110
Canada.....	560	362	198	632	417	215
Total, less-developed countries <sup>1</sup> .....	1,678	1,558	120	1,837	1,684	153
Latin America.....	633	641	42	770	716	54
All other countries.....	952	913	39	1,009	958	51
International.....	43	4	39	58	10	48

<sup>1</sup> Includes several developed countries including Japan and also international shipping companies operating under flags of 4 less developed countries.

NOTE.—Returned income only. Does not include royalty receipts. Details may not add to totals because of rounding.

Source: Based on data from Department of Commerce, Office of Business Economics.

#### GENERAL NOTE

A breakdown of these data by U.S. subsidiaries and branches abroad is not available for 1960 and 1961. The preponderance of U.S. direct investment in Western Europe and Canada is in subsidiary organizations. At the end of 1959, out of a total direct investment in Europe valued at \$5.3 billion, \$5.1 billion was in subsidiaries; in Canada, out of \$10.3 billion, \$9 billion represented the value of investment in subsidiaries. In other areas, consisting largely of the less-developed countries, subsidiaries represented \$8.4 billion of total direct investments of \$14.2 billion as of the end of 1959.

Senator FULBRIGHT. One other thing, unless you have already put them in the record: How much net effect does the upkeep of our troops and our foreign military have on our balance of payments? Do you have those figures?

Secretary DILLON. Yes, sir. The gross cost of military expenditures abroad has been running every year at around \$3 billion, \$3.1 billion.

Senator FULBRIGHT. \$3.1 billion?

Secretary DILLON. Yes. We have the last few years been making sales for cash, for dollars, of military equipment to some of these countries, running from \$200 million up to maybe as much as \$350 million last year, and if you offset that our net outflow would be about \$2.75 billion.

We do expect this year to have very substantially increased sales of military equipment as a result of some arrangements we have been able to make with some of our NATO partners, which will greatly reduce or greatly offset this item, maybe by as much as \$1 billion.

Senator FULBRIGHT. Is that the \$2.75 billion in dollars or gold, I mean equivalent?

Secretary DILLON. In dollars.

Senator KERR. Which is a claim against our gold.

Secretary DILLON. That is right.

Senator FULBRIGHT. That in itself almost accounts for the deficit, does it not?

Secretary DILLON. Oh, yes. I think as the President stated in one of his messages or press conferences, if we did not carry these burdens of defense of the free world we would not have any deficit at all or any balance-of-payments problem at all.

Senator FULBRIGHT. Did you have the responsibility for negotiating with such people as the Germans as to their taking a greater share of this burden, or is that the State Department?

Secretary DILLON. Those negotiations were conducted, actually handled, by the Defense Department.

Senator FULBRIGHT. By the Defense Department?

Secretary DILLON. Dealing with the German Defense Department.

Senator FULBRIGHT. Would that be true of the other members of NATO?

Secretary DILLON. Not necessarily. It happened that seemed to be the most appropriate way to handle the German negotiations.

Senator FULBRIGHT. Can you tell us whether these negotiations are proceeding at the present time or not?

Secretary DILLON. They are well in hand. We think we have the result which we need with our expenditures generally cut in Germany.

Senator FULBRIGHT. I believe that is all, Mr. Chairman.

The CHAIRMAN. Thank you.

Senator KERR. I would like to ask him a few questions.

The CHAIRMAN. Senator Kerr.

Senator KERR. In view of the questions on certain items creating adverse conditions or creating a deficit with respect to the balance of payments, I would be glad for you again to do what you have heretofore done, and that is put into the record the items which bring about the deficit.

As I understand it, eliminating the amount from the total exports which do not bring us an offsetting credit in balance of payments, we have somewhere between \$2.5 to \$3 billion of a favorable balance in the exports and the imports.

Secretary DILLON. About \$3 billion the last 2 years.

Senator KERR. And if you would put that into the record, and then put into the record the items which create the deficit, which generally consist of the foreign investments, the military costs, the tourist expenditures, and what you referred to as the so-called hot money. Is there any other considerable item in that group?

Senator GORE. Foreign aid.

Senator KERR. Of that group which creates the deficit?

Secretary DILLON. The dollar components of foreign aid. On the receipt side we have receipts from services of different kinds, airplane fares, investment return from abroad.

Senator KERR. Since you have been asked for so many of the items, I think, by both of the questions which have been asked you, a very useful purpose could be served by just putting into the record a tabulation.

Secretary DILLON. We will be glad to do that.

