

# CONTINUATION OF PRESENT DEBT CEILING

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HEARING  
BEFORE THE  
COMMITTEE ON WAYS AND MEANS  
HOUSE OF REPRESENTATIVES  
EIGHTY-EIGHTH CONGRESS  
FIRST SESSION  
ON  
THE PRESIDENT'S REQUEST FOR CONTINUATION OF \$308 BILLION  
PUBLIC DEBT CEILING THROUGH JUNE 30, 1963

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FEBRUARY 27, 1963

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Printed for the use of the Committee on Ways and Means



U.S. GOVERNMENT PRINTING OFFICE

WASHINGTON : 1963

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## CONTINUATION OF PRESENT DEBT CEILING

WEDNESDAY, FEBRUARY 27, 1963

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

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

The CHAIRMAN. The committee will please be in order.

The purpose of the hearing today is to receive testimony on the President's request that the existing \$308 billion temporary ceiling on the public debt, which is due to revert to \$305 billion on April 1 of this year, and to \$300 billion on June 25 be continued through June 30 next.

Without objection, at this point in the record I will insert a copy of the press release that was issued on February 18, 1963, announcing the public hearings.

Is there objection?

None is heard.

(The press release referred to follows:)

**CHAIRMAN WILBUR D. MILLS (DEMOCRAT, ARKANSAS), COMMITTEE ON WAYS AND MEANS, HOUSE OF REPRESENTATIVES, ANNOUNCES PUBLIC HEARINGS ON PRESIDENT'S REQUEST FOR CONTINUATION OF \$308 BILLION PUBLIC DEBT CEILING THROUGH JUNE 30, 1963**

Chairman Wilbur D. Mills (Democrat, Arkansas), Committee on Ways and Means, House of Representatives, today announced that the Committee on Ways and Means will conduct a public hearing beginning Wednesday, February 27, 1963, on the President's request that the existing \$308 billion temporary ceiling on the public debt which is due to revert to \$305 billion on April 1, 1963, be continued through June 30, 1963.

It will be recalled that the present permanent debt ceiling is \$285 billion, and that legislation in 1962 provided for a temporary increase to \$308 billion from July 1, 1962, through March 31, 1963, to revert to \$305 billion from April 1, 1963 through June 24, 1963, and to revert to \$300 billion from June 25, 1963 through June 30, 1963.

The hearing will be confined to the President's request that the \$308 billion temporary ceiling be continued through June 30, 1963. The committee has set aside February 27 and February 28 for the consideration of this subject.

The leadoff witness will be the Secretary of the Treasury and the Director of the Bureau of the Budget, to be followed by public witnesses.

The limited time allotted for these hearings requires that all interested persons and organizations must designate one spokesman to represent them where they have the same general interest. Any interested person desiring to do so may file a written statement for inclusion in the printed record of the hearings.

The cutoff date for requests to be heard is the close of business Monday, February 25, 1963.

It is requested that persons scheduled to appear by the committee in person submit 50 copies of their prepared statements at least 24 hours in advance of their appearance, if feasible. Persons submitting a written statement in lieu of an appearance should submit at least three copies of their statement by the close of business February 27, 1963. If witnesses desire copies of their statements distributed to the press and the interested public, it is suggested that they submit at least an additional 50 copies for this purpose.

The CHAIRMAN. Our witnesses today will be the Honorable C. Douglas Dillon, Secretary of the Treasury, and the Honorable Kermit Gordon, Director of the Budget.

Secretary Dillon, we are always pleased to welcome you to the committee. We appreciate your being with us today again, and you are recognized to make your statement.

**STATEMENT OF HON. C. DOUGLAS DILLON, SECRETARY OF THE  
TREASURY, AND HON. KERMIT S. GORDON, DIRECTOR, AND HON.  
ELMER B. STAATS, DEPUTY DIRECTOR, BUREAU OF THE BUDGET**

Secretary DILLON. Thank you, Mr. Chairman.

The President in his budget message last January requested legislation which would extend the present \$308 billion temporary debt limit through the remainder of the current fiscal year.

I am here today to urge approval of this legislation. It is absolutely essential for the sound management of Government finances during the final quarter of the fiscal year.

The existing law provides that the temporary debt limit will drop from the present level of \$308 to \$305 billion beginning April 1, 1963, and from \$305 to \$300 billion beginning June 25, 1963. The debt limit will revert to the permanent level of \$285 billion on July 1, 1963.

The graduated reductions scheduled for the debt limit in fiscal 1963 were designed to conform closely to the seasonal borrowing requirements of the Government under the assumption of a balanced budget.

This fact was specifically recognized and clearly set forth in last year's report of this committee (dated June 7, 1962) on the bill to temporarily increase the public debt limit, which reads as follows (p. 2):

Your committee has concluded that the series of debt limitations provided under this bill for the various periods of the year will be adequate to provide for the expected seasonal variation in expenditures and receipts, but would not give sufficient flexibility should a deficit be incurred in the fiscal year 1963.

In this latter eventuality, your committee believes that it will be appropriate later in the fiscal year 1963 to again review the statutory debt limitation. Thus this "step approach" to the debt limitation, with the two reductions in the latter part of the fiscal year, is designed to provide for seasonal needs, without providing so much leeway that it can subsequently be used to cover deficit financing (Rept. 1789, 87th Cong., 2d sess.).

A subsequent section of this same report reads as follows (p. 4):

\* \* \* Your committee concluded, however, that, in any case, it was desirable to base the statutory debt limitation for 1963 upon the assumption that the budget would be balanced in that year.

Should this eventuality not occur, it concluded it would be desirable for Congress to have a further opportunity to review the statutory debt limitation when it is apparent that conditions have changed.

The position expressed in the report of this committee with respect to the graduated reductions in the debt limit established for fiscal 1963 coincided precisely with my views as set forth in a statement before the Senate Finance Committee on June 26, 1962, which reads as follows:

This graduated debt limit is acceptable to the Treasury, provided that it is understood that the debt ceilings in the House bill were carefully tailored to meet the Treasury's seasonal financial requirements under the assumption of a balanced budget.

The graduated reductions established in the House bill would not be adequate if we were to run a deficit of any substantial size in fiscal 1963 (hearing before the Committee on Finance, U.S. Senate, 87th Cong., 2d sess., on H.R. 11990, June 26, 1962).

My purpose in relating this background history of the presently scheduled reductions in the temporary debt limit is to emphasize the single, most significant fact in this hearing: that when these graduated reductions from the \$308 billion level were originally established, it was universally agreed that they would not be feasible if we were to run a deficit of any substantial size in fiscal 1963.

The balanced budget assumption upon which these debt limit "step-downs" were based has, I regret to say, not been realized. As you all know, we are expecting a sizable deficit in fiscal 1963, an administrative budget deficit which was estimated in the President's budget message last month at \$8.8 billion.

This deficit was largely produced by the failure of the economy to attain the levels of economic activity which had been assumed when the President's budget message was presented in January 1962.

Instead of the assumed gross national product of \$570 billion in 1962, the actual figure came to only \$554 billion. As a consequence of this slower-than-expected rate of economic expansion, we now expect fiscal 1963 revenues to be \$4.8 billion lower than we had projected in January 1962.

Various, partially offsetting refinements in our estimates, resulting from new and more up-to-date data, have reduced the revenue estimate by another \$600 million.

Finally, administrative changes in the depreciation provisions of the Revenue Code and the effects of the Revenue Act of 1962 have led to a further reduction of \$2.1 billion in our revenue estimate.

In sum, revenues are now estimated to be \$7.5 billion lower than the January 1962 budget projection upon which the present temporary debt limit provisions were tailored.

Estimates for fiscal year 1963 expenditures have also increased over last year's estimate. The increase is \$1.8 billion over the figure in the January 1962 budget message.

At the time of last year's debt ceiling hearings, additional proposals had been made involving an amount approximately offsetting the small surplus estimated in the January 1962 budget document.

The largest of these—for the accelerated public works program—was subsequently enacted and is estimated to require expenditures of \$300 million in fiscal year 1963. The other expenditure increases, however, were not foreseen at the time of last year's hearings.

The largest unexpected increases are: a rise of \$895 million in expenditures on agriculture (over \$400 million of which is attributable

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to the fact that the President's agricultural proposals were not enacted), and a \$541 million increase in the cost of the postal service (stemming primarily from the fact that postal rate increases were effective January 7, 1963, rather than July 1, 1962, as proposed).

These items, together with smaller increases and decreases in other programs, produced the estimated rise of \$1.8 billion in total expenditures over the January 1962 estimates.

In short, the combined effect of a substantial reduction in revenues and a moderate increase in expenditures has led to the current estimate of an \$8.8 billion deficit rather than the event balance upon which the present temporary debt limit legislation was based.

Last June, at the time of the debt limit hearings, with much evidence at hand that the rate of economic expansion was slowing down, it was apparent that the gross national product projection upon which we had based our revenue estimates was much less likely to be realized than we had thought in January.

However, we did not have, at that time, an adequate basis for revising either the revenue or the expenditure estimates presented in the budget message.

In the light of all of the uncertainties, both with respect to the future course of the economy and with respect to the future actions of the Congress, it was judged best to proceed with the request for a fiscal 1963 debt limit based on the assumption of a balanced budget, a judgment with which this committee specifically concurred.

Since it is now abundantly clear that a substantial deficit will be incurred in fiscal 1963, the scheduled reductions in the temporary debt limit cannot be permitted to occur. The bills are coming in; they must be paid.

An attached table clearly demonstrates that a \$308 billion debt limit is the absolute, rockbottom minimum needed to finance the operations of the Federal Government from now through June 30, 1963.

This table was constructed on the basis of the same two assumptions used in last year's debt limit hearings: an operating cash balance of \$4 billion and an allowance for flexibility and contingencies of \$3 billion.

The table shows that a \$308 billion debt limit will not, in fact, provide us with anywhere near this margin for flexibility and contingencies during the remainder of fiscal 1963.

In mid-June, the margin under a \$308 billion debt limit with no provision for contingencies will shrink to an extremely narrow \$800 million.

However, since we are nearing the end of the fiscal year, both revenues and expenditures are unlikely to vary substantially from current estimates, so we can afford to run the risk of what would otherwise be an unacceptably narrow margin.

It is for this very simple and very compelling reason that I earnestly recommend the prompt approval by this committee of legislation extending the present \$308 billion temporary debt limit through the remainder of this fiscal year.

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(The tables referred to follow :)

*Fiscal year 1963: Actual operating cash balance and public debt subject to limitation, June 30, 1962, to Feb. 15, 1963—Estimated public debt based on constant operating cash balance of \$½ billion (excluding free gold), Feb. 28 to June 30, 1963, based on 1964 budget document*

[In billions]

	Operating cash balance (excluding free gold)	Public debt subject to limitation	Allowance to provide flexibility in financing and for contingencies	Total public debt limitation required
<b>Actual, 1962:</b>				
June 30.....	\$9.4	\$298.2		
July 15.....	6.4	298.3		
July 31.....	5.5	297.9		
Aug. 15.....	6.2	299.7		
Aug. 31.....	7.7	301.9		
Sept. 15.....	5.3	301.8		
Sept. 30.....	8.3	299.6		
Oct. 15.....	7.8	302.9		
Oct. 31.....	5.7	302.2		
Nov. 15.....	5.0	304.7		
Nov. 30.....	6.3	305.5		
Dec. 15.....	3.5	303.9		
Dec. 31.....	6.7	303.6		
<b>1963:</b>				
Jan. 15.....	4.4	304.2		
Jan. 31.....	4.5	303.6		
Feb. 15.....	4.4	304.1		
<b>Estimated:</b>				
Feb. 28.....	4.0	302.5	\$3	\$305.5
Mar. 15.....	4.0	305.1	3	308.1
Mar. 31.....	4.0	300.5	3	303.5
Apr. 15.....	4.0	304.2	3	307.2
Apr. 30.....	4.0	303.4	3	306.4
May 15.....	4.0	303.7	3	306.7
May 31.....	4.0	304.4	3	307.4
June 15.....	4.0	307.2	3	310.2
June 30.....	4.0	302.5	3	305.5

*Fiscal year 1963: Actual and estimated monthly budget receipts and expenditures and resulting end-of-month debt levels, based on 1964 budget document*

[In millions of dollars]

	Budget receipts and expenditures			Net receipts of trust and clearing accounts and other transactions	Total to be financed	Financing means		Operating cash balances <sup>2</sup>	Debt subject to limitation	Allowance for flexibility and contingencies	Total debt limitation required <sup>3</sup>
	Net receipts <sup>1</sup>	Expenditures <sup>1</sup>	Surplus (+) or deficit (-)			Decrease in operating cash balances <sup>2</sup>	Increase in debt subject to limit				
Balance on June 30, 1962.....								9.4	298.2		
Actual, 1963:											
July.....	3.6	7.3	-3.7	+0.1	3.6	3.9	-0.3	5.5	297.9		
August.....	7.1	8.5	-1.4	-.4	1.8	-2.2	4.0	7.7	301.9		
September.....	10.0	7.3	+2.7	+2	-2.9	-.6	-2.3	8.3	299.6		
October.....	3.0	8.5	-5.5	+3	5.2	2.6	2.6	5.7	302.2		
November.....	7.0	8.1	-1.1	-1.6	2.7	-.6	3.3	6.3	305.5		
December.....	8.4	7.6	+8	+1.5	-2.3	-.4	-1.9	6.7	303.6		
1963: January.....	5.5	8.0	-2.5	+3	2.2	2.2		4.5	303.6		
Estimated:											
February.....	7.5	6.9	+6		-.6	.5	-1.1	4.0	302.5	3	305.5
March.....	9.3	7.7	+1.6	+4	-2.0		-2.0	4.0	300.5	3	303.5
April.....	5.0	7.5	-2.5	-.4	2.9		2.9	4.0	303.4	3	306.4
May.....	7.4	7.8	-.4	-.6	1.0		1.0	4.0	304.4	3	307.4
June.....	11.7	9.1	+2.6	-.7	-1.9		-1.9	4.0	302.5	3	305.5
Fiscal year 1963.....	85.5	94.3	-8.8	-.9	9.7	5.4	4.3				

<sup>1</sup> Totals based on 1964 budget document. Monthly spread for February through June estimated by Treasury.

<sup>2</sup> Excluding free gold.

<sup>3</sup> At the midmonth points in March and June the requirements are \$308,100,000,000 and \$310,200,000,000, respectively.

The CHAIRMAN. Does that conclude your statement, Mr. Secretary?

Secretary DILLON. That concludes the statement; yes, sir.

The CHAIRMAN. Mr. Gordon, I understand that you are here for the purpose of assisting in the answering of questions and not to supplement the Secretary's statement with an additional statement; is that right?

Mr. GORDON. That is correct, Mr. Chairman.

The CHAIRMAN. Mr. Secretary, we thank you, sir, for this statement of the situation and your recommendation for action by the committee.

We appreciate, Mr. Gordon, your being with us to assist us with our questions.

Are there questions? Mr. Herlong.

Mr. HERLONG. Mr. Secretary, in the last political campaign that I ran, the opponent that I had must have thought it significant because the one issue that he ran on was that Herlong voted to increase the debt limit. As I say, he repeated it in every advertisement, in every radio and television show that he made.

I would like you to state for the record just what would happen if Congress didn't increase the debt limit. This is an academic question, but I want the statement to come from you for the record.

Secretary DILLON. Mr. Herlong, the only thing that could happen there would be that the United States would have to repudiate its obligations. It could not pay its bills. It could not even, if the debt limit went back to the permanent debt limit which is substantially below the temporary level, pay its bonds, its notes, and its bills as they come due every week.

The first effect of not increasing the debt limit would have to be a slow-up, as has happened before, in payments on the bills that the Government owes to contractors.

Mr. HERLONG. That the Congress has appropriated?

Secretary DILLON. That the Congress has appropriated money for. There are, of course, certain devices that have been used in the past by the Treasury when it got close to the debt limit, and there was a question of needing a small, additional amount of funds to be able to stay under the debt limit, something in the nature of \$1 billion. The Treasury has used some financial devices, such as selling certain participations in Fannie Mae mortgages to the public, but these were temporary things that cost the Government half of 1 percent to three-quarters of a percent more than it would have had to pay if it borrowed the money under the debt limit itself.

These devices have been very strongly criticized in a number of reports to the Congress by the Comptroller General, and when they were adopted by my predecessors it was with great reluctance and they so stated. They would only be useful to take care of very minor amounts compared to what we are facing here.

Mr. HERLONG. The problem today is much larger than it has been in previous requests of the committee.

Secretary DILLON. That is right.

Mr. HERLONG. Thank you very much, sir.

Secretary DILLON. Thank you, Mr. Herlong.

Mr. KING (presiding). Mr. Byrnes?

Mr. BYRNES. Mr. Secretary, we have interrupted the hearings on the proposal to cut taxes in order to hear this matter, which points up an increase in the debt. I wonder, first, if I could inquire about the tax bill itself, in view of the fact that the President the day before indicated that the important thing was that we get a tax reduction of \$10 billion.

When you were previously before the committee on the matter of the tax bill, I inquired about the relationship of the structural changes to tax reduction, and your point at that time was that, and I will quote you—

that there are certain rather inextricable connections between the reductions and the reforms.

If I interpret correctly the President's statement before the bankers' symposium on the 25th, he didn't see that there was such an important inextricable connection. What is the situation now?

Secretary DILLON. I think the situation is very clear. I don't think there has been any change in the situation as presented in the original administration program, right from the beginning. We have a program, which is the program that the administration, including, of course, the President first of all, supports and feels is the best program.

In that program, the central element has always been, as I said in my own statement here, the most important single element is top-to-bottom reduction in corporate and personal income taxes. Certainly, we have always recognized the very special prerogatives of the Congress and, in particular, the House of Representatives, and in particular, this committee, in writing tax legislation.

We do make proposals and we do talk them out before this committee. The public has every opportunity to make their views felt, and then a tax bill is presumably written. A bill, when it comes, is never the same as the recommendations by any administration, which are always couched in general terms. We believe and we support the recommendations that we have put forward. If some of those prove to be unsatisfactory, as I have said, they are very closely tied into the rate structure.

I believe the President made that clear, too, when he said to the bankers that it would presumably be necessary to rewrite the whole rate structure if a number of these large revenue-raising measures were left out.

It certainly is our feeling, our desire, and we feel certain that when a bill is reported it will not be a plain rate reduction bill and nothing else. We are trying to promote long-range growth, and naturally, you can't entirely eliminate equity and simplicity in the tax structure from that. Although if you are forced to say which is the single most important element. I think the most important thing is the revision of the rate structure. I always have.

But we do expect, and we are for, and the President is for a substantial structural change—we may use the word "revisions" because apparently the word "reform" has a bad connotation to some—and we expect that will be the result.

Mr. BYRNES. What I am trying to get at is whether you agree that the major thing that the administration is concerned with now is a \$10 billion reduction in taxes.

Secretary DILLON. I have said that in my opening statement here; that the central focus of the bill was that, and it was the single most important element in the bill. That was in my prepared statement. I still think it is, and always has been.

That doesn't mean that because it is the most important that everything else that is recommended has no importance at all. I think that has been the error in interpreting remarks that various people have made, in particular these of the President,—that because he stressed the importance of this, that he cast aside the importance of all the other elements in the bill, which is not true at all.

Mr. BYRNES. I gather as far as the structural changes are concerned, you are going to leave it to the judgment of the committee as to whether or not they should be incorporated. However, as far as the \$10 billion reduction is concerned, that the administration really wants that and wants to impress its desires on the committee in no uncertain terms.

Secretary DILLON. We leave everything to the judgment of the committee, but we will try all the way through to give the committee all the facts as we see them and we hope the committee will come to conclusions similar to those we come to.

There will be some differences. The question on some of the reforms is a far more complex question than the question of just a reduction of rate schedules. The impact of changes on various people is a more complex matter.

Testimony that will come forth, the record will probably show, and undoubtedly shows, that there will be necessity for changes in some of the recommendations that we have made, particularly in the reform area. To the extent they change revenue there will probably be need for changes in the rate schedule. Certainly we leave the rate schedule to the judgment of the committee.

We made a recommendation, but I notice that there are strongly held views that have been put forth publicly by certain business organizations that the rate reductions are in the wrong place; they don't concern themselves so much about the amount. They would rather have different kinds of rate reductions.

There have been similar indications on the part of organized labor. They want them different places. Both of them want them in opposite places. It may well be that the committee will decide that the proper form of rate reduction is something different than we have recommended. That is in the same category.

Mr. BYRNES. There is no point of our arguing, but I do want to get a clear picture of this. As I read the President's statement before the bankers, it didn't seem to leave any question of judgment as far as he was concerned, and as far as his idea of what the needs of the country were. The President said that we had to have a \$10 billion tax reduction.

In fact, I practically read into it if Congress didn't give it to him, Congress would be responsible for a great recession.

I didn't get the impression from what he was saying that there was much being left to the judgment of the Congress on the \$10 billion. That was an absolute necessity. That was the foremost objective of the administration.

I would like to know whether that is a proper interpretation of the President's decision—that the reforms are the only matters that are left to the discretion of the Congress.

Secretary DILLON. I don't think there should be any misunderstanding as to the administration's position, including the President's, in favor of the reforms that he has recommended.

Mr. BYRNES. I understand that. You would like to have the reforms, but you are not really going to put a great deal of emphasis on them. There you take the very splendid attitude, "We will let the committee judge the merits and demerits."

Secretary DILLON. I think we will put very considerable emphasis on them because we think that they are necessary to justify the central theme of our tax bill, which is the rate reduction which has been recommended. Without certain of these reforms, the type of rate reduction, the amount of rate reduction will have to be very substantially changed, and that would be a very difficult assignment.

It is not easy to construct a rate schedule, as I think we will discover as we get further along in our work.

Mr. BYRNES. You still have me confused. If these reforms are essential to justify the \$10 billion rate reduction, then it would almost seem to say that you have to have a package.

Secretary DILLON. Obviously there are 30, 31, or 36, or something of that nature of specific suggestions, and they can't all be of equal weight and importance to the single most important thing—the central focus of the bill which we have talked about—taking the shackles off the economy and freeing it to operate at full capacity through a more equitable and lower rate structure. However, in general a substantial amount of these reforms will be required. We think a lot of them are desirable. Some are more so. They can't all be identical in a complex situation such as this.

But there should be no misunderstanding of the fact that the administration has sent forward a bill with a substantial number of structural changes in it, and that it believes that this is the best bill for the economy and for the country or it would not have sent it forth.

