SYSTEMATIC DEBT REDUCTION

HEARING

BEFORE THE

COMMITTEE ON FINANCE
UNITED STATES SENATE

EIGHTY-FIFTH CONGRESS

FIRST SESSION

ON

S. 1738

A BILL TO PROVIDE FOR SYSTEMATIC REDUCTION OF THE PUBLIC DEBT

JUNE 11, 1957

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PUBLIC DEBT REDUCTION

TUESDAY, JUNE 11, 1957

UNITED STATES SENATE,
COMMITTEE ON FINANCE,
Washington, D. C.

The committee met, pursuant to call, at 10:25 a. m., in room 312, Senate Office Building, Senator Harry F. Byrd (chairman) presiding.

Present: Senators Byrd, Kerr, Frear, Long, Smathers, Anderson, Gore, Martin, Carlson, Bennett, and Jenner.

Also present: Elizabeth B. Springer, chief clerk.

The CHAIRMAN. The meeting will come to order.

The hearing today is on bill S. 1738, introduced by the distinguished Senator from Massachusetts, Leverett Saltonstall, which proposes to systematically reduce the public debt. I submit a copy of the bill for the record.

(S. 1738 is as follows:)

[S. 1738, 85th Cong., 1st sess.]

A BILL To provide for systematic reduction of the public debt

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That this Act may be cited as the "Public Debt Reduction Act of 1957."

SEC. 2. (a) The Congress, recognizing that a large public debt and uncontrolled Federal spending are inflationary forces in a free economy, which can seriously weaken the economic strength of the United States, thus jeopardizing the welfare and security of our people, hereby finds and declares that the national interest requires that—

(1) there be an effective control of expenditures of the Federal Government,

(2) there be a reduction in the amount of the public debt of the United States, and

(3) there be instituted a fiscal policy which will encourage and permit a reduction in the general level of taxes.

In enacting this Act, it is the purpose of the Congress to fulfill these requirements of the national interest by providing for the systematic reduction, except in times of national emergencies or economic distress, of the statutory limit on the amount of the public debt; and also to provide a system for reserving in each year a surplus of the revenues of the United States which may be used to reduce the general level of taxes if Congress determines it to be in the national interest. The portion of the revenues collected in any year by the United States which under this Act is required to be applied toward reducing the public debt will be unavailable for other expenditure by the United States and a reduction in the level of expenditures by the Federal Government will be required unless there is such an increase in the revenues of the United States as to preclude the necessity for such a reduction.

(b) The Congress realizes that the objective of limiting expenditures of the Federal Government could, even with the enactment of this Act, be avoided by future increases in the level of taxes now imposed by the United States or by the imposition of new or additional taxes. Cognizant that one Congress cannot bind the action of future Congresses or subsequent action of the same Congress, the Congress hereby finds and declares that the national interest requires that the level of taxes now imposed by the United States should not, by reason of the enactment of this Act, be increased.

SEC. 3. Section 21 of the Second Liberty Bond Act, as amended (31 U. S. C. 757b), is amended by inserting "(a)" after "Sec. 21.", and by adding at the end thereof the following:

"(b) The public debt limit set forth in subsection (a) is hereby reduced as follows:

"(1) Effective on July 1, 1958, by an amount equal to 2 percent of the net revenue of the United States for the fiscal year ending June 30, 1957;

"(2) Effective on July 1, 1959, by an amount equal to 3 percent of the net revenue of the United States for the fiscal year ending June 30, 1958;

"(3) Effective on July 1, 1960, by an amount equal to 4 percent of the net revenue of the United States for the fiscal year ending June 30, 1959;

"(4) Effective on July 1, 1961, and July 1 of each year thereafter, by an amount equal to 5 percent of the net revenue of the United States for the fiscal year ending on June 30, of the proceding year.

"(c) (1) The amount of the reduction in the public debt limit which under subsection (b) (without regard to this subsection) would be effective on July 1 of any year shall be reduced (but not below zero) by an amount equal to the net loss of revenue, as estimated by the Secretary of the Treasury, during the fiscal year ending on June 30 of such year resulting from any revenue law enacted by the Congress during such fiscal year or the fiscal year ending on June 30 of the preceding year, if the Congress in enacting such revenue law has provided, in the form prescribed by paragraph (3), that this paragraph shall apply with respect to such net loss of revenue.

"(2) The amount of the reduction in the public debt limit which under subsection (b) (without regard to this subsection) would be effective on July 1 of any year shall be reduced (but not below zero) by an amount equal to the loss of revenue, as estimated by the Secretary of the Treasury, during the fiscal year ending on June 30 of such year resulting from any decrease in tax rates which is provided for by the Internal Revenue Code of 1954 on the date of the enactment of the Public Debt Reduction Act of 1957 and which becomes effective during such fiscal year or the fiscal year ending on June 30 of the preceding year, if, prior to such July 1, the Congress has provided, by joint resolution in the form prescribed by paragraph (4), that this paragraph shall apply to such loss of revenue.

"(3) The Congress shall provide that paragraph (1) shall apply with respect to any net loss of revenue resulting from the enactment of any revenue law by including in such law the following provision: 'The provisions of paragraph (1) of subsection (c) of section 21 of the Second Liberty Bond Act, as amended, shall apply with respect to any net loss of revenue resulting from the enactment of this Act.'.

"(4) The Congress shall provide that paragraph (2) shall apply with respect to any loss of revenue resulting from any decrease in tax rates which is provided for by the Internal Revenue Code of 1954 on the date of the enactment of the Public Debt Reduction Act of 1957 by enacting a law containing the following provision: 'The provisions of paragraph (2) of subsection (c) of section 21 of the Second Liberty Bond Act, as amended, shall apply with respect to any loss of revenue resulting from the decrease in tax rates provided for by section(s) of the Internal Revenue Code of 1954, effective on .'

"(d) The provisions of subsection (b) shall not apply on July 1 of any year, or on any day of the fiscal year which begins on such July 1, if at any time during the fiscal year ending June 30 of such year or during the fiscal year on June 30 of the preceding year—

"(1) there was in effect a joint resolution of the Congress declaring a state of war between the United States and a foreign power, or a proclamation of the President proclaiming an unlimited national emergency because the Armed Forces of the United States were engaged in armed conflict with the armed forces of a foreign power, and

"(2) the period of armed hostilities involving the Armed Forces of the United States during such war or national emergency has not been terminated by the Congress or the President.

"(e) (1) The provisions of subsection (b) shall not apply on July 1 of any year, or on any day of the fiscal year which begins on such July 1, if prior to such July 1—

"(A) the President has recommended to the Congress the suspension of the application of subsection (b) during the fiscal year beginning on such July 1, and

"(B) the two Houses of the Congress have consented to the suspension recommended by the President by agreeing to a concurrent resolution in the form prescribed by paragraph (3).

"(2) The President shall recommend the suspension of the application of subsection (b) for any fiscal year only if he determines that such suspension is necessary in the national interest because of economic conditions existing or threatening in the United States. Such recommendation shall be transmitted to the Congress by special message. The President may, in one message, recommend the suspension of the application of subsection (b) for two fiscal years, but only if the later of the two fiscal years begins within 18 months after the date of the submission of such recommendation.

"(3) The form of the concurrent resolution by which the Congress shall consent to the suspension of the application of subsection (b) is, with respect to the matter after the resolving clause, as follows: 'That the Congress consents to the suspension of the application of subsection (b) of section 21 of the Second Liberty Bond Act, as amended, for the fiscal year(s) beginning on July 1, , (and July 1,), as recommended by the President in his message transmitted to the Congress on .', the blank spaces being appropriately filled.

"(f) (1) For purposes of subsection (b), the term 'net revenue of the United States' means, with respect to any fiscal year, the amount by which the gross revenue of the United States for such fiscal year (as determined under paragraph (2)) exceeds the amount of refunds made during such fiscal year (as determined under paragraph (3)).

"(2) For purposes of paragraph (1), the gross revenue of the United States for any fiscal year is the total amount, as determined by the Secretary of the Treasury, collected by the United States during such fiscal year as taxes or duties, other than—

"(A) amounts collected as taxes under chapter 2 (tax on self-employment income), chapter 21 (the Federal Insurance Contributions Act), chapter 22 (the Railroad Retirement Tax Act), and chapter 23 (the Federal Unemployment Tax Act) of the Internal Revenue Code of 1954; and

"(B) amounts collected under any tax or duty to the extent that the amounts collected under such tax or duty (or that amounts equal to the amounts collected) are specifically appropriated by law enacted prior to the date of the enactment of the Public Debt Reduction Act of 1957.

"(3) For purposes of paragraph (1), the amount of refunds made during any fiscal year is the sum of—

"(A) the total amount, as determined by the Secretary of the Treasury, of refunds made during such fiscal year on account of overpayments of taxes and duties during such fiscal year or any preceding fiscal year, other than—

"(i) the amounts of refunds made on account of overpayments of the taxes enumerated in paragraph (2) (A); and

"(ii) that portion of the amount of any refund made on account of the overpayment of any tax or duty to which paragraph (2) (B) applies which bears the same ratio to the amount of the refund as the portion of the amount of the tax or duty (or of the amount equal to such amount) which is specifically appropriated by law enacted prior to the date of the enactment of the Public Debt Reduction Act of 1957 bears to the amount of such tax or duty; and

"(B) the total amount, as determined by the Secretary of the Treasury, of payments made by the Secretary of the Treasury or his delegate during such fiscal year under section 6420 (relating to gasoline used on farms) and section 6421 (relating to gasoline used for certain nonhighway purposes or by local transit systems) of the Internal Revenue Code of 1954.

For purposes of this paragraph, an overpayment of tax or duty includes an amount erroneously paid and an amount paid pursuant to an erroneous or illegal assessment.

"(g) (1) The Secretary of the Treasury shall, on or before January 1, 1958, and on or before January 1, of each year thereafter, determine and publish in the Federal Register the amount of the public debt limit which will become effective on July 1 of such year under the provisions of subsection (b), taking into account the effect under subsection (c) (1) of any revenue law enacted prior to the date of such determination and the effect under subsection (c) (2) of any decrease in tax rates which is provided for by the Internal Revenue Code of 1954 on the date of the enactment of the Public Debt Reduction Act of 1957 and which has become effective prior to the date of such determination.

"(2) If, after January 1 of any year and prior to July 1 of such year, any revenue law is enacted, or any decrease in tax rates becomes effective, which under subsection (c) affects the public debt limit which will become effective on such July 1, the Secretary of the Treasury shall as soon as practicable (but not later than June 30) redetermine and publish in the Federal Register the amount of the public debt limit which will become effective on such July 1 under subsection (b), taking into account the effect under subsection (c) of such law or of such decrease.

The CHAIRMAN. Senator Saltonstall, we are delighted to have you. Please explain the purpose of your bill.

STATEMENT OF HON. LEVERETT SALTONSTALL, UNITED STATES SENATOR FROM THE STATE OF MASSACHUSETTS

Senator SALTONSTALL. Thank you, Mr. Chairman.

Mr. Chairman, I appreciate very much your putting this bill on for a hearing.

You suggested that we limit this matter to about an hour and a half. I am going to try to explain the bill; and then Senator Allott, of Colorado, would like to speak briefly on it. Then there are several gentlemen here from the General Accounting Office with whom I have worked on the bill; and, Mr. T. J. Coolidge, of Boston, who was a former Under Secretary of the Treasury, and is interested in this whole subject, as you well know.

Mr. Chairman, basically this bill is a declaration of congressional policy. Recognizing that one Congress cannot bind a succeeding Congress, we merely institute a mechanism which each succeeding Congress may use. The bill, however, would require annual attention to this problem.

The binding force of this legislation is found in the fact that if a succeeding Congress fails to act, the debt ceiling is automatically lowered. Hence, each Congress must reckon with and focus on this problem. It must relate income, expenditures, and debt. This annual attention to this important area of finance is by itself a worthwhile purpose.

Mr. CHAIRMAN. I very much appreciate this opportunity to appear before your committee and present to you my thoughts in connection with the Public Debt Reduction Act of 1957, S. 1738. I am very pleased that your committee has decided to consider this bill; I think that discussion of the enormous problems of managing the Federal debt and, indeed, of congressional responsibility for such management, is certainly welcome and may help us to produce useful ideas in this important and complicated field.

There are undoubtedly many improvements which the committee may wish to add to the bill, and I will certainly welcome any discussion of these.

I might say there, Mr. Chairman, that the legislative counsel who drew this bill has suggested already 3 or 4 clerical changes which are marked on the bills which have been handed to you by Mrs. Springer. Also marked on the bills handed you are two substantive changes.

The CHAIRMAN. Without objection your revised bill will be inserted in the record also.

(The revised bill referred to follows:)

[Revised print showing changes suggested by Legislative Counsel and substantive changes proposed by Senator Saltonstall]

[S. 1738, 85th Cong., 1st sess.]

A BILL To provide for systematic reduction of the public debt

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That this Act may be cited as the "Public Debt Reduction Act of 1957".

STATEMENT OF PURPOSE

SEC. 2. (a) The Congress, recognizing that a large public debt and uncontrolled Federal spending are inflationary forces in a free economy, which can seriously weaken the economic strength of the United States, thus jeopardizing the welfare and security of our people, hereby finds and declares that the national interest requires that—

(1) there be an effective control of expenditures of the Federal Government,

(2) there be a reduction in the amount of the public debt of the United States, and

(3) there be instituted a fiscal policy which will encourage and permit a reduction in the general level of taxes.

In enacting this Act, it is the purpose of the Congress to fulfill these requirements of the national interest by providing for the systematic reduction, except in times of national emergencies ~~or economic distress,~~ of the statutory limit on the amount of the public debt; and also to provide a system for reserving in each year a surplus of the revenues of the United States which may be used to reduce the general level of taxes if Congress determines it to be in the national interest. The portion of the revenues collected in any year by the United States which under this Act is required to be applied toward reducing the public debt will be unavailable for other expenditure by the United States and a reduction in the level of expenditures by the Federal Government will be required unless there is such an increase in the revenues of the United States as to preclude the necessity for such a reduction.

(b) The Congress realizes that the objective of limiting expenditures of the Federal Government could, even with the enactment of this Act, be avoided by future increases in the level of taxes now imposed by the United States or by the imposition of new or additional taxes. Cognizant that one Congress cannot bind the action of future Congresses or subsequent action of the same Congress, the Congress hereby finds and declares that the national interest requires that the level of taxes now imposed by the United States should not, by reason of the enactment of this Act, be increased.

SEC. 3. Section 21 of the Second Liberty Bond Act, as amended (31 U. S. C. 757b), is amended by inserting "(a)" after "Sec. 21.", and by adding at the end thereof the following:

"(b) The public debt limit set forth in subsection (a) is hereby reduced as follows:

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"(4) Effective on July 1, 1961, and July 1 of each year thereafter, by an amount equal to 5 percent of the net revenue of the United States for the fiscal year ending on June 30~~,~~ of the preceding year.