(The information referred to follows:)

## U.S. balance of payments by major components

[Billions of dollars]

	1959 <sup>1</sup>	1960	1961 <sup>2</sup>	1961 (seasonally adjusted except where noted)			
				I	II	III	IV <sup>2</sup>
Goods and services, Government assistance, and long-term capital accounts: <sup>3</sup>							
A. Nonmilitary trade and services:							
Nonmilitary merchandise exports.....	16.3	19.4	19.9	5.1	4.8	4.9	5.2
Less those financed by Government grants and capital.....	1.7	1.8	2.3	.6	.5	.6	.7
Merchandise exports, other than those financed by Government grants and capital.....	14.6	17.6	17.6	4.5	4.3	4.4	4.5
Nonmilitary merchandise imports.....	-15.3	-14.7	-14.5	-3.4	-3.4	-3.8	-3.9
Balance on trade, excluding merchandise exports financed by Government grants and capital.....	-7	2.9	3.1	1.1	.9	.5	.6
Nonmilitary service exports.....	7.1	7.6	8.0	2.0	2.0	1.9	2.1
Less those financed by Government grants and capital.....	.3	.3	.4	.1	.1	.1	.1
Service exports, other than those financed by Government grants and capital.....	6.8	7.3	7.6	1.9	1.9	1.8	2.0
Nonmilitary service imports.....	-5.1	-5.6	-5.6	-1.4	-1.4	-1.4	-1.5
Balance on services, other than those rendered under Government grants and capital.....	1.7	1.7	2.0	.5	.5	.4	.5
Balance.....	.9	4.6	5.0	1.6	1.4	.9	1.1
B. Other major transactions:							
Military expenditures abroad.....	-3.1	-3.0	-3.0	-.8	-.8	-.7	-.7
Military receipts from abroad.....	.3	.3	.4	.1	.1	.1	.1
Government grants and capital-dollar payments to foreign countries and international institutions.....	-1.0	-1.3	-1.3	-.3	-.3	-.3	-.4
Repayments on U.S. Government loans (excluding repayments funded by new loans).....	1.1	.6	1.3	.1	.9	.1	.2
U.S. direct and long-term portfolio investments abroad <sup>4</sup> .....	-2.3	-2.5	-2.6	-.5	-.6	-.6	-.8
Foreign direct and long-term portfolio investments in the United States.....	.6	.3	.4	.1	.2	( <sup>5</sup> )	.1
Remittances and pensions.....	-.8	-.8	-.9	-.2	-.2	-.2	-.2
Balance.....	-5.3	-6.5	-5.6	-1.5	-.7	-1.7	-1.8
Balance on goods and services, Government assistance and long-term capital accounts <sup>3</sup> .....	-4.3	-1.9	-.6	.2	.7	-.7	-.7
Recorded U.S. private short-term capital outflow less foreign short-term commercial credits to the United States.....	.1	-1.4	-1.2	-.5	-.1	-.2	-.6
Unrecorded transactions.....	.5	-.6	-.6	-.1	-.5	.1	-.2
Overall balance, seasonally adjusted.....	-3.7	-3.9	-2.5	-.3	.2	-.8	-1.5
Less seasonal adjustments.....				( <sup>5</sup> )	.1	.1	-.2
Overall balance, actual (not seasonally adjusted).....	-3.7	-3.9	-2.5	-.3	.1	-.9	-1.3
Equals changes in liquid liabilities to foreign private holders (including banks) and nonmonetary international and regional institutions.....	-1.5	-.4	-1.3	.1	-.6	-.2	-.5
Plus changes in holdings of gold and convertible currencies by U.S. monetary authorities and changes in U.S. liquid liabilities to foreign and international monetary authorities.....	-2.3	-3.6	-1.2	-.4	.6	-.7	-.8

<sup>1</sup> Excludes U.S. subscription of \$1,400,000,000 to IMF.<sup>2</sup> Preliminary.<sup>3</sup> Short-term capital movements between parent companies and their foreign affiliates are reported as part of direct investment.<sup>4</sup> Includes \$172,000,000 in subscription payments to the Inter-American Development Bank and the International Development Association.<sup>5</sup> Includes \$649,000,000 in foreign debt prepayments to U.S. Government in the 2d quarter of 1961, and \$43,000,000 in the 4th quarter.<sup>6</sup> Less than \$50,000,000.

NOTE.—Excludes military grant transactions. Detail may not add to totals due to rounding.

Senator KERR. Now, then, with reference to the sudden spurt of buying by banks of tax-exempt securities, that is, the income from which is tax exempt, I think I know what caused that, but I may be entirely mistaken.