As I said, in some of these more technical things, testimony may develop which shows that there are better ways to reach the same end in some of these areas of structural change. We will be glad to discuss those in detail when we reach the executive session, based on all the evidence that has come before the committee, but that doesn't mean we have lost any interest or the President has lost any interest in the general concept of having a bill that does have a substantial rate reduction passed at this session of the Congress. It will have a staged rate reduction which will also include a substantial number of structural changes.

Mr. BYRNES. We have had 3 weeks, and the country has had 3 weeks, to consider the structural changes that you proposed. We have had now a week and a half of listening to witnesses on some of them.

My mail and my impression from the witnesses that appeared here is that the reforms have not produced any great public acclaim for the structural changes that you have suggested. There is no great public demand for most of them.

If the No. 1 need of the economy is this \$10 billion reduction, as the President said, the important thing is to get the bill this year.

"Whatever is necessary to get that bill, I would support," the President said. From public reaction to date, and also considering the details of what has been proposed, it seems to me the structural reforms are bound to encumber the potential of reaching the objective that the President points to.

I would repeat at this time what I said when you first appeared before us: that possibly most of these structural reforms might well be put into the deep freeze and then we could proceed with the major objective that the President is seeking.

Let me ask this, Mr. Secretary: When did this recession threat come into the picture? In the President's state of the Union message, in his economic report and in his tax message, he gave us a feeling of relative well-being, stating only that we were not moving ahead quite fast enough.

There certainly was not any indication that we were moving into a recession. He talked about how we enjoyed 22 months of economic recovery, the recession is behind us. These are quotes. "Foreseeable trends point to still further advances."

When did the administration decide that we had to start worrying about a recession next year unless we had this \$10 billion decrease in taxes and the increased deficit that will come from that?

Secretary DILLON. I am glad that you asked that question, Mr. Byrnes, because I think there has also been considerable misapprehension and misunderstanding on that subject. The administration, based on the economic situation which it is able to see today, and the best estimate looking ahead, does not foresee any recession in 1963. I think the President made that perfectly clear.

Mr. BYRNES. How about 1964?

Secretary DILLON. When he talked to the Bankers. It is hard to look forever into the future, but I will come to that in a moment.

The situation seems reasonably good. We are not moving ahead quite as rapidly as we would like in all the various economic indicators, but nevertheless, the signs that generally precede a recession, such as swollen inventories, tight credit, over-use of credit, and things of that nature, are not present. So it does not seem that a recession is in the cards in any immediately foreseeable future.

However, historically I think the other side of the coin is that we all have to be aware of the fact that business and our economy has moved in a cyclical fashion over the last 100 years or more. These peacetime cycles have averaged over the last 100 years something like 26 months of expansion before the economy turned down again. If you go to the last 50 years, I think the average for peacetime cycles is longer, something like 28 months.

Just since the war, because we had one particularly long upswell during and after the Korean war, the average is considerably longer, 36 months. The last upswing lasted 25 months. We have now been through or we are coming into the 25th month—March will be the 25th month—of this recovery.

So I think we have to realize that history would indicate that at some time we would not keep on going up forever without some cyclical change. We do feel that since the war, and particularly in the last 10 years, we have been able or our economy has operated on the basis on which the downturns have been less deep. They have been

much shallower, and we hope that can continue to be improved, and maybe we will be able to have a performance as good as that of the European countries of the last 10 or 15 years, where their downturns are only marked by slower growth than the periods of rapid growth in their economic upturns.

As far as the tax bill is concerned, it is designed, as was made clear, to promote long-term growth in the economy and to cure the situation which we have been in the last 5 years, where we have been unable to reach full capacity or full employment situations. Certainly if and when the cyclical situation turns against us and begins to soften, if the tax reduction and reform has been enacted and is in prospect, it will be a strong supporting factor to mitigate any downturn that might otherwise occur. It might even let us reach this situation of the European countries where our downturns are not absolute at all, but just slowups. That is the connection.

I think we have to look ahead and look back at what history shows us. Certainly the tax reform and the tax revision will be a strengthening thing against cyclical forces and it will also make us do better when we are on the upswing so that we can reach this full capacity that we would all like to see where our unemployment can get down once more to reasonable levels.

I think that puts it in the proper framework. I don't think anyone is afraid of a recession right around the corner. Certainly if one comes as it has in the past, we will be infinitely better off if we have this tax bill enacted with the reduction. That will be a strong weapon in our arsenal.

Mr. BYRNES. I thought the recession might be right around the corner. The President frightened me, whereas he gave me a feeling of security a month ago. Two days ago he said if a tax cut is not enacted, and I quote again—

that the country will in the not too distant future be struck with its fifth post-war recession, with a heavy loss in jobs and profits and a recordbreaking budget deficit and increased burden on the national debt.

I thought that was rather imminent because he was tying that with the absolute need of a tax cut of \$10 billion this year.

Secretary DILLON. The President, very clearly in his speech before the bankers, also said he didn't foresee any recession in 1963. He also pointed out the same thing that I have just point out: the historic fact of what the cycle has been in the past, the fact that we have had a cyclical movement and what these months portend.

I think it is a fair assumption that if we continue without any tax action that the prospects of what has happened in the past, the cyclical prospects to reoccur, will be very substantially greater than if we have the tax action that we have recommended.

Mr. BYRNES. You don't see a recession in 1963. What about 1964? That is certainly a period of time that is close enough to us that we can have or not only should have some concern about, but is right around the corner. We are starting on the fiscal 1964 budget. We are talking about fiscal year 1964. It is not so far away. Do you see a potential recession if we don't pass the tax bill in 1964?

Secretary DILLON. I don't want to say that I see a potential recession then or any other far time in the future. All I can say is that

very clearly the prospects for a recession in 1964 would be greater if we didn't pass the tax bill than if we do, first, and secondly, if we should for cyclical reasons get this anyway, even if we do pass it, the effects of the recession would be much more severe without the tax bill. There would be far more people unemployed than would be the case if we do enact the tax bill this year.

Mr. BYRNES. What do you consider a recordbreaking budget deficit? The President used that term as one of the consequences of failure to enact a tax cut. What is a recordbreaking budget deficit—something more than \$12 billion? That is what is being anticipated now for next year, and it is related somewhat, I assume, to the deficit that Mr. Eisenhower experienced when he was President.

Secretary DILLON. I won't say it was just Mr. Eisenhower. I think it was the economic conjuncture of a recession coming at a time when our economy was not very strong, and I think his own economic adviser has said, looking back, he wishes they had been able to take action to reduce the tax burden in 1957.

That might have saved the country a lot of problems. This is one regret. Of course, that is hindsight. I don't think any of us saw the problem clearly in that time, so I am not at all critical. But history showed that. Certainly I think just looking at a record deficit, that is the largest deficit that has occurred in peacetime.

I think the President has pointed out that if we should, in our present situation, slide into another recession, we would have a still larger deficit to face us and that is something that we want to do everything we can to avoid and mitigate. That is one reason for feeling that this tax bill is so important.

Mr. BYRNES. We are almost anticipating a recordbreaking deficit for fiscal 1964. We are missing it only by \$600 million.

Secretary DILLON. I think it is \$500 million, or something like that.

Mr. BYRNES. We are coming pretty close as it is.

Secretary DILLON. As far as estimates are concerned, no administration has been able to estimate within that degree of closeness, but we do the best we can, and that is the best figure we come up with.

Mr. BYRNES. Using the estimates of receipts and expenditures on which we base potential need for increases in the debt, is it not true, that as far as the expenditure estimates you gave us last June are concerned, up to now the actual experience has been pretty close to those estimates?

Secretary DILLON. As I said in my statement, about \$1.8 billion is the increase in expenditures over the January estimate. I mentioned at the time of last June that some supplemental proposals had been sent up which would use up the \$500 million surplus, so we were talking about a balanced budget. We were already then sort of assuming. I would say, in one way or another that expenditures might run \$500 million over the January estimate. Instead, our present estimates are in this January budget, instead of \$500 million over, they are \$1.8 billion over, so it is about \$1.3 billion more than at that time which is made up, as we pointed out, just by agriculture and the Post Office alone.

But that is not the only change. There have been a lot of other increases and quite a number of substantial decreases that offset each other.

Mr. BYRNES. It is fundamentally your miscalculation, misjudgment, and misestimate of receipts that causes you to be here today, rather than a change in the expenditure picture.

Secretary DILLON. I pointed out that \$7½ billion of change in receipts, and \$1.8 billion in expenditures. So it is obvious that a change in receipts is considerably larger than the change in expenditure.

Mr. BYRNES. When did you realize that your estimates of receipts were in excess of what actually would be received?

Secretary DILLON. At the time of our hearings last May, the end of May and the first of June there was available to the committee some estimates by the joint staff which indicated in their view a deficit, or less revenues, of \$3.8 billion without the tax bill, and \$4.9 billion with the tax bill. It turned out they were on the low side, too. It was obvious by then that we were heading into a situation economically less good than we had foreseen and than our hopes were based on. However, at that time we just were coming to the end of 2 months of very good economic growth.

As you recall, there was a slowdown in January and February and March, and a sharp pickup in April and May. It was very hard to make any forecast. What we said at the time was that although it was far less likely that we would be able to achieve the results that we had hoped for, we were, nevertheless, not in a position to say they were totally impossible and, therefore, we didn't feel it appropriate to try to make different estimates. That the committee specifically agreed with.

There are a number of things that entered into this. It was not just the rate of economic growth. We have to base our revenue estimates on the figures for personal income, gross national product, and things of that nature, which the Government has.

One of the things which happened was an annual revision which takes place in July by the Department of Commerce. The Department of Commerce found that the preceding December our economy had been actually at a level some \$3 billion lower than the figures they had been publishing before, so we have been operating, because of these figures, on a mistaken assumption. To the extent that was taken into account, our January estimate would have only been \$567 billion rather than \$570 billion.

So there are a lot of things which entered into this. Certainly there was no one date on which we became aware of what the results were going to be. I think by the time of the midyear review after Congress left, we had the benefit of 9 months of the calendar year behind us and we could see much more clearly what was happening to the economy and what the results were going to be, and we then put out a revised estimate which has not changed very much since then.

Mr. BYRNES. Let me see if I can pinpoint the time when you realized that your receipts were going to be less than you estimated, and that you were going to be faced with this pressure on the debt ceiling.

In June you said you called attention to the fact that there were some estimates made which were too optimistic. You were here still predicating your request for the debt ceiling that the Congress passed at that time on the tables that you presented—estimated receipts and

expenditures, which if we had lived within them, would not necessitate this appearance here today, or our consideration of this legislation.

When did you find out that things weren't going according to the estimates and that something would have to give?

Secretary DILLON. Not that something would have to give, but we knew it and made it clear during those hearings at the end of May and the first of June. What we said, or what I said, was that the economy had not performed up to expectations. It had done for the last 2 months about as well as our expectations had been, but that was for a 2-month period. Therefore, we had a gap to make up that was possible to be made up, but only if the economy moved faster in the last half of the year than our original projections had been. But we couldn't discount that entirely.

Therefore, it was just decided, since it didn't seem very feasible to make a completely new estimate, that we would set a particular pattern here, which is the first time that the committee had chosen to do this—to set a pattern that would be geared strictly to the seasonal needs of the Treasury and wait and see what the economy brought forth in the future.

The record shows that last May and June we weren't saying that everything was going just the way we prophesied in January. We are perfectly frank in admitting that it was not, but we were not in a position to make any much more valid assumption as to what would happen for the year, so it was easier to do it that way.

Mr. BYRNES. There did come a time, Mr. Secretary, when it must have been recognized or known that you were going to be up against this ceiling, and unless the expenditure picture changed you were going to have to come in for an increase in the debt ceiling that we established last year. About when was that? That is what I am trying to get at.

You had suspicions in June, as I gather, or the end of May, when we did consider the debt ceiling. There were suspicions then.

Secretary DILLON. Yes.

Mr. BYRNES. But they were not firm. That was your attitude, as I understand it.

Secretary DILLON. Yes; the record will show that.

Mr. BYRNES. You decided that things might take a turn for the better, and so forth, so you still relied on your then current estimates. That is really what you told us, isn't it?

Secretary DILLON. Yes. We couldn't give you any better estimates to rely on. That is the real thing.

Mr. BYRNES. Some time subsequent to that you were in a position to have better estimates.

Secretary DILLON. That is correct.

Mr. BYRNES. About when was that?

Secretary DILLON. I would say at the time of the midyear review was the first time we had a complete review of what the expenditures were going to be and also at that time it was possible, the time the Government regularly makes the second forecast, and we made it in due course at that time.

Mr. BYRNES. Was that October?

Secretary DILLON. No, the midyear review, I think, came out about a month after Congress adjourned, as usual. I think the date was the 13th of November.

Mr. BYRNES. They were a little late that year, too.

Secretary DILLON. No. Actually, I think they were a little quicker than the average after the adjournment of Congress. Congress was rather unusually late in adjourning and getting its business done.

Mr. BYRNES. I recall there was some question whether the revision had been held back to be released after a particular date in November that concerned a lot of people.

Secretary DILLON. No, I think if you will look at the record in the past you will find they came at the regular time after the adjournment of Congress. It just so happened that Congress adjourned much later than usual.

Mr. BYRNES. Anyway, in November you knew you would have to come here sometime before the 30th of March and get a change in the debt ceiling if you were going to continue the spending program.

Secretary DILLON. That is right.

Mr. BYRNES. You outlined to Mr. Herlong some of the dire consequences of spending in excess of your borrowing capacity. That is another way of putting it, isn't it?

Secretary DILLON. That is correct.

Mr. BYRNES. You either get more credit or you stop spending, and the dire consequences can be avoided by doing one or two things. You can either increase your credit capacity by an increase in the debt ceiling, or you can cut back on expenditures, can't you?

Secretary DILLON. That is right.

Mr. BYRNES. You knew in October that you were going to be faced with that problem.

Secretary DILLON. November.

Mr. BYRNES. What was done in November? I direct this to you and to the Director of the Bureau of the Budget. What was done in November and since to cut back on the expenditure side?

Secretary DILLON. I will ask confirmation from the Director of the Budget, but I don't think there was any major effort there because of the record that was clearly established at the time of the debt ceiling hearings, that if we failed to have the revenues which we expected, there would be an opportunity, and Congress looked forward to an opportunity, of reviewing the debt ceiling problem again. It was quite different from any previous debt ceilings which were always in the past adopted for a full year.

You will recall that we had originally suggested that Congress adopt the \$308 billion debt ceiling for the full year. If that had been done, we would not need to have gone through the second exercise we are going through now. The alternative of changing expenditures would have meant that since a great bulk of our expenditures, as you know, were in the defense field, that the very moment we were face to face with the Soviet Union in the greatest confrontation that we have had in postwar times, that we would have had to be canceling defense contracts right and left and telling contractors we would not pay them.

Mr. BYRNES. Would you have had to cancel them? I don't agree that all of this burden would have had to be placed on defense and I don't think any thinking American would agree with the practice of cloaking everything with the idea that if you reduce expenditures you will interfere with the defense and security of the country. I think it is being overplayed.

I can show you expenditures in the State of Wisconsin that are boondoggling expenditures that should not be made today.

Secretary DILLON. I would like to know about that. If you would send those from Wisconsin, we can probably take care of them.

Mr. BYRNES. I have pointed out one to the Secretary of Commerce which he authorized just recently—the building of a tissue plant in Wisconsin—under the Area Redevelopment Act when the tissue industry is operating only at 85 percent of capacity. There is nothing to show that this is a sound economic investment. If that is not boondoggling, I don't know what it is.

We also have post offices and other buildings being put into Wisconsin, some of them are in my district, and I am not afraid to suggest that the Government can save some money by not doing it, or postponing it, or doing it in a more modest way. Some of these projects just happen recently to have been withdrawn for another look at because the Government officials involved knew they would look bad. Don't tell me that everything is in the defense area.

Secretary DILLON. That is a good indication that they are being careful.

Mr. BYRNES. They are being careful because some of us started to question the projects. That is why they even took a second look.

Mr. GORDON. On your last point, Mr. Byrnes, I agree that not everything is in the defense area.

Mr. BYRNES. Of course not.

Mr. GORDON. There are always other possibilities of retrenchment. But it does seem to me relevant to point out that the last time we had a debt ceiling squeeze beginning in July 1957, if you look at the record you will find most of the retrenchment was in the defense area. This was a period in which defense contracts were cut back and orders stretched out.

Mr. BYRNES. They were stretched out more than canceled.

Mr. GORDON. There were some cancellations, Mr. Byrnes.

Mr. BYRNES. They apparently didn't injure the security of the country.

Mr. GORDON. I wonder whether the security of the country in that period could not have been bought at a lower price if they had not had to operate on this start-and-stop basis? For one thing, progress payments to contractors were reduced. This meant that contractors had to go into the market to borrow money to finance their inventories. The Government paid the bills for the cost of financing these inventories. I suspect in the long run the bills turned out to be somewhat higher.

Mr. BYRNES. But you are saying that there was not a penny that you could save. You knew you were going to be up against this ceiling. Nothing was done in spite of the fact that the Congress might not give you the increase in your line of credit. You were willing to face up to these dire consequences that the Secretary of the Treasury has suggested to our colleague from Florida.

Secretary DILLON. Most certainly because the Congress had appropriated all these funds. The Government's job is to carry out the programs that have been authorized and appropriated for and the Congress agreed were proper. There have been times in the past when the Executive has impounded certain such funds because he thought

too much had been appropriated and there had been waste and unnecessary extravagance on the part of Congress, but that has not been very frequent. This time there was no such feeling. We felt that the national security meant that we should move ahead in the defense field and the various appropriations that had been made in other areas were generally proper and there was no reason, because in another action, Congress had set a debt limit which they specifically said they were prepared to look at again if revenues didn't come up to expectations; that we should then start disregarding our own recommendations and the recommendations and actions of the Congress in appropriating the funds to carry these forth.

Mr. BYRNES. Did you get the impression last year that all you had to do was come to us and say, "Well, we need some more borrowing authority," that we were saying "Just come to us; don't worry about whether you are faced with that ceiling, we will just give you anything you come around and ask for"?

Secretary DILLON. No, I certainly never have had the impression that the Congress just increases debt ceilings lightly or does anything lightly. Everything that the Congress does it thinks about very carefully and makes up its own mind. But certainly I did have the very definite impression that if revenues did not come up to expectations, the Congress would like to have another look at the matter itself before the Executive canceled a whole lot of programs that were also approved by the Congress in its regular capacity.

That certainly was clearly the desire and the intent of the Congress in stating that it expected if there should be a deficit that we should come back and have another chance to look at the debt ceiling. They would not have said they wanted to look at it again if they didn't have in their mind willingness to continue changing it.

Mr. BYRNES. Let us get to the willingness.

Secretary DILLON. Willingness to consider.

Mr. BYRNES. Did you ever look at the vote by which last year's bill passed the House of Representatives and recognize how close it was even getting that amount?

Secretary DILLON. Yes, I knew it was a close vote.

Mr. BYRNES. You bet your life it was close. I am suggesting to you that I don't think the climate and the environment is any more favorable this year. As far as I am concerned, your failure to do anything to readjust your expenditure picture when you knew in October or November what the situation was going to be, does not put the administration in a very comfortable position to now come in and say, "All right, Congress, you just raise the debt ceiling."

Let me comment, Mr. Secretary, on your suggestion that after all, Congress had made these expenditures. You didn't revise your estimates and Congress had no information from you as to the estimates of receipts until after it had adjourned.

Secretary DILLON. That is correct.

Mr. BYRNES. So it seems to me there is certain responsibility on an administration which has these facts, sees an emergency is coming along, that has the potential of creating the dire consequences that you told Mr. Herlong would result. The administration had an obligation to make an effort to avoid this condition, and not just come to Congress and ask for an increase in the debt ceiling every time you hit the ceiling.

These ceilings are meaningless if that is the attitude. No matter how I happen to finally vote on this particular piece of legislation, I will not be suggesting that this is a temporary proposition which we will review if we haven't given you quite enough, while the spending goes its merry way. You have in your table \$7 billion of leeway?

Secretary DILLON. No.

Mr. BYRNES. You have \$4 billion of operating cash balances. I realize you have to maintain some cash balances, but in addition to that you have \$3 billion of flexibility in here in arriving at what you feel you need.

Secretary DILLON. Actually, the \$4 billion figure is an arbitrary figure which is used for the purpose of these hearings. But it is considerably smaller than what is required for the day-to-day operations of the Government. Actually, we probably, out of this total of cash that we have to have in the bank and the flexibility provision which add up, as you said, to \$7 billion, we probably actually have about \$2 billion of flexibility there. Maybe \$2½ billion or somewhere in that neighborhood.

Mr. BYRNES. You suggest that the table you presented—is that table in the record?

Secretary DILLON. There are two tables in the record.

Mr. BYRNES. There is no use of our talking about March.

Secretary DILLON. No.

Mr. BYRNES. We go to April, May, and June.

Secretary DILLON. That is right.

Mr. BYRNES. You show a debt subject to limitation of \$303.4 billion.

Secretary DILLON. That is April 30. On April 15 it would be higher than that. It would be \$304.2 billion.

Mr. BYRNES. All I am trying to get at right now, Mr. Secretary, is the relationship of the debt limitation plus the cash balances plus the allowance for flexibility. You have \$303.4 billion subject to limitation on April 30.

Secretary DILLON. Yes.

Mr. BYRNES. Plus \$3 billion of flexibility and contingencies.

Secretary DILLON. That is correct, on April 30. As I pointed out, the debt would be larger on April 15.

Mr. BYRNES. If you want to talk about April 15, it is all right with me. What I am trying to do is to show how it works. I am not concerned with the exact figure at this time.

Secretary DILLON. I am perfectly willing to talk about any figures you want, but I just want to make it clear that often the dates on which we have the greatest need of debt happen to be in the middle of the month and that happens to be the case, particularly in June.

Mr. BYRNES. Take your April 15 date. We will probably get along faster. \$304.2 billion; is that the figure?

Secretary DILLON. That is right.

Mr. BYRNES. Then you add on to that a flexibility figure of \$3 billion.

Secretary DILLON. That is right.

Mr. BYRNES. So your table then shows a need as far as the debt limitation requirements are concerned of \$307.2 billion.

Secretary DILLON. That is right.