"(c) (1) The amount of the reduction in the public debt limit which under subsection (b) (without regard to this subsection) would be effective on July 1 of any year shall be reduced (but not below zero) by an amount equal to the net loss of revenue, as estimated by the Secretary of the Treasury, during the fiscal year ending on June 30 of such year resulting from any revenue law enacted by the Congress during such fiscal year or the fiscal year ending on June 30 of the preceding year, if the Congress in enacting such revenue law has provided, in the form prescribed by paragraph (3), that this paragraph shall apply with respect to such net loss of revenue.

"(2) The amount of the reduction in the public debt limit which under subsection (b) (without regard to this subsection) would be effective on July 1 of any year shall be reduced (but not below zero) by an amount equal to the loss of revenue, as estimated by the Secretary of the Treasury, during the fiscal year ending on June 30 of such year resulting from any decrease in tax rates which is provided for by the Internal Revenue Code of 1954 on the date of the enactment of the Public Debt Reduction Act of 1957 and which becomes effective during such fiscal year or the fiscal year ending on June 30 of the preceding year, if, prior to such July 1, the Congress has provided, ~~by joint resolution~~ in the form prescribed by paragraph (4), that this paragraph shall apply to such loss of revenue.

"(3) The Congress shall provide that paragraph (1) shall apply with respect to any net loss of revenue resulting from the enactment of any revenue law by including in such law the following provision: 'The provisions of paragraph (1) of subsection (c) of section 21 of the Second Liberty Bond Act, as amended, shall apply with respect to any net loss of revenue resulting from the enactment of this Act.'.

"(4) The Congress shall provide that paragraph (2) shall apply with respect to any loss of revenue resulting from any decrease in tax rates which is provided for by the Internal Revenue Code of 1954 on the date of the enactment of the Public Debt Reduction Act of 1957 by enacting a law containing the following provision: 'The provisions of paragraph (2) of subsection (c) of section 21 of the Second Liberty Bond Act, as amended, shall apply with respect to any loss of revenue resulting from the decrease in tax rates provided for by sections(s) of the Internal Revenue Code of 1954, effective on .' ", *the blank spaces being appropriately filled.*"

"(d) The provisions of subsection (b) shall not apply on July 1 of any year, or on any day of the fiscal year which begins on such July 1, if at any time during the fiscal year ending *on* June 30 of such year or during the fiscal year *ending* on June 30 of the preceding year—

"(1) there was in effect a joint resolution of the Congress declaring a state of war between the United States and a foreign power, or a proclamation of the President proclaiming an unlimited national emergency because the Armed Forces of the United States were engaged in armed conflict with the armed forces of a foreign power, and

"(2) the period of armed hostilities involving the Armed Forces of the United States during such war or national emergency has not been terminated by the Congress or the President.

"(e) (1) The provisions of subsection (b) shall not apply on July 1 of any year, or on any day of the fiscal year which begins on such July 1, if prior to such July 1—

"(A) the President has recommended to the Congress the suspension of the application of subsection (b) during the fiscal year beginning on such July 1, and

"(B) the two Houses of the Congress have consented to the suspension recommended by the President by agreeing to a concurrent resolution in the form prescribed by paragraph (3).

"(2) The President shall recommend the suspension of the application of subsection (b) for any fiscal year only if he determines that such suspension is ~~necessary~~ *desirable* in the national interest ~~because of economic conditions existing or threatening in the United States.~~ Such recommendation shall be transmitted to the Congress by special message. The President may, in one message, recommend the suspension of the application of subsection (b) for two fiscal years, but only if the later of the two fiscal years begins within 18 months after the date of the submission of such recommendation.

"(3) The form of the concurrent resolution by which the Congress shall consent to the suspension of the application of subsection (b) is, with respect to the matter after the resolving clause, as follows: 'That the Congress consents to the suspension of the application of subsection (b) of section 21 of the Second Liberty Bond Act, as amended, for the fiscal year(s) beginning on July 1, , (and July 1,), as recommended by the President in his message transmitted to the Congress on .', the blank spaces being appropriately filled.

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"(2) For purposes of paragraph (1), the gross revenue of the United States for any fiscal year is the total amount, as determined by the Secretary of the Treasury, collected by the United States during such fiscal year as taxes or duties, other than—

"(A) amounts collected as taxes under chapter 2 (tax on self-employment income), chapter 21 (the Federal Insurance Contributions Act, chapter 22 (the Railroad Retirement Tax Act), and chapter 23 (the Federal Unemployment Tax Act) of the Internal Revenue Code of 1954; and

"(B) amounts collected under any tax or duty to the extent that the amounts collected under such tax or duty (or that amounts equal to the amounts collected) are specifically appropriated by law enacted prior to the date of the enactment of the Public Debt Reduction Act of 1957.

"(3) For purposes of paragraph (1), the amount of refunds made during any fiscal year is the sum of—

"(A) the total amount, as determined by the Secretary of the Treasury, of refunds made during such fiscal year on account of overpayments of taxes and duties during such fiscal year or any preceding fiscal year, other than—

"(i) the amounts of refunds made on account of overpayments of the taxes enumerated in paragraph (2) (A); and

"(ii) that portion of the amount of any refund made on account of the overpayment of any tax or duty to which paragraph (2) (B) applies which bears the same ratio to the amount of the refund as the portion of the amount of the tax or duty (or of the amount equal to such amount) which is specifically appropriated by law enacted prior to the date of the enactment of the Public Debt Reduction Act of 1957 bears to the amount of such tax or duty; and

"(B) the total amount, as determined by the Secretary of the Treasury, of payments made by the Secretary of the Treasury or his delegate during such fiscal year under section 6420 (relating to gasoline used on farms) and section 6421 (relating to gasoline used for certain nonhighway purposes or by local transit systems) or the Internal Revenue Code of 1954.

For purposes of this paragraph, an overpayment of tax or duty includes an amount erroneously paid and an amount paid pursuant to an erroneous or illegal assessment.

"(g) (1) The Secretary of the Treasury shall, on or before January 1, 1958, and on or before January 1 of each year thereafter, determine and publish in the Federal Register the amount of the public debt limit which will become effective on July 1 of such year under the provisions of subsection (b), taking into account the effect under subsection (c) (1) of any revenue law enacted prior to the date of such determination and the effect under subsection (c) (2) of any decrease in tax rates which is provided for by the Internal Revenue Code of 1954 on the date of the enactment of the Public Debt Reduction Act of 1957 and which has become effective prior to the date of such determination.

"(2) If, after January 1 of any year and prior to July 1 of such year, any revenue law is enacted, or any decrease in tax rates becomes effective, which under subsection (c) affects the public debt limit which will become effective on such July 1, the Secretary of the Treasury shall as soon as practicable (but not later than June 30) redetermine and publish in the Federal Register the amount of the public debt limit which will become effective on such July 1 under subsection (b), taking into account the effect under subsection (c) of such law or of such decrease."

Sec. 4. Section 201 of the Budget and Accounting Act, 1921, (31 U. S. C. 11) is amended by adding at the end thereof a new subsection as follows:

"(b) In the case of the budget submitted to the Congress by the President for the fiscal year ending June 30, 1959, and for each fiscal year thereafter, the estimated receipts of the Government during the fiscal year for which it is submitted set forth in the budget shall exceed the estimated expenditures, and proposed appropriations therefor, for such fiscal year set forth therein by such amount as the President determines necessary so that the public debt on July 1 of the fiscal year following the fiscal year for which the budget is submitted will not exceed the public debt limit which he estimates will become effective on such July 1 under subsection (b) of section 21 of the Second Liberty Bond Act, as amended. The amount so determined shall be shown in the budget as an amount of estimated receipts during the fiscal year for which the budget is submitted which will be applied during such fiscal year toward the retirement of the public debt."

Senator SALTONSTALL. These are suggestions that have been made to make it clearer and to improve it.

Problems of Federal debt management and of using the national debt as an instrument of sound economic policy are probably as pressing today as ever before in our history. Five times during the history of our Nation the expenditures of war have created heavy public debts. Each time many informed people felt that our debts were so large we could never recover from them.

Following four of these wars these predictions were proved wrong; our Nation restored its credit and reduced or eliminated the debts it had incurred.

We are now carrying the burden of the largest debt of our history caused by the Second World War. In the 11 years following the war, we have not as yet devised a systematic and orderly system of debt reduction.

It is directed to this problem that I have drafted this bill and invited the attention and thoughtful consideration of my colleagues here in the Congress.

In our discussions of the problems of reducing the national debt we must recognize in the first instance the lessons of history. Following each of the five debt-producing wars which I have mentioned a moment ago, we have had a serious inflation of commodity prices.

It has become a well-recognized political and economic maxim that the painful experience of inflation and the painful experience of the deflation which inevitably follows each inflation is an unfortunate aftermath of deficit finance. It is equally well recognized that the sooner these problems are met and positive steps taken to restore governmental credit, the less hazardous is the aftermath of war.

In 1790, the public debt was $72.4 million, or $19 per capita. Through the efforts of Alexander Hamilton as Secretary of the Treasury, the Government indebtedness was gradually reduced.

It rose again following the War of 1812.

Following the Civil War, the debt was $2.6 billion, or slightly over 50 percent of our national income. In the years following the Civil War the debt was reduced by almost two-thirds.

After the First World War our debt was appreciably reduced by sinking fund legislation. Coincident with the evolution of a war finance philosophy throughout our history has been the development of a characteristically American tradition, that is, the paying off of the debts we incur.

Not only is such a philosophy consistent with a free democratic government, but it has paid dividends in the strength which it has given to us—confidence in our credit and steadily increasing national wealth. Fiscal integrity—whether individual or national—has been a symbol of good, typically American commonsense.

Early in 1946, the Committee on Public Debt Policy, which I shall speak more about later, was formed under the auspices of the Falk Foundation. In one of their first reports that best summed up the lessons of history about national debt, the committee pointed to the necessity for financing wars and of inflation and deflation following these wars. They pointed to the tremendous dangers of the inflationary forces created by World War II and of the unprecedented national debt.

They pointed to the serious economic implications of billions of dollars annually expended for debt interest and service. They spoke of the "national tradition" to "pay down our war debts promptly" and they said very aptly:

> Throughout our history, the greatest obstacles to national strength and the most acute dangers of fiscal collapse have been weak financial policies, but never inadequate or failing resources. During the 157 years from 1792 through 1948, we have had 95 years of net surplus in our national budget and 62 years of net deficit. That record is good enough to encourage us—and poor enough to put us on guard.

To bring this record up to date since 1948, we have had 6 deficit years and 3 years of budget surpluses—including fiscal year 1957.

As we reflect on the problems of our Nation's debt, it is well to remember the great wisdom of the words of George Washington in his Farewell Address, September of 1796:

> As a very important source of strength and security, cherish public credit. One method of preserving it is to use it as sparingly as possible; avoiding occasions of expense by cultivating peace, but remembering also that timely disbursements to prepare for danger frequently prevent much greater disbursements to repel it; avoiding likewise the accumulation of debt, not only by shunning occasions of expense, but by vigorous exertions in time of peace to discharge the debts which unavoidable wars may have occasioned, not ungenerously throwing upon posterity the burdens which we ourselves ought to bear.

Economists generally regard the relationship of the debt to our national income as the best indicator of the debt's burden on our economy. Our national debt today represents 82 percent of our national income. Today we realize, as we perhaps could not foresee a few years ago, that our role of leadership in world affairs and in times of critical and uncertain peace have made greater demands upon our economic resources than during any comparable peacetime period in our history.

In my judgment, it is more necessary than ever to be coldly calculating about our ability to sustain our debt and to maintain vigorous national credit and financial resources.

Before discussing the purposes of the legislation which I have proposed, I should like for a few moments to describe the bill and its operation.

S. 1738 proposes to make use of a very simple device to effect by legislation a systematic and orderly process for reducing the national debt and controlling the expenditures of the Federal Government.

The bill amends the Second Liberty Bond Act which has established a maximum ceiling on the size of the national debt. The debt limit which now is established at $275 billion merely provides that the debts of the United States, regardless of appropriations or expenditures, can, at no time, exceed the ceiling.

Reduced to simplest terms, S. 1738 merely says that each year automatically this ceiling, which has been in recent years such an effective brake on Federal expenditures, will be gradually lowered. In each year a small percentage of the preceding year's Federal net revenue is subtracted from the maximum debt ceiling.

In other words, the amount of money established as a maximum which at any one time can be outstanding in debt obligations is gradually diminished in each year by a percentage of Federal receipts.

Once enacted, in the first year of operation the bill proposes that the ceiling on the national debt be lowered by 2 percent of the net revenue of the United States for the fiscal year ending 12 months prior to the first scheduled debt reduction.

According to the dates now provided in the bill—and I put them in, Mr. Chairman, so as to give it substance, and of course you will change these when and if you act upon it—this means that at the beginning of the following fiscal year an amount equal to 3 percent of the net revenue for fiscal year 1958 is used, and so on until July 1, 1961, and each year thereafter when an amount equivalent to 5 percent of the net revenue of the United States for the fiscal year preceding will be set aside for the automatic reduction of the ceiling on the national debt.

These figures have been selected because they are gradual and moderate; yet, if adopted, would be effective in achieving the aims and purposes of the bill. The figures are moderate in that existing programs need not be disrupted. The figures, I believe, are realistic because they can be applied within the present framework of Federal revenue and the reductions which they would cause would not, in my judgment, be in any way disruptive of our great prosperity or weaken our national defense.

I believe that these percentages would produce the control over our expenditure levels which the bill seeks, while at the same time gradually reducing the size of our debt. I certainly hope to have the advice and counsel of this learned committee upon the proper percentage levels for the reduction proposed.

In summary, these provisions of S. 1738 operate as a control on the national debt ceiling and not an actual reduction of the debt itself. Should the bill be enacted, a fixed sum, depending on the relation of the actual debt to the ceiling, would have to be appropriated automatically, much as debt interest is automatically appropriated now, to keep the outstanding obligations within the reduced statutory ceiling. A proposed change to this bill would require such an item to be included in the budget.

In principle, this proposal utilizes the ceiling on the national debt as a brake on Federal spending. This same device has been very effectively employed by this committee in recent years to prevent further increases in our debt and to control the level of national spending.

The bill alters the status quo very little. At the present time, the actual public debt is very close to the prescribed debt ceiling. A deficit budget at the present time would mean that authorized expenditures could not be fulfilled without exceeding the statutory ceiling.

The existing requirement is that the Treasury Department incur no further debts in excess of the ceiling. This bill merely adds the requirement that the debts we have already incurred be reduced very gradually to stay within a ceiling prescribed by Congress.