When was it that the Federal Reserve Board permitted the New York banks or any other banks, for that matter, to increase their interest on saving loans to 4 percent?

Secretary DILLON. The Federal Reserve permitted this increase as of the 1st of January, and they announced it some time early in December, I think pretty close to the 1st of December.

Senator KERR. You say they granted it in January?

Secretary DILLON. Granted it as of the 1st of January, but they announced it the 1st of December.

Senator KERR. The 1st of December of last year?

Secretary DILLON. Yes.

Senator KERR. If a commercial bank pays 4 percent interest for a savings account, actually, in view of the fact that they pay 52 percent of their profit in taxes, their net costs on that are 48 percent of 4 percent; are they not?

Secretary DILLON. That is correct.

Senator KERR. Which would be 1.92.

In view of the fact that insofar as calculating is concerned it can reasonably be assumed that that particular expense is subject to the top tax rate, their net cost of that money is a little less than 2 percent.

Secretary DILLON. That is correct.

Senator KERR. So simultaneously with that they began to have the expenditure of very large sums of money for so-called tax exempts, the average income from which is what, between 3.5 and 4 percent?

Secretary DILLON. No, sir. I think it is lower in this area. I think it is somewhere probably between, around, 3 percent, maybe 3 to 3.25, but something like that.

Senator KERR. Don't you think, Mr. Secretary, that in view of the fact—and I would like for you to put into the record what the overall average of tax exempts now being issued is.

Secretary DILLON. Well, the index, I know, is around 3.30, which is—

Senator KERR. The overall?

Secretary DILLON. Yes.

Senator KERR. And, of course, an alert manager of a tax-exempt portfolio in a bank would try to secure those that would bring in the highest rate consistent with complete safety.

Secretary DILLON. Of course, when you get into special situations such as revenue bonds there are some that are considerably higher, over 4 percent.

Senator KERR. So that what would you expect an alert manager of that portfolio in a commercial bank to have as his objective of the average income on that, on the contents of that portfolio?

Secretary DILLON. Well, if he could make 1 percent more than the figure you indicated might be the cost to him of this 1.9 to interest cost, he would be doing, I think, quite well.

Senator KERR. But even if he made the average, aside from his administrative expense, he would be doing a little better than 1.25 net.

Secretary DILLON. He would be doing better than that.

Senator KERR. And if he were really an alert fellow, like some I know in some very fine Oklahoma banks, who tell me they get an average of 3.75, that would be a rather natural consequence of their having made that drastic change in their policy of going up from an interest rate on savings that had ranged from 2 to 3 percent, and not in excess of 3 percent, to 4 percent to find a way to enable them to do that and still maintain the previous levels of profit, would it not?

Secretary DILLON. I think that is probably the reason why they took this action.

Senator KERR. Don't you think that that was the needle that injected the stimulant into their financial stream that brought about that surge of buying of municipals?

Secretary DILLON. It is generally considered to be, and I think that is probably a correct assumption.

Senator KERR. That is the impression I have.

Senator GORE. Would the Senator yield there?

Senator KERR. Bear this in mind, that one of the things that the Senator from Oklahoma has done for a number of years which he thought was to have had a small part in opposing the authority of commercial banks to increase that interest rate on savings, but the battle was lost last year in the Fed by a vote of 4 to 3 which authorized the raise, as I understand it.

Secretary DILLON. I do not know what the vote was. There was, I think, a split. It has been published. I do not know what it was.

Senator KERR. Yes.

Senator GORE. Will the Senator yield?

Senator KERR. Yes.

Senator GORE. What disappoints me is that my distinguished colleague from Oklahoma seems willing to abandon the battle and consider it lost. I invite him to join. Let us mount our chargers.

Senator KERR. Well, I will tell you, so long as I can fight with some degree of some possibility of success I believe in fighting with all the vigor I have got.

But if I could go about changing the results of previous battles in previous wars, I would keep Stonewall Jackson alive at Chancellorsville, and do a lot of changing. [Laughter.]

I want to say to my good friend from Tennessee, that I think I would have just as much chance of doing that as I would of changing the environment that now exists by reason of the policies which the Federal Reserve Board for many years had fought the committee to be established, and did establish, and I want to say to him that it is my judgment, and it is a very deep-seated conviction, that the Federal Reserve Board is not going to change that policy until Congress changes the law with reference to them and places upon them restrictions which are not now in the law, and which can again dramatize the information that I deduced from the Secretary the other day and put into this record, that the Treasury Department, when it is no longer permitted, and the President, when he is no longer permitted, to have any control over the policies of the Federal Reserve Board, the Treasury Department is in the market just like every other borrower, and has to borrow on the basis of the rules of the game, which every man who goes into that jungle knows, is that he will pay all that the traffic will bear.