Mr. BYRNES. But if you use \$2 billion of that \$3 billion that is set aside for contingencies, you can get by with a \$305 billion debt ceiling for the month of April, can't you?

Secretary DILLON. On these figures, if your figures turn out to be that accurate. As I pointed out, the \$4 billion figure in cash is on the tight side. Being that close would hamper us in managing the public debt. There are two problems that it might make more difficult. It would make it more difficult for us to extend the debt the way we would like to do, and it might hamper the handling of the balance of payments aspect of our debt management. If you are willing to assume those risks, we could get by with \$305 billion.

Mr. BYRNES. Maybe we better go back and inquire a little more on this matter so we get a clear picture. From there on, April 30 it is \$303.4 billion.

Secretary DILLON. That is right.

Mr. BYRNES. That is your basic debt ceiling limitation or basic debt subject to the limitation?

Secretary DILLON. That is right.

Mr. BYRNES. So you can get by there on \$305 billion?

Secretary DILLON. On that same basis; yes.

Mr. BYRNES. May 15, you show \$303.7 billion subject to limitation. So that is under the \$305 billion which current law would have as a ceiling?

Secretary DILLON. That is right.

Mr. BYRNES. May 31, you come to \$304.4 billion, still under the \$305 billion current limitation. The first time you exceed it is June 15 when you would have \$307.2 billion. Then you really would have severe difficulties?

Secretary DILLON. Yes.

Mr. BYRNES. You would exceed the limitation?

Secretary DILLON. That is right.

Mr. BYRNES. Why is it at the end of June you make such a rapid reduction?

Secretary DILLON. We always do that. You will see, looking back in records of the past, that it happens every year, because we have at that time a juxtaposition. It is the only time we have this juxtaposition, in quite this same way, of very heavy corporate tax payments, and a substantial personal income tax date on the same day.

The heavy corporate payments are on March 15 and on June 15. On March 15, the personal payments are rather light. On June 15 they are heavy. In the fall, the corporate payments are lighter, except for one time in September.

Mr. BYRNES. But the crucial date is really June 15?

Secretary DILLON. That is right.

Mr. BYRNES. You had a \$304.2 billion debt subject to limitation which is comparable to the April 15 figure back on January 15, didn't you, and you got by all right?

Secretary DILLON. January 15 we were \$304.2 billion and we got by all right; that is correct.

Mr. BYRNES. So if you got by on January 15, you ought to be able to get by April 15?

Secretary DILLON. January 15 we had a limitation of \$308 billion.

Mr. BYRNES. That didn't have anything to do with the limitation, Mr. Secretary.

Secretary DILLON. I just say we had lots of flexibility. We didn't worry.

Mr. BYRNES. But you didn't have to use it?

Secretary DILLON. No.

Mr. BYRNES. All you had to use was \$304 billion?

Secretary DILLON. I would like to point out one thing that is a problem if you are going to try to skate very close. In estimating the receipts of \$90 billion a year, it is close. In the corporate field, estimating \$25 billion, \$23 billion, a few hundred million is close.

But we have a particular problem facing us this year. And on that we have had no experience. We can only judge by our own best estimates and certain rough questionnaires which certain corporations have kindly been willing to give us.

We have no solid basis for estimating just what the effect, revenue-wise, would be of the change in administrative procedures on depreciation that were put into effect last July. We don't know how many corporations will avail themselves fully of the procedures which were made available to them then. That is a matter of their choice.

Mr. BYRNES. Are you suggesting that there is something wrong with your receipts and expenditure figures that appear in the left-hand column?

Secretary DILLON. No. All I am suggesting is that because of this, until we get those figures in, there might be a possibility they could vary \$200 or \$300, or \$400 million, which would make this rather closer than it is.

Mr. BYRNES. It would make the \$300 million closer?

Secretary DILLON. That is right.

Mr. BYRNES. But you still have leeway?

Secretary DILLON. Yes, if you are willing to sacrifice the ability to freely manage the public debt which I happen to think, and all of my predecessors, as Secretaries of the Treasury have also thought, was a rather important consideration.

Mr. BYRNES. I know you like that. I think one of the things you could have done to give you more freedom, was to ride herd on some of the spending. That would give you a great deal more flexibility and freedom. We are up against fiscal problems here which concern some of us.

You had a debt subject to limitation back on November 30 of \$305.5 billion. That is why I wonder if we can't get through at least April and May under the present ceiling authorizations.

Secretary DILLON. You will remember that on November 30, we had that debt of \$305.5 billion as you point out. But we also had an operating cash balance of \$6.3 billion which was considerably larger than the \$4 billion that we are allowing here in our estimate. This was part of the flexibility of being able to finance the public debt when we wanted.

We had done some public debt financing in November which seemed a better time to do it than to do it in December. As a result, we had more cash there and less cash on December 15. That is a perfect example of the need for this flexibility as far as debt management operations are concerned.

Mr. BYRNES. You balanced off at that point. You used up some of your flexibility fund, the \$3 billion, in order to increase some of your cash holdings at that time?

Secretary DILLON. That is right.

Mr. BYRNES. It doesn't make much difference which side you have it on as far as I can see.

Secretary DILLON. No.

Mr. BYRNES. It is still a flexibility?

Secretary DILLON. That is right. All I was saying is that if you have a \$305 billion figure for your debt ceiling and a \$304.2 billion public debt subject to limitation, you haven't got any flexibility left at all. In effect, that removes that possibility which was available in November. We wouldn't have it.

Mr. BYRNES. On April 15, under present law, you will have a debt ceiling authority of \$305 billion?

Secretary DILLON. That is right.

Mr. BYRNES. You show here that you could have an anticipated debt of \$304.2 billion on that debt and still have \$4 billion in cash.

Secretary DILLON. Which is not enough.

Mr. BYRNES. What?

Secretary DILLON. Which is not enough.

Mr. BYRNES. This is the schedule you are giving us?

Secretary DILLON. No. This \$4 billion is not adequate. There is no representation that is adequate. This is the figure that the committee felt it wanted to have just for this purpose. As I pointed out before, if you look at the record for the last 4 or 5 years, the Treasury has always needed to operate with more cash than that.

A realistic figure would be much nearer \$5 billion.

Mr. BYRNES. On September 15, you operated with \$3,500 million in cash?

Secretary DILLON. That was for 1 day, December 15.

Mr. BYRNES. You have done it?

Secretary DILLON. Yes; we will do it again. You can't continue operating at that level. It will have to be allowed to go up and down if you are going to have the flexibility to manage the public debt. If we look at the figures you are talking about on April 15, we have the public debt of \$304 billion and an inadequate cash balance.

For an adequate one we would be right up to \$305 billion. That is the debt limit. So therefore, there wouldn't be any allowance to provide flexibility at all.

Mr. BYRNES. On April 15, Mr. Secretary, under present law, you have authority to borrow \$305 billion?

Secretary DILLON. That is right.

Mr. BYRNES. You show here that what you will have to do on April 15, is borrow \$304.2 billion. This still leaves you \$800 million of borrowing authority.

Secretary DILLON. Yes.

Mr. BYRNES. You are right. You would not have the full \$3 billion of flexibility. But you would have the \$4 billion in cash around in the banks and so forth?

Secretary DILLON. Yes.

Mr. BYRNES. Why do your expenditures exceed your estimates of expenditures; that is, the estimates of expenditures you made last year for June of this year by over \$700 million, whereas all through the rest of the year they have come fairly close to what you estimated the expenditures would be? In fact, of the \$1.3 billion of expenditures

in excess of what you had estimated last May and June when you were here, \$700 million comes in June of this year.

Does that mean you are going to throw these expenditures into fiscal 1963 so that you can keep the deficit in fiscal 1964 from becoming an unprecedented or record-breaking budget deficit?

Mr. GORDON. To answer that, Mr. Byrnes, I think I would have to look at a typical seasonal pattern of expenditures which I don't have immediately available. I am sure the projection does not reflect any intention to lump expenditures.

Mr. BYRNES. Your estimates were on a seasonal pattern, I assume, Mr. Director. Last year you suggested to us in the table you presented to us that the expenditures would be \$8.4 billion in June 1963. As it is, they are going to be \$9.1 billion, \$700 million more than you estimated.

The reason this stands out in my mind is that through the rest of the table, comparing your estimates of last year with what actually happened, the expenditure side came within a reasonable tolerance of being accurate. That was certainly made on a seasonal basis.

Mr. GORDON. I would have to look into the detailed figures to give you a full answer, Mr. Byrnes. I am sure part of the explanation arises simply from the fact, as Secretary Dillon has already pointed out, that total expenditures for the year will be about \$1.7 billion above the earlier estimate.

Mr. BYRNES. \$1.3 billion.

Mr. GORDON. \$1.8 billion, actually. Another thought which occurs to me which may have some influence here, although I find it very difficult to measure, is that the accelerated public works program is a program which is just beginning to gather speed as measured by the rate of expenditures. The expectation is that the rate of expenditures under that program will tend to hit the peak in the summertime.

Mr. BYRNES. Accelerated public works. Is that the one we are talking about?

Mr. GORDON. I cite this as one possible contribution.

Mr. BYRNES. That is the program that I was talking about before, that I don't think you have to accelerate quite so fast. That is the one with all this boondoggling that I found right in my own State.

If you would take some action now, maybe our problem in June won't be quite as severe as Secretary Dillon states it will be—unless we give him the debt ceiling increase.

Mr. BOGGS. Would the gentleman yield?

Mr. BYRNES. Yes.

Mr. BOGGS. The entire appropriation for that program is \$400 million.

Mr. CURTIS. That was accelerated to \$300 billion right now.

Mr. BYRNES. All I am doing, Mr. Boggs, is commenting on the Director's justification as to why there should be this \$700 million.

Mr. BOGGS. I understand.

Mr. GORDON. I obviously can't break down the seasonal pattern off-hand, but I could furnish an analysis of this for the record. I cited the accelerated public works program only because it occurred to me as one expenditure program whose seasonal pattern, to the extent I understand it, would tend to move up toward the end of this fiscal year. I doubt whether this could be the largest part of the explanation, but I suspect it is a part of it.

Mr. BYRNES. I would frankly think that when we are worrying about a debt ceiling, when we are worried about the tragic consequences that would come by reason of hitting this debt ceiling, that we would look at some of these expenditures; that we know why we will be in the precarious position the Secretary of the Treasury's table shows in June; that we look to see what the situation is as far as our expenditures are in June.

As I look at this table, I find that all of the other estimates of expenditures as compared to what they gave us last May and what actually proved out were pretty accurate. You estimated all the rest of them as coinciding as far as the expenditure side of the picture is concerned, until we get to June.

In June you find a miscalculation by \$700 million of expenditures.

Mr. GORDON. I don't see, Mr. Byrnes, how the figures for the other months could have been unaffected by the increase in total expenditures. We have an increase in total expenditures over the earlier estimate of \$1.8 billion.

Mr. BYRNES. They are not over the May estimates. It is \$1.3 billion over the estimate you gave us in May of 1962, and on which we acted in considering the debt ceiling bill last year.

Mr. GORDON. I do have a series which tries to compare the old estimates you were citing with the new estimates given in the table Secretary Dillon has presented and I find there are a number of very wide divergencies between the old table and the new.

Mr. BYRNES. Let us get the \$1.3 billion adjusted first. First we got into a conflict between \$1.3 and \$1.8 billion. I refer you to the table on page 52 of the temporary increase in the debt ceiling hearings of May 31 and June 1 of 1962, where the total expenditures are estimated at \$93 billion.

You now give us a table now showing expenditures of \$94.3 billion—or an increase of \$1.3 billion; \$700 million of it shows up in June.

Mr. GORDON. May I make a further comparison, Mr. Byrnes? I think the whole table comparing the monthly figures on the old basis and the new for the full fiscal year is very revealing. You will find, for example, that the old estimate for August of 1962 was \$7.6 billion. The new figure is \$8.5 billion. That is an increase of \$900 million, which is larger than the divergence in June 1963.

You will find, too, that in September 1962, the actual figure was somewhat below the figure that was given to you last year. It was actually \$7.3 billion as opposed to the earlier estimate of \$7.6 billion. So, the variations are both up and down. The largest variation actually is not the June 1963, variation. It is the August 1962, variation.

Secretary DILLON. I have just been looking at these figures, Mr. Byrnes, and I think I can give you one that would satisfy your problem or your concern that there has been some padding here of the June figure, and that is we simply take the figures that were submitted last May for the final fourth quarter of the fiscal year, which we come into on the 1st of April, and take April, May, and June and lump them together. Last year we estimated we would spend \$24 billion.

If you take April, May, and June this year, we estimate we will spend \$24.4 billion, an increase of \$400 million, which is not much different from the proportional part of the 1.3 increase.

It happens that in the latest figures that the Bureau of the Budget has prepared—and I don't know the reasons for that, the Bureau of

the Budget would have to give you that later—they have estimated lower expenditures this year in both April and May than they estimated a year ago.

That deficiency is made up and slightly more so in June. What the reason for that is I don't know. But certainly it is not going along and then suddenly jumping up in this one month. I think you have to look at it on a quarterly basis which evens out the times of paying bills and the ups and downs.

Mr. BYRNES. If you take February, March, and April, you practically hit the thing on the head.

Mr. GORDON. No, in February, March, and April, my figures indicate it is down by \$600 million. Those 3 months are not a calendar quarter, of course.

Mr. BYRNES. No, I know it is 3 months. Your April figure as you estimated last year was 7.6. It turns out you are now estimating it at 7.5. March was 7.7—you are now estimating 7.7. February was 7.4, you estimated last year it is going to be down, to 6.9.

I think generally speaking, your estimates on your expenditure side have been amazingly accurate.

Secretary DILLON. They jump month to month. January a year ago estimated 7.4 and it turned out to be 8 billion, actually. That was sort of compensated for in February.

I think they probably have great difficulty in the Bureau of the Budget of citing exact figures.

Mr. BYRNES. What bothered me is that because your expenditures did not run so high in some other months, you figure you are not spending enough so you throw this into June.

Mr. GORDON. I don't think that is correct. As a matter of fact, in partial answer to your earlier question, I think we can show a continuing effort this year, fiscal year 1963, to do our job more economically whenever the opportunity presents itself.

You may have noted in the first consolidated supplemental which was sent to the Congress earlier this month the President requested \$150 million less in appropriations than was provided in the January budget for these purposes. We were able to get this figure down by \$150 million for the remainder of 1963.

This certainly doesn't seem to me to reflect any effort to increase expenditures. Quite the contrary. In the case of the budgetary effects of the pay increase, the postal and civil service pay increase which was enacted last year, we have made an effort—and I think quite successfully—to absorb a large part of this pay increase.

In fact, the supplemental which went to the Congress to cover the pay increase shows a 42-percent absorption of the total cost of that pay increase, so that the amount which Congress is requested to appropriate is 58 percent of what the full cost would have been. I think this would indicate movement in just the other direction.

Mr. BYRNES. Isn't that just what the Congress told you to do?

Mr. GORDON. I am proud to say that we did it.

Mr. BYRNES. I am glad to see that you are doing it. I would hope that you will be completely successful.

Mr. GORDON. In response to your earlier question about what the administration did last November, I would point out to you that that was the time the 1964 budget was in preparation. I think you will find that what I regard and what I hope you regard as the quite re-

strictive expenditure policy which was imposed in the 1964 budget is a reflection of the atmosphere which existed last November.

Mr. BYRNES. To the extent that is there, my full compliments. I hate to have to withdraw part of it in the sense that if you were successful for the 1964 operation, it seems to me you could have done something about the last half of fiscal year 1963 so that you would not face this ceiling problem to the same degree that you apparently do face it.

Mr. GORDON. I would agree, Mr. Byrnes, there has been no crash effort to cancel contracts or defer progress payments, but I think there has been a continued and intensified effort to find more economical ways of doing the job.

I think this has been reflected in the first two 1963 supplementals which the administration sent to the Congress.

Mr. BYRNES. The estimates on which you base your request here don't seem to bear that out.

The CHAIRMAN. Are there any further questions? Mr. Curtis.

Mr. CURTIS. Mr. Secretary, I want to contrast November 1961, with what happened in November 1962, in regard to the administration's action on expenditure policy.

We had this last year at the time of the debt-ceiling hearings. I called your attention to the fact that the President publicized having called the Cabinet together and urged them to exercise economy. I asked you what had been the result of that because I had seen no subsequent publicity.

Your testimony was, and Mr. Bell, the Director of the Budget, was with you, that expenditures would be cut back a billion dollars; is that correct?

Secretary DILLON. As I recall it, that is what he testified.

Mr. CURTIS. And you likewise. I then asked where it was done. Why didn't the administration do that in November 1962? I presume November 1961 was after this kind of looksee that they took. If, indeed, if it is the administration's policy, and I think it probably is, that it wants expenditure reform, why wouldn't that be done if there were the consequences you outlined to Congressman Herlong and in the interrogation of Mr. Byrnes? Why didn't the administration do that?

Secretary DILLON. The administration did last fall. The President did call together his Cabinet and he did promulgate very strict instructions regarding the hiring of personnel and management control to control the hiring of personnel, and promulgated an Executive order on this subject which the Budget Bureau is carrying out which is an advance over anything, I think, we have had before as a Government in this field and shows a very strong desire to restrict in every possible way to the barest minimum needs Government employment and Government payrolls.

We did not last fall, or the President did not, direct cancellation of such things as construction programs, building programs, because we thought that they were down to a minimum of what had been done before.

The administration recommended and the Congress had only a month before approved this program which Mr. Byrnes mentioned with some disapproval.

Mr. CURTIS. Accelerated public works.

Secretary DILLON. Yes. Apparently Congress felt that was a good thing and only a month before agreed with the administration. So it didn't seem quite appropriate to start cancelling actual building contracts at that time.

Mr. CURTIS. But, Mr. Secretary, as Mr. Byrnes so well pointed out and as you yourself pointed out, the Congress was not given the information—nor did the executive have it—apparently of their error or the fall-off in revenue. Under that light, Congress might have done something different. Certainly the administration had the responsibility.

Amateurs can learn now for the first time that there were construction contracts cutback after November 1961. I left the record open, if you recall, for the itemization of the billion dollar cutback. I don't think we ever had the detail supplied. We discussed a \$50 million item. I was anxious to find out because here is the answer to Congressman Herlong. It is the answer to any Congressman on this debt ceiling matter.

Granted Congress has appropriated these funds, there is nevertheless a considerable flexibility available to the Executive to cut back his expenditure rate. Actually, we are only talking about a cutback here probably of 1 or 2 percent. We are talking about an expenditure rate of \$94 billion and a projected rate for 1964 of almost \$99 billion. So when we talk about cutting back 1 billion or 2 billion or 3 billion, we are talking about very low percentage points.

Incidentally, the public works acceleration bill, I thought, was highly ill-advised. It was gotten through by great pressure on the part of the Executive on the Congress. I think the record will clearly reveal it, so will the press at the time and some of the comments of individual Congressmen. This was hardly an idea that the Congress dreamed up and with full information Congress probably would have rejected. It certainly had to be reviewed in light of this new picture on revenues.

The point I think we must get to is whether or not the President and the administration believe that when revenues fall below anticipated levels, that it is not necessary to revise expenditures in light of falling revenues.

Your testimony up to date reveals that apparently at this time, at any rate, the administration did not feel that they should revise expenditures, even though they had this fall-off in revenue of around \$7.5 billion.

Secretary DILLON. I think that is quite true. This is something that would be a totally new policy if because of short falls in the economy, revenues falling off, the administration Executive was supposed to cut back expenditures which would in turn mean that the economy would fall off more and put us into a deflationary spiral and bring on economic downturn.

That is not the philosophy of this administration and very clearly was not the philosophy of President Eisenhower's administration, because when they were faced with the same thing in 1958-59, revenues fell off \$6½ billion, the answer was to increase expenditures \$6½ billion. That helped to mitigate the recession and was probably very good policy.

We would have had a much greater one, otherwise.

Mr. CURTIS. All I am trying to do is get out in the open for the first time what the policy really is. I happen to disagree with that policy. But I find when I want to debate it, those who really advocate this theory of increased expenditures want to run away, and say, "No, we do think a balanced budget has a value and there is a place for expenditure reforms," when I am sure they don't believe it.

They actually think that this is the way to go. I regard it as a respectable theory but let us debate it. All I am trying to pin on the administration is that is what they believe.

Secretary DILLON. The difference now, and again just by experience, we had the experience of 1958-59 to look at and 1960-61, that it is better to remove shackles of an oppressive tax structure rather than to try to make the economy function better by extra expenditures. That has not worked as well as it should.

One of the times it did work was in 1958-59. There was a very good study by the Bureau of the Budget which was made by Mr. Stans which showed that the expenditures which were authorized and carried out came at the wrong time. They didn't come at the right time. They came too late. So they thought it was not a good theory. So we are not proposing that.

We are proposing tax reduction instead.

Mr. CURTIS. Yet the President said in his speech the other day and in his state of the Union message—or hinted at it—if this theory does not work, then we go in heavily to increased Federal expenditures.

Secretary DILLON. He said there would be great pressure for it.

Mr. CURTIS. I think he went beyond and said that is what it would be. I think we will let the record rest as to what he actually said. Again this shows the difficulty that some of us have in just finding out what the administration's economic philosophy is.

Apparently in November 1961, the administration policy was to have expenditure reform.

Mr. GORDON. I would certainly answer, Mr. Curtis, that the climate which prevailed at the time that the 1964 budget was put together was a highly restrictive climate. I sought to document this and explain it when I testified before this committee last week.

There were very substantial reductions in the requests of the agencies, as you know. Although you don't agree with this particular categorization of the budget, as you know, expenditures for all programs other than defense, space, and interest will decline as a group from 1963 to 1964. And the increase in Government employment is held to a very low level.

Mr. CURTIS. Mr. Director, that just does not happen to be accurate. As you know, HEW increased by 1.7 billion, and in your request for new obligation authorities, Agriculture's increase is 1.3. Incidentally, I was going to ask this question: Today on the floor of the House, we have this request for a \$500 million increase for CCC. Is that included in your testimony here, Mr. Secretary? Was the \$500 million increased appropriation on agriculture included in your estimates as set forth in your statement? That is on the floor of the House today.

Secretary DILLON. All of the expenditure estimates that are included in the statement are those prepared by the Bureau of the Budget, and I am sure this was. I defer to the Director of the Budget to answer.

Mr. CURTIS. It is in your statement.

Mr. GORDON. That was a budget amendment which would shift funds from fiscal 1964 to 1963.