Gradually decreasing ceilings would impliedly require surplus budgets by requiring that expenditures be kept a fixed percentage below revenues. At the present time we have mandatory expenditure in each budget—interest on the public debt. This is the largest single item in the budget, approximately $7.5 billion.

I know of no valid reason, should Congress determine that national policy dictate a reduction in the debt, why an additional fixed charge for debt retirement along with debt service should not be required.

The bill, in other words, is no more of a restriction upon the ability of the Federal Government to meet its obligations and commitments than is the current rigid debt ceiling.

In summary, the essence of this bill and the only way in which it can be truly distinguished from our existing fiscal debt control is that this bill imposes the necessity for budgetary surpluses to stay within a gradually declining debt ceiling.

Three suspension provisions have been written into this bill. One of these is for use in time of war when we realize a necessity for deficit spending to maintain our security. Section 3, D (1) and (2), describe the conditions under which the bill would be suspended in time of war.

A second provision now states that the President may recommend the suspension of this bill because of economic conditions existing or threatening and, if the Congress concurs by a concurrent resolution, the automatic reduction of the debt ceiling will be suspended for that fiscal year. I shall refer to this provision later in my discussion.

A third provision of the bill merits explanation. The amount of reduction of the public debt ceiling which is effected by this bill each year will be reduced by an amount equal to the loss of revenue resulting from any tax reduction enacted by Congress during that fiscal year if, and only if, Congress so provides.

Congress may provide for the suspension of the operation of this bill to the extent of the loss of revenue caused by tax reductions.

The purpose of the third provision, which has effect for 2 fiscal years—1 year following the tax reduction—is to give greater flexibility to the provisions of this bill and to permit the temporary suspension of this bill in any years when the budgetary surplus referred to above is used for a tax reduction.

By including such a provision, we do not foreclose the possibilities of general tax reduction, but rather, we encourage a general tax reduction, since the lowering of the debt ceiling makes mandatory budget surpluses, to be used in the first instance for debt reduction or, alternatively, if Congress desires, to permit a loss of tax receipts without creating a deficit budget.

The purpose of this provision is not to disregard the intent and aim of reducing the national debt; it is to create the flexibility which is necessary for any such far-reaching proposal to have lasting effectiveness.

We simply say, in effect, that we will have budgetary surpluses and we will use these to reduce our national debt, but if Congress feels that our tax rate should be lowered in the national interest, this same device can be used as the means for achieving it.

No legislative proposal can be successful which attempts to impose upon future Congresses the judgment of the Congress passing the legislation. Should this bill be enacted, we would be providing merely the mechanism by which each succeeding Congress could exercise its own judgment.

I asked the Comptroller General to provide statistical material which I felt might be helpful to the committee in properly analyzing and interpreting the effects of this proposed legislation. Upon the conclusion of my remarks, I shall ask the Comptroller General's representative to discuss very briefly for you the projected, predictable results of this bill.

Because I feel it helps orient our discussion in the first instance, I should like to mention one very revealing statistic. Had this bill been enacted in 1951, and assuming the bill's operation was not suspended during the past 6 years, the public debt would not today be \$275 billion; it would be \$260.6 billion, and in these very few years we would have made a significant start toward the repayment of our public debt.

The interest on the debt would not be \$7.4 billion but would be slightly under \$7 billion; in other words, almost one-half billion dollars would be available for productive expenditures, which is now used for debt service. I believe the Comptroller General's representative will substantiate these figures.

When I first began to discuss this idea in January, I solicited the comments and advice of many economists and others with vast experience in the fiscal affairs of our Government. The response has been generally very favorable and I have received many helpful and constructive criticisms, a few of which I feel it would be in order to mention briefly at this time.

The most common objection to the enactment of this legislation that I have been able to ascertain is that the bill is a straitjacket type of proposal. My answer to this is simply that, as discussed earlier, the bill is extremely flexible. It merely lowers the ceiling annually on our debt which requires somewhat reduced expenditure rates, as related to Federal income, to stay within the ceiling. This I believe is no more inflexible than the existing debt ceiling.

I recognize the problems which the bill presents in estimating Federal receipts so as to know the precise amount by which the ceiling is decreased each year. It is not necessary, however, to establish the reduced ceiling figure until very shortly before the close of each fiscal year, at which time it is my understanding that the Treasury can predict with great accuracy the level of Federal receipts to which the percentage of reduction is to be applied.

One criticism which I have heard is perhaps valid at the present time, but I hope will soon be overcome by other changes which have been proposed in our appropriations system. In order for this bill to operate properly, certain information may be necessary which is not now readily available. A greater relationship between appropriations and expenditures is necessary.

S. 434, commonly known as the accrued expenditures bill, would, in my opinion, provide the necessary information and control by which the provisions of this bill could operate. This bill would also virtually require the establishment of a single budget bill system which has been advocated by your distinguished chairman.

Both of these bills would provide the mechanism for informing both the administration and the Congress of the expenditure limits within which the bill I have introduced would operate. If S. 1738 were enacted, a single budget bill would follow as a natural consequence, as would greater attention to the expenditure levels of the Government.

A constitutional amendment requiring in each year balanced budgets is, of course, the most effective means to prevent deficit financing. I am very interested in the commendable proposal which your distinguished chairman, among others, has made and which is embodied in Senate Joint Resolution 36.

Should such a constitutional amendment be offered, we would certainly be assured of much greater fiscal stability. I believe that the proposal in S. 1738 is a very appropriate legislative companion to such a constitutional amendment.

The purposes behind this proposed legislation are properly oriented by reference to the nature of the debt which was very well expressed by your distinguished chairman in a recent address before the United States Chamber of Commerce:

> Terrible debt is another evil resulting from the fiscal record the past 25 years. The direct debt of the Federal Government has increased from $16 billion in 1932 to the present debt of $275 billion. That is 1,600 percent. Interest in 1932 cost taxpayers $599 million. Now it is $7 billion yearly, or 10 percent of Federal revenue. Higher costs are in prospect, interest rates on Federal bonds have been increased. If all the Federal debt were refinanced on the basis of the higher rate now being paid, interest costs would increase to approximately $9 billion.

Public debt is not like private debt. If private debt is not paid off, it can be ended by bankruptcy, hurting relatively few people. But if the public debt is no paid off with taxes, the end is disastrous inflation or repudiation. Either would destroy our form of government.

In addition to the $275 billion direct Federal debt, the Federal Government has accumulated contingent liabilities of at least $250 billion. These are obligations the Federal Government has guaranteed and insured, such as $40 billion in Federal housing programs.

The direct Federal debt is equivalent to the full assessed value of all the land, all the buildings, machinery, livestock, and everything of tangible value in the United States.

As we analyze the public debt, its implications and its economic gravity, we realize the unique character of the debt-financing capability of our own Federal Government. State constitutions and local charters are replete with limitations imposed on officials in incurring public debts. Forty State constitutions require either constitutional amendments or a public mandate to authorize debts beyond certain specified limits.

In the Federal Government, our only means of control is a statutory ceiling on the public debt, the ceiling which this bill seeks to amend. The reasoning behind a limitation upon the ability of a government to borrow money is best summed up by the late Prof. H. C. Adams in his well-known treatise on public debts:

> As self-government was secured through a struggle for mastery over the public purse, so must it be maintained through the exercise by the people of complete control over public expenditures * * * any method of procedure, therefore, by which a public servant can veil the true meaning of his acts, or which allows the Government to enter upon any great enterprise without bringing the fact fairly to the knowledge of the public, must work against the realization of the constitutional idea. This is exactly the state of affairs introduced by a free use of public credit. Under ordinary circumstances, popular attention cannot be drawn to public acts, except they touch the pocket of the voters through an increase of taxes; and it follows that a government whose expenditures are met by resort to loans may, for a time, administer affairs independently of those who must finally settle the account.

Few governments relate expenditures to revenues in as limited a degree as we do in the Federal Government. This was very ably pointed out by a joint committee of the Congress in 1946 convened to recommend improvements in operations to enable Congress to better meet its constitutional responsibilities.

We need look only to the British system of fiscal control for an excellent illustration. Under the English system, no expenditure measure can be enacted without a corresponding revenue provision.

I hope that the bill which I have introduced will be a means by which Congress can exercise a more responsible political control over its greatest constitutional power—the power to tax and to spend.

I have described the purposes of this bill as fivefold:

First, to reduce the enormous national debt which, computed on a per capita basis, is $1,613.38.

The second is to reduce the amount of money which must annually be appropriated for the payment of interest.

The third is to combat the ever-present dangers of inflation which are as grave today as they have been in recent years.

The fourth objective is to rebuild economic reserves and to promote greater financial stability so that our country may have the economic means to battle the true dangers of Communist military and economic aggression.

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Finally, the bill is designed to provide a means for controlling the expenditure levels of the Federal Government while surpluses are being accumulated for debt reduction and/or tax reduction.

My discussion earlier touched upon the necessity for debt reduction. Certainly our Government has no more vigorous and effective advocates of fiscal integrity and debt reduction than the esteemed chairman and distinguished members of this committee.

Many other thoughtful persons and groups have urged upon us the necessity for such debt reduction. In 1953, the Committee on the Federal Debt printed its recommendations in a book published by Prof. Charles Abbot of Harvard. The committee had been established as a 20th century fund study.

The Committee was chairmaned by Arthur Upgren, professor of economics at the University of Minnesota. The analysis made by Professor Abbot is a very comprehensive examination of the economic effects of our national debt. Among the Committee's conclusions was a very positive recommendation for reduction of the national debt.

> Must the debt remain outstanding in such large amounts? Would it not be better to keep our National Government, on which our safety as a people depends, unencumbered so that it may be able to borrow again in large amounts with great ease at any emergency? Even though the Committee recognizes the impossibility of complete debt retirement within generations, it does argue for whittling down the debt whenever possible.
>
> This Committee proposes that a program be developed for the retirement of the Government debt. Such a program must be flexible, and the Committee recognizes that it must be improvised to mesh with the economic conditions of the times. Nevertheless, a fairly specific objective or formula is needed if consistent progress is to be made toward the goal of retirement. * * *
>
> The Committee maintains that any debt, public or private, is a drag on the economy unless it increases the productive abilities of the Nation. A productive asset is the source of new goods and new income that flow out to the community. The income generated by the productive asset pays interest charges and amortizes the principal of the debt. Contrariwise, a debt arising from a nonproductive expenditure can be serviced as to interest charges and repayments only by garnering and diverting income from some productive resource elsewhere. * * *

A few years ago a Committee on Public Debt Policy was established, as I mentioned earlier, by the Falk Foundation. The Chairman of the distinguished Committee was our present Under Secretary of the Treasury, W. Randolph Burgess. The Committee included such familiar names as Sherwin Badger, Marion Folsom, H. B. Wells, George W. Smith, Charles Abbot, to name just a few.

The reports of the Committee contained very powerful conclusions of the necessity for debt reduction:

> It is therefore plain that the American people should be seriously concerned about their Nation's debt. The problem is how to make that concern effective, how we can live safely with this gigantic obligation, with a minimum of hardship and the least drain on the vitality of our economy. We must be realistic enough to face our fears, size up our dangers, and decide what can be done to avert them.
>
> And so, sudden catastrophe is not the real danger surrounding our national debt. The biggest perils are more subtle, and they are four:
>
> 1. The dilution of the dollar.
> 2. The risk of boom and bust.
> 3. The smothering of enterprise.
> 4. The loss of human freedoms.
>
> To avert the four dangers just discussed, this country must have a clear-cut policy for debt management. The program should have two objects, either of which is useless unless the other is realized. One is expert handling of the financial phases of the debt; the other is nourishment of a dynamic, stable national economy. Even if we are technically perfect in handling the debt, the achieve-

ment is futile unless the country is financially strong, with a national income capable of the burden of debt service.

Political pressure for spending and tax reduction is so great that much can be said for setting up a fixed statutory requirement for debt retirement. As pointed out in chapter 2, the amount of debt retirement should be related to the prosperity of the country, and in a good year we ought to retire more debt than in a bad one. Heavy retirement of debt in prosperous times would be a check to overexpansion and inflationary tendencies. Contrariwise, a smaller retirement, or even a temporary suspension of retirement, in times of adversity would relieve some of the burden of taxation and would help the processes of recovery.

Under any standards we ought to make a good beginning at debt retirement in times of boom prosperity.

An audit report to the Congress of July 1956 by the Comptroller General recommended a review by Congress to consider "the desirability of revising the machinery for debt retirement on a more realistic basis." (Audit report to the Congress of the United States—review of use of cumulative sinking fund for retirement of public obligations fiscal years 1921 through 1955.)

The Tax Foundation has made several veiy enlightening studies of the problems of debt retirement, and among its distinguished board are some of our Nation's leading experts in this field.

There is evidence that there is more understanding and concern among citizens over our Federal debt trends. * * *

They know that individual integrity is the cornerstone of individual credit. They are firm in their belief that national integrity is likewise basic. Citizens unquestionably support the need for a reappraisal of our debt policy and the adoption of definite plans for debt retirement.

The time has arrived when a definite though flexible debt retirement policy should be devised and followed. But it may be a will-o-the-wisp if not related to expenditure control.

These citations represent but a few of the many learned studies and recommendations which have been made in recent years. By far the best statement which has yet been offered was made by our President just a year ago when he said:

By no means do I believe they should cut taxes until we have made some little start on reducing the enormous national debt. There is such a thing as fiscal integrity; I don't care whether it is an individual or a nation.

And again in his economic report to the Congress:

In times like these we should bend our thoughts to the desirability of debt reduction. Once a budgetary surplus comes definitely into sight and economic conditions continue to be favorable, we should begin reducing our huge public debt. Such an act of fiscal integrity would signify with unmistakable clarity that our democracy is capable of self-discipline. It would add to the confidence that people need to have in the Government, if they are to plan boldly for their own and their children's economic future.

These are wise words.

I am confident that this proposal would, if enacted, help to control the level of Federal expenditures. Until we begin to make a concerted and self-disciplined effort to reduce systematically Federal expenses, not only in this year's budget but in each succeeding year's budget, we are only creating an illusion for our people when we speak of tax reduction, economic stability, or reduced public indebtedness.

Certainly the awareness on the part of the American people for economy and efficiency in the operations of their Government has never been more clearly demonstrated than in this session of Congress.

I think we all realize the necessity for achieving in each year's budget review the greatest degree of control possible over Federal spending. There have been many worthwhile proposals in this session to achieve this end.

Here in the Senate, we have already passed legislation for a special budget review committee. We are actively seeking passage of legislation for presenting budget estimates on an accrued expenditure basis.

In this connection, and certainly very clearly related to these proposals, it would seem that we would also want to institute a legislative mechanism by which we could guarantee a relationship between expenditures and revenue in each year's budget.