I know that from 30 years of personal experience, and the Treasury knows it because of the fact that for many years they fought to have some control over the rules of the game, but that battle was lost just as definitely as the War Between the States, and it would be just about as hard at this time to change as the other one would.

Senator GORE. Mr. Chairman, I believe the term used by the New Frontier to describe the condition with which my friend is afflicted, is "pragmatism."

Senator KERR. Which friend is afflicted?

Senator GORE. I am afraid my friend from Oklahoma.

Senator KERR. Well, I go some places and they tell me to save my Confederate money, that the South will rise again, and I have regarded it as a thing devoutly to be hoped for, but one in which I never indulged any hope, and if being in that shape makes me pregnant——

Senator GORE. A pragmatist.

Senator KERR. I am glad it was an "a" instead of an "e."  
[Laughter.]

Senator GORE. Well, so long as he does not admit that he is defeated, there is still some hope.

I would like to ask one additional question, Mr. Secretary, in following up Senator Kerr's very astute interpretation of one of the effects of the action of the Federal Reserve Board in permitting commercial banks to pay 4 percent on savings.

This has brought about, on the part of the banks, this activity in the field of long-term tax-exempt securities. Will this not eventually offer severe competition for capital funds for long-term home mortgages, veterans home mortgages, FHA guaranteed home mortgages, savings and loan association mortgages on homes?

Secretary DILLON. Well, I think a similar thing has been taking place to a less marked extent in that field, too. I think that at least some of the larger commercial banks have decided to increase or go for the first time on a large scale into the purchase of mortgages, and in the last reports over the last few months, that has happened. Some of the New York banks, for instance, which never made a practice of holding a large amount of home mortgages have started to buy them throughout the country, and this has made additional capital available there and has tended to help to lower mortgage rates.

I think mortgage rates went down in February, and this may well have been part of the reason.

Senator GORE. It may well be a temporary situation, too.

Secretary DILLON. I would think for as long as the banks paying interest at this rate feel they ought to keep a proportion of their investment in this long-term area. I think, certainly, the building up of their investments, either in municipals or in mortgages or other long-term higher yielding things, to what they consider the appropriate level, is proceeding now at a faster rate than you would expect it to proceed in the future.

Senator GORE. Well, basically, is it not a fact that, with this increase in the interest payment on savings by commercial banks, a fierce competition for savings has been set underway between the savings banks, building and loan associations, and the commercial banks?

Secretary DILLON. I think there is certainly more competition in mortgages.

Senator GORE. All right.

Now, have not the savings banks, the savings and loan associations, building and loan associations, likewise increased their interest payment on savings?

Secretary DILLON. Generally, yes.

Senator GORE. Is not that rate now on the west coast up to 4.75 percent or some such figure?

Secretary DILLON. I think some of the savings and loan associations on the west coast either have gone or are talking seriously about going to 4.75 percent from 4.5 where they have been for some time.

They went immediately to 4.6 percent, and I think they are talking of going up that extra, about an eighth of a percent.

Senator GORE. Well, Mr. Secretary, if as a result of this competition the interest rate which banks of all types, all financial institutions which are particularly active in the home loan field, pay for savings goes up, isn't it inevitable that eventually these institutions are going to have to charge a higher interest rate for mortgages?

Secretary DILLON. I would think there certainly is a connection there. It depends again on what sort of an interest rate they can charge for mortgages.

The supply of money at the moment for mortgages is very adequate, so it has actually worked the other way.

But that might be different at another time and, as a result, because of that, for the last year we have made every effort we could to try to convince the savings and loan associations to be moderate regarding any interest rate, dividend rate increases, as they call it, and you probably have seen the concern that the Chairman of the Home Loan Bank Board has expressed at this present trend.

Senator GORE. I am aware of that and in sympathy with it.

Nevertheless, they are jumping over the traces very rapidly now, and the consequence seems to me to be inevitable. Either this will spur greater investment in tax-exempts, as Senator Kerr has pointed out, or a bidding up, not down, of the eventual charge on home mortgages. So that is why I asked you if this might not prove to be a temporary condition.

Secretary DILLON. You mean the present decline?

Senator GORE. The present decline, yes.

Secretary DILLON. I do not think one can count on it as being permanent.