Mr. CURTIS. That is correct.

Mr. GORDON. My understanding is that the net effect on expenditures in 1963 would be very small, if any.

Mr. CURTIS. All I am trying to get at is this: Is that included in your statement?

Mr. GORDON. It would not significantly alter the statement. I would say, yes, it is included, because the effect on expenditures would be minimal.

Mr. CURTIS. How do the projection of your budget figures change by this \$500 million item? The budget for 1964.

Mr. GORDON. A budget amendment was submitted.

Mr. CURTIS. Was that anticipated or not?

Mr. GORDON. This was an amendment to the budget.

Mr. CURTIS. This would be an amendment to the budget?

Mr. GORDON. Yes, which would shift \$508 million of new obligational authority from fiscal 1964 to fiscal 1963. It is not expenditures.

Mr. CURTIS. I am just trying to get that clear. Now, Mr. Secretary, you commented on what had happened in 1958 when we had a tight squeeze on the debt ceiling.

Secretary DILLON. I think that tight squeeze came, as I recall, in 1957, and January 1958. The recession reached its trough in April 1958.

Mr. CURTIS. Whatever it was, I just wanted to identify the date.

Secretary DILLON. I think there is some connection, because I think in hindsight most people believe that unfortunately, occurring at that time, it helped to contribute to the recession that came along right then.

Mr. CURTIS. You and I have discussed that and we have a difference of opinion there. I only want to get this out because you used the point that here, in order to avoid it, they were forced to cash in bonds and so forth, and there were people who criticized that. I criticized the fact that this was done as a method of getting under the debt ceiling instead of reforming expenditures.

On the other hand, I certainly did not criticize the fact that the Federal Government was getting out of some of the investments that they were in. I note that in this budget—and this is the question I am really interested in—this is one of the techniques that is being used to help our problem of Federal expenditures.

The CCC assets are being cashed in. You are going to cash in about 2.5 billion. Also, some of the Fannie Mae bonds and others. Isn't this now part of the administration policy? Incidentally, I am in favor of this.

Secretary DILLON. Yes, I think we agree on that. It is slightly different in regard to Fannie Mae because what is proposed now is a greater effort to have Fannie Mae itself take advantage of the situation by selling individual mortgages to banks or other private investors who ever wanted to buy them.

What was done at the earlier date, and what the Comptroller General criticized, was that the Treasury, finding itself in this bind and having nothing else to do, created a different type of security. They

took a lot of mortgages and pooled them and in effect sold Fannie Mae certificates of interest in a pool of mortgages, which had a much larger face value than the amount of securities that were sold.

Fannie Mae didn't actually get rid of these securities. They still own them. All they did was put them up and borrow on them.

We are trying to actually sell them, which I think is a better way of doing it.

Mr. CURRIE. I think it is a better technique myself. But my observation is that the discipline that the debt ceiling brought about then was excellent. I myself questioned the techniques.

The fact that it got the Federal Government out of some things that they ought to have been out of a long time ago in my opinion is good. The Congress is learning for the first time about this great underestimation of revenue. The administration has not felt that it was necessary to cut expenditures because of this.

If the Congress wishes to do so, we have only one weapon available, which is this debt ceiling. If we wanted the administration to exercise a billion dollar cutback in expenditure rate, one way we could do it would be to give you a \$307 billion ceiling.

Incidentally, the discipline we can exercise over 164 in conjunction with our Appropriation Committees would gain cutback on whatever the administration's idea of increasing the ceiling is, which I imagine would be around 325.

I think you testified 320 billion, 5 billion give or take—it will always be on the upper side, I am afraid.

If the majority of Congress do not feel expenditure discipline is needed, they can show this in their vote. Those of us who do feel so, can do so without bringing about the dire consequences that you have suggested. Those dire consequences would exist. I agree, if the administration did not go into the expenditure side and move in on some of these programs and shut them down or slow them down.

It does not mean defaulting a contract. It does mean reviewing and slowing. It does not have to be in defense. These other areas are quite well indicated. I would suggest one that is most obvious, and that would help our balance of payments, would be to review foreign aid expenditures, and I am happy that the President has a Commission that is going into that. Because of the dire situation, I think that Commission's activities should be accelerated. I suspect that it will come in with suggestions that probably suggest a cut of 1 or 2 billion in our expenditures.

Whether they do or not, here is an area that would assist. There is one thing on revenue estimates, Mr. Secretary: I was doing a little arithmetic up here. I think you figured your fall back in revenue because of the failure of the GNP to increase as about \$5.4 billion. You gave a \$4.8 billion and then I think there is another \$600 million.

Secretary DILLON. The other 600 million was based on a whole variety of minor things, including better information that becomes available. That is the type of thing that happens every year, and it could either be plus or minus.

One of the things that happened, for instance, was that our estimates of corporate profits were off, in addition to the question of the gross national product, because we estimate these every year by taking the corporate profits of the latest year as reported by the Department

of Commerce when they are finally revised, and the actual tax returns that were paid against that, and get a proportion that way as to what is likely to come in.

It turned out that both these figures that we had been relying on were revised and turned out different. They turned out different in opposite directions.

In other words, in the preceding year, the year used as a mark, we actually received somewhat less taxes than we had been expecting, and we received them on a revised figure of corporate profits that were somewhat higher than the earlier published figures.

That led us to revise the figure that we had been using only to a minor extent. But that makes up \$200 million or \$300 million. Then the miscellaneous receipts figure of the Bureau of the Budget was changed.

Mr. CURTIS. The reason I was asking the question is that last year you testified that you used a sort of rough rule of thumb that for every \$4 billion increase in GNP you got about a billion dollars in revenue. I was wondering if your rule of thumb has changed, because, if that \$600 million were tied to your estimate of GNP, the figure would be more like \$3.1 billion, and you still use the \$4 billion figure.

Secretary DILLON. Actually, these figures vary. There is not any one rule of thumb. If we are coming out of a recession and in a period where you were moving rapidly upward, corporate profits in particular are apt to be higher than otherwise. Because 50 percent of them come through into taxes, that percentage moves up, say, 25 percent. It has at times moved higher than that. It moved as high as 30 percent.

Day in and day out, I think in an ordinary level, it is around 20 percent. It is not as much as 25 percent.

Mr. CURTIS. That is what I wanted to get at. About 20 percent rather than 25?

Secretary DILLON. Yes; maybe even less. Nineteen or something like that.

Mr. CURTIS. That is very good, because this is the only way we can project into the future. Just to tie this in, on page 40 of the hearings last year, May 31 and June 1, on the request for temporary increase in the public debt ceiling before the Ways and Means Committee. I will read this colloquy into the record.

Mr. CURTIS. In executive session I believe you gave us a figure, or maybe it was Mr. Bell, that for every 4 billion of gross national product we have about 1 billion of revenue; is that a good formula?

Secretary DILLON. That is roughly the Treasury's experience.

Mr. CURTIS. In other words, if we lost 10 billion, if we did not reach 570 and got 560, we would be shy about 2½ billion of anticipated revenue. I just wanted to get that formula.

Secretary DILLON. That is the way it usually works. It is not exact, but that is a rough way of measuring income.

Mr. CURTIS. In light of that from your further experience, you are now saying you would probably make that a lower figure of around 20 percent. It would still be rough.

Secretary DILLON. In the way the estimate was made for last year, I think the 25-percent figure would have been valid because our estimate was high based on very rapid economy with very big corporate profits.

When that didn't occur, the dropoff would have been in that order. Actually, it was a little higher. There was one thing that comes into

that that we didn't talk about last year, and probably didn't think about.

One of the most difficult areas to estimate in Treasury experience is the area of personal capital gains. Though we did talk about it a little bit, I was not certain at that time what the effect of the stock market decline would be, but my estimators now feel that the fact that the stock market did go down will serve to reduce capital gains from the normal figure they had originally estimated. So there is an element of \$300 or \$400 billion for that.

Mr. CURTIS. I was just trying to lay the groundwork for this major question. This is estimating into the future. If this idea is right that we should have an expenditure reform, or rather expenditure revision when we have a downturn in our estimates of revenue, then we have to look into the future.

In fiscal 1964 we are anticipating a deficit with the tax cut of \$11.9 billion, I think. In 1965, the only thing we have to go on is really new obligational authority requests which are around \$108 billion and has led me to say that we will continue the same expenditure rate.

Dr. Arthur Burns anticipates that this would mean a balanced budget in 1972 without expenditure reform but carrying at the same expenditure rate, with a Federal debt increase of \$75 billion.

Your previous testimony was that you thought the balance would occur in 1967 because you felt that Dr. Burns' projections as far as expenditure increases were not sound. I was happy when you were talking about a possible change in expenditure reform. Here is what bothers me:

This is not even Keynesian economics. As I understand Lord Keynes, he was talking primarily about balancing over a cycle. This is an entirely new concept of deficits upon deficits to meet a balance I don't know at what period.

The problems that are involved in debt management, which is this committee's concern as well as the impact of taxation call upon us to examine very deeply this new theory.

I think it is even more important now in light of your testimony, at which I was really surprised, that the administration, when they found out that their revenue estimates were so overestimated by \$7.5 billion, did not immediately move toward expenditure revisions.

We are in a very serious policy question where the Congress has this debt ceiling bill as its only practical mechanism to express its views if they disagree with this fundamental economic philosophy. Otherwise, the administration would assume that they were receiving a stamp of approval of this theory of deficits going on into 1967.

I have one final question of detail. This \$10 billion tax cut the President is talking about is spread over a 3-year period. I am trying to relate this now to what impact this would have on the economy if we had something happen in 1963 with regard to a recession.

In the President's 1963 tax message on page 63 of the hearings of the Ways and Means Committee of February 6, 7, and 8, 1963, part I, this is the table. As I see it, it is a \$3 billion cut in revenue for 1963; is that right? Then a net \$6 billion in 1964 and \$10 billion when it is in full effect in 1965. Is that correct?

Secretary DILLON. Yes, if you are reading from our table.

Mr. CURTIS. I am reading from this table. So the only thing we are talking about as far as this so-called recession is concerned, would be this \$3 billion item?

Secretary DILLON. I wouldn't agree with that at all.

Mr. CURTIS. That is all right. That is why I asked the question.

Secretary DILLON. I am surprised that you would feel that, because I don't think that this tax reduction as it affects the economy is only a question of the reduction in revenue.

I think also in very large measure a matter of increasing incentives by having a lower tax rate.

Mr. CURTIS. You and I share that.

Secretary DILLON. That is what I thought.

Mr. CURTIS. As far as I am concerned, I think this theory of reducing revenues to shift over into the private sector \$3 billion or \$10 billion whereby you might take it all away by a consumer price index increase is very unsound.

I have always felt tax reform—and I call it reform because I think rate reduction for this reason is reform—is always in order if you can do it, minimizing the impact we would have in creating additional Federal deficits.

Secretary DILLON. That is exactly why I suggested it.

Mr. CURTIS. There are people in the President's Council who will advise him that they actually think that it is the deficit that is the stimulus. If they do not get the deficit through reduction in revenues, they are perfectly willing to do it through increase of expenditures.

I am trying to get my fingers on this thing. The President has made a very serious charge to the Congress, if we do not give a \$10 billion tax cut—this is for the public, we know it is \$3 billion. He did not talk in terms of stimulating the economy in the future, he was talking about a recession that might be on our backs.

This is in context with the proposals last year of a quickie tax cut on the theory of stimulating the purchasing power rather than long-range reform. This has created confusion in the minds of the public and in the minds of the Congress as to what the economic theory is.

If the theory is, as you and I say it is—and not the theory that some imputed to the President, and I think the President must have this imputed to him because of his language from time to time—then there is nothing magic about the \$10 billion rate other than you said we could not afford much more than a \$10 billion deficit. There is nothing magic about that stimulating the economy.

If we could figure out a package that would come up \$7 or \$6 or \$5 billion, if it made sense on the reform angle, this would be all right. But if the President holds to the other theory, that he needs a \$10 billion shot into the private economy, No. 1, he is not talking about \$10 billion for 1963 calendar year, he is talking about \$3 billion. I only expose this to hold a public debate on this so we know where we disagree and where we might agree.

Secretary DILLON. I think the program is clear that it is a program that has \$10 billion of net reduction in it. It is our view.

Mr. CURTIS. In 1965?

Secretary DILLON. Yes, when it is in full effect and it is staged to go into effect gradually so it won't have too great an impact on the budget at any one time. The stimulating effects of greater initiative from the earlier reductions will be in effect at the time the full reductions are made, minimizing the impact on the budget.

We do have the feeling, and I don't think this is unusual—I think it is rather widely shared in many business circles, indeed, it was one of the underlying theories behind the bill that has been before the

Congress for some time, introduced by Mr. Baker and Mr. Herlong—that if business people could have the knowledge through action that the Congress had already taken that reductions were coming in the future, this would have a very real effect on their actions in stimulating the economy.

We believe that, too. So we think the enactment of this bill will have a greater effect in 1963 than just the \$3 billion that we figure is the tax deduction.

There is one other thing I would like to say: You earlier had some comment on the business cycle and balanced budgets. I think I ought to make clear our position on that. It has not varied. We still believe and always have, that budgets should be balanced over a business cycle, and a full business cycle.

Where the difference of view has come—and we touched on this, I think a year ago, and I think reached a complete identity of views as to what the problem was—is the definition of what is a full business cycle and what is prosperity. That is the key point.

Mr. CURTIS. I am glad you brought it up because there is no question now that the President has given us his Economic Report and his state of Union message—and everything else—that he said we have come out of this cycle. Those are his words.

I do not have to argue about that any more. This is what economists have said for years—and you used the term yourself—we go through these cycles. What you are talking about in 1967 or 1972 on this is something else. That is a long-term objective in the achievement of which we are going to have cycles.

But as far as balancing the budget is concerned, Lord Keynes was talking about business cycles, not this kind of future goal of full employment which we are now talking about.

Secretary DILLON. He was talking about a cycle where you have prosperity in part of it and not prosperity in the rest. In the cycles we have had in the last 5 years, we have had unusual cycles. I defer to the Director of the Budget who is an expert economist on this historic situation.

The fact is that in these two upswings, neither of them have we ever reached adequate prosperity.

Mr. GORDON. Economists, in studying the business cycle, have tended in the past to assume that the peak of the cycle tends to be a condition of full employment or even over-full employment, full utilization of capacity, et cetera.

As Secretary Dillon said, what I think is novel about our present situation is that we had a cyclical peak in early 1960 which did not bring us even close to full employment or full capacity utilization, and we are still, despite 24 months of recovery, substantially below that level.

Mr. CURTIS. I fully understand that, but I know also that the economists, including yourself, have always talked about the cycles, measuring them in gross national product. Certainly we hoped when we came to the peak that we would have full employment.

We should not use the word “peak” in coming out of a recovery. The President uses that word. As I say, this is not an argument any more as far as the administration is concerned, or the Council of Economic Advisers. They have used this language. They said, “we have come out of the trough and we are here.”

Mr. GORDON. Wouldn't you agree that one ought to look beyond the business cycle if you have had a rather novel experience in which the peak of the cycle doesn't take you to full prosperity?

Mr. CURTIS. I have no objection to that.

Mr. GORDON. That is the essential point to be made.

Mr. CURTIS. We are relating business cycles and balancing of budgets. We were talking about a definite thing, a business cycle. All I am saying is that this has gone way beyond any concept of Lord Keynes or anyone else. As a matter of fact, it is an entirely new theory.

There are many of us who came around to the belief as to the idea of possible deficits—particularly with the Federal income tax which does fluctuate—that in a downturn of a cycle you could have deficits and you recouped when you came to the top of the cycle. And this has to do with GNP, because in the GNP increase we gain \$1 in tax revenue in four or one in five, or whatever it is.

I am simply trying to get this a little in the open. Now here comes the key question: President Kennedy said, "Whatever is necessary to get that bill, I would support." He said that in his speech. I think the President should think in terms of expenditure adjustment and expenditure reform. He has not done so.

Mr. GORDON. I would question that, Mr. Curtis. We discussed this the last time I was here, and I think the President has done so in the detail of the 1964 budget, which I would be happy to discuss with you.

Mr. CURTIS. I have put on the record, and I think it is just as clear as anything could be, \$81 billion in 1960, \$87 billion, and \$94 billion, and now projected to \$99 billion, with the new obligational authority of \$108 billion, and you relate that to the previous 6 years of about a \$13 billion increase.

It is very obvious he has not. He certainly has not, under the testimony right before us today. When you found out your revenue anticipations were not going to be realized, the President did nothing. He did not call a meeting like he did in November 1961, and talk in terms of cutting back or slowing up programs. We have the testimony now in the record.

Mr. GORDON. The policy which guided the formulation of the 1964 budget involved the same kind of restrictive policy.

Mr. CURTIS. The record has been left open for you, as you well remember, when you were asked to specify where these cutbacks were. You were just new in the job, and you were unprepared to give this committee, at that time, where any of these so-called cutbacks have been.

I might say I am still looking for the details of where that billion was cut back in 1961. I would like to use the figure because I am trying to make the point that the Executive does have that flexibility. He can do it. Therefore, I was glad to use the figure. But I am still curious to know where it was cut back.

This is the issue in light of your knowledge of lower revenues. What new look has been taken at expenditures? Apparently none. What I am suggesting is that it should be done and that this Congress, if it believes that, has a practical way of bringing it about without facing the dire consequences the Secretary talks about; \$307 billion debt ceil-

ing and we say we expect the other billion to come from expenditure reform or a new look at it.

Secretary DILLON. Which would be a reduction in 2 or 3 months or an annual rate of \$4 or \$5 billion which would mean it would have to come out largely of Defense expenditures.

Mr. CURTIS. No, I can give you a \$300 billion item just now from this public works business.

Mr. GORDON. By the way, on that point, Mr. Curtis, I believe you said, earlier, that the reason the Congress passed the Public Works Acceleration program was because of strong pressure from the administration.

I think I should make clear that the administration requested an authorization of \$600 million, and the Congress authorized \$900 million.

Mr. CURTIS. I understand what the pressures were. I repeat my statement. I know what it was. It was not an appeal to reason, I might say. If it were an appeal to reason, I could understand pressures. I do not regard that as pressure.

Secretary DILLON. This idea that there has not been an attempt to control civilian domestic expenditures is just not true. I think the record will show it. If you look at the total of all expenditures, excepting only Defense, space and interest in the budget in 1961 and look at what they are projected at in 1964, you find the increase is no greater than from 1958 to 1961. In fact, it is less than the increase in those same expenditures in the 3 years from 1958 to 1961.

So whatever has been done has not changed the basic policy.

Mr. CURTIS. I regret, Mr. Secretary, the record won't reveal that. In fact, I have a chart here.

Secretary DILLON. We will put the figures in.

Mr. CURTIS. That is right. I am not questioning your veracity but I have had prepared a chart showing the percentage increases in the 3 years. I think I remember Defense was around an 8-percent increase, some of the nondefense have gone up—of course, space was 212 percent—HEW, and so forth, are around 30 percent, 40-percent increase.

Let us leave the record open for you to put your table in, and I will put in my table.

Secretary DILLON. I have a beautiful table to put in.

Mr. CURTIS. I do not have my table right now.

(Mr. Curtis' table follows:)

Department or agency	1961 actual	1963 estimate	Percentage increase 1961-63
Agriculture Department.....	\$5,929	\$7,493	26.4
Defense Department.....	45,640	49,406	8.3
Health, Education, and Welfare Department.....	3,685	5,048	37.0
Interior Department.....	801	1,054	31.6
Commerce Department.....	498	745	49.6
Housing and Home Finance Agency.....	502	1,088	116.7
National Aeronautical and Space Administration.....	744	2,400	222.6
Veterans' Administration.....	5,401	5,582	2.4
Treasury Department (interest only).....	9,100	9,800	7.7
<b>Total, all Federal agencies.....</b>	<b>81,515</b>	<b>94,311</b>	<b>15.7</b>

Source: The Budget of the United States for 1963 and 1964.

(The material furnished by Secretary Dillon follows:)

*Changes in administrative budget expenditures, fiscal years 1958 to 1961 and 1961 to 1964*

[In millions of dollars]

	Budget expenditures			Increases (+) or decreases (-)	
	1958	1961	1964	1958-61	1961-64
National defense.....	44,234	47,494	55,433	3,260	7,939
Space research and technology.....	89	744	4,200	655	3,456
Interest.....	7,689	9,050	10,103	1,361	1,053
Subtotal.....	52,012	57,288	69,736	5,276	12,448
All other functions:					
International affairs and finance.....	2,231	2,500	2,679	269	179
Agriculture and agricultural resources.....	4,419	5,173	5,696	754	523
Natural resources.....	1,544	2,006	2,503	462	497
Commerce and transportation.....	1,631	2,573	3,388	942	815
Housing and community development.....	30	320	276	290	-44
Health, labor, and welfare.....	3,059	4,244	5,613	1,185	1,369
Education.....	541	943	1,537	402	594
Veterans' benefits and services.....	5,184	5,414	5,484	230	70
General government.....	1,284	1,709	2,195	425	486
Subtotal, all other functions.....	19,923	24,882	29,371	4,959	4,489
Allowances undistributed:					
Comparability pay adjustment.....			200		200
Contingencies.....			175		175
Interfund transactions (-).....	-567	-654	-679	-87	-25
Total, administrative budget expenditures.....	71,369	81,515	98,802	10,146	17,287

NOTE.—Figures may not add to total, due to rounding.

*Increases in administrative budget expenditures, fiscal years 1958 to 1961*

[In millions of dollars]

	Expenditures		Increases
	1958	1961	
National defense.....	44,234	47,494	3,260
Space research and technology.....	89	744	655
Interest.....	7,689	9,050	1,361
Subtotal.....	52,012	57,288	5,276
All other functions:			
International affairs and finance.....	2,231	2,500	269
Agriculture and agricultural resources.....	4,419	5,173	754
Natural resources.....	1,544	2,006	462
Commerce and transportation.....	1,631	2,573	942
Housing and community development.....	30	320	290
Health, labor, and welfare.....	3,059	4,244	1,185
Education.....	541	943	402
Veterans' benefits and services.....	5,184	5,414	230
General government.....	1,284	1,709	425
Subtotal, all other functions.....	19,923	24,882	4,959
Interfund transactions (-).....	-567	-654	-87
Total, administrative budget expenditures.....	71,369	81,515	10,146

NOTE.—Details may not add to totals due to rounding.