To the extent that this proposal gives Congress greater control over the distribution of Federal revenue, I believe that it is particularly timely, not only as a plan for debt reduction, but as a plan for effective expenditure control. We have certainly recognized both the dangers and the unpopularity of uncontrolled Federal spending.

Probably the most important criterion for fiscal policy in inflationary periods is a budgetary surplus and an expenditure control. The public debt and budget deficits add tremendously to the strain on our economic resources when our economy is being pressured by a demand for goods and services.

These are economic facts which I need not discuss in detail; they have been ably demonstrated by the economists whom I have earlier cited.

I do wish to emphasize, however, the necessity of directing our most thoughtful efforts to the very real dangers of inflation. Those of us who recall the terrible inflations in Europe following the First World War are keenly aware of the economic hazards and the potential disasters which these phenomena represent.

To the extent that this proposal would control governmental expenditures and would begin to reduce an enormous national debt, both of which are powerful inflationary forces, we would be taking a very significant step forward in the direction of protecting savings, preserving the value of the dollar, and guarding against the ultimate hazards of national bankruptcy.

The one thing which our Nation must guard most carefully against is certainly well known to all of us in this room. The dangers of communism do not come exclusively from the possibilities of military or armed attack.

If we properly interpret Marx or Lenin, then we are fully conscious of the real dangers which we face in an economic struggle with communism.

For the security of our Nation, it is as necessary to be prepared with national economic stability as it is with intercontinental weapons. Economic stability assures us that we can maintain our high level of production, our high standard of living, and our present industrial potential.

Our economy is presently as strong as it has ever been; we must keep it this way and strengthen it in every way possible. A policy which is designed to combat inflation is essential for the economic welfare of our country and, correspondingly, is a weapon in our hands against the economic penetration of communism and marxism.

If we were to be thrust into another major war in the immediate future, it goes without saying that we would need to expend great sums of money and undoubtedly to finance our military effort with a deficit budget. My concern is that there would be an adequate financial and productive reserve available to fight such a war.

One way to be sure that there will be is to begin now to reduce systematically the debt which we incurred in the last war.

I am not an economist, but it would certainly seem that there is some maximum to the debt which any nation can sustain. Keeping in mind our present high debt level, it is a matter of some concern as to how high we could increase this debt if we necessarily had to fight in another war.

To reduce it now in times of prosperity and time of great national productivity will help us to prepare a reserve for the possibility it again may be needed to protect the security of our Nation.

Just as expending money for military preparedness is essential for national defense, so is conserving our economic resources essential to our national security.

I trust that this discussion has acquainted you gentlemen with the provisions of this bill. I trust further that we have been able to convey to you some of the motivations and purposes which caused me to offer this legislation.

By no means do I contend that any single proposal is an answer to all of our fiscal problems. I do ask that this proposal be considered, as I believe it has considerable merit, is timely and important. I am sure there are many changes and additions which those of you who have great experience in this field can make to improve this bill. I hope and believe that it is workable.

The Legislative Counsel, who drafted this bill for me, has studied it again, and has made a number of minor clerical revisions which I would very much appreciate your committee considering during your discussions on this bill.

One objection which has been raised concerning the operations of S. 1738 may have considerable merit. It has been said with reference to subsection (e) (2) of section 21, which provides for the suspension of this bill when economic conditions threaten, that the invocation of this provision could have possible repercussions on the business and financial world inasmuch as such a recommendation by the President might indicate an approaching recession in business activity.

In view of this objection, I should like to ask the committee to consider deletion of the word "necessary" on line 3 of page 7, and in substitution thereof the inclusion of the word "desirable"; on lines 4 and 5 of page 7, the deletion of the words "because of economic conditions existing or threatening" and on page 2 line 11 the deletion of the words "or economic distress."

I think that such a change might also be helpful in view of the possible urgency of a war preparedness period during which it would be necessary in the national interest to expend sums of money for national defense, probably with deficit financing. This provision thus amended would cover a wide range of situations, not only economic but when military preparedness is essential in contemplation of open hostilities.

I should also like to ask the committee to consider the inclusion of the addition of a section at the end of this bill which would amend the Budget and Accounting Act to provide that the President include in each year's budget an item of a sufficient surplus of funds to cover the debt reduction or tax reduction which would be brought about by the reduced debt ceilings under the terms of the act.

This additional provision would insure that the budget submitted by the Executive in each year would contain an item specifically reserved for debt reduction so that the needed surplus to reduce the ceiling effectively would be thus appropriated.

Finally, Mr. Chairman, I have put dates in the bill to give it substance. Naturally, these dates should be made to conform with the schedule for the bill's consideration.

I should like at this time to ask the committee's consent to read a few quotations in connection with this bill which I have received from persons whose business it is to consider fiscal policies and money matters.

(The quotations referred to follow:)

Quotations from Old Colony Memorial, Plymouth, Mass., entitled "The Saltonstall Cure":

"Leverett Saltonstall, senior Senator from Massachusetts, is sponsoring a bill to reduce the national debt, a bill that seems to make a great deal of sense.

"It is a simple idea, so simple we wonder why nobody ever thought of it before. It is also perfectly workable, assuming that the United States is not afflicted with war or depression."

* * * * * * *

"Always it is a matter of robbing Peter to pay Paul. The big banks make out fine in this process. But the little banks and the little man do not fare quite so well.

"To us, the Saltonstall cure seems not only economically sound, but psychologically valid as well.

"We feel people are in the mood to gamble on it, even though it would inevitably mean a loss in Government services and spending.

"It would accustom us to retrenchment so gradually as to be virtually painless. And once the retrenchment reflex had been established, it would continue, we think, more or less of itself."

Senator SALTONSTALL. I should also like the committee's consent to insert in the record a selection of editorials and commentaries which have been published about this bill. (There have been approximately 150 articles published.) I will not try to read them except to say one of the best came from the Richmond Times-Dispatch.

The CHAIRMAN. We will put that editorial at the top. [Laughter.]

(The documents referred to are as follows:)

[Richmond Times-Dispatch, Tuesday, April 23, 1957]

SALTONSTALL BILL WOULD START REDUCTION OF NATIONAL DEBT

(By William McGaffin)

WASHINGTON, April 22 (CDN)—If you want to take a dizzy flight into stratospheric arithmetic, just take a look at the national debt.

On April 10, it stood at $274,186,297,997.64. The interest on this amounts to about $7.3 billions in the 1958 budget.

There's supposed to be a ceiling on the debt of $275 billion. This was provided by a congressional amendment to the Second Liberty Bond Act.

But there are ways of getting around this. Last year, for instance, Secretary of the Treasury Humphrey got Congress to grant a temporary increase of $3 billion, making the top $278 billion, until June 30, 1957. After that, it goes back to $275 billion.

Will we ever get the debt under control? Will we ever start paying it off systematically?

SALTONSTALL BILL

We could—if Congress so desired. One of the most interesting proposals, for instance, is contained in a bill recently introduced by Senator Saltonstall (Republican—Massachusetts).

Saltonstall's bill would make it mandatory that the national debt be reduced by a certain percentage each year. He would amend the Second Liberty Bond Act and provide that the present ceiling on the debt be reduced on July 1, 1958, by an amount equal to 2 percent of the Government's net revenue for 1957.

The reduction would be stepped up year by year to 3, 4 and finally, in 1961, 5 percent of the net revenue.

Saltonstall estimates that on the basis of current figures, the debt would be cut down by about $1.5 billion the first year—with the prospect of an eventual reduction of around $4 billion yearly, once the 5-percent rate took hold.

The Senator does not try to indicate where the Federal budget should be cut to make possible this annual reduction. But he does feel strongly that something must be done.

Saltonstall's bill contains the provision that the mandatory annual reduction of the debt could be suspended in the event of a war, a depression, or a cut in taxes.

Here are four things Saltonstall feels his bill would do:

Create a fiscal system which would encourage and make possible a general tax reduction.

Combat the inflationary forces in our economy created by "a large public debt and uncontrolled Federal spending."

Control expenditures of the Federal Government.

Promote greater economic stability to insure that the Nation is fully prepared to meet the threat of Communist aggression.

Saltonstall says he has had a "favorable response" to the bill, but, he adds, "I wouldn't be honest if I said it was going to pass this year."

[New York Herald Tribune, April 19, 1957]

Wall Street, U. S. A.

By Donald I. Rogers; Herald Tribune business and financial editor

SANE WAY TO CUT UNITED STATES DEBT

One of the wisest proposals ever offered for reducing the Federal debt is scheduled for a hearing soon by the Senate Finance Committee when it gives consideration to a bill introduced by Senator Leverett Saltonstall (Republican, Massachusetts), whose recommendation may prove to be the most spectacular "sleeper" of this session of Congress. This reporter predicts that this bill, whose advent occasioned so little attention, is destined for wide and wholesome discussion.

The bill, S. 1738, is called the "Public Debt Reduction Act of 1957," and it presents a sane, workable, and practical program for gradually cutting down the Federal debt—the largest contributing force behind inflation.

It would further amend the Second Liberty Bond Act, amendments to which now establish the ceiling on the national debt at $275 billion. It would provide that the ceiling on the national debt be reduced on July 1, 1958, by an amount equal to 2 percent of the net revenue of the Nation for the 1957 fiscal year.

After the first direct reduction, the bill provides that, effective July 1, 1959, the ceiling of the national debt be reduced by an amount equal to 3 percent of the net revenue for the 1958 fiscal year that, effective July 1, 1960, by an amount equal to 4 percent of the net revenue for the 1959 fiscal year; effective July 1, 1961, and July 1 each year thereafter, by an amount equal to 5 percent of the net revenue for the fiscal year ending June 30 of the preceding year.

SUSPENSION PROVISIONS

It contains three suspension provisions. One would take effect when the country is in a state of war or its armed forces are engaged in conflict. The second would be invoked upon recommendation of the President because of threatening economic conditions (such as the necessity to increase Government spending to create employment). The third suspension would apply if Congress passes any tax-relief measures during the operation of the act resulting in reduction of revenue to the United States, the amount of money otherwise applied to the reduction of the public debt may be reduced for 2 fiscal years by the amount of the loss of revenue caused by the tax measures enacted.

It may be difficult to remember that back in 1941 the Federal debt was $48,900,000. Five years later it had risen to $269 billion. With great effort it has been "contained" at approximately $275 billion for several years.

INTO ALL POCKETS

The average taxpayer need not feel remote from the overpowering Federal debt—for it reaches into every individual pocketbook in the Nation. For one thing, a substantial portion of all the tax money sent by individuals to Washington—this year approximately 10 percent—annually must be diverted to pay the interest on the debt. This year the Government must obtain more than $75 billion in new loans at current high interest rates in order to meet the more than $75 billion of public debts that will mature in the next 12 months.

And, when you consider that the high Federal debt is responsible in good measure for the tight money supply and the resulting high interest rates, it can be perceived how the Federal financial structure is trapped in a spiral of its own creation.

The Santonstall bill at least opens an avenue of escape from what ultimately must be fiscal disaster. For, if this Nation has not reached the peril point of indebtedness, it is fast approaching it—and will certainly pass it in the event of any emergency requiring greatly increased Federal expenditures.

[Fort Worth Star-Telegram, April 29, 1957]

PAY AN HONEST DEBT

The $275 billion national debt is a mortgage upon America's unborn for generations to come. It is an obligation incurred by the living who seem to have forgotten the old admonition that honest debts should be paid. The national debt falls into that category.

Senator Saltonstall, of Massachusetts, however, would revive that ancient rerity about honest debts in a bill that would require systematic payments each year on the huge obligation. Already the debt costs $7.3 billion in annual interest charges which will rise with interest rates. That cost accents the necessity for debt reduction, which is a twofold form of tax reduction in lowering interest and diminishing pressures for inflation.

However, payments on the national debt are impossible unless the money is made available from a Federal surplus. So we find ourselves back at the Federal economy program now before Congress. Likewise, debt reduction must take precedence over tax reduction, although both should be possible.

Spending pressure groups are the prime obstacle to the Federal economy that would make possible debt and tax reduction. It is the extravagant spender or pressure group that in final analysis is responsible for the failure to lighten the national debt burden on future generations of Americans.

Senator Saltonstall does not expect his bill to pass this year, but he has sown seeds for fiscal integrity in Government which may bear fruits later.

[Rockford (Ill.) Star, April 28, 1957]

An Editor's Notebook—

HOW WE CAN CUT THE DEBT

We're happy to report that the old doctrine of New England thrift appears to have a spokesman in Washington in the person of Senator Saltonstall, Massachusetts Republican. Saltonstall thinks something should be done about the public debt.

To be sure, Congressmen, administrative officials, Government economists who deplore the size of the public debt are a dime a dozen. It was a case of everybody talking about it, and nobody doing anything about it, until Saltonstall came up with his proposal.

His plan, which he has put into bill form as an amendment to the statute which sets a roof on the size of the debt, is simplicity itself. It is a progressive cutting down of the ceiling in ratio to Government tax receipts. Saltonstall proposes that on July 1, 1958, the present ceiling of $275 billion be reduced by a sum equal to 2 percent of the Federal Government's net revenue for fiscal 1957. On July 1, 1959, the ceiling would be reduced by a sum equal to 3 percent of net revenue; on July 1, 1960, by 4 percent; and in 1961 and succeeding years, by 5 percent.

The reduction next year wouldn't be spectacular—a mere billion and a half. But by 1961, the country would be chewing away at the debt at a 4-billion-a-year rate, on the basis of present tax income. As tax income increased—an expectation in a growing country—the debt ceiling would come down even faster. Moreover, there would be vast savings in interest. With the debt ceiling lowered from year to year, demands for greater Government services would have to be met on a pay-as-we-go basis, or be set aside.

Senator Saltonstall is not optimistic that Congress will rush to his side in his campaign against intolerable debt and inflation. Some will say it can't be done; others will say it is too tedious, and there ought to be a gimmick that would magically cut down the debt. Admittedly, the Saltonstall plan is a slow process. But it is the first intelligent proposal offered to put debt reduction on a continuous and sound basis, free of the whims and caprices that lawmakers and administrators are heir to.

The Saltonstall proposal would not block off spending cuts that could win the public tax reductions. It would simply earmark a portion of Government income each year to cut the size of the national debt. An escape hatch is provided in case of war.

It is odd that a nation as fiscally alert as ours and generally with a high standard of financial responsibility has never put into effect a systematic and politics-proof method of debt reduction. Treasury Secretary Mellon labored mightily in the 1920's to cut the size of the World War I debt; but that achievement was almost a personal tour de force.

The ugly fact about our public debt is that at its present legal maximum of $275 billion, it represents per average family a burden of close to $7,000, with the interest cost per average family around $3.75 per week. The interest bill the taxpayer pays is on top of the going costs of government.

The average householder, owing a debt of $7,000, would be expected to have some program worked out to pay it off. Saltonstall suggests that the Government measure up to the same standard of responsibility that is expected of its citizens.

JOHN GRIMES.