Senator GORE. That is all, Mr. Chairman. Thank you.

The CHAIRMAN. Mr. Secretary, in regard to the information to be furnished, what was the date that we had the maximum amount of gold, what year?

Secretary DILLON. We have our month-end figures here, and it showed that the highest level of Treasury gold stock was reached in 1949, and it amounted to, as you have thought, Mr. Chairman, to something over \$24 billion, exactly \$24,607 million.

The CHAIRMAN. I think it would help the committee and the public if you would show for each of those years to date the loss of gold, and then opposite each year give the deficit in the balance of payments. Then we could compare deficit payments, with the loss of gold which occurs when you have deficit in the balance of payments; isn't that correct?

Secretary DILLON. Not necessarily, but you are not likely to lose gold if you do not have it.

The CHAIRMAN. The countries abroad cannot ask for gold unless they have a deficit payment.

Secretary DILLON. They can now because they could feel that they wished to have a greater part of their existing dollars in gold even if there was not a deficit, and that, as I pointed out, is what the current situation is, more or less, in each of these 3 months. Our balance-of-payments deficit has been very small for these 3 months, possibly for seasonal reasons, but they have been taking gold nevertheless.

The CHAIRMAN. There might be a buildup of some kind?

Secretary DILLON. That is right.

The CHAIRMAN. But the main reason that we have had the flow of gold is the inbalance of payments.

Secretary DILLON. That is entirely correct.

The CHAIRMAN. If you would associate those to each year and make what comment you think proper as to the reason why the foreign nations decided to ask for gold instead of dollars. If they have full confidence in the dollar, they are not so likely to ask for gold: also give the price of the production of gold as of now. I have understood it was over \$35.

Secretary DILLON. No, at least the gold that is produced in South Africa is produced at a substantial profit.

The CHAIRMAN. The gold that is available to the nations of Europe that we deal with, isn't the average over \$35?

Secretary DILLON. No, sir. The Canadian gold mines and the South African gold mines, which produce the new gold, all make good profits.

Some would like to make more, but they make adequate profits to operate profitably at \$35.

The CHAIRMAN. As I understand it, when this gold once goes out it very rarely comes back; is that correct?

Secretary DILLON. That has been relatively true, although there have been periods of reflow. The second quarter last year we picked up nearly \$200 million of gold. That was partly as a result of the difficulties the British were having. They were losing gold. Some of it came in.

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

(The information referred to follows:)

*Overall deficit in U.S. balance of payments and portion representing U.S. gold loss, 1950-61*

[In millions of dollars]

	Overall balance-of-payments deficit (+=surplus)	Gold loss portion of deficit (+=gain)		Overall balance-of-payments deficit (+=surplus)	Gold loss portion of deficit (+=gain)
1950.....	-3,486	-1,743	1956.....	-922	+305
1951.....	-301	+53	1957.....	+535	+799
1952.....	-1,048	+379	1958.....	-3,528	-2,275
1953.....	-2,152	-1,161	1959.....	<sup>1</sup> -3,743	<sup>2</sup> -731
1954.....	-1,550	-298	1960.....	-3,929	-1,703
1955.....	-1,144	-40	1961.....	-2,454	<sup>3</sup> -857

<sup>1</sup> Excludes \$1,375,000,000 subscription to the International Monetary Fund.

<sup>2</sup> U.S. gold stock was reduced by an additional \$344,000,000, representing the gold portion of our subscription to the International Monetary Fund.

<sup>3</sup> As a partial offset to these gold losses, we gained \$116,000,000 in convertible foreign currencies.

Senator GORE. Mr. Chairman, I would also like the Secretary to have permission, or be requested, in the table he is going to furnish as to foreign investments and income from foreign investment, to break down his figures between branch form and subsidiary form.

Secretary DILLON. Yes.

Senator GORE. And as between the underdeveloped countries and the highly developed countries.

Secretary DILLON. Fine, we will be glad to do it where possible.

(See general note to table on p. 78.)

The CHAIRMAN. Thank you.

Senator WILLIAMS. Mr. Secretary, before we leave, as one who was somewhat skeptical about the wisdom of the advance refunding, I want to make very clear that my criticism is not directed against you personally. You followed a policy that was approved by the Congress and upon which there was an established precedent before you came in, and my criticism of this program, this policy, was not in any way intended toward you.

The CHAIRMAN. I want to associate myself with that.

Senator WILLIAMS. I think you are doing a wonderful job.

(Whereupon, at 1:30 p.m., the committee adjourned.)