*Changes in administrative budget expenditures, fiscal years 1961 through 1963*

[In millions of dollars]

	From 1961 to—			From 1962 to—		From 1963 to 1964
	1962	1963	1964	1963	1964	
National defense.....	3,609	5,510	7,989	1,901	4,330	2,429
Space research and technology.....	513	1,656	3,456	1,143	2,943	1,800
Interest.....	148	732	1,053	584	905	321
Subtotal.....	4,270	7,898	12,448	3,628	8,178	4,550
All other functions:						
International affairs and finance.....	317	374	179	57	-138	-195
Agriculture and agricultural resources.....	722	1,558	523	636	-199	-1,035
Natural resources.....	141	374	497	293	356	123
Commerce and transportation.....	201	752	815	551	614	43
Housing and community development.....	29	205	-44	176	-73	-249
Health, labor, and welfare.....	280	671	1,369	391	1,089	696
Education.....	133	418	594	285	461	171
Veterans' benefits and services.....	-11	131	70	142	81	-60
General government.....	166	332	486	166	320	154
Subtotal, all other functions.....	1,978	4,815	4,489	2,837	2,511	-326
Allowances undistributed:						
Comparability pay adjustment.....			200		200	200
Contingencies.....		75	175	75	175	100
Interfund transactions (-).....	+21	8	-25	-13	-46	-32
Total, administrative budget expenditures.....	6,272	12,796	17,287	6,524	11,015	4,491

Mr. GORDON. This defense-space-interest category, which I recognize you don't like—

Mr. CURTIS. That is not fair.

Mr. GORDON. It increased \$12½ billion over the 3-year period. All other programs increased \$4½ billion.

Mr. CURTIS. Let me tell you why I resented putting them together. I am well aware that the people have in their minds that perhaps space has something to do with defense. Right now it does not because we created a civilian space agency. The increase in space was 212 percent and an 8-percent increase in defense. Those are accurate figures.

You can create a very erroneous impression by lumping those two together. I think to get the picture, and that is what I have done in my chart, I have each itemized, defense, space, interest, HEW, and I am looking them over on an individual basis—

Secretary DILLON. National defense went up \$7.9 billion from a \$47½ billion total in 1961. So it is one-sixth or over 16 percent.

Mr. CURTIS. I have it over a 3-year period.

Secretary DILLON. That is the 3-year period.

Mr. CURTIS. I understand you are lumping them together.

Secretary DILLON. No, that is not space.

Mr. CURTIS. Let us not argue this now because I do not have the figures before me. Let us have the figures for the record.

Secretary DILLON. That is fine.

Mr. CURTIS. I think my statement is accurate. I have one final matter I want to call to the Director's attention. This has to do with what Mr. Byrnes was talking about.

In today's Record, Tuesday, February 26, 1963, on page 2837, my esteemed colleague, Mr. Jones of Missouri, I am happy to say, took the floor to point out this situation on building of post offices in Mis-

souri. He points out that three projects were estimated to cost respectively \$187,000, \$190,000, and \$240,000 in very small towns, when figures for these communities' buildings have cost in the very recent past—the past 2 years—from \$25,000 to \$35,000, and in the 1 small city of more than 5,000 which relates to the \$240,000 figure, the cost of construction was about \$75,000.

He says we must question the justification of these buildings on this list. I was advised that I was correct in my conclusion to the extent that 1 building was proposed to be built in a small town of less than 750 population at an estimated cost of \$187,000 and could not be justified and was therefore being removed from the list of proposed projects.

However, in fairness, I must say that this was not the only project removed, for in the revised prospectus under date of January 31, 1963, only 84 projects of the original 145 proposed projects were retained, 2 new projects added.

The estimated cost was cut from \$32 million down to \$20 million. I commend this. But this is an example which I think runs through our budget. When we have this kind of thing, Mr. Director, it is hard for either the public or the Congress to believe that we have a tight budget.

I do suggest if these are perilous times, and I think they are, the administration needs to have a very hard look at expenditures and move toward expenditure reform. I hope that Congress will provide the incentive in this debt limitation bill.

Thank you.

The CHAIRMAN. Gentlemen, undoubtedly other members have questions of you. If we recess until 2 o'clock, can both of you be back?

Secretary DILLON. Yes.

The CHAIRMAN. Without objection, the committee will recess until 2 o'clock this afternoon.

(Whereupon, at 12:35 p.m., the committee recessed, to reconvene at 2 p.m., of the same day.)

#### AFTER RECESS

(The committee reconvened at 2 p.m., Representative Wilbur D. Mills, chairman of the committee, presiding.)

The CHAIRMAN. The committee will please be in order.

#### FURTHER STATEMENTS OF HON. C. DOUGLAS DILLON, SECRETARY OF THE TREASURY, AND KERMIT GORDON, DIRECTOR, BUREAU OF THE BUDGET

The CHAIRMAN. Mr. Utt has some questions.

Mr. UTT. Thank you, Mr. Chairman.

Mr. Secretary, I have a couple of questions I wanted to ask. I think, however, the general subject was very well covered by Mr. Byrnes and Mr. Curtis.

With reference to the public works acceleration bill, the \$400 million appropriation, were there any projects in that appropriation bill or any money spent for projects that were not authorized by Congress?

Secretary DILLON. I think I would have to refer that to the Director of the Bureau of the Budget.

Mr. GORDON. I believe, Mr. Utt, that the answer to that is that Congress considered a series of broad categories of projects. As I remember the legislation, there is a long list of categories. I am speaking now of grants to States and localities for construction, with the funds provided in the public works acceleration bill.

I remember, for example, water supply projects, sewer projects, streets, public building repairs, and a large number of such things. I believe, however, that congressional consideration, at least with respect to the grants to States and localities, went to broad types of projects rather than to individual projects.

Mr. UTT. Do you know of any project that was started under this legislation that was specifically turned down by Congress at the time of the general appropriation and authorization of the public works bill?

Mr. GORDON. No; I do not.

Mr. UTT. I want to inquire of you or the Secretary with respect to Domestic Peace Corps payments. Who is paying the 26 members of the Domestic Peace Corps and under what authority are they paying them?

Mr. GORDON. I believe, Mr. Utt, that the funds are derived from agency contributions, from agencies whose programs relate to the future work of the National Service Corps, but I am afraid my personal knowledge doesn't extend beyond that.

I believe, however, that the funds are being contributed by agencies whose own programs embrace the kind of activities that the National Service Corps would engage in.

Mr. UTT. Could it be that there are agencies that have money that they do not know what to do with so that they create a new project?

Mr. GORDON. I would not think this would so indicate, Mr. Utt. I would think that this provides an opportunity to attain particular objectives, the kind of objectives that the National Service Corps would realize, objectives which the agencies themselves regard as a central part of their own responsibilities.

Mr. UTT. You would have to agree that there is no legislation yet creating the Domestic Peace Corps.

Mr. GORDON. That is right.

Mr. UTT. We are agreed on that. Of course, I go back to that old-fashioned document called the Constitution in which it says "no money will be drawn on the Treasury of the United States without the approval of Congress."

These expenditures from the Treasury violate that part of the Constitution.

Mr. GORDON. Are you asking me if they do?

Mr. UTT. Yes.

Mr. GORDON. I would think that they do not, Mr. Utt.

Mr. UTT. The fact that the Congress has practically no control over the expenditures once a broad welfare appropriation bill is passed?

Mr. GORDON. No; I don't think that would be implied at all. I would think that Congress has very close control. I would also expect that the funds which are being used here are funds which were appropriated for purposes closely similar to the kind of services that the National Service Corps would render.

Mr. Utt. All I know is that if my bank withdrew money from my account without my authorization, the bank would be in deep trouble. I think the same would apply to the Government.

Now, with reference to questioning by Mr. Curtis about the projects that have been cut out or cut down, what do we do about the four or five new projects that have been recommended by the administration in view of a tight budget?

I refer specifically to a five-ring circus that went on yesterday before one of the Senate committees with five Cabinet officers appearing to dramatize the importance of the Youth Conservation Corps.

What are we going to do about these new programs? Is it just opening up new doors? I was looking today at the national mental health program. In the last 15 years, it has grown from \$3 million a year to \$190 million a year. Are we going to open five new doors to expenditures that we do not have the money for?

Mr. GORDON. I think the question really boils down, Mr. Utt, to whether practicing expenditure restraint necessarily means that you must not undertake anything new. I don't think we would interpret it that way.

It seems to me that what is important is our ability to find economies and savings in older programs and other programs which relatively may be somewhat less urgent, in order to release the funds necessary to do things more urgent in light of today's priorities.

In the 1964 budget, as you know, when we say all programs other than defense, space, and interest will decline from 1963 to 1964, we don't mean that every one will. Some will increase and some decrease. The net effect is a small minus.

I would regard this as the wise practice of expenditure restraint—the ability to hold down total expenditures while recognizing needs, in some cases quite urgent needs, which changing circumstances and problems create.

Mr. Utt. So far as the Youth Conservation Corps is concerned, I do not know how much it is going to cost. But I do know we have 100,000 jobs available on farms in California if young people are not too lazy or have too much pride to work on a farm. They could go out there and work on a private payroll rather than a public payroll.

We seem to do everything in the world to discourage people from working and invite them to take what I would call a "free ride" at Government or taxpayer expense. I think we are going to have to deny ourselves some of these luxuries that we can't afford. This whole program reminds me of my going into my bank, with my business losing money, being indebted to the bank, and simply saying, "I want a thousand dollars on which to take a holiday." They are going to tell me "No." They will tell me I am running in the red and better get my house in order.

I think we have to apply that to the Government. I can't sell my bank on the program of deficit financing being a virtue. To them it is not a virtue. I do not think we can sell it to the American people.

Mr. GORDON. I would think, Mr. Utt, the situation in which expenditures for all the Federal Government programs in this domestic civilian area actually decline from one year to the next would meet the test of our house being in order.

Mr. Utt. The only bright spot in the whole picture is that I do not have to revise my minority report that I have been filing for the last

5 years. I can just change the date and it makes it very simple to file a minority report.

Thank you, Mr. Chairman.

Mr. KING (presiding). Mr. Alger.

Mr. ALGER. Trying to take up where the previous gentleman left off, Mr. Secretary and Mr. Director. I do have several questions that trouble me very deeply, and I hope I can get across to you my concern.

First of all, the matter brought up earlier by a member of this committee when he pointed out that he must answer to the public on this matter of the debt ceiling—Would you agree that a Member who consistently opposes the spending programs that he feels to be inflationary or of a deficit nature, or opposes the great majority of spending programs, is certainly not inconsistent if he then opposes the increase in the debt ceiling. Would you concede that, Mr. Secretary?

Secretary DILLON. I think there is a certain measure of consistency there. I don't think it is absolutely complete because under our democratic system we are supposed to do what the majority decides. Certainly once the Congress has decided that they wish to carry out a certain project and appropriate the money for it, then another element enters in when the debt ceiling comes along, that is, whether we should be in a position to pay the bills which have been legally entered into.

So it makes it really quite a different thing. It gets back to what Mr. Utt had reference to when he talked about his usual minority report. It is a very difficult and somewhat frustrating position for someone in this position, I can see. But it is also a difficult position for the Treasury which has to handle the money and pay the bills.

We do not, as the Treasury, decide what appropriations will be. It is just our job to raise the money to pay the appropriations. For that we need a certain amount of limit on the debt ceiling.

Mr. ALGER. Mr. Secretary, I did not want you to think that under any circumstances opposing as I may spending, that I would disagree with you on paying your bills. Let me rephrase my question.

I put it this way: Is it not consistent that when a man opposes running up the bills he can also agree to holding the debt limit where it is?

The next question to which I would direct your attention would be what is the course of responsibility? This is where we have been troubled. So that we understand where we disagree, I am not asking these things to have you agree but to bring them out so we can see where we disagree as we all are interested in this.

We so-called conservatives are troubled because for years we have been picking up the tabs of the big spenders, reckoning once the majority of the Members decided to spend the money, we had to come along and share that responsibility.

I am one of these. I voted against the increase in the debt ceiling for the first time last year for the reason that I was tired of picking up the tab. I had not run up the bills. I realized that this was about the only way I could force the agonizing reappraisal by the administration to see that some of us did not believe in these big spenders.

Another thing has come to light that I must mention, so you will know why I am asking these things—you have been challenged by

the gentleman preceding me by a new factor which I never heard developed before in the debt ceiling deliberations. When the revenues fall off there is indeed a responsibility of the administration to start to curtail expenditures before coming back to Congress.

My question of you is this: Do you, Secretary Dillon, assume from the start that any time you come to Congress that we will go ahead and increase the debt ceiling, for the reason you said, once you have run up the bills you have to pay them. You have presumed that?

Secretary DILLON. No, I pointed out to an identical question earlier that we never presume anything as far as the Congress is concerned. We make our recommendations. We know that they will be carefully considered and that Congress, after due consideration, will make its own decision. The same thing applies to the debt ceiling as well as to any other bill.

I do think this year there was a somewhat different history. We may have different interpretations of what that was. But certainly there was a clear statement that should there be a deficit the Congress intended to again look at the debt ceiling which had been voted under different assumptions. Presumably, if they intended to look at it they intended to at least give consideration to changing it in the light of the changed circumstances.

Mr. ALGER. The reason I ask this, you make some of us feel, Mr. Secretary, that you do presume or assume that we will. I know as a matter of fact that you are intimately aware of what the separate views accompanying H.R. 11990 on last year stated. They could be re-read in the record right here. Your hand was called then, if you please, on this very thing, saying that this is what would happen.

I have the feeling that we are going through another exercise because it was already decided.

Let me ask you this: If you were in my shoes having opposed much of the spending that you feel to be of the inflationary or deficit type, having opposed many of the appropriations that have been before us, would you try to hold down spending by limiting the increase in the debt ceiling or wouldn't you?

Secretary DILLON. I don't think that limiting the increase in the debt ceiling is an effective way to hold down expenditures.

Mr. ALGER. I know, but that was not my question.

Secretary DILLON. No, I wouldn't, because I think the way to do it is to hold down appropriations. If Congress desires to hold down spending, it is very easy. Just don't appropriate the money.

Mr. ALGER. I understand where we differ there. You mentioned earlier when asked not only with regard to cycle but what our fiscal position is at this time that you did not see the earmarks at this time of recession.

One thing I jotted down was the overuse of credit. This is in the private sector, is it not?

Secretary DILLON. Yes.

Mr. ALGER. How about the overuse of the credit in the public sector? Interestingly enough, if that is one of the earmarks, Mr. Secretary, the overuse of credit in the private sector of recession, is it not coincidental and interesting that you, the administration, are adopting the same procedure in the public sector and not calling it a prelude to recession?

Secretary DILLON. It might lead to inflationary consequences if at a time of good business we had a large Federal deficit and we did not finance it in the proper manner.

In other words, if we financed it through creating new credit by selling Government securities to banks. Last year we were very careful to avoid this. Indeed, in spite of an increase during the last calendar year in the Federal debt of about \$7½ billion, the holdings of commercial banks of Government securities actually decreased, and we were able to place our Government debt largely with other private holders. In that way it is not an artificial creation of new credit and not a minus of credit of the type that could be characterized as possibly leading up to a situation that would be unstable and could lead to a recession.

Mr. ALGER. Then if I understand you, what you are saying is that while our deficits are very large, that your financing is not overuse of credits?

Secretary DILLON. The way we are financing to the extent that they are financed out of savings, certainly couldn't be called an overuse of credit; no.

Mr. ALGER. I was interested. I just want you to see the point that concerns me. If the overuse of credit, using your term, accompanies or earmarks a recession, is it not interesting then that the only overuse of credit right now is the Federal Government?

We have been reminded by people in and out of this room that our corporate income, individual income, gross national product and a number of other factors, are at an alltime high. Yet we are told that we are not at the peak of the cycle but are in trouble. Yet we are told when we are at a peak that is the time we are supposed to reduce the national debt through budget surpluses. This leaves me absolutely at sea. I do not understand the cycle definition at all as to just what this cycle is.

Where are we now? Are we just halfway up? Why do you not see that we are right now, if our economic indicators are right as to our total product, at a peak? What is your reason for it?

Secretary DILLON. It is very clear. Mr. Gordon pointed out earlier we have reached a rather novel and new situation, which first developed during the rise that culminated in the spring of 1960, and seems to have developed again in that we had a rise of business activity from the trough or the bottom of the recession and in either case, apparently—last time, certainly it did not do it. It doesn't look as if it is going to happen this time either.

Economic activity is not carrying through to a level of either full employment of our human resources or full employment or full capacity utilization of our material resources, of our factories and so forth.

The definition of the kind of business cycle we have always had before, the economists when they talked of the business cycle always said that at some point in the business cycle on the up side you reach relatively full employment.

Your problem often was overemployment and inflation. We have not had any such problem. We have not had near the full employment. That is the reason we are making these recommendations to reduce the restricting effect of an oppressive tax system, which we

adopted to control inflation, which is no longer appropriate for our present type of condition.

Mr. ALGER. If I understand your answer, it comes under two headings: that we are not at peak despite the figures that say we are at an all-time high, because plant capacity and employment are not at 100 percent.

What percentage would you call our peak?

Secretary DILLON. No; I would say we have used as a standard for unemployment, 4 percent unemployment. Most countries of the world have been operating with far less than that. We have operated ours quite successfully at times with less than that. We hope to do better than that in the future through better training programs and specific things of that nature.

That is a sort of general benchmark that is generally accepted, at least as a first benchmark of full employment. On the capacity utilization side—

Mr. ALGER. What percentage?

Secretary DILLON. Four.

Mr. ALGER. Four percent unemployment?

Secretary DILLON. Yes. The latest figures were 5.8, which is the same as it was a year ago.

Mr. ALGER. Before you get to plant capacity, in this regard do you realize that Secretary Wirtz, himself, sitting right there, admitted to me—and this is all on the record—that we do not know who the unemployed are.

I will ask you now: Do you know the constituency of the unemployed and what percentage are the principal breadwinners of the family, for example? Do you know that anyone over 14 years old who wants to work and does not hold a job is unemployed?

I asked Secretary Wirtz what percentage of the total unemployed is comprised of people between 14 and 21 years of age. We do not know how many are the principal breadwinners. When we get into Federal planning as to what maximum employment and plant capacity is, and we do not know. I can't get this through. I have asked who is unemployed. At one time Secretary Ribicoff said, "You will have to give us more people to make the surveys."

I say when we base our whole economic concept on unemployment and we do not know who they are—

Mr. GORDON. I think we know a great deal about who the unemployed are. We publish on a fairly regular basis any number of breakdowns of the composition of the unemployed. We know the age groups. We know how many experienced male workers are unemployed. We know how many females are unemployed. We also have the figures broken down by minority groups and regionally.

So, I think we do know a great deal about who the unemployed are. Furthermore, I would like to point out that the 5.8-percent figure somewhat understates the degree of slack in the labor force, because it takes no account of the very substantial number of workers who are involuntarily working short time, less than a full week, because the demand for their services is not sufficient to keep them occupied a full week. They are counted as employed even though they are not fully employed.

I think our knowledge of the composition of our labor force and of the unemployed in our labor force is better than that of any other country in the world. We may not be able to answer every question, but I think we can answer a great many.

Mr. ALGER. Mr. Director, just so we understand each other and the record will bear one of us out as being right or wrong, Secretary Wirtz admitted to me that we do not know how many of the total unemployed are in that group between 14 and 21 that need work; how many are migrant and are not working by choice; how many are principal breadwinners.

I think we would all concede that the principal breadwinners are the ones we are primarily concerned about. Of course, we are concerned about anybody out of work.

Mr. GORDON. I agree with that.

Mr. ALGER. We do not know the percentage. In a breakdown of 5.8 percent, I am simply telling you that Secretary Wirtz has admitted that we do not know what percentage of those are principal breadwinners. We even find out what little we know through a very questionable sampling procedure.

I am simply throwing this out at you. This is not your department. But I want you to know that I am getting tired of hearing the figures given me when the Secretary of Labor himself cannot justify all the Federal planning we are doing in the name of unemployment.

If I am wrong, of course the record will bear this out. I am simply respectfully contradicting you, Mr. Director.

Mr. GORDON. I am not saying, Mr. Alger, that we would have the answer to every one of the questions you have asked.

Mr. ALGER. I do not expect a detailed answer. I expect to know how many people are unemployed and need a job.

Mr. GORDON. I think we have an impressive amount of information about the composition of the unemployed.

Mr. ALGER. The impressive amount does not tell us who the unemployed are. I simply restate that.

Mr. Secretary, in the second part you were mentioning plant capacity.

Secretary DILLON. Yes. I think on that there have been various estimates and measures but one that carries the most persuasion to me—and I think maybe it would to you, too—is industry's own estimate of preferred capacity operations and industry's own estimate of how near it is to that preferred status. It is not 100 percent by any means.

But the McGraw-Hill Co., through their broad coverage of industry, makes such a survey from time to time, two or three times a year, and I think the last one they made was made in last September. It indicated that all industry, manufacturing industry as a whole, was operating at about 83 percent of capacity compared to something around 90 or 91 percent, which the same people said was the preferred capacity that they would like to operate at. They did not want to operate 100 percent because there would be bottlenecks and there are these obsolescent plants that we hear about. But it is not entirely a question of obsolescent plants. I think industry itself could probably judge better than anybody for itself what its position is as far as the utilization of its own plants is concerned. So that is the figure I used.

Mr. ALGER. Do you have any idea what conflict, if there is any, as was brought out this morning with respect to Wisconsin, as to the number of plants that are being constructed in competition with existing plants whose full capacity is not in use?

Secretary DILLON. You mean the area redevelopment?

Mr. ALGER. Yes.

Secretary DILLON. I imagine that information could be obtained. Of course, plants in industries move up and down. Because at the moment some part of industry is operating at 85 percent of capacity is not necessarily a reason why there should not be extra capacity built in that industry. If it was operating at 60 percent, I think it is quite different. But 85 is a pretty high level of capacity operation.

Mr. ALGER. At what plant capacity are we now operating, roughly, Mr. Secretary?

Secretary DILLON. Eighty-three.

Mr. ALGER. You said 85 is pretty high. We are getting pretty close to top then.

Secretary DILLON. I would say the top is 90 or 92 percent. That is the effective top. There is about 10 percent difference.

Mr. ALGER. Would you agree with the President—I think this is a correct statement—that if Congress does not pass this tax bill that we are vulnerable to criticism for the next recession. Do you think that is a correct statement?