[Wakefield (Mass.) Independent, April 17, 1957]

A NEW CONCEPT

Senator Saltonstall's plan to do something about the continued increase in the national debt by a systematic method of setting aside money to pay off the huge bill is getting the excited interest it warrants. It certainly is something new for a lawmaker to produce such a clear-cut, simple plan for saving money, and it is wholly fitting that the suggestion to lay aside a sum each year for debt retirement should come from the veteran Senator from cautious and conservative New England.

One of the most disturbing facts of the postwar prosperity has been the lack of balancing the budget and at the same time reducing the public debt. If this cannot be accomplished in times of fabulous prosperity, certainly it is not likely to be accomplished when the recordbreaking pace of earnings is slowed and more difficult times come.

The Saltonstall plan takes into consideration the realities of a changing economy. It provides for steady accumulation of funds to cut the debt, at the same time including provisions to relieve the Nation of unwise or unjust strain in meeting the desired end of debt reduction.

Senator Saltonstall finds the increasing debt, not far from the $300 billion mark, something to be deeply concerned about. He has a plan to begin a gradual reduction of that debt without upsetting the economy.

The Senator's plan has already gained wide support and it should be given much more. It marks what can be considered a milestone in legislative thinking

It gives great promise of bringing a new concept into Federal administration.

93586—57——4

[Bridgeport (Conn.) Independent, April 5, 1957]

THE SALTONSTALL PLAN

The surging tide for economy in the Federal Government is stirring a new interest in the national debt and sparking a flurry of ideas on how best to reduce this monumental burden on the taxpayers' shoulders. The time has come for action.

Of all the proposals introduced in Congress the latest, by Senator Saltonstall, Massachusetts Republican, is worthy of consideration. The bill provides a systematic means for reducing the public debt and establishes controls and limitations on the level of Federal expenditures. The measure is designed to encourage tax relief by providing annual budget surpluses.

Senator Saltonstall described five basic goals which he hopes the bill will achieve: to reduce the size of the public debt and interest payments; to create a fiscal system which will encourage a general tax reduction; to combat inflationary forces in our economy created by uncontrolled Federal spending; to effectively control Federal expenditures, and to promote greater economic stability to insure that our financial and industrial resources are equipped to meet the threats of Communist aggression.

Under the bill, the ceiling of the national debt—now $275 billion—would be lowered by providing at the beginning of each fiscal year the reduction of the ceiling by a certain percentage of the previous year's Federal revenue. The percentages, from 2 to 5, would operate on an escalator principle until 1961 when the debt would be slashed another 5 percent net revenue for the preceding fiscal year. The budget for that year will not exceed 95 percent of the previous year's revenue. In each succeeding year, after 1961, the debt would be slashed another 5 percent until it disappears.

Provisions are made that the operation would be suspended in times of war and economic crisis. Adjustments on the amount of the debt reduction likewise are permitted should Congress pass any tax relief measures, resulting in a drop of Federal revenue.

The national debt should be of grave concern to every taxpayer when these facts are available to him: that a substantial portion of Federal revenue—this year approximately 10 percent—must annually be diverted to interest payments; and that this year alone the Government must obtain $75 billion plus in new loans at current high interest rates in order to meet the $75 billion plus of existing public debts that will mature in the next 12 months.

As we see it, the Saltonstall plan is practicable and workable. Its success, of course, hinges on self-discipline on the part of the Federal Government on future spending and self-sacrifice on the part of the taxpayer to forego demands for relief a little while longer. Congress must act soon on some measure to liquidate the national debt if the country is to show to the world its respect for fiscal integrity.

[Boston Sunday Herald, April 14, 1957]

SALTONSTALL PLAN MAY SAVE UNITED STATES FROM SOVIET PREDICTION

By Tom W. Gerber (Herald Washington Correspondent)

WASHINGTON, April 13.—Some of the Nation's leading economists fear the United States is plunging headlong toward fiscal chaos on a timetable set by the Soviets 35 years ago.

This fear is reflected at least in part by the unprecedented economy drive in Congress aimed at butchering the $71.8 billion budget.

In this uneasy atmosphere, a bill introduced by Senator Saltonstall (Republican, of Massachusetts) is gaining quiet but increased attention as a possible roadblock on the dash toward economic disorder.

The Saltonstall measure would provide for systematic reduction of the public debt.

Behind this simple and unexciting title are economic realities like the value of the money that jingles in your pocket or warms in your billfold.

The Saltonstall bill would provide a means for the Government to pay banks and individual citizens a small slice of the $275 billion it owes. This is the national debt.

At the same time, Government services and international policies Congress believes the Government should provide would not have to be sacrificed.

Saltonstall believes his debt reduction bill is "essential for national security." And here's why he feels that way:

The national debt in 1941 was $49 billion. By the end of World War II, or midway in fiscal 1946, the debt had risen to $269 billion.

On this basis, if the United States were pitched into a war in the next few years, it could swell the debt to nearly a half-trillion dollars.

And these are debts the Government would have to pay to keep its credit standing. It also is far beyond what many economic thinkers believe is the Nation's peril point.

This is the point when the public's confidence in the Government's ability to pay its debts begins to deteriorate.

Thus, to Saltonstall, the size of the national debt is linked directly to national security.

COST ZOOMS

As a member of the Senate Armed Services Committee, the Senator says he has reason to believe the World War II criterion of cost now is outdated. It would cost considerably more to run a war in the 1950's than it did in the 1940's.

By gradual reduction of the public debt, the value of the dollar would be stabilized.

Here's how the Saltonstall bill would work.

1. If it went into effect on July 1, 1958, an amount equal to 2 percent of the previous fiscal year's revenues would be set aside to reduce the national debt.

This would be about $1.4 billion. The Saltonstall bill thus would require more revenue than spending. And this would tend to hold down the budget.

2. The amount set aside each year would increase by 1 percentage point up to 1961 when it would settle at 5 percent.

3. Provisions of the Saltonstall bill would be suspended under three circumstances:

The first would be in time of war when national survival hinges on unlimited spending.

The second would be in time of crisis, such as a depression when stepped-up Government spending usually is required to keep economic activity alive.

FIRST OF KIND

And the third time would be in event of a tax cut voted by Congress. This would suspend the bill for 2 years. And in this regard, Saltonstall points to the fact that his proposal encourages tax relief.

Congressional historians report that the Saltonstall bill is the only one of its kind ever introduced, though the files bulge with other proposals for reducing or controlling the debt.

The national debt in 1789 was about $75 million. This was paid off by selling western land.

In 1920, when the national debt was $24.3 billion, Congress established a sinking fund to reduce the debt. But the problem was that there was no provision against deficit financing at the same time.

Thus even as steps were being taken to reduce the debt, it was growing.

No schemes have been enacted since 1920 to reduce the national debt.

LENIN PREDICTION

It was about this same time that Lenin, who just had won control of Russia, predicted gleefully that the Soviet Union would force the United States to spend itself into bankruptcy.

And despite the growing strength of the United States in the world community, some comparative figures indicate Lenin's prediction may have a chance of coming true.

For instance, the nonpartisan National Economic Council reports that the United States debt is more than twice as large as that of the rest of the world combined.

And this Nation's budget is 17 percent greater than the combined total of 32 other major nations of the world.

Top economists like Jerome Frank, former head of the Securities and Exchange Commission, and Yale Prof. Olin G. Saxon, have expressed concern that the Nation might not be able to withstand a $300 billion national debt.

They claim it would be inflationary and cause the Government's credit standing to topple.

This might mean the Government would have to borrow at higher interest rates to swell the national debt even larger. This, in turn, would lead ultimately to depression.

FLEXIBILITY CITED

Other economists, and many congressional experts, reason that if the United States fails to reduce its public obligations in time of unprecedented prosperity, it will never get at the task.

In this regard, one of the cited advantages of the Saltonstall bill would be flexibility.

If economic activity increased, revenues also would increase. And under the Saltonstall formula, Federal spending also could increase to absorb the needs of a growing nation.

In addition, as the national debt gradually were decreased under the Saltonstall bill, a lesser amount could be set aside each year to "service" or pay interest on the debt.

The Senator's bill, submitted less than 2 weeks ago, surely is the most important proposal he has set forth in his 12 years in Congress.

BACKED BY LEADERS

And some of the Senate's leading authorities on economy in Government are in back of the measure, at least in principle.

Senator Harry F. Byrd (Democrat, of Virginia), chairman of the Finance Committee to which the measure was referred, probably will call hearings on the bill next month. He's known to be sympathetic.

Senator Styles Bridges (Republican, of New Hampshire), ranking minority member of the Senate Appropriations Committee, also is believed ready to support the aims of the Saltonstall proposal.

Bridges, one of the Senate's most tenacious exponents of economy, has proposed a bill to make it mandatory for the President to present a balanced budget.

Senator Ralph Flanders (Republican, of Vermont), member of the Finance Committee, says the Saltonstall measure is "a great idea."

And another Finance committeeman, Senator William E. Jenner (Republican, of Indiana), also is enthusiastic about the Saltonstall bill.

Senator SALSTONSTALL. With your consent, Mr. Chairman, I would like to put in a few selected letters.

I have one from Mr. Ferdinand Eberstadt, and I quote just a part of it:

> However, my familiarity with the bill and the situation at which it is aimed is such that I have no hesitation in endorsing the objectives of the bill.

Then from the University of Virginia, Mr. G. Warren Nutter, associate professor of economics:

> I have long felt that our free-enterprise system can survive and function properly only if governmental fiscal policy is predictable and based on specific rules of action automatically enforced. Broadly put, this is simply a matter of government of law as opposed to government of men. In this respect, I find your proposal refreshing, for it prescribes definite rules of conduct leading to predictable consequences. Along the same lines, your objective of providing Congress with a self-disciplining mechanism is to be commended.

Then former President Herbert Hoover:

> Obviously it is not only a legal but a moral duty of the Government to pay back the money it has borrowed from its citizens. Moreover, it is an important defense action, for should we be involved in another war, we would need to borrow again, which would be more difficult with the load we already have.

From Mr. Bernard Baruch:

> I have opposed all tax reductions until, first, the needs of national security are fully met and, second, the budget is brought into balance. To reduce taxes with an unbalanced budget and so swollen a national debt is both uneconomic and immoral. It puts a premium on efforts to escape bearing a fair share of the heavy cost of the cold war.

And again from Mr. Roswell Magill, president of the Tax Foundation:

However, Government debt reduction must be related necessarily to Government expenditures and revenue, which your bill proposed. In my judgment, this is the most important single advance which could be made in improving procedures to enable the Federal Government to reach prudent and sound fiscal policies.

And again a letter from a friend of mine, Mr. Edward Streeter; another, Mr. Louis Curtis, of Brown Bros., Harriman & Co., and others.

I will not take the time of the committee to read those; they are selected letters which I would like printed in the record.

The CHAIRMAN. Without objection.

(The letters referred to are as follows:)

F. EBERSTADT & CO.,
New York, N. Y., May 27, 1957.

Hon. LEVERETT SALTONSTALL,
United States Senate, Washington, D. C.

DEAR LEVERETT: Replying to your letter of May 22, I am sorry that my summer plans in all likelihood preclude the possibility of my appearing before the Senate Finance Committee. However, my familiarity with the bill and the situation at which it is aimed is such that I have no hesitation in endorsing the objectives of the bill. I hope that it will receive the strong support of those whose cooperation would be essential to effectuate the purposes of the bill when, as I hope, it becomes law.

With best regards.

Sincerely yours,

FERD.

UNIVERSITY OF VIRGINIA,
JAMES WILSON DEPARTMENT OF ECONOMICS,
Charlottesville, Va., June 4, 1957.

Senator LEVERETT SALTONSTALL,
United States Senate,
Committee on Armed Services,
Washington, D. C.

DEAR SENATOR SALTONSTALL: I am honored by your request of May 20 to comment on your proposed bill, S. 1738. Unfortunately, public finance lies outside my field of competence, so that I am not able to give the expert advice you seek. I am glad, however, to offer the few comments in this letter as the reactions of an economist much interested in the problems your proposal deals with.

I have long felt that our free-enterprise system can survive and function properly only if governmental fiscal policy is predictable and based on specific rules of action automatically enforced. Broadly put, this is simply a matter of government of law as opposed to government of men. In this respect, I find your proposal refreshing, for it prescribes definite rules of conduct leading to predictable consequences. Along the same lines, your objective of providing Congress with a self-disciplining mechanism is to be commended.

I also agree with your diagnosis that inflation is a basic long-term problem of our economy. It is important that safeguards against perpetual inflation be built into our fiscal structure. As I see it, your proposal does this by creating a continuous surplus in the cash budget except under three conditions: (1) War, (2) economic emergency, and (3) reduction in tax rates. The proposal rules out, in effect, deficits created by increased expenditures except in the most critical times. This, too, is highly commendable, since government's role in directing use of resources should be determined solely by long-term considerations of welfare, not by short-term fluctuations in economic activity.

It is only reasonable to point out that the proposed mechanism has some disadvantages. In the first place, it sacrifices automatic offsets against temporary deflationary movements now built into the fiscal system. Suppose, for example, that private spending falls for some reason. If Federal tax rates and spending are kept the same, a deficit is automatically generated helping to cushion the fall in private spending and eventually to reverse it. Under your proposal, this could not happen, for Federal spending would have to be reduced step for step with tax revenues. The only action that could be taken would be to reduce tax rates, a rather slow and cumbersome process.

In the second place, your proposal might actually lead to a long-term deflationary trend, if rigorously adhered to. We should expect in the normal course of events that a secular increase in the quantity of money (perhaps at an average rate of 3 percent a year) is necessary merely to hold the price level constant. That is to say, aggregate output is growing and therefore aggregate spending must also grow if the price level is not to fall; and spending can rise over the long term only if the quantity of money also rises. Your proposal makes it virtually impossible to expand the quantity of money, except in times of emergency.

This leads to what is perhaps the most difficult question: whether your proposal, once enacted into law, would be long adhered to. The basic problem here has to do with the causes of secular inflation in this country. I believe that fiscal policy is permissive, not causal. There are, in my view, two underlying causes for inflation: first, the steady pressure for expanding the role of Federal Government in our economy—the trend toward socialism, if you will; second, the grants of excessive monopolistic powers to organized economic blocs, such as labor unions and farmers. There is nothing to be gained here by my commenting on the first cause, but let me say a few words about the second.

There is no reason why our current inflation could not be halted very quickly if governmental authorities so desired. The Federal Reserve System alone has ample power to stop the inflation. Why, then, does it continue? The answer lies in the dilemma of accepting either inflation or unemployment, a dilemma forced on us by our creating powerful economic blocs. As long as those blocs retain their powers—in particular, as long as labor unions have the power to push up wages faster than productivity, this dilemma will remain with us. When put to the test, Congress will seldom choose unemployment over inflation.