Secretary DILLON. I certainly think that the next time cyclical developments produce a recession, the recession will be far less severe if a tax bill has been enacted. I think there is much less chance of a recession occurring. So if I were interested in diminishing chances of a recession occurring and interested in mitigating its impact if it did occur nonetheless, I would certainly strongly favor, as I do, the enactment of a tax program along the lines recommended by the administration.

Mr. ALGER. The thing that bothers me is that you and our other witness consistently never seem to relate this to spending. I am back on the tax program now and I think we should pass that.

Secretary DILLON. I don't think that is quite correct. The President has very specifically, every time he has spoken on this subject, related it to spending. He has made very specific pledges. The last one was in this speech only the other day where he stated that if this were enacted, he would utilize substantial portions of the increases in revenue as our economy grew to reduce the deficit until balance was reached. He made additional pledges in regard to personnel; that he would not let Government personnel increase as rapidly percentage-wise as the national population, and State and local government employees increased.

This has been and is an essential part of the program. I don't think he could honestly be suggesting a program of this nature with any fiscal responsibility if we had not made those pledges and didn't intend to carry them out.

Mr. ALGER. Secretary Dillon, I had a peculiar feeling when I listened to your cross-examination. My first contact with you was very pleasant when I asked you about rate structure and you quickly agreed that the high rates were confiscatory and should be reduced. I think you frankly stated that.

I have had the uneasy feeling today that a lot of the things I am hearing today do not match the philosophy I have seen you share in the past.

So I have a couple of things I want to mention here. One, I happen to have a running distaste for some of the things Mr. Schlesinger is saying and he is on record stating that the individual does not really know what to do with his money and in the best interest of everybody concerned, the Federal Government should assume control of personal income and spend it supposedly to the best advantages of everybody.

Would you agree with that kind of philosophy?

Secretary DILLON. I don't think I would agree with that.

Mr. ALGER. Whether he said it or not, you would not agree with that kind of philosophy?

Secretary DILLON. No, I don't think so.

Mr. ALGER. Then I think we know what you are up against. By the way, gentlemen, lest I seem vulnerable to you, and I am very critical at this point because I am upset about this spending, but to keep good faith with both of you, I did want to say while you are both here, for some years, even before I came here—since 1945—a Dallas Federal Building has been planned. I had nothing to do with it.

In 1960, when President Eisenhower said, "We are going to balance the budget," I said, "OK, Mr. President, good enough." This Federal Building for Dallas is not warranted in a time of deficit financing. But my overall point is that neither are public works.

I wanted to mention it to you because I heard some testimony in the Appropriations Committee recently by another member of the administration that has to do with the Dallas Federal Building. It is not my project and I won't be for it in a time of deficit financing. They wrapped this around my neck so long, and even the papers are on it now—that somehow the people of Dallas are being penalized because we have a Republican Representative.

I am not for these buildings in a time of deficit financing.

I want to read one thing just to be sure that you do know what the separate views were last year. I wish to read one paragraph to you:

The fiscal pattern of the Kennedy administration is clear. A balanced budget is submitted "on paper" to satisfy the advocates of fiscal responsibility, and to forestall, if possible, any further drain on the gold required to meet our foreign obligations. At the same time the administration is pursuing a policy of increasing Federal expenditures irrespective of the Federal revenues. That course satisfies that group of economists, including White House "inner circle," who advocate public spending and Federal deficits as a means of insuring national prosperity.

I quoted verbatim from last year's separate views and now ask you gentlemen if that is an accurate description of the administration?

Secretary DILLON. No.

Mr. ALGER. Thank you.

The CHAIRMAN. Mrs. Griffiths.

Mrs. GRIFFITHS. In response to a question that I asked you, Mr. Gordon, in another committee, you pointed out that if you were to cut the expenditures sufficiently to balance the budget, I believe it would take about a \$20 billion cut this year, would it not?

Mr. GORDON. That was my rough estimate for a balanced budget in fiscal 1964; that is correct.

Mrs. GRIFFITHS. I have checked the employment figures in the city of Detroit. The payroll for Metropolitan Detroit per week in the last year in which they had those figures available was \$103 million per week. So that it could be assumed that if Detroit, for instance, bore the full brunt of the \$20 billion cut it would mean that they would have to be unemployed for about 4 years; is that not right?

Mr. GORDON. I presume your arithmetic is correct.

Mrs. GRIFFITHS. Everybody would have to be unemployed for approximately 4 years. I do not think it takes very much ability then to see that if such a thing occurs that you would reduce the revenues coming out of the city of Detroit.

Mr. GORDON. That is correct. It was essentially that kind of logic I was trying to work out quickly in rough figures when you asked me the question several weeks ago.

Mrs. GRIFFITHS. And you pointed out that if you balanced the budget through this method that next year you would anticipate you would have to make further cuts, is that not right?

Mr. GORDON. In the sense that a drastic reduction of expenditures of that magnitude to balance the budget would probably be sufficient to trigger a downward spiral in activity so that you would lose further revenues in fiscal 1965 over and above what you lose in 1964.

If you tried to catch up with that through further expenditure reductions, you would have to go further than you did in 1964.

Mrs. GRIFFITHS. If you began this route, then may I ask you, can you anticipate the time when you would either have a tax decrease or a tax increase? It would be necessary to have a tax increase, and when would that time occur?

Mr. GORDON. This is awfully difficult to estimate. This is such drastic economic surgery that it is very difficult to contemplate what the longer term consequences would be.

Mrs. GRIFFITHS. And yet, many people who are speaking are obviously wanting to choose this path. So I think you might as well answer it.

Mr. GORDON. I haven't heard of anyone who has urged that it would be wise economic policy today to reduce expenditures in 1964 sufficiently to balance the budget in 1964. If this is the case, the estimate I gave to the Joint Economic Committee was not a very bad one, given the margin of error one has to have for this kind of rough estimate.

I think perhaps a reduction in expenditures of \$20 billion a year would be necessary to accomplish it.

Mrs. GRIFFITHS. The first year?

Mr. GORDON. Yes.

Mrs. GRIFFITHS. After that it would be greater?

Mr. GORDON. After that it would be greater.

Mrs. GRIFFITHS. So as it became greater, the tax revenue that you would collect would become less; is that correct?

Mr. GORDON. That is correct.

Mrs. GRIFFITHS. So as fewer people were left who were on the tax rolls, there would come a moment conceivably when you would have to increase the rate on those people, is that right?

Mr. GORDON. Perhaps there might come such a moment.

Mrs. GRIFFITHS. So you are never through that route going to hit that point where you are going to reduce taxes?

Mr. GORDON. Of course, after you did this for a couple of years and reaped the consequences—we are all speaking purely hypothetically—you might decide that you were on the wrong track and the way to get back was to seek to stimulate the level of economic activity through a reduction in tax rates.

Mrs. GRIFFITHS. That is where we are now.

Mr. GORDON. That is right. However we would be starting, I think, at a much lower level of economic activity.

Mrs. GRIFFITHS. Thank you very much.

The CHAIRMAN. Mr. Schneebeli will inquire.

Mr. SCHNEEBELI. I guess this question goes to the Director.

In 1961, I believe our GNP was \$519 billion while the estimate for 1962 was 570, which is an increase of \$51 billion. Actually, we achieved 554 which is an increase of \$35 billion.

Mr. GORDON. That is correct.

Mr. SCHNEEBELI. Thirty-five over 51 is about a 70-percent increase estimate. This 30-percent error, is this not a rather unreasonable error in these days of electrical statistical machinery which is supposed to be quite accurate?

Here we figured a \$51 billion increase and we only achieved \$35 billion. Is not this 30-percent error a little unjustified?

Mr. GORDON. I think I can answer that in several ways. In the first place, the error was quite great. I would not try to minimize the size of the error in predicting the GNP in 1962. But it was not quite as great as it seems. After the forecast was made, the previous year's figure was revised downward by \$3 billion.

Mr. SCHNEEBELI. But the spending was not?

Mr. GORDON. We were starting from a lower base than we thought we were. I grant this explains only \$3 billion of the error of approximately 15. So this reduces the error to approximately 12.

Without seeking to minimize the size of the error, I think it should be pointed out that when this projection was made it was not outside the range of other similar projections being made at the time. It was being made at a time when the economy was moving up very sharply and very satisfactorily toward the end of 1961. If the expansion had continued through 1962 at a pace which would not have broken any records but would have looked like similar recoveries in the past, we would in fact have made 567, which was the adjusted equivalent of 570.

It didn't. The rate of expansion slowed down very sharply early in 1962. It was most unfortunately timed. The slowdown occurred almost the day after the forecast was made.

Mr. SCHNEEBELI. What was the major reason for the slowdown?

Mr. GORDON. I am not sure it is possible to put your finger on any one reason for the slowdown. But the principal element of demand which didn't behave as well in 1962 as we had hoped was business spending for plant and equipment. The projection included an increase of about 14 percent over 1961. We actually realized about an 8 percent increase. This made a large part of the difference.

Mr. SCHNEEBELI. I thought your capital expenditures were pretty well in line. Weren't they pretty close to estimates?

Mr. GORDON. No, the plant and equipment expenditures fell substantially below the estimate upon which the 570 was based. I think it was in part, at least, the failure of plant and equipment expenditures to move up as we had hoped which started a good many people looking for explanations, and many people have come to the view that the retarding effect of the tax system both on incentives to invest and on other types of demand for goods and services was one of the things that was holding back the rate of expansion of the economy in 1962.

Mr. SCHNEEBELL. From the point of view of timing, weren't your recommendations to take this depreciation credit made before the slowdown in investment was evident?

Secretary DILLON. The recommendations for the investment credit, yes.

Mr. SCHNEEBELL. I am talking about the timing. In other words, 6 or 8 months of the slowdown he has reference to.

Secretary DILLON. Yes. It wasn't made to take care of that but it was made because over a period of years our expenditures for plant and equipment had not been keeping pace with those of our competitors abroad, all of whom had special tax advantages for investment in plant and equipment, of one sort or another.

Mr. SCHNEEBELL. If for a couple of years it was evident then, this error is all the more glaring.

Secretary DILLON. Even if it had carried through at the high level they had been hoping, we still would have been investing relatively smaller amounts in plant and equipment than they have been investing, year in and year out, proportionately in Europe.

Mr. SCHNEEBELL. To get the record straight, was this overestimate a mistake of the Bureau of the Budget and not the Treasury Department?

Secretary DILLON. I think it is based on our joint feeling of what the best estimate of the gross national product will be, in which a leading role is played by the Council of Economic Advisers, but in which the Bureau of the Budget and Treasury Department participate.

You come out with some figures that is somewhat near the consensus of the views of all those three agencies. That is what this 570 figure was.

Mr. SCHNEEBELL. That is a combined estimate?

Secretary DILLON. Yes. I wouldn't say each agency was exactly the same. The Department of Commerce also takes part in this.

Mr. SCHNEEBELL. Mr. Secretary, in the light of the extreme reaction against this 5-percent floor on deductions, would you suggest at this point any modification in your original recommendation?

Secretary DILLON. Not at this point.

Mr. SCHNEEBELL. The reaction I get is entirely negative. Would you suggest any modification in this original proposal which contains about two-thirds of your increased tax reform income?

Secretary DILLON. Not at this point. I think maybe after all the testimony, we may find some more effective and more acceptable way of broadening the base so as to achieve a similar result. We are looking hard to see if we can because we are aware of the criticisms, and to the extent that those criticisms appear to be valid we naturally want to see if we can find some better way of achieving this result, which I think has long been talked about and indeed desired by mem-

bers of this committee—that there could be some way to broaden the tax base so as to lower the level of marginal rates of income taxation.

Mr. SCHNEEBELI. I have heard some rumors that in replacement of your suggestion of a 5-percent floor, that possibly to replace this recommendation there might be a lowering of the 10-percent deduction exemption to accomplish the same recoupment of funds.

Is there any reliance on this rumor?

Secretary DILLON. No decisions have been reached at all. I think that obviously could be one of the areas of change. It could be combined with a floor like this 5-percent floor. One of the points that seems to me the most valid was that made in the committee by Mr. Byrnes when he pointed out the fact that in the area where itemizers and nonitemizers overlap, the income area of \$5,000 to \$10,000, that the 5-percent floor would have a greater effect on families that itemize than it would on families with similar income that do not. They divide about 50-50 in that area.

So if some means could be devised to affect all equally that would eliminate that particular objection. I don't know that it would still make it acceptable but it is certainly something that merits looking into. Whether we would recommend it or not is another question.

Mr. SCHNEEBELI. My last question is quite a broad question directed to the Secretary.

In the light of your very fine Federal experience, and I consider you have been doing a very good job—I admire your executive action very much and I know you are very much on the spot—I wonder if you could in time send me some recommendations on how you feel there can be better coordination between the tax-raising committees and the tax-spending committees in order to eliminate some of this disparity between income and expense which we come up with each time at the end of a fiscal year.

You have probably given this a lot of thought. I do not want to ask you for a snap opinion, but if you could send to me sometime your recommendations how these committees could coordinate their activities to the best effect it would be helpful.

You have vast Federal experience along this line and I think your recommendations would be very worthwhile. Sometime I would appreciate a letter from you to this extent.

Secretary DILLON. Fine. Thank you.

The CHAIRMAN. Are there any further questions?

Mr. King?

Mr. KING. The chairman and I and other members have had some thoughts along that line, Mr. Secretary. As you know up to, I think, 1865, the committees were joined. The Ways and Means and Appropriations. Some of the ideas that I have I might pass on to you, but I would suggest that they be saved for whatever time you might decide to leave the Government before you recommend them.

Secretary DILLON. That probably is very good advice.

The CHAIRMAN. Are there any further questions?

Mr. Collier will inquire.

Mr. COLLIER. Mr. Secretary, you reminded the committee in your testimony today and previously, that Congress authorized and appropriated the funds for various programs which have resulted in the need for this request to extend the debt ceiling.

By the same token, however, I must point out that the President did not veto a single one of these appropriation bills.

Further, there were certain programs, as you know, that were recommended by the administration which were defeated by Congress which if they had passed, would have only compounded the fiscal difficulty that we face today.

I would like to read, Mr. Secretary, a column which appeared after Congress approved the last increase in the debt ceiling.

It is noted by this writer among the 192 Congressmen who voted on Wednesday against increasing the statutory debt limit were many of the same House Members who have consistently supported increased spending programs and even new obligations.

I charge each of them not only with fiscally irresponsible conduct but indulging in outright political demagoguery. On the other hand, those who have voted consistently to cut the liberal spending programs even though it was not always politically expedient to do so, certainly cannot be criticized in the same light.

I would ask you, Mr. Secretary, if you share the views of this particular writer?

Secretary DILLON. I think we had an exchange on that a little earlier. I think certainly someone who is consistently opposed to appropriations and voted against them is in a somewhat different moral position from someone who has consistently voted for them and turns around and casts a contrary vote not to carry out the appropriation which he voted for because in effect he is voting on both sides of the same question at the same time.

I wouldn't call that the acme of consistency.

Mr. COLLIER. I reiterated this only because as you will recall, there were 403 Members of the House voting when the increase in the debt limit last came up in the Congress and the vote was 192 to 211 which means if 10 votes had gone the other way there would have been a very serious problem, as you pointed out.

I do this only because I would hope that the view you expressed here today will be funneled down to some of our colleagues when this proposal comes on the floor of the House.

I realize that we have to take one problem at a time. But in the light of the budgetary request and the respective revenue situation that we face now, does it not seem certain that a sharp increase in the debt ceiling will have to be requested early in 1964?

Secretary DILLON. There will have to be a request for a fiscal debt ceiling increase made sooner than that because the permanent ceiling would automatically go into effect after the 30th of June, or on the 1st of July, so we have to have new legislation on the books by that time.

In the last 2 years, it has generally been considered during the very end of May and June, and I would assume the same thing would happen this year.

As we pointed out at some length, and I think it is in the report of the committee last year very clearly there is a seasonal factor in our income as it comes into the Government.

We get less in our first 6 months than we do in the second 6 months. So we would have to ask for a substantial increase in the debt ceiling even if there was going to be a fully balanced budget in 1964 just to take care of this seasonal increase in the debt.

In effect, there has to be an increase in the debt ceiling under our present fiscal procedures the way our money comes in in the first 6 months of a fiscal year to take care of any deficit that might have occurred in the preceding year, if one occurred.

Since this year, we are apparently going to run a deficit of about \$8.8 billion, next year's ceiling would have to reflect the fact that had occurred by moving up proportionately. That is why we got into this colloquy earlier when we first appeared at the time of the tax hearings, that probably the new ceiling would have to be requested in the area of \$320 billion, give or take \$5 billion. That would be the debt ceiling for 1964 that would have to be requested because of the situation that we are now in.

Mr. COLLIER. Then we would be faced with an increase in the debt ceiling of approximately \$17 billion?

Secretary DILLON. No, \$12 billion.

Mr. COLLIER. Mr. Director, so that I can get squared away in my own mind here, in your colloquy with the gentlelady from Michigan, did I understand you to say that if we attempted to balance the budget in 1964 that this would result in an economic catastrophe?

Mr. GORDON. No, I did not say that, Mr. Collier. This is a repeat of an exchange we had some weeks ago when I was asked the question: Approximately how much do you think you would have to reduce expenditures in fiscal 1964 to achieve a balanced budget in 1964?

I made a rough guess at the time—which turns out to be not too far off—of a reduction in expenditures of about \$20 billion. This would take account of the fact that the reduction in expenditures would tend to reduce tax revenues, so you would have to reduce expenditures sufficiently to offset the decline in tax revenues which would be induced by the reduction in expenditures.

That was an answer to this hypothetical question.

Mr. COLLIER. I direct this question to either or both of you gentlemen.

At what point does the deficit become unhealthy or at what point does the deficit become healthy?

Secretary DILLON. I don't think a deficit as a deficit is something that is ever healthy. The problem is that there is a need to create and to have an adequate amount of demand to purchase the products of our economy. When our economy moves into a recession and income moves down, if you reduce that demand still further by reducing Government expenditures, you go into a cyclical downspin which is exactly what happened in the early thirties and you put yourself not into a recession, but into something much worse.

I think that has been generally recognized, and no administration since the war has operated in that way. They all tried to take into account the fact that when a recession started, it was necessary either to maintain or even to increase expenditures.

We do have these automatic stabilizers in our laws which work that way through unemployment insurance, as an example, which does increase outflow as people become unemployed.

Mr. COLLIER. I think that is all, Mr. Chairman.

The CHAIRMAN. Mr. KNOX will inquire.

Mr. KNOX. Mr. Secretary, should a deficit be planned by an Executive or by the Congress or should it be something that just happens?

Secretary DILLON. I think it is something that would happen. It would not be planned that one wanted a deficit, unless one is in the position that we are in now, where our revenues are inadequate because our economy is not functioning properly. In this case you are faced with the alternative of reducing expenditures so drastically, as Mr. Gordon pointed out, that it will further reduce revenues, and you have to keep on going, so you have a multiplier effect which would very rapidly cut into the other responsibilities of the Executive and of the Nation.

One of the most important ones which is just not escapable from is just the question of what we think is a valid level for the biggest expenditure we make, one-half of all our expenditures, and that is defense expenditures.

You cannot cut \$10 billion or \$20 billion, or even \$5 billion or \$6 billion out of our present expenditures without cutting a substantial part of it out of the Defense Establishment. Maybe that would be the judgment at some time of Congress that that is what should be done.

Under the present circumstances, it is not the administration's. Judging by preliminary things I hear, the indications are that the Congress may just as likely vote more money for defense than the administration has requested, which would make our problem more difficult.

Mr. KNOX. Then your analysis of this problem that is facing this committee and the Congress is that you would say this would be a planned deficit; is that true?

Secretary DILLON. No; I would say it is one that is reluctantly accepted because we are in a situation where our revenues are inadequate. We are trying to do something about it. We put our recommendations before you. You are now considering them. There is the tax bill which we propose for 1963, which we think will move the economy ahead and allow us to generate the revenues that will make it possible at the same time to have a fully employed economy and a balanced budget at a reasonable time in the future, coupling that with close control of expenditures as we move ahead toward that time.

Mr. KNOX. It certainly puts the Congress, I believe, in a rather untenable position, because of the fact that the Constitution does provide that Congress shall levy the necessary taxes for the defense and for the domestic problems as far as the Nation is concerned.

So we receive a budget of close to \$100 billion, with approximately \$90 billion revenue attached to it, but we do not receive any message from the executive department that would indicate any preference as far as meeting the problem through increased taxation. I fully realize that the taxes that have been levied are at a saturation point and something should be done in order to relieve the taxpayer.

My theory is that about the only way you can justly justify your position in relieving the taxpayer of some of his burdens is that you cut back on spending. But there has not been any attempt to my knowledge made to show any indication that the administration is going to recommend any cutbacks on spending.

Do you know of any?

Secretary DILLON. We think that has already taken place. I think the Director of the Budget has so testified at some length, regarding

how the 1964 budget was prepared and the fact that civilian expenditures on the whole were very substantially held down. There has been a pledge to continue to do that.

Further than that, there has been a statement I made and which has been repeated by the Director of the Budget that the buildup in defense expenditures which has been adding substantially to our budget every year should begin to level out and that we don't foresee continued increases in the level of defense expenditures of the same size we have had in the past. This will make it easier to carry out the President's pledge to devote a substantial amount of funds to reducing the deficit.

Similarly, the Director of the Budget pointed out that maybe 2 years hence space expenditures will level out if we continue our present program. The whole field is clear as to what the administration intends to do and how it intends to achieve it, which is to hold down the increase in expenditures to a substantially lower level than has been the case in the past few years, and thereby allow the increase in revenues that will come from better business as a result of the enactment of the tax recommendations, a large portion of that to go to reducing the deficit year by year until we reach a stage of balance.

Mr. KNOX. Mr. Secretary, as I recall from some testimony that came from the administration—I don't know whether it is your testimony or the Director of the Budget—in which was set forth, I believe, five new programs that were being recommended to the Congress. If those new programs are going to be authorized and appropriations made, how do you cut back on spending? You may do it in some other categories to a slight degree, but the overall will be increased spending.

Secretary DILLON. I think the Director of the Budget has testified to that. The basic point was certainly that with a growing economy, a growing population, we do expect expenditures to continue to increase, but increase more slowly than revenues increase, so that we will reach a balanced budget at a higher level of both receipts and expenditures than we presently have.

Mr. GORDON. I don't think, Mr. Knox, that anyone would urge a budget policy that would at all times refuse to contemplate new Government programs and would keep in the budget all old Government programs.

It seems to me that would be the very negation of a budget policy. Times change, circumstances change. I think we would always want to be reassessing the need for Government activities in new directions and reassessing the need in old directions. I tried in my testimony last week to outline some of the principles we firmly intend to follow over the years ahead to provide the room in the budget for some of the new programs, such as education and health and other things to which the President attaches great importance, by finding economies elsewhere.

I tried to be quite explicit on the kinds of things we were proposing to do. We propose to push ahead very vigorously on efforts to find savings in Government lending programs where the job could be done just as well by private lenders. This is the effort to substitute private for public credit.

We intend to look harder at the necessity for user charges under which persons or groups which gain advantages from particular Gov-

ernment programs would pay their fair share of the cost of the programs.

We intend to carry on even more vigorously the reexamination of continuing programs to make certain that they deserve the place in the budget they now have, and the level of expenditures they now entail.

We intend to continue to push ahead hard on the whole front of Government economy and efficiency, where we think the administration is really building up a remarkably good record, if I may say so. The record in the Defense Department has attracted the most public attention, although there are similar stories that can be told in other departments.

There is a program for improving supply management and logistics in the Defense Department which will realize identifiable savings by 1965 of \$3½ billion a year. People who have looked at this program and studied it carefully regard it as one of the most important steps forward in advancing Government efficiency that we have seen in a long time.

As I say, there are similar efforts going on elsewhere. We intend to maintain the pressure to make these programs pay off in terms of genuine economies.

Mr. KNOX. It is quite obvious from the news reports that there is some program being initiated in the Defense Department which I commend highly for bringing about some efficiency. As I recall, one of the things that was stressed is that you are possibly going to do away with civilian jobs.

Are these jobs going to be abolished or are they now going to be filled by military people?

Mr. GORDON. The Department of Defense employment figures show a decline of 10,000 in civilian employment from 1963 to 1964. This estimate is based on the assumption of a 1-percent increase in productivity across the board in the Defense Department. This suggests that the jobs will not be filled by military people, but that the Department will be applying improved productivity to reduce the number of persons they have to do the job.

Mr. KNOX. Would it be automation?

Mr. GORDON. Automation is proceeding rapidly in the Federal Government. The Federal Government has an excellent record in the institution and adaptation of automatic data processing. It is one of the leaders in the use of automatic data processing for reducing the cost of business-type programs.

Mr. KNOX. Has the administration given any consideration to delay the moon shot so that possibly we would come a little closer to having a balanced budget and are you continuing to explore the possibility of landing a man on the moon?

Mr. GORDON. When this goal was announced by the President in 1961, it received the support of the Congress and the American people. The goal is a manned lunar landing in this decade.

The budget which the Congress has before it with respect to this program is designed to keep it on a schedule to achieve this result within this decade.

I might say there are some other space programs not directly related to the manned lunar landing in which we have reduced very substan-

tially the estimates of expenditures in 1964. The manned lunar landing program, however, it at the minimum level, which is consistent with realizing the objective in this decade.

Mr. KNOX. What is the Budget Bureau's estimate on the cost before we will actually land the man on the moon, the overall cost?

Mr. GORDON. I don't know that we have a figure that will give you the total cost as of the time we land on the moon. We do expect a further increase, as I indicated in my earlier testimony, in space expenditures in 1965 over 1964, but a lesser increase than we will have had from 1963 to 1964. I have heard of no such estimates.

Mr. KNOX. You have no estimates of the cost at all?

Mr. GORDON. No. As I say, we are looking forward to an increase in 1965, although a lower rate of increase than from 1963 to 1964, but we have not gone beyond that.

Mr. KNOX. If my memory serves me correctly, I believe through the medium of the press it was something over \$10 billion that would be spent within the next 2 or 3 years on this one project alone.

Mr. GORDON. I am not familiar with that figure, Mr. Knox.

Mr. KNOX. It would seem to me that if we are in such desperate trouble as far as the fiscal responsibilities of the Nation are concerned, that we should certainly have some programs that could be set aside temporarily until that eventful day when we are supposed to be able to recoup additional tax dollars in order to bring about a balanced budget. I believe you said that would be 1967; is that correct?

Mr. GORDON. That is right.

Mr. KNOX. I think that the American people are greatly alarmed, at least from the tenor of the mail that I receive, over the fact that we are going to have an increase in the national debt that will bring us up to \$320 billion, to \$323 billion, and no attempt is being made to cut back upon spending. I think the alarm mostly is because of the fact that people are fearful of inflation and increased prices that would possibly be detrimental to their future and to the future of the Nation.

I feel very strongly myself as far as taxes are concerned that taxes are too high, but at the same time, as long as we expect to receive everything from the Federal Government, there is only one way that the Federal Government can make the money available, and that is first, by the Government to take it from the people or continue to create an increase in the national debt.

I don't think it is good, sound fiscal policy to continue on the same line year after year, knowing this is not something that is coming by happenstance where we could not foresee it, but we are requested now to decrease taxes and increase spending. That is the recommendation of the administration. Do you think that this is the proper policy to pursue?

Mr. GORDON. On the matter of increased spending, Mr. Knox, I presume you are correct in saying that some of your constituents feel that the administration is not making an effort to restrain spending. I would, however, disagree with that. I think a very strenuous effort is being made.

I am afraid I am being repetitive now. I cite you the hard facts which are contained in the 1964 budget, which I think represents the beginning of a new climate of expenditure policy under which we have achieved a very important objective in holding the domestic civilian

sector at or below the level of the previous year. The same restrictive policies which were embodied in the 1964 budget will be continued and intensified in subsequent years.

My response would be that there is a serious and effective effort being made to restrain expenditures. This I think is going to become more and more visible as time goes on.

Mr. KNOX. I just cannot agree with you in that respect. I certainly rely to a great degree upon the news media to keep us informed of some of the problems that are confronting the several departments of the Government.

If my memory serves me properly, I believe in the Agriculture Department this year they are asking for an increase of employees that will bring them up to 127,000, whereas in 1959 or 1960 it was around 60,000. How can you expect that we are going to have efficiency and reduce spending?

Mr. GORDON. The total increase in civilian employment is about 36,500 people. If the employment increased over that same period at the rate the population is increasing, it would increase 41,000 people. So, over this year, the rise in Government employment, despite the increase in workload and in the complexity of the tasks performed, is being held to a rate below the rate of increase in the population.

As Secretary Dillon has already pointed out, the President in his speech to the American Bankers Association said that this would continue to be our policy, and we are going to continue to hold the rate of increase in Federal employment below the rate of increase both in population and State and local government employment.

Mr. KNOX. Using the Agriculture Department, day by day we have fewer and fewer farmers and people that follow the pursuit of agriculture. Still our cost of the Department that is regimenting the farmers today continues to increase. Is that not true?

Mr. GORDON. Expenditures for price supports go down from 1963 to 1964. I certainly grant you your principal point, which is that over recent years the cost of agricultural programs has been increasing. This one year we are talking about, however, I think you will find the opposite is the case.

As to employment in agriculture, I could give you more detailed information. My clear impression is that a good part of the increase in the employment in the Agriculture Department is not for agriculture per se, but is in the Forest Service, having to do with an increase in timber cutting and the construction of roads and trails, increased maintenance, and increased numbers of visitors to National forests. This represents a large part of the increased employment in the Department of Agriculture.

Mr. KNOX. Going back to the moon shot, isn't it true that Boeing was awarded a \$400 million contract yesterday? Could not this have been postponed?

Mr. GORDON. I presume this is correct, sir.

Mr. KNOX. Do you not believe honestly that it could have been postponed?

Mr. GORDON. I certainly believe it could have been postponed.

Mr. KNOX. Do you think it would have been in the best interests of the Nation to defer it?

Mr. GORDON. It would have deferred our progress toward the objective which we have enunciated and agreed upon and are moving toward in a very orderly way.

I would point out that in developing a program of this kind which takes a number of years, it is generally false economy to do it in fits and starts. To start and stop usually involves higher longrun cost than if you develop the program on a smooth, expanding basis. I don't think we would save money in the long run if we did it in a jerky, jumpy way, rather than in the present, planned way.

Mr. KNOX. Don't you think there would have been an incentive for this committee to act more favorably upon the President's request of the tax cut if the administration had shown some discretion prior to the awarding of this \$400 million contract of yesterday?

Mr. GORDON. Mr. Knox, I think we are showing a great deal of discretion. It does seem to me, however, it is a question of how you think it should be done. I think there can be higher longrun costs incurred in crash programs, sudden decisions to reverse, to start, to stop.

What we are trying to do every day is to identify opportunities to do the work of the Federal Government more economically. As I pointed out earlier, ever since the budget was submitted to Congress in January, we have submitted supplementals to the Congress which represent a reduction of \$150 million in appropriations below the levels embodied in that budget.

This is a continuing process. We have found ways of discharging the Federal Government's responsibilities, getting the programs accomplished, at lower cost. This is our job. We would be legitimately subject to criticism if we weren't doing it.

Mr. KNOX. It seems to me that there could be no great loss as far as the objective is concerned of landing a man on the moon because of the fact that we do not have any conception of what we are about to find or whether it is even going to be possible for a man to land on the moon. Is that not true? What is that great objective that you speak of?

Mr. GORDON. Are you asking me to say whether it is going to be possible? I presume so. I think we have a good enough chance or we would not have started. I am not enough of a scientist to estimate our chances of being successful. I presume we will be successful.

Mr. KNOX. Is it not so that the people who head up NASA, that they have not informed you of the justification and the need for the urgency to appropriate these funds for this one particular project of landing a man on the moon?

Mr. GORDON. Indeed they have. As a matter of fact, we, in a corporate sense now—as you know, my own association with the Budget Bureau is not quite 2 months old, and I was not personally involved in the 1964 budgetary process—I do know that the staff of the Budget Bureau and the staff of the NASA worked very, very closely in developing the estimates which are contained in the present budget.

I would draw this distinction that I made a moment ago between the part of the NASA program which relates to the manned lunar landing, where the task was to keep it on schedule to achieve the goal at the end of this decade, and other programs, which were cut back rather sharply.

Mr. KNOX. Have you been informed as to the need to get the man on the moon in the 1960's?

Mr. GORDON. This, I think, Mr. Knox, was a decision—a very important national decision—following a recommendation which was made by the President in the first half of 1961, which was widely discussed in the country, and which was supported by the country and the Congress. It relates not only to national security aspects, but involves very important aspects relating to scientific research, technical knowledge, and understanding which may have very desirable consequences for us as a nation.

This was thrashed out, I think, at considerable length and the decision was made. It is a long-term program. Having made such a decision, you can always change your mind. But I think it would be a great mistake to change your mind one way one year and the other way the next year, because if you did it that way, I suspect you would pay a lot more for the same result.

Mr. KNOX. Don't you feel that there is a responsibility as far as getting our house in order before we launch such a program as the lunar project?

Mr. GORDON. I do, indeed. That is precisely why I think we have accomplished something important in holding all expenditures other than for national defense, space, and interest in 1964 below the 1963 level.

Mr. KNOX. I have one other question, Mr. Secretary and Mr. Director.

Why is it that automation in industry reduces employment while automation in Government seems to increase employment?

Secretary DILLON. I don't know. I can answer on the part of the Treasury Department, that it is most heavily automated and is still automating, and that is the fiscal services which handle the making of money, the distribution of money, the payment of checks, disbursing, Federal accounting, handling of the public debt, those great areas have very substantially automated and as a result we are now doing in this year very considerably more, maybe 50 percent more work in volume than we did 12 or 13 years ago with less than half the people.

Every year for the last 4 or 5 years the total number of people in these areas has trended down—some years faster than others. The Treasury Department budget for 1964 is still down. Figures would show an increase overall for Treasury. That increase is solely in the two revenue-collecting agencies overall—the two revenue-collecting agencies, which are the Bureau of Internal Revenue and the Customs Service. All the rest of the operations of the Treasury put together are decreasing and it is largely on account of this automation that you have mentioned. It has been very dramatic. I imagine similar things can be said of others.

Mr. GORDON. They can. I think we would have had a much more rapid increase in Federal employment had it not been for the increases in productivity that have taken place.

As a parallel, let me cite the example of the A.T. & T. If I remember correctly, and my numbers may be slightly off, the telephone companies, taken together, had about 200,000 employees in the early 1920's. This was before the dial system, before long-distance dial-

ing, before the numerous forms of automation. And today they have over 600,000 employees.

I think the appropriate question is how many would they have today if there had not been the increases in productivity which have occurred over this period?

Mr. KNOX. Possibly their expansion would not have been as great.

Mr. GORDON. That is right.

Mr. KNOX. Possibly the agencies of Government would not have grown so rapidly. Probably they would have been pruned back.

Mr. GORDON. Is this an argument for not improving efficiency?

Mr. KNOX. No. This is a question of increased employment.

Mr. STAATS. Overall, Federal employment from 1963 to 1964 goes up about 1½ percent as against about a 5-percent increase in the total expenditures. This doesn't tell the whole story, because much of the expenditures are in the form of contracts with private industry.

I think it should be said very honestly and fairly that in all of the large operations which do lend themselves to mechanization and automation, the number of units of output has steadily increased over the last 10 years in proportion to the number of personnel. We don't look at the costs entirely in terms of personnel. You also have to look at the cost of the equipment that it requires to produce that result.

We try to look at the cost of the unit of output rather than simply the number of personnel.

Mr. GORDON. One case I remember, Mr. Knox, is the case of the Veterans' Administration. In the handling of the national service life insurance program, if I remember correctly, about a decade ago there were some 17,000 employees involved in administrative work. Today there are about 3,000, and the number of policies is just about the same.

This is one of the most dramatic instances of improvement in productivity brought about by the introduction of automatic data processing equipment.

Mr. STAATS. Another example is the last census, where about 20 percent additional work was involved over the previous census, but at 10 percent less cost.

Mr. KNOX. I have one final question.

If the Congress, in its wisdom, should decide they are going to authorize an increase in the national debt to the extent of \$320 billion, what will be the carrying cost?

Secretary DILLON. The average carrying cost of the Federal debt, the interest cost now, the latest figure is 3.3 percent.

Mr. KNOX. That is the average figure over your long term?

Secretary DILLON. The whole Federal debt. I would see no better way than to use that average figure, assuming you place the new debt relatively in the same proportions as the outstanding debt.

Mr. KNOX. Based on the fact that the last issues which were sold cost 4.1?

Secretary DILLON. 4.01 was for long-term debt. If you sold it all long term it would cost 4 percent. If you sold it all in short-term bills it would cost something less than 3 percent. The overall average works out to 3.3 percent.

It might be that in that average you probably have a valid point, that there are some long-outstanding issues that were issued after

the war that are as low as 2½ percent which bring that average down, so that the stuff you are putting out now would probably be somewhat higher. They might on an average be as much as 3½ percent.

Mr. KNOX. In other words, bonds that are coming due that carry a long rate of interest now are not being resubscribed by the holders?

Secretary DILLON. Not at that rate of interest; no.

Mr. KNOX. Is that negotiated, Mr. Secretary, or is that on bids?

Secretary DILLON. Some of them are by public bids. We have done that for the first time on long-term bonds this last issue in January, which was the first public bidding. Otherwise, it has been the practice for longer term securities, the Treasury just sets a figure which they think is a fair price and people come in and either buy or don't buy. They have a certain ability to do that.

If there is a broad market and a lot of securities outstanding, they can see what the proper market is by looking at the prices of the outstanding issues.

I would say if you are talking about putting an additional amount of debt, whatever the additional amount was needed for an increase up to whatever amount would be increased next year, that additional amount would cost about 3½ percent, probably, on the average.

I would say if you are looking at the overall cost of carrying the total debt, it wouldn't change very much from the 3.3 percent because that is the present figure for \$300 or \$400 billion presently outstanding.

Mr. KNOX. There would be that much interest carrying charge?

Secretary DILLON. On that. The 3½ percent might change the average for the rest to 3.1 or 3.2 or 3.3 or something like that.

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

The CHAIRMAN. Mr. Byrnes.

Mr. BYRNES. Mr. Secretary, your public debt subject to limitation as far as your needs are concerned reaches a real critical point, according to your table, on June 15. I was wondering about that. On May 31 you have \$304.4 billion. I suppose that is progressively moving up to \$307 billion during the first part of June.

Secretary DILLON. Yes.

Mr. BYRNES. Or do you hit a particular week?

Secretary DILLON. No, it is just progressive. What happens is that there are some months in which we get big payments.

Mr. BYRNES. I understand that. I am talking about how it works out by days here in this month of June. The reason I inquire about that is because within a period of apparently a couple of weeks you move from a need of a borrowing authority of \$304 billion up to \$307 billion, and then you move way down to \$302 billion.

In other words, you have a big rise and a sharp falloff all within 1 month. I was wondering how that adjusts itself by days.

I come then to the question, since it is only a short period of time involved, whether this can't be spread out in order to avoid that very high peak of \$307 billion?

Do you get my point?

Secretary DILLON. I think I do. I think that would require delaying the payment of some Government bills. It would be something that probably the Budget Bureau would have to look into. Of course, the regular payrolls you have to meet when they are due, but there might be a portion of that expenditure for that month, whatever the proportion of it is that is due to be paid to contractors, maybe could

be put over until the 20th of the month, at which time, or the 23d or 24th, when we do have the month.

Mr. BYRNES. The purchases, for instance, that will be made tomorrow or the next day, instead of having a due date of payment being the 15th of June, could be set up to be payable on the 25th at a time when you have more than enough credit as far as the ceiling is concerned.

That is the kind of thing I was wondering about; whether there are not some adjustments that could be made and whether they should not be made. Why do you get, in this 1 month, this very severe rise in your borrowing needs and then a very sharp falloff? It means you have to go out and get some real short borrowing, I would assume.

Secretary DILLON. We really have to have a large enough cash balance to carry over those times. As you pointed out, December 15, that is just before another fairly large payment, our cash balance is always very small. Our cash balance would probably be relatively small on June 15. It would probably be relatively small on March 15.

Mr. BYRNES. Could you try to work the June situation out by days so we can look at it?

Secretary DILLON. We will have to do that with the Budget Bureau, where these expenditures come from. We will see what we can do.

Mr. BYRNES. I was thinking particularly as far as your needs show up now.

Secretary DILLON. I know we have daily things for revenue. I think they probably have daily figures also for expenditures.

Mr. BYRNES. This seems to me to be the real crucial period you will run into. You will run into another one at the end of June. You have an impossible situation as far as the first of July is concerned. You can't accommodate a \$285 billion ceiling. I am reasonable enough to suggest, Mr. Secretary, that you can't accommodate that.

The CHAIRMAN. What Mr. Byrnes is leading up to is whether or not it is essential to get through the month of June that we have the \$308 billion ceiling at that time.

Secretary DILLON. Yes, I gathered that is what we had in mind. If we couldn't find some other way of either putting off expenditures, we normally carry out for a couple of weeks or more so that they wouldn't fall at that time. My guess would be that if we were going to follow that route, we would probably find, as a practical matter, we would have to start earlier and put some expenditures off for longer than a week of two. We might have to put some off for a month or 2 months.

The CHAIRMAN. If you would get the table for us for in the morning, that will show your revenues by day in the month of June, and if Mr. Gordon could get the same table showing our expenditures by days in June so that any day we wanted to look to, not just June 15 and June 30, we could see what the public debt subject to the limitation would have to be, it would be helpful to us, I think, in exploring further the point Mr. Byrnes has in mind.

Could you do that by in the morning?

Secretary DILLON. We certainly can do it for revenues. I can't guarantee on expenditures, but they can try. Maybe they can do it.

Mr. GORDON. We will do our best, Mr. Chairman.

The CHAIRMAN. It would be helpful to us if you could have that in the morning.

Mr. BYRNES. Just one other brief item to simply make the record clear.

We did have some discussion this morning about the accelerated public works. The director called our attention to the fact that Congress had exceeded what the administration called for. I think it is necessary to define what aspect of the Congress insisted on that.

I just want to put this in the record: that in the Senate it passed by a vote of 44 to 32. There was not a great majority there. When it came to the House, it passed the House by 192 to 221. But I would like the record to further show that 148 Republicans voted against the whole bill, not just a matter of whether you are going to exceed the President's request; and 19 Republicans voted for the \$900 million.

So I don't think that you had a great mandate there. There were some of us in the Congress who were rather insistent that some of those programs are just the things that get you into the mess that we are in today as far as the debt ceiling is concerned.

That is all, Mr. Chairman.

The CHAIRMAN. Mr. Secretary or Mr. Gordon, one or both of you, please prepare for this record, if you will, what reduced need there might be for a ceiling on the public debt if some of the Treasury holdings of securities issued by Government corporations and other agencies could be sold by the Treasury to the public. Give us some idea of the extent to which such sales could occur without loss, of course, to the Government.

I don't mean to say that we should sell all of them. What I am thinking about is that there may be some of these securities that the public will buy if given an opportunity, at whatever cost the Government has in those securities.

If you have information of that sort, would you put it in the record? We won't have time to receive it now, if it is \$500 million or \$1 billion or whatever. I think there are some \$28 billion together, or more, of these securities. I want to know because it has been suggested to me that there would be less need for increase in the ceiling if we disposed of those securities that we could dispose of without loss to the Government. Give us some idea, if you will, of the amount and whether or not it would have an appreciable effect upon future debt ceilings and how soon such a program could be carried out if it were feasible and the extent to which it could be carried out.

Mr. GORDON. May I just say, Mr. Chairman, as you undoubtedly know, the 1963 budget provides for the sale of financial assets of the sort you are referring to of over \$900 million. The 1964 budget provides for doubling of that figure. It estimates sales of financial assets of about \$1,800 million.

This doesn't answer your full question, but I just wanted to convey that this is an area in which we are already very active.

The CHAIRMAN. I understood you were. I thought this record might reflect what it is that is being done.

Mr. STAATS. When you say "without cost," you mean acquisition cost; is that correct? Disposed of without cost, you have reference to the acquisition cost?

The CHAIRMAN. What I am thinking of is this: that I would not have you include certain obligations that you have to sell at less than the face value of the Treasury holding in that security. Those that you can get the Government's money back, that is what I am talking about, if you can sell them.

Then, too, you might tell us why these securities will be sold in fiscal 1964 and not in fiscal 1963, if you will.

Mr. GORDON. Very good.