I do not wish to argue that a proposal such as yours has no merit. Quite to the contrary, some such fiscal system is imperative. I would only say that it must be coupled with other economic reforms, long overdue, if it is to succeed.

Finally, let me indicate an alternative approach to debt reduction and fiscal management that might have the advantages of your proposal without some of the shortcomings. These are essentially spontaneous remarks not carefully thought out, and they are advanced solely for whatever suggestive value they might have, not as a definitive proposal.

I should like to see a fiscal system directly linked to the price level itself. Suppose, for instance, the formula for debt reduction you suggest were adopted but that the manner of reducing the debt were made contingent on the behavior of a price index. Thus, if the wholesale price index had remained stable or risen in the past year (or some shorter, specified period), the debt would be reduced out of a budgetary surplus. On the other hand, if the price level had fallen as much as, say, two percentage points, then the debt would be reduced by issuance of currency. That is to say, in stable or inflationary periods, reduction of the interest-bearing debt would take place through surplus financing; in deflationary times, through monetization. There are obvious shortcomings in this scheme, but it would seem to lessen the chance that your proposal would have a long-term deflationary effect.

I hope these random comments may be of some limited use to you. Let me conclude by apologizing again for my lack of expertness in this field. My comments must be viewed as those of an interested but nonspecialist economist.

Respectfully yours,

G. Warren Nutter,
Associate Professor of Economics.

New York, N. Y., *June 1, 1957.*

Hon. Leverett Saltonstall,
Committee on Armed Services,
United States Senate, Washington, D. C.

My Dear Senator: I have read your bill and the able speech advocating it. I don't think I could add anything constructive to that which you have already said.

Obviously it is not only a legal but a moral duty of the Government to pay back the money it has borrowed from its citizens. Moreover, it is an important defense action, for should we be involved in another war, we would need to borrow again, which would be more difficult with the load we already have.

From observation of two world wars I believe there are two conclusions:

1. The vanquished nations get rid of their national debts by repudiation, revolution, or inflation. They are relieved of consequential military establishments. The victor nations must aid the vanquished nations to prevent starvation; they must struggle to pay interest and principal on their national debts; they must support a military establishment and they must carry increased expenditures to meet the increasing needs of their proples.

2. The peoples of victor nations cannot stand the amount of taxation to do all these things. Thus they are also forced into inflation.

In our own case, our inflation has decreased the purchasing power of money by 50 percent and thus has reduced the national debt by 50 percent. And inflation is still going on partially as the result of our national expenditures and their accompanying taxes.

Incidentally, the innocent bystander by inflation has lost 50 percent (and continues to lose more) of the purchasing value of his prior lien securities, his bank deposits and his pensions.

It seems to me our first job is to stop the continued inflation. There is some hope of this if there is a turn in world affairs but, in any event, we could reduce expenditures and taxation: (*a*) by reduction in demands on the Government of minority groups; (*b*) by reduction of waste in the Government; (*c*) by modernization of the Government's methods both in the civil and military establishments. But that is another subject.

With kind regards.

Yours faithfully,

HERBERT HOOVER.

NEW YORK, N. Y., *May 28, 1957.*

Hon. LEVERETT SALTONSTALL,
United States Senate, Washington, D. C.

MY DEAR SENATOR SALTONSTALL: In your letter of May 22, you say, "This bill is designed to provide an effective control over Federal expenditures, to reduce the national debt, and to provide a system which could be used for general tax relief, if the Congress so determined." Indeed, it is a very complicated proposal. May I quote from a speech I made May 11, 1954:

"Can we just inflate, inflate, and inflate and then, having run the whole gamut of economic sins, turn around and like a penitent child, say, 'We want to behave now. Do something so we won't have to pay for the mess we have made.' "

And further:

"I have opposed all tax reductions until, first, the needs of national security are fully met and, second, the budget is brought into balance. To reduce taxes with an unbalanced budget and so swollen a national debt is both uneconomic and immoral. It puts a premium on efforts to escape bearing a fair share of the heavy cost of the cold war.

"Nor is this the time for Government to embark on vast public-works programs or to pump more money into the economic system, as some demand. Before we ask the cook in the White House to bake us up a new inflationary pie, let us try to digest the inflation already loose in our system and to restore the value of earnings and savings. I think the time has come to stop the lending by governments to governments and to give private investment the opportunity to show what it can do. It is also time that the currencies of the world were freed. Until they are, it is futile to talk of reducing tariffs."

In the "explanation of 'Public Debt Reduction Act of 1957' " one part seems to nullify the other.

The fourth paragraph referring to section 2 of the bill describes the "intent" of Congress. Well, there is a certain place that is paved with good intentions. There is just one way to reduce the debt and that is to reduce it. The objective is fine but it is not drastic and inflexible enough. First of all we must stop talking of reducing taxes—surely until two things occur—

1. The security program is thoroughly taken care of and every item of the budget has been scanned carefully.
2. Until the short-time obligations of the Government for 1 year, of which about $75 billions will be due within the next year, have been funded. That doesn't take in about the $40 billions of bonds which can be cashed at any time.

Would it not be better to retire every year a certain percentage of the debt, no matter what the receipts are? Our greatest mistake was made when we reduced taxes over $6,500 million a year before the Government had refunded its obligations. The Government waited until everybody else had refunded around 2½ percent to 3 percent and now it is out on the limb. And what about those who bought Government bonds? Is there no obligation to them?

Sincerely yours,

BERNARD M. BARUCH.

TAX FOUNDATION, INC.,
New York, N. Y., May 28, 1957.

Senator LEVERETT SALTONSTALL,
Committee on Armed Services,
United States Senate, Washington, D. C.

DEAR SENATOR: In response to your request I am glad to give you my views on S. 1738. In my judgment, as your bill states, it is in the national interest that (1) there be an effective control of expenditures of the Federal Government, (2) there be a reduction in the amount of the public debt, and (3) there be instituted a fiscal policy which will encourage and permit a reduction in the general level of taxes. These objectives, I believe, are basic and necessary to a sound fiscal course.

Means to reach these objectives are needed urgently, now. The Comptroller General reports that the cumulative sinking fund of the Federal Government no longer serves to operate as a systematic plan for debt retirement. However, Government debt reduction must be related necessarily to Government expenditures and revenue, which your bill proposes. In my judgment, this is the most important single advance which could be made in improving procedures to enable the Federal Government to reach prudent and sound fiscal policies.

I would assume that the graduation and flexibility of application provided in the bill should make it more realistic to administer. However, there may be practical administrative and legislative questions which the bill might generate if it became law. These will no doubt be examined in its legislative course. However, I sincerely hope that diligent efforts will be made to find feasible and practicable means to accomplish the objectives which you aim to achieve by this proposed legislation.

Sincerely yours,

ROSWELL MAGILL.

NEW YORK, N. Y., *May 29, 1957.*

Hon. LEVERETT SALTONSTALL,
Senate Office Building, Washington, D. C.

DEAR LEV: I have read your bill, S. 1738, with real enthusiasm. I plan to go over it again more carefully, but, in view of the fact that it may soon be scheduled for hearing, I will give you my initial impressions for what they may be worth.

I am a plain, day-to-day banker, and certainly no political economist, but it seems to me that, if our country does not take action soon along the lines which you propose, we will eventually go broke, and when a nation goes broke it is much more unpleasant than in the case of an individual, as it imposes tragic hardships on millions of innocent people instead of on one person who, presumably, could have controlled the cause of his disaster.

Not being an economist, I am old-fashioned enough to believe that the economic facts of life are the same for a nation as for an individual or a group. When a man or a company spends more each year than he or it takes in, there will eventually come a day when all resources have been used up, and then the inevitable consequences follow. I know what the braintrusters say to that; viz, that our national resources are unlimited to all intents and purposes, but to me that is so much gobbledygook. It is the same kind of specious reasoning that is usually attributed (falsely, of course) to women when they want to be extravagant.

What I particularly like about your bill is that it establishes a yardstick or, if you will, a standard of values, in connection with our national debt and our national expenditure. It provides a framework in which Congress can work, and without such a framework I do not believe that any elected group can withstand the pressures put upon them from all parts of the country to spend for the benefit of particular groups or regions or the temptation to spend for political motives.

I presume you have sent copies of your bill to a large group of people, asking for comment, as you did in my case. I have half a dozen people in mind who might have constructive comments to make and, if you wish me to do so and will furnish me with the material, I will send a set to each one of them. To be effective, however, I would like to be able to say that you know I am sending it, and that they should make their comments directly to you.

The best of luck to your brain child. I agree with Mr. Rogers, of the Tribune, that it is the most important piece of legislation which has been submitted this year.

Sincerely,

EDWARD STREETER.

BROWN BROTHERS HARRIMAN & Co.,
Boston, Mass., May 28, 1957.

Hon. LEVERETT SALTONSTALL,
Senate Office Building, Washington, D. C.

DEAR SENATOR SALTONSTALL: I believe that your S. 1738, if enacted, would make a highly useful contribution to the solvency and financial stability of our Government and of its citizens through a gradual reduction of the public debt, Federal expenditures, and the money taken from our citizens by the Federal Government in taxes.

During the First World War, our public debt increased to a figure of $26 billion in 1919. During the ensuing 10 years, the war increase was practically eliminated by a reduction of about $1 billion each year to the figure of $16 billion in 1930.

In more recent years, our public debt increased from approximately $50 billion in 1941 to just over $250 billion during the years from 1945 through 1951, and has since then increased to almost its present limit of $275 billion.

It has been recognized that the Government has to spend more than it receives in times of war and of extreme economic depression.

But during, so to speak, normal times, particularly during times of high business activity, progressive reductions should be made in our debt for the double purpose of ridding its citizens of that burden of debt and its carrying charges, and to allow room for further increase in the debt during succeeding times of emergency.

Our ability to reduce the public debt, if we really want to do so, is indicated by the fact that the net revenue of the Federal Government is approximately 20 times as large as it was in the middle twenties, while our public debt is approximately 10 times what it was in 1919, before its reduction during the next 10 years. Certainly, the maximum annual reduction of 5 percent of our net revenue called for in your bill is modest in comparison to the use of 25 percent or more of the net revenue of the Government in the twenties.

In referring to Secretary Mellon's reduction of our debt in the twenties, let it not be said that it was the cause of our depression in the early thirties; in fact, the debt reduction was accompanied by the considerable inflation culminating in 1929.

We are all aware that there is a tendency in all governments to increase their power by the expansion of their activities, leading ultimately to Federal paternalism. Nothing can demonstrate that tendency more than the failure of this country to reduce its debt during these recent years of full employment and boom times generally. If we cannot reduce our public debt under such conditions, it is clear that we shall never do so unless some leader like yourself focuses attention on the problem and takes the lead in enacting statutes to bring about what we need so desperately.

The history of our public debt since its reduction in the twenties is that it has risen steadily, much faster in wartime than at other times, but with no reduction. It has been a one-way movement. We must have the courage and integrity to reduce the debt while we are able to do so, in order that we may benefit from its increase when such action is forced upon us by events beyond our control. I feel that it is of at least equal importance with reduction of taxes.

Your bill seems to me moderate and practical, and I hope that it, or something like it, will be enacted.

Faithfully yours,

LOUIS CURTIS.

93586—57——5

THE AMERICAN UNIVERSITY,
SCHOOL OF BUSINESS ADMINISTRATION,
Washington, D. C., June 11, 1957.

Hon. LEVERETT SALTONSTALL,
United States Senate, Washington, D. C.

DEAR SENATOR SALTONSTALL: I certainly am 100 percent for your bill S. 1738. It will have the constructive effect of setting a ceiling to expenditures within which the Federal Government will have to operate.

I wish there were some way of introducing a clause into the bill which would further insure the gradual reduction of our national debt. Such a clause would have to establish a ceiling for Federal expenditures beyond which neither Congress nor the Executive could go except under the emergency conditions spelled out in your bill. Also, I believe that if we allow a Presidential item veto, we would make certain that pork-barrel expenditures would be curtailed and Congress, through its overriding of a Presidential veto, would not altogether give up its congressional prerogative.

Because I believe that inflation is one of the great threats to our society, and yours is the first realistic step to come to grips with this danger, I wish you every success in your endeavor.

Sincerely yours,

HAROLD B. WESS,
Professor, Business Administration.

HARVARD CLUB,
27 West 44th Street, June 11, 1957.

DEAR LEVERETT: I have been traveling about 2 weeks since my last class for the year at Yale.

On arrival here I found your letter forwarded from New Haven. This explains both the delay in replying and my handwritten answer.

I have carefully analyzed your bill and want to congratulate you both for its two objectives and for the simplicity of the means proposed to accomplish them. Your bill is the most effective way of approaching the debt-reduction problem. A more ambitious and complicated long-term debt retirement program would, realistically, have no chance of serious consideration at this time.

Yet, it is essential that steps be taken to make a start on the problem. Your proposal not only does that effectively and practically, but has another real appeal to the public at this time—economy and reduction in expenditures.

There is little more that I can say, except that, should another major crisis strike before we reduce this debt to more reasonable proportions, the Treasury would find that, due to fear of further drastic inflation, real savers would no longer buy Federal bonds and would be forced to monetize all future bond sales by selling them to the commercial banks which buy them by creating credit money by mere bookkeeping entries. This would be the surest way to destroy the balance of the purchasing power of our dollar and all fixed investments payable in dollars.

Even the banks would take a heavy toll. In the Civil War, Federal banks not only carried interest rates as high as 7½ percent, but even sold to the commercial (national) banks at discounts up to 60 percent. Even this did not supply ample funds and Lincoln was forced to issue irredeemable greenbacks (they were finally redeemed in gold at par after 1878).

You will also recall that after the War of 1812–15, our Federal debt was steadily reduced until it was totally eliminated in the early 1840's.

Our Civil War debt of $2 billion was slowly reduced to only $1 billion in 1914.

Our World War I debt was cut back by 38 percent between 1920 and 1930.

Our present debt is about $1,600 per capita—almost twice the combined national debt of the major nations of the Western World (excluding the United States).

If I can be of any help to you at any time, please don't hesitate to call me.

Faithfully,

GLENN SAXON.

Senator SALTONSTALL. Mr. Chairman, we have four others present to testify on my bill. They are: Senator Gordon Allott of Colorado, Mr. Simmons B. Savage and Mr. John W. Moore of the General Accounting Office, and Mr. T. Jefferson Coolidge, chairman of the board, United Fruit Co.

The CHAIRMAN. Before calling on them, I want to say, Senator Saltonstall, this is an extremely able statement you made, and unless you have serious objection, I would like to insert it in the body of the Congressional Record today.

Senator SALTONSTALL. No. And I appreciate very much your statement.

The CHAIRMAN. I think it is one of the best statements I have seen on this subject. I have felt for a long time, as you know, that this huge public debt is one of the greatest dangers to this country.

I do not think you referred to the very probable increase in interest rates on this debt. If we should have to refinance this complete debt on the basis of the last offering of Federal bonds, which, incidentally, was not completely purchased, the interest rate would be 3⅝ percent. That would necessitate an appropriation of $10 billion instead of the $7 billion-plus we are now spending for interest on the Federal debt. So there is a potential increase in public expenditures by the increased interest rates.

I think this is a much better approach than the ineffective sinking-fund law, enacted shortly after World War I. It was completely ineffective in the deficit financing periods.

I always have been a very strong advocate of a rigid debt ceiling. I have recently come to the conclusion that the debt ceiling is the most effective brake we have on Federal spending. As a member of the Appropriations Committee you know we have unexpended balances of $70 billion. The President is now asking for an expenditure budget of $73 billion.

If that budget should be enacted, there will be available for expenditure more than $140 billion beginning with the next fiscal year, on July 1. Congress has practically lost control of the expenditure budget.

Your plan would restore to some degree, a large degree, I think, the control of the expenditures by Congress.

Just a little matter of history: I think you and the members of this committee will recall that when this administration came into power, Secretary Humphrey, a man who has my confidence and respect, appeared before our committee and asked that we increase the debt limit from $275 billion to $290 billion.

The proposal passed the House at that figure. It came to the Senate Finance Committee, and we thought it was not justified. The proposal was rejected, although Secretary Humphrey at that time predicted the results would be bad.

The result was that expenditures were curbed and it was not necessary to enact that increase.

The next year an increase from the $275 billion permanent ceiling, to $285 billion was asked. The committee approved a temporary increase of $6 billion to expire at the end of the fiscal year.

Last year the temporary increase was cut in half to $3 billion. This expires June 30, this year.

Secretary of the Treasury Humphrey recently stated that he thinks a rigid ceiling is important and desirable. His original opinion has changed, because he sees our situation here, and no man is more alive to the dangers of our high taxes and high debt than the distinguished Secretary of the Treasury, who I am very sorry to say is leaving the public service.

So I certainly thank you, Senator Saltonstall, for bringing this matter to our attention.

There are 2 or 3 difficult details to work out. One is the situation which would result from an overestimate of national income. We estimate national income 18 months in advance. If it should be less than the estimate, tax revenue estimates must be revised accordingly.

In other words, if the so-called national income goes down, so does tax revenue because our tax system is geared so tightly to the income tax policy.

I am not sure how the bill would meet erroneous estimates of national income.

Senator SALTONSTALL. The estimate, under this bill, Mr. Chairman, could be made at a time when revenues are fairly well known—take this year as an example. It is now June 11, 1957. We are proposing the Federal budget now for 1958.

By this time, or by the 1st of June, should we use that date, the Treasury has a pretty good, a very accurate, estimate of the 1957 income.

This bill is based so that the 2 percent or 3 percent or 5 percent of the revenues of 1957 would be inserted in the 1958 budget as a reduction of the debt.

In other words, you make your estimate, not away back, but you can make your estimate right now, at this time, based on 1957, as to what would go as the debt reduction in fiscal 1958.

The CHAIRMAN. But that necessitates an estimate to be made in September.

Senator SALTONSTALL. No, sir, it could be made now.

The CHAIRMAN. I know, but the 1958 appropriations are being passed now.

Senator SALTONSTALL. Yes, sir. But this bill bases the debt reduction on the year previous revenue. In other words, the revenue that comes in in fiscal 1957, which terminates on July 1 of this year, determines the amount of the debt reduction that would be included in the 1958 budget, the reduction to take effect on July 1, 1958.

The CHAIRMAN. I am not opposing that theory, but for information I should like to inquire whether the President would have power to reduce the appropriations if funds are not available as a result of the reduced debt limit.

Senator SALTONSTALL. No, sir. He would not have the power to reduce the appropriations.

The CHAIRMAN. Would he have the power to withhold expenditures?

Senator SALTONSTALL. He would withhold the application of this debt reduction, with the consent of Congress. He would send the message to Congress, and Congress, by a joint resolution, would determine whether this act should be suspended for that year, or in whatever amount he says.

The CHAIRMAN. Do you think that is a serious defect in the bill? That may occur most any year.

Senator SALTONSTALL. Well, Congress, as I say, would have to approve of that. There are three——

The CHAIRMAN. Congress would have to approve of it, but it may be just a small amount or it may be a large amount, we cannot tell.

Of course, as you know, the appropriations for 1958, beginning the 1st of July——

Senator SALTONSTALL. Yes.

The CHAIRMAN. They are largely determined by the revenues or the business conditions in calendar 1957.

Senator SALTONSTALL. Yes.

Senator FREAR. The budget is determined by that.

The CHAIRMAN. The budget is determined by that.

Senator SALTONSTALL. Yes.

The CHAIRMAN. And revenue estimates are complicated. I have given much study to them. They are based on factors which are difficult to determine.

Senator FREAR. But, Mr. Chairman, suppose they said back in September, as you mentioned, that the same figures are going to be available in June, they can make it approximate now, in September when the budget is made up. That would help us to insure that that budget was not delayed or the payment on the national debt was not delayed because the administration or even Congress felt it would be otherwise.

The CHAIRMAN. What I am trying to ascertain is to what extent a shortage of funds available for the appropriations or expenditure would require return to Congress for suspension of this law.

Senator SALTONSTALL. Well, Mr. Chairman, you have got your fixed interest rate now.

Now, nobody would ask, necessarily, that that be suspended. We could not suspend that and maintain our fiscal integrity.

This bill would permit, as I see it, the President, if there was a sudden depression in revenue so that it would be very difficult to meet the expenditures of that year to do 1 of 2 things: He could go back—he could withhold the appropriations that Congress has already granted. That he has to do, anyway, now. And he could, if he felt that it would be helpful, on this debt reduction, come before the Congress and ask them to suspend that.

The CHAIRMAN. Would that apply to expenditures from unexpended balances in previous appropriations? Would the President ask Congress to suspend this law to allow expenditures from balances in prior appropriations? As you know, the executive branch determines when this money is to be spent.

Senator SALTONSTALL. That is correct.

The CHAIRMAN. We will have theoretically $140 billion available for expenditure on the 1st of July; that is, technically available.

The only thing lacking is the money on hand. A substantial part of the $70 billion in unexpended balances can be spent at times determined by the Executive. Could he ask this to be suspended for such expenditures?

Senator SALTONSTALL. I would assume—now, for instance, President Truman held up a certain expenditure in the Defense Department. President Eisenhower held up a little, I think, of the expenditures that Congress appropriated last year in the Defense Department.

As I understand it, the President can always hold up expenditures.

The CHAIRMAN. You are not talking to my point. I am not talking about that. I have never seen any damage resulting from expenditures held up.

The President has $70 billion in addition to this year's appropriation.

Senator SALTONSTALL. That is correct.

The CHAIRMAN. And we have a revenue of about 71 or 72 billion. Suppose he draws or decides to spend from all appropriations and authorizations available in excess of the revenue for the year. Could the President ask Congress to set aside this law under those circumstances?

Senator SALTONSTALL. Yes, I think he could. I hesitated to answer the question affirmatively, because he—yes, he could ask the Congress to set it aside. When Congress meets, we will say in January, Congress would have to decide whether it would agree with the President or not.

If Congress did not agree with the President, then we would go ahead with the debt reduction, and the President couldn't spend the money.

The CHAIRMAN. If he went ahead and authorized the expenditure which apparently he has the right to do——

Senator SALTONSTALL. We might have to do——

The CHAIRMAN. What might happen then?

Senator SALTONSTALL. We might have to do it to maintain fiscal integrity.

The CHAIRMAN. They would have to enter contracts, and so forth.

Senator SALTONSTALL. There would come, as I see it, the question on the interest rate, the amount of appropriations for the interest rates, which of course is fundamental. Neither the Congress nor the President could stop that. But if the President did not want to stop anything else, then he could come before Congress.

The CHAIRMAN. What I am trying to make clear is that, under the situation now existing, the President is the one who decides when the money is to be spent.

Senator SALTONSTALL. That is right.

The CHAIRMAN. Congress appropriates it.

Senator SALTONSTALL. That is right.

The CHAIRMAN. The Executive determines when it is to be spent. He has the potential spending capacity as of the 1st of next July of $140 billion, assuming that the requested appropriations are enacted.

Senator FREAR. Which is equal to 2 years' revenue.

The CHAIRMAN. Two years.

Please understand I am trying to be helpful. This is a good plan, and if it has any weak points, it would be helpful to know what they are.

If the President spends from the balances in excess of budget estimates, might it necessitate suspension of this law?

Senator SALTONSTALL. I think it could. But I would hope that we would not have, we will say, any President who went beyond his budget or who went into fiscal questions in quite that manner.

The CHAIRMAN. This year, for example, it appears that expenditures are going to be about $1 billion more than the budget estimates.

Senator SALTONSTALL. That is correct. In the Defense Department, it will be almost $2 billion more.

The CHAIRMAN. I mean the total is going to be about $1 billion 5, somewhere along there, in excess of the expenditure estimates submitted in January.

Senator SALTONSTALL. That is correct. That is one of the problems for next year.

The CHAIRMAN. That was inadvertent. The President did not intend that, but it was due to speed up in certain payments on contracts, et cetera. We run our affairs on a cash in-and-out basis for the fiscal year.

Senator SALTONSTALL. That is right.

The CHAIRMAN. We might have a deficit on the last day of this fiscal year, and have a surplus by the middle of the next month. But we run on a fiscal year basis—cash-in and cash-out.

Senator SALTONSTALL. I think that accrued expenditures bill which the Senate has passed twice now, and which many of our States have, as you know, is a great step of advance.

The CHAIRMAN. I am in favor of the accrued expenditures bill. But I still think unexpended balances present a question in connection with consideration of this bill which needs clarification.

Senator SALTONSTALL. Well, sir, my greatest knowledge is in the Defense Department, and there, of course, their unobligated balances will be reduced by the end of fiscal 1958 down to $8 billion from $16 billion now, as I understand it.

Their estimated expenditures, as you have said, this year will run over $2 billion over what were the estimates, and the great problem with the Defense Department is, their estimated expenditures for the next fiscal year are going to run, they may run—they do not have it accurately—may run $4 billion over the estimated expenditures, and that is one of the great problems.

The CHAIRMAN. You know what happens. They use these unexpended balances, and they program them over a period of years.

Senator SALTONSTALL. That is correct.

The CHAIRMAN. In other words, until we had these unexpended balances, we operated on an annual basis; we appropriated annually to make annual payments on contracts and to meet annual expenditures.

Senator SALTONSTALL. Well, personally——

The CHAIRMAN. That procedure was abolished in the 1940's. Now we appropriate for what sometimes is called forward financing—in full. If they want to many airplanes, we appropriate the full amount for them at the beginning even though all of it may not be spent for 4 or 5 years.

Senator SALTONSTALL. That is the difference, Mr. Chairman, in the House and Senate Appropriations Committees. Now, the Senate has tried to go back to contract authorization.

The CHAIRMAN. That is right.

Senator SALTONSTALL. And the House refuses to do it.

The CHAIRMAN. That is right. I think it is on the basis of policies established by the House that we have built up these unexpended balances.

Senator SALTONSTALL. That is correct.

The CHAIRMAN. Thinking it would be economical to appropriate for a battleship on a total basis, when it takes 4 years to build it.

As a matter of fact, there has been no economy in it. Supplemental appropriations are made and there are many other factors.

I simply bring that out because I think these unexpended balances are one of the most unfortunate things that have ever happened to the fiscal situation of this country. They make it so difficult for Congress to control the expenditure of the money.

Senator SALTONSTALL. I agree with you, sir. I personally believe in contract authorization.

The argument against contract authorization is that once the *Forrestal,* we will say, or an aircraft carrier, is started, then Congress loses control and it just has to appropriate these contract authorizations.

The other——

The CHAIRMAN. Excuse me, Senator, I do not think that is correct. They do not have to do it.

Senator SALTONSTALL. No. They may have to slow it down.

The CHAIRMAN. They can pay a penalty. They could stop construction and cancel contracts, as they did on at least one occasion in my own State. Certainly penalty must be paid for contract cancellation. But we can stop it.

You have annual control. But if you start a battleship, and the company which is building it incurs loss by reason of contract cancellation, then you have got to pay for that loss.

Senator SALTONSTALL. Well, I voted that way. I believe in that. But that is a difference of opinion in how to carry it out.

The CHAIRMAN. I am sorry to have taken up so much time.

Senator Martin?

Senator MARTIN. Mr. Chairman, I think we all are very appreciative of the very fine statement the senior Senator from Massachusetts has made, and I am fully in accord with your purposes, with the purposes of your bill.

I am fully in accord with the comments made by the distinguished chairman of this committee.

But I wanted to bring this out: One of the most difficult things in government is the curbing of appropriations. You made the statement in your formal presentation about several States of the Union having constitutional limitations as to debt.

I will give an example. We have a constitutional limitation in Pennsylvania. But they needed some money, and somebody suggested an authority by which the State would build buildings and build roads, and the reason for it is that they are going to pay rental, and the supreme court of the State approved those authorities.

Now, we have, as a direct obligation of Pennsylvania, in the bonds approved by the people, around $250 million. But we have authorities of a half-billion dollars.

So it is just awfully hard to keep appropriations within bounds.

Personally, I am very strong for and I/went along with curbing the raising of the debt ceiling. I think we ought to have a very firm debt ceiling, and there is not any question we ought to pay on the public debt during periods of prosperity.

We are now in a period of prosperity, and we ought to be paying on the public debt.

You brought out in your statement, and I am fully in agreement with it, and I think it is a matter which ought to be pressed home to the people of the United States, the danger of inflation. You made the statement there that that was the real cause of the destruction of several great nations in Europe, and there is not any question but what that is true.

I have made the statement to patriotic organizations like the Legion, Veterans of Foreign Wars, I have made the statement that I feared inflation more than I did the invading armies or the worst bomb invented, and I think that is true.

Take in our country, we are now discussing this high interest rate. We all hate to pay a high interest rate, but it is probably about the only thing that you can use to curb inflation unless we put ceilings on, which is a very—well, putting on a ceiling is an absolute destruction of the American principle of free enterprise, and we do not want to do that.

But I think what you have brought here this morning is a very important thing.

Mr. Chairman, I am very much in favor of this bill. It may be necessary when we are asking you questions about certain things—it is no criticism about the general objectives—we just want it to do the job that you are hoping it will do.

Senator SALTONSTALL. I know that.

Senator MARTIN. Mr. Chairman, I want to congratulate the Senator on the statement he has given us.

Senator SALTONSTALL. Thank you very much, Senator.

The CHAIRMAN. Senator Frear?

Senator FREAR. I, too, Senator Saltonstall, think you deserve much more credit than you probably will ever get for bringing this to our attention, and I hope something comes of it.

I also think that the interest our chairman has in it is equally highly commendable.

I wonder if we could not pass legislation which would automatically reduce the debt limit at the end of each fiscal year by 2 percent of the revenue of that fiscal year, and if we thereby reduce the national debt limit, in order for the President to expend more, regardless of appropriations, he would have to have the authority of Congress to exceed the debt limit.

Senator SALTONSTALL. Certainly he would have to have the authority.

Senator FREAR. I mean, could we not have a formula that, say, at the end of fiscal year 1957, we were going to reduce the limit of our national debt, $275 billion, by 2 percent of the income of 1957 fiscal year, so that that would be an automatic thing in the budget for the following year?

Senator SALTONSTALL. That is what this bill, Senator Frear, does. It takes, as I have tried to say, it takes the previous year's revenue as a basis for the next fiscal year's reduction.

Senator FREAR. Yes. But it is not automatic, Senator.

Senator SALTONSTALL. Well, it would be automatic if this bill becomes law, except for 3 suspensions, except for 3 ways in which it could be suspended—in war, economic necessity, or a tax reduction.

The CHAIRMAN. Is that not a mighty broad term—"economic necessity"?

Senator SALTONSTALL. Well, Mr. Chairman, we put that in there because we meant it to meet the criticism we were to inflexible. That was the purpose.

The CHAIRMAN. I am very much inclined to Senator Frear's idea. If you had steady debt reduction, the President and everybody else would know what it was, and they would try to adjust their affairs accordingly.

Where is this provision?

Senator SALTONSTALL. There are——

The CHAIRMAN. You say at least so much——

Senator SALTONSTALL. It is pages 6 and 7 of the bill.

The CHAIRMAN (continuing). Reduction.

Senator SALTONSTALL. It is on page 7, Mr. Chairman. Section 3, subsection (e), provides for the suspension of this act, for the President recommending such suspension as desirable in the national interest, and when Congress has concurred by concurrent resolution, it becomes effective. There must be affirmative action or else the debt reduction takes place.

The CHAIRMAN. It is not automatic.

Senator MARTIN. Mr. Chairman, if the Senator from Delaware would just yield for a moment, should we not make it more like we go to a bank as individuals to borrow money, and we promise to pay back so much each month? Well, if we find we cannot do it, we have got to make an awfully good case with the bank before the bank will relieve those payments. And as a government, we are just like an individual. Governments can be broke just the same as individuals, and I wonder whether or not we should not make it pretty hard in order to release this.

It would be amazing how rapidly this debt would be decreased if we took 2 percent of the revenue each year. It is amazing how rapidly that would decrease, and it would cut down our interest rates.

Senator FREAR. I think, Senator, we are trying to accomplish debt reduction, and the only suggestion I had was to make it mandatory upon the executive branch to see that they toed the line, and that was automatic.

Senator MARTIN. I agree with you.

Senator SALTONSTALL. I think it is mandatory, but it has suspension provisions. I would just say to Senator Frear that originally we only had the provision for war in this, and then we decided that was a little too stiff, so we put in economic and tax reduction.

If you wanted to make it stiffer, that is all right.

The CHAIRMAN. In this version of the bill, I see on page 2 that the words "economic distress" are omitted.

Senator SALTONSTALL. Sir, I want to make it just as clear as I can, this is a suggestion, and the committee will have many thoughts concerning it to improve it.

Senator FREAR. Well, you certainly stimulated this committee.

Senator SALTONSTALL. It makes us think about it, and that is one thing I tried to do.

The CHAIRMAN. Senator Anderson?

Senator ANDERSON. You say here on page 11 that the second purpose of the bill is to reduce the amount of money which must annually be appropriated for the payment of interest.

Then over on page 8, you said if they had come down from $275 billion in 1951 to $260 billion now, it would have reduced the interest.

Actually, the interest rate on $260 billion is still higher than it would have been on $275 billion at the old rate; is that not correct?

Senator SALTONSTALL. The way you framed the question, sir, without knowing the exact economics, I would answer "Yes." But I cannot——

Senator ANDERSON. You know the rate on Government short-term paper was something in the neighborhood of 1½ percent, and now it is 3⅝. It might have gotten up to 2 percent. I devoted Monday night in trying to keep up with a couple of publications, and I noticed in Business Week for June 8 that—

> Boston Edison had to pay 4.53 percent interest on a $25 million bond issue this week. This utilities credit carries a gilt-edge AAA rating.

And we all know what a gilt-edge AAA rating is. Then it says:

> New York Telephone's 4½-percent issue, offered at 101¾, didn't sell. When the syndicate was dissolved, the price plopped to 98¾.

So actually, even though we had reduced the amount of the national debt by a very substantial amount, something like $15 billion, the cost of servicing the national debt would today be greater than it had been when we started out.

So we certainly have to keep our eye on what it costs for money, do we not, as well as what the total amount of obligation is?

Senator SALTONSTALL. Certainly that, of course, depends on the amount of debt outstanding of all kinds, public and private, and the amount of money available, and that is one of our great problems today.

There are several gentlemen following me who are much more capable of discussing that question, Senator Anderson, than I am, but I understand what you are driving at.

Senator ANDERSON. Yes. But you do not have to keep your eye on what the total obligations are.

Senator Martin mentioned going into banks and borrowing. If he would have gone into the banks recently, he would have found out what we used to pay as a rate of interest is no longer available. They have gone from that plateau to a wholly new one, and they are very happy about that.

I also noticed in the U. S. News & World Report a comment that farmland had gone up 201.22 percent, and the value of the dollar had gone down 50.21 percent, since 1939. Would that not in a way effect a slight reduction in the national debt as far as this total burden is concerned? Here is the chart they used.

Senator SALTONSTALL. Yes.

Senator ANDERSON. It shows that the national debt in 1940 was here at 100, I mean the total amount of our dollars was up here at 100; and now it is up here at 50. So in reality, we have had a 50-percent inflation that has reduced the relative importance of the national debt; has it not?

Senator SALTONSTALL. Yes. But I would say, sir, that if we keep a sound fiscal policy in our Federal Government, the value of the dollar will be maintained, and we will help to avoid inflation. And while the public debt as to the value of the dollar today has gone down, as you point out, because the value of the dollar has gone down, that is what we want to avoid.

In Germany after World War I, they were paying their salaries twice a day.

Senator ANDERSON. I cannot take any pride in quoting an individual who is dead and not able to defend himself, but I had a long discussion with Jesse Jones on this question in 1946—and I hope I do not misquote him; I do not mean to, at least—in which he pointed out that we would never pay off the national debt; we would just gradually reduce it by inflation.

I do not say that he was right, but I only point out that we have cut the national debt by inflation 50 percent, on that theory. I think it is a very bad one, because I think the greatest tragedy we have in this country is the drop in the price of United States bonds to where they are no longer good, choice investments for individuals.

Senator SALTONSTALL. I think, Mr. Chairman, that Mr. Jones, whom I knew slightly and for whom I had a great respect, was speaking realistically.

Senator ANDERSON. Yes, sir.

Senator SALTONSTALL. But not stating also what he would like to have seen.

Senator ANDERSON. He would have liked to see a reduction in the national debt.

Senator SALTONSTALL. Exactly.

Senator ANDERSON. But he went ahead and raised all the buildings he had in Houston. Those that were 8 stories he raised to 22; those that were 14, he brought them to 22. He said he wanted to borrow all the money he could because he said he would pay it back at 50 cents on the dollar.

At that time, I thought he was a little insane, but I now know I was foolish, because he was trying to urge me to do the same thing in a limited way.

Senator SALTONSTALL. Mr. Chairman, one of the witnesses who is to follow was in the Government, as you well know, with Jesse Jones, and had a high regard——

Senator ANDERSON. I only want to say that while I agree with you on the desirability of reducing the national debt, I think the Congress could very well spend its time in bringing these interest rates under control which are causing far more difficulty and doing more to our national debt than the debt limit.

Senator CARLSON. Senator, before you leave, I first want to say I have a commitment to carry out. But before I do that, I want to make a statement on Senator Anderson's comment on Jesse Jones and inflation.

I do not have the volume, but I think an outstanding treatise on taxation was written by Adam Smith a few years ago, and this is in substance what he said:

Governments are never honest with their people. They expect to finance their obligations by inflation.

And that is true of history and it repeats itself, and that is one of the problems we are confronted with today, whether we like it or not.

I do want to say to our distinguished Senator from Massachusetts that I appreciate very much his splendid statement here this morning on a problem we are all concerned with.

My commitment is to the distinguished Senator from Vermont, Mr. Flanders, who is a member of this committee and unavoidably detained. He wanted me to ask Senator Saltonstall two questions.

First, he said, the question is this: For what reason were the percentages 2, 3, 4, and 5 selected that you have in your statement here, I noticed, on page 4? How did you arrive at that? Why did you not say 3 or 7 or some other figure?

Senator SALTONSTALL. Mr. Chairman.

Those were suggestions to make it moderate, and to make a moderate start, and gradually go up to 5 percent, which was as far as we believed you could go.

That is entirely in the hands of the committee. I tried, as I said to the chairman, to be realistic and to give substance to the bill, with the thought that the committee would change it in whatever way they believed was more desirable.

Senator CARLSON. May I inquire, then, did you make any studies as to what effect this would have, as I think our distinguished chairman brought out the point here, as to what might happen to tax collections should we get into this type of program?

I can see that it could have serious results. Did you actually make any real studies, case studies, or did you just kind of look at the overall picture on this?

Senator SALTONSTALL. We took the overall picture, Senator Carlson, and took a low rate. You could not take much lower than 2 percent. And I would rather—I wanted to start with a low rate and try to be, again using the word, realistic, and then if the committee want to go higher or to change it, that was their responsibility and their province.

Senator CARLSON. The second question, and the last one, that Senator Flanders wanted me to ask, was this:

How does this bill relate to the single budget bill which was introduced by our chairman, Senator Byrd?

Senator SALTONSTALL. It relates—the single budget bill would be very helpful in working out the terms of this bill.

We went through a single budget procedure for 1 year, I think it was, or maybe 2 years, and it did not work out very successfully. Now, I think a single budget is, of course, the right thing to do, but I thnik with the tremendous size of the Federal Government today, it is a difficult thing to do.

As a member of the Appropriations Committee, in working between the Houses, it is a difficult thing to do, but a single budget bill would be extremely helpful in working out the purposes of this bill.

The CHAIRMAN. I would like to make a statement for the record as to the trial of the single bill for that 1 year only.

In the first place, it was not done under formal resolution. The House committee simply brought in a single appropriation bill. It had no provision in it for a limitation of expenditures, which is a very important feature in the bills that have been passed by the Senate but never considered in the House of Representatives.

The bill was enacted in 1950 almost simultaneously with the outbreak of the Korean war. Congress necessarily had to reconsider appropriations, especially defense funds.

Senator SALTONSTALL. I know we tried it one or two years.

The CHAIRMAN. The point I am making is that those who opposed the one appropriation bill—I know you are not; you were one of the patrons—use as an example a bill which embraced only part of the proposals and it was enacted under unexpected war conditions.

Senator CARLSON. Mr. Chairman, for myself and the Senator from Vermont, I thank you, sir.

Senator SALTONSTALL. Thank you very much.

Thank you, Mr. Chairman, and members of the committee.

Senator JENNER. May I ask one question?

The CHAIRMAN. Senator Jenner.

Senator JENNER. At the present time, we have enacted into law a cumulative sinking fund.

Senator SALTONSTALL. Yes.

Senator JENNER. It has never worked because it was not mandatory; is that correct?

Senator SALTONSTALL. It has not been particularly effective. It cannot work, Senator Jenner, where there is deficit financing, because you are simply borrowing the money to pay the sinking fund, so that—and there is no restraint on borrowing, as I understand it.

Senator JENNER. That is the big difference between your proposed bill and the present law——

Senator SALTONSTALL. Yes.

Senator JENNER (continuing). In that yours is mandatory, with the three exceptions.

Senator SALTONSTALL. That is correct.

Senator JENNER. Now I ask this one last question: With the three exceptions—economic necessity, war, and—what was the third?

Senator SALTONSTALL. Taxes.

Senator JENNER (continuing). Tax reduction, plus the fact that you have this $70 billion authorization which the President can spend any time he wants to, do you not think that your proposed law would be in about the same position as the present cumulative sinking fund law we now have on the books?

Senator SALTONSTALL. No; I would hope not, Senator Jenner, for this reason: Our proposal works on the principle of a balanced budget, and a reduction of the Federal debt based on a balanced budget and as part of a balanced budget, with the debt ceiling to enforce it.

Now, it also becomes automatic each year unless Congress looks at it and changes it.

You and I cannot bind a future Congress, but what we can do is to make a future Congress look at the problem, and this bill, as I said at the very start, is a proposal which, if the succeeding Congress did nothing, then there would be an automatic debt reduction.

So if Congress says no, there is not money enough to reduce it, or we are going to unbalance the budget, or the revenues go down, or there is a war, then Congress has to take steps to suspend it for the next year.

So it means you and I have got to look at the problem for next year.

Senator JENNER. I want to congratuate the Senator, because this is the first constructive proposal I have seen since I have been around here, in the right direction.

Senator SALTONSTALL. I appreciate the Senator's saying that, very much.

Senator JENNER. I am afraid that with the $70 billion that overrides the spending authority of the Executive, which overrides the whole picture, plus the 3 exceptions, that it will not work, because of these exceptions and the $70 billion.

Senator SALTONSTALL. Well, I cannot say that it will work and, as I tried to emphasize to your distinguished chairman and Senator Martin, I hope the committee can improve this bill. It is a proposal that I hope is worthy of consideration, and can be improved upon and can be changed in any way.

I do not say it is right. But it has had some very pleasing reactions among people for whom we all have respect, and who have a knowledge of money and money problems. And this is a problem of money and financial credit.

Senator JENNER. The present law which is on the books is clearly a joke, because it has been in existence since the second liberty loan drive in 1920. And here is a table showing the fiscal facts for 1957 published by the Tax Foundation, Inc., beginning with the year 1939 and going up through and including the estimate for 1958, and there are only 3 years there where there has been an actual surplus which could be applied on our debt. All the rest of it has been deficit spending.

Senator SALTONSTALL. I think, Mr. Chairman—and I know there are some other people coming, and the committee's time is limited—may I say this: The actions of the present chairman, Senator Millikin, and all the members of this committee, in forcing the debt ceiling to be kept at $275 billion was an excellent thing; and I can say very truthfully, as I listened to the arguments of Secretary Humphrey at the time, I was not convinced the committee was right. But as it has worked out, I think it has been very successful.

The CHAIRMAN. Thank you very much, Senator Saltonstall.

Senator SALTONSTALL. Thank you, Mr. Chairman.

The CHAIRMAN. We