(The following material was supplied for the record:)

STATEMENT ON SALES AND SALABILITY OF FINANCIAL ASSETS OF FEDERAL GOVERNMENT

(Prepared at request of the Chairman of House Committee on Ways and Means)

On June 30, 1963, the Federal Government will hold an estimated \$30 billion in direct loans, mortgages, and other financial assets. In most cases the interest rates or other characteristics of these loans make them unsuitable for sale to private lenders. Indeed, had private credit been available to the borrowers on terms as attractive as those offered under the various Government lending programs, in almost every case the loans would not have been made by the Federal Government.

Nevertheless, some portions of this portfolio are appropriate candidates for a carefully planned program of sales. Substantial sales of assets are, indeed, provided for in the President's 1964 budget—\$926 million in fiscal 1963 and \$1,846 million in fiscal 1964. Table I lists these sales by type of asset. In addition, the 1964 budget reflects proposals for—

(a) Administrative action to obtain federally insured private financing estimated at \$280 million on resales of acquired properties by the Federal Housing Administration, thus avoiding corresponding budget expenditures; and

(b) Legislation to permit substitution of federally insured loans for a large part of the direct Federal loans now made for rural housing by the Farmers Home Administration; if authorized by the Congress, this insurance program will permit a reduction of about \$80 million in direct Federal outlays in fiscal 1964 relative to 1963.

Table II classifies the various loans and mortgages held by the Federal Government into a number of categories, on the basis of the factors affecting their salability, and provides brief descriptions of the relevant characteristics of the loans. For the reasons noted in the table, and discussed further below, the loans and mortgages in the first four categories of table II, totaling \$22.6 billion, are generally not appropriate for sale. The remaining major portfolios—totaling some \$7.3 billion, contain many loans or mortgages which do lend themselves to a planned program of disposal, a program which is now being carried out. As the table indicates, however, these portfolios also contain a large volume of loans which are not suitable for sale, or which could be sold only at large discounts. There are valid reasons to pursue a planned program of asset sales—substituting, where appropriate, private for public credit. There are equally compelling reasons to avoid a crash effort to unload Government-held securities on the market.

1. Funds acquired through sales of federally held credit instruments reduce the amount of Treasury securities which would otherwise have to be issued. Hence the overall impact of such sales is to a large extent offset. However, large sales of specialized assets—e.g., mortgages—can absorb funds and raise interest rates in a particular market. The housing market is particularly sensitive to changes in interest rates and the availability of funds. Federal asset sales must be carefully planned to avoid depressing mortgage prices and contributing to an undesirable reduction in housing construction.

2. Attempting to sell too large a volume of assets too quickly would depress the price of the assets; in consequence, the Government would suffer capital losses which could have been avoided by a more carefully paced sales program.

3. Sound policy requires that the prices at which comparable mortgages are offered for sale by different Government agencies be substantially the same. The Government cannot be in the position of having one agency undercutting the prices of another. The schedule of sale prices established by the Federal National Mortgage Association (FNMA) for its secondary market (trust fund) operations is used as the basis for sales prices on other Government mortgages. This schedule reflects the range of current market prices. "Cut-rate" sales of Government mortgages below these prices would violate the rule of "similar prices for similar assets" and tend to depress mortgage prices in general.

4. In some cases—e.g., college housing loans—a careful program of Government sales can build up private investor interest in the particular types of

obligations, and lead, in future years, to a reduced need for Government direct loans. However, a crash program of sales, at heavy discounts, might simply postpone the day when the private market would be willing to absorb these loans at reasonable prices, and might also make it more difficult for colleges and universities currently to float dormitory loans in the private market.

The asset sales program for the fiscal years 1963 and 1964 takes these various considerations into account. If the demand for loans and mortgages is larger than expected when the budget was formulated, additional sales will be possible on the same price and yield basis as previously assumed. In recent weeks there have been some indications of improvement in the mortgage market; if this improvement persists, fiscal 1963 sales of financial assets will probably exceed the estimates in the budget submitted last January.

#### MAJOR CATEGORIES OF FEDERAL FINANCIAL ASSETS

The various major types of Federal financial assets are listed with brief comments in table II. The following brief discussion is based on that table.

1. *Some classes of financial assets cannot or should not be sold (\$10.9 billion).*—A large volume of Government financial assets represent loans whose very nature makes them largely unsuitable for sale to private lenders. Some loans in this category are repayable in "soft" foreign currencies, some bear little or no interest, some are owed by countries with current financial problems, etc. The marginal comments in the table indicate the particular characteristics which would prevent the sale of such assets in the private market.

2. *In some programs legislation would be needed to allow sales, to allow sales below par, or to provide the guarantees necessary to make sales feasible (\$7 billion).*—In some cases present law does not allow the sale of loans, e.g., rural electrification loans, and rural housing mortgages held by the Farmers' Home Administration. In other cases, current legislation does not permit sales below par, and the loans held bear interest rates such that below-par prices would be necessary for sale, e.g., most of the direct mortgage loans held by the Veterans' Administration. In still other cases, legislation would be required to enable the Government to insure or guarantee the loans; without such insurance the loans probably would not be attractive to private lenders, e.g., ship construction loans of the Maritime Administration. Even if appropriate legislation were passed, including authority to provide insurance or guarantees, most loans in this category are of such quality or carry such interest rates as to require large discounts. However, some sales might be possible at reasonable discounts.

3. *Some classes of assets, otherwise salable, carry low interest rates or are not of investment quality. Sizeable discounts below par would be required (\$3.1 billion).*—The fact that an asset must be sold at a discount is not, in itself, a sufficient reason to preclude its sale. Where, for purposes of public policy, loans have been made by the Federal Government at interest rates and terms substantially more favorable than those available in the private market, a large discount would have to be accepted in order to dispose of the assets. In many cases, sales of assets to the private sector can contribute to the development of private interest in unfamiliar types of credit instruments, leading to the eventual establishment of reasonable private rates and terms. In such cases, it might be appropriate to accept a substantial discount on the initial offerings, as the price of creating a new market for the particular credit instruments involved. Further, the existence of a discount which simply reflects the fact that the level of interest rates has risen since the loan was acquired should be no bar to the sale of the assets involved. However, when the discount reflects an important difference between the market and the Government in the evaluation of risk qualities, as often happens, there is reason to avoid liquidating such assets. The public's interest is better served by concentrating an asset sales program in those portfolios whose assets are familiar and desirable to private lending institutions. In this way, the prices received by the Government for a given volume of asset sales are likely to be maximized.

4. *In one case, sales of certificates against a pool of assets are a continuing practice, but an increase in sales would involve significant interest costs to the Government (\$1.5 billion).*—Loans against crops are a major instrument of the Commodity Credit Corporation's price support program. Certificates of interest in a pool of these loans are sold to individual banks at interest rates (currently 3 percent) slightly higher than the Treasury bill rate. The \$1.471 billion in table II for this category represents the amount of OCC loans against which, it is estimated, there will be no certificates outstanding on June 30, 1963. It

would be possible to sell certificates against these remaining loans by offering a higher interest rate. Since the bulk of these certificates are redeemable on demand by the banks, it would also be necessary to raise the interest rate on \$1 billion of certificates outstanding. The additional one-half of 1 percent interest which would probably be required to sell the additional certificates equal to most of the \$1.471 million of loans carried by CCC would cost the Government an extra \$12 million per year.

5. *In the case of the Export-Import Bank (\$3.5 billion) sale of participations in a pool of loans is planned.*—The Export-Import Bank is assembling a pool of loans against which participations will be sold to private lenders. A pool of adequate size with interest rates, maturities, and capital repayment schedules consistent with the terms of the participation agreement must be assembled. To assure that the Government obtains appropriate terms, careful preplanning and surveying of the private credit market is necessary. In order to make the sale desirable from the Government's point of view, the size of the offering should be substantial.

Of the \$3.5 billion of loans which the Export-Import Bank is estimated to hold as of June 30, 1963, a substantial volume is not suitable for inclusion in a pool because of low interest rates, or unsuitable capital repayment schedules. Further, the capacity of the private capital market to absorb this particular type of credit must be considered in determining the magnitude of any sales program.

6. *Some other classes of assets contain significant amounts of readily salable paper (\$3.8 billion).*—The portfolios in this category contain assets which are most suitable for sales. At present mortgage prices, a large proportion of these assets would be priced at a discount. Moreover, a substantial increase in mortgage sales beyond the amounts now contemplated (see table I) would almost certainly require that prices be lowered. The amount of sales which will be possible without a reduction in prices and a depressing effect on the housing credit market will depend upon conditions in the money markets generally and the mortgage market in particular. In addition, further evaluation of individual mortgages by quality, geographic location, etc., will be necessary to determine how many can, in fact, be sold at or near the prevailing market prices for new mortgages.

The college housing loans to public institutions held by the Community Facilities Administration represent a wide range of quality and interest rates. We plan to sell \$50 million of these loans and we expect they can be disposed of in the near future at advantageous terms. We are currently exploring various possible methods to increase the salability of these loans. A hurried disposal program, however, would almost surely prevent the Government from obtaining the best terms and prejudice the chances for the best development of this prospective market, as well as disrupting the modest continuing private market for housing bonds of public universities and colleges.

TABLE I.—*Sale of financial assets in fiscal years 1963 and 1964 estimated in 1964 budget*

[In millions of dollars]

Agency and program	Sales in fiscal 1963 <sup>1</sup>	Sales in fiscal 1964 <sup>1</sup>
Department of Agriculture: Commodity Credit Corporation.....	\$ 9639	\$ 9825
Housing and Home Finance Agency: Community Facilities Administration, College housing loans to public institutions.....		50
Federal National Mortgage Association:		
Special assistance functions.....	50	199
Management and liquidating functions.....	6	
Federal Housing Administration.....		60
Veterans Administration:		
Direct loan program.....	18	18
Loan guarantee program (vendee loans).....	150	147
Export-Import Bank of Washington.....	60	540
Federal Home Loan Bank Board: Federal Savings and Loan Insurance Corporation loans.....	3	
Small Business Administration.....		7
<b>Total.....</b>	<b>926</b>	<b>1,846</b>

<sup>1</sup> Sales estimates exclude (a) amortization, (b) prepayments, (c) sales made as part of the process of insuring loans, and (d) sales to FNMA.

<sup>2</sup> Excess of certificates issued (sales) over redemption of certificates issued during the year (excluding redemption of prior-year certificates).

TABLE II.—Sales and salability of financial assets

[In millions of dollars]

Agency and program	Outstanding direct loans, June 30, 1963 (estimated in 1964 budget)	Remarks on salability
<b>1. Some classes of financial assets cannot or should not be sold:</b>		
Department of Defense: Military assistance credits.	198	These instruments are nonnegotiable and bear interest rates ranging from 0 to 3½ percent.
Department of Health, Education, and Welfare: Defense education loans.	294	Federal contributions repayable only after 1969 (later, under proposed legislation). Repayable portion of contribution cannot be determined in advance. If student borrower becomes teacher, a portion of capital and interest repayments are "forgiven."
Department of the Interior: Bureau of Reclamation loans.	74	Most loans are noninterest bearing.
Department of State: Loans to United Nations.	141	1943 headquarters loan is non-interest-bearing. Total original 1962 bond issue not yet fully sold making U.S. sale inappropriate. Repayment to United States to be in form of reductions in future U.S. contributions to U.N.
Agency for International Development loans.	6,202	About ¼ of this total is repayable in dollars, of which about half is owed by European countries—mainly 2½ percent, 35-year loans. Other loans (1) are repayable in local currencies; (2) have low interest rates (e.g., ¾ percent) and/or (3) are owed by countries with current financial problems. Where debtor's balance-of-payments permits, Treasury is pressing for prepayment and sales might adversely affect efforts to close gap in balance of payments.
<b>Treasury Department:</b>		
Loan to United Kingdom.....	3,205	Sale would require modification of loan agreement. Interest rate only 2 percent.
Defense production loans.....	118	(Actual balance now \$55,000,000 due to a prepayment.) Remainder not salable due to default, interest payment deferment, or present efforts to refinance privately.
<b>Housing and Home Finance Agency:</b>		
<b>Community Facilities Administration:</b>		
<b>Miscellaneous programs.</b>		
Federal Housing Administration: Assigned mortgages and defaulted home improvement notes.	300	Mortgage and note payments already in arrears; many have relatively low interest rates.
Urban Renewal Administration.....	153	Bulk of loans made only when local questions preclude private bond counsel from approving loans for private investment, hence not salable.
Public Housing Administration.....	91	Short-term notes are initially too small for economical private financing; long-term bond sales subject to difficult administrative or legal problems.
Federal Home Loan Bank Board: Federal Savings and Loan Insurance Corporation loans.	35	Mainly conventional home mortgages acquired in settlement of loans to associations; most are now subject to legal questions, but are ultimately salable in future years.
Subtotal.....	10,932	
<b>2. In some programs legislation would be needed to allow sales, to allow sales below par, or to provide the guarantees necessary to make sales feasible:</b>		
<b>Department of Agriculture:</b>		
Rural Electrification Administration.	3,720	Legislation required for sale; very large discounts required due to 2-percent interest rate.
Farmers Home Administration.....	1,572	Legislation required for most assets to allow sale and to permit guarantees; large discounts likely on major portions.

## CONTINUATION OF PRESENT DEBT CEILING

TABLE II.—Sales and salability of financial assets—Continued

[In millions of dollars]

Agency and program	Outstanding direct loans, June 30, 1963 (estimated in 1964 budget)	Remarks on salability
2. In some programs etc. continued Department of Commerce: Area Redevelopment Administration.	29	Legislation required, probably including a guarantee of commercial and industrial loans against default; large discounts likely due to interest rates and residual risks.
Maritime Administration.....	110	Legislation required for a guarantee against default; large discount likely due to interest rate (3½ percent).
Treasury Department: Loans to District of Columbia.....	122	Legislation required for sale; discount not likely due to Federal tax-exemption, but sale of assets carrying tax exemption would involve some cost to Treasury.
Veterans' Administration: Direct loan program.	1,475	Legislation required for sales below par. Over half of portfolio at 4¼ percent or less, and most loans are in rural areas. Thus substantial discounts would be involved.
Subtotal.....	7,028	
3. Some classes of assets, otherwise salable, carry low interest rates or are not of investment quality. Sizeable discounts below par would be required: General Services Administration:		
Sales credit.....	128	Much of portfolio would require large discounts because of below-market interest rates.
Public power bonds.....	61	Unsecured revenue bonds, not backed by credit of the States involved. Would require very large discount due mainly to 2¼-percent interest rate.
Housing and Home Finance Agency: Federal National Mortgage Association: Management and liquidating functions.	1,275	Discounts would range from 8 to 12 percent; larger on those (\$153,000,000) uninsured. Interest rates from 4 to 4½ percent. Also these are old relatively small mortgages and therefore less attractive to private lenders.
Community Facilities Administration: College housing loans to private institutions.	785	Fully taxable; substantial discount required. Interest rates from 2¼ to 3½ percent.
Small Business Administration.....	894	SBA, in making loans, first attempts to secure private participation. Only a minor portion now in SBA portfolio are salable at par without extensive guarantee.
Subtotal.....	3,143	
4. In one case, sales of certificates against a pool of assets are a continuing practice, but an increase in sales would involve significant interest costs to the Government: Department of Agriculture: Commodity Credit Corporation.	1,471	Present interest rate on certificates is 3 percent; to attain marked increase in private financing would entail higher rate for all certificates and put additional pressure on 1964 budget.
Subtotal.....	1,471	
5. In one case, sale of participations in a pool of government loans is being arranged: Export-Import Bank of Washington....	3,466	Sale of participations in a \$500,000,000 privately acceptable pool now planned. Sales of individual loans of \$60,000,000 estimated for 1963 and \$40,000,000 for 1964. Substantial volume of loans unsuitable for inclusion in pool due to interest rates or repayment schedules. Planned volume of participation sales must take into account capacity of market to absorb this type of credit.
Subtotal.....	3,466	

TABLE II.—*Sales and salability of financial assets*—Continued

[In millions of dollars]

Agency and program	Outstanding direct loans, June 30, 1963 (estimated in 1964 budget)	Remarks on salability
6. Some other classes of assets contain significant amounts of salable paper:		
Housing and Home Finance Agency:		
Community Facilities Administration:		
College housing loans to public institutions.	782	Bulk of sales would require large discounts; however, some can and will be sold at or above par.
Public facility loans.....	134	Some are salable at par; most would require discounts.
Federal National Mortgage Association: Special assistance functions.	2, 102	Some can and will be sold at or above par; most would require varying discounts because of submarket interest rates, location and/or quality. Administrative and market problems also hamper rapid sales.
Federal Housing Administration: Excluding assigned mortgages and defaulted home improvement notes.	350	Sizable amount salable at par or small discounts in 1964; administrative limitations prevent large 1963 expansion.
Veterans' Administration: Loan guarantee program (vendee loans).	461	Additional sales possible only with reduction in prices (increased discounts) or improvement of market in areas where bulk of portfolio concentrated.
Subtotal.....	3, 829	
Total.....	29, 869	
Very small programs.....	113	
Grand total.....	29, 982	

The CHAIRMAN. Then you can be back at 10 o'clock in the morning in executive session.

Without objection, the committee, will adjourn until 10 a.m. in the morning.

(The following material was filed with the committee:)

CHAMBER OF COMMERCE OF THE UNITED STATES,  
Washington, D.C., February 27, 1963.

HON. WILBUR D. MILLS,  
Chairman, Committee on Ways and Means,  
House of Representatives, Washington, D.C.

DEAR MR. CHAIRMAN: The request of the administration for extension of the temporary \$308 billion debt limit underscores the need for stringent Federal fiscal belt-tightening against the possibility of a continually mounting debt. Greater spending restraints in the past would have made the present request unnecessary. It is still not too late to invoke a moratorium on new spending proposals until the budget and debt questions are clarified.

The chamber of commerce of the United States believes that the repeated requests for increasing the temporary debt limitation have been a major factor in causing widespread and serious concern over the true nature of the administration's fiscal policies. The unprecedented frequency of these requests, coupled with an apparent disdain for conventional budget policies found in the statements of Government officials, have caused a high degree of unfavorable public reaction. This reaction has reached sufficient magnitude that Dr. Walter W. Heller, Chairman of the President's Council of Economic Advisers, has commented on it several times. Recently Dr. Heller had the following to say:

"I think it is quite remarkable that the basic puritan ethic of the American people should be such that they want to deny themselves tax reductions because of (a) their fears of deficits, and the additions to the national debt; and (b) because they do not understand that their spending, in effect, makes this contribution to the national growth and full employment."

Dr. Heller's amazement at the strength of what he calls the "puritan ethic" is not shared by all, including many professional economists. Dr. Jules Backman of New York University was quoted in a recent issue of U.S. News & World Report as follows:

"Regardless of whether he (Dr. Heller) calls it a passive deficit, a stimulating deficit, or any other kind of deficit, his prescription to stimulate growth is to increase the deficit.

"As Gertrude Stein might have said, a deficit is a deficit is a deficit. Personally, I prefer the 'puritan ethic' to the 'spendthrift ethic' so prevalent in this country."

#### *The 1964 budget*

In his 1964 budget message, the President stated, "I have felt obliged to limit severely my 1964 expenditure proposals." This was heartening to many until the budget document was analyzed in some detail. In a budget that many hoped might be a model of fiscal restraint, expanded and new spending programs abounded.

The President had stated that with the exception of defense, space, and interest on the debt, programs would be held below this year's level.

Overlooked by some was that "this year's level" includes \$3.9 billion of additional appropriations to be requested from Congress this session on top of the \$19.3 billion appropriated in the previous Congress.

Several programs in the 1964 budget seemed in direct conflict with any "restraint"—

1. Nondefense public works: \$7.2 billion, up \$2 billion over 1962.
2. Nondefense research and development: \$5.8 billion in expenditures planned—a \$2 billion increase over 1963 and more than double the 1962 amount.
3. International programs: \$6 billion in appropriations asked in spite of repeated evidence of waste and mismanagement of foreign aid.
4. New education subsidies: \$1.2 billion in the so-called education "package" of the administration.
5. Federal employment: Increase of 46,000 nondefense Federal civilian employees asked for 1964 to reach total of more than 2,570,000—an overall increase of nearly 86,000 employees over 1962.
6. Mass transit subsidies: \$100 million requested—as much as \$10 billion in prospect if the Federal Government really gets into this program.
7. Youth opportunities: \$100 million asked, largely to revive a CCC-type program of the 1930's.
8. Domestic Peace Corps: \$40 million proposed to send Federal social workers into local communities.
9. Outdoor recreation grants: \$25 million for Federal grants and other programs to provide outdoor recreational facilities.

The administration took the somewhat curious position that extreme restraint had been imposed in that many Federal agencies did not get all they asked for in the 1964 budget.

The President was not able to include in his budget message an estimate of the new debt ceiling that he would request for 1964. He did indicate, however, that the debt would stand at about \$316 billion as of June 30, 1964.

#### *The role of the debt ceiling*

Although many claim that the debt ceiling serves no useful purpose any longer, it must not be overlooked that the present hearings, as a minimum, serve to focus attention on the Federal spending issue. Because of the unique descending sliding-scale debt limitation developed by this committee last year, this focusing of attention comes relatively early in the session and at a time when no major spending legislation has cleared the Congress.

#### *Where can the budget be reduced?*

The problem of mounting national debts clearly starts with congressional action on specific spending proposals. It is often stated that review of the budget is the responsibility of the Appropriations Committees, but obviously all Members of the House and Senate share responsibility for the enactment of appropriations.

Significantly, this year even before the budget was received in Congress, but when its approximate size was known, both Congressman Clarence Cannon,

chairman of the House Appropriations Committee, and Congressman Ben F. Jensen, ranking minority member of that committee, called for substantial cuts.

The national chamber presently is engaged in an intensive analysis of the 1964 budget to determine areas where savings can be accomplished. Nearly a score of national chamber committees are devoting their time to this work and the results will be published following approval of the recommendations by the chamber's board of directors at its meeting on March 15-16.

Last year, these same committees made more than 90 recommendations for reducing the 1963 budget, identifying potential appropriation savings of more than \$5 billion. Congress voted reductions in 71 of these areas, at a savings of nearly \$3 billion.

I would appreciate it if you would include this letter in the record of the present hearings to provide for a temporary increase in the public debt limit.

Cordially,

THERON J. RICE, *Legislative Action General Manager.*

(Whereupon, at 3 :50 p.m., the committee adjourned.)

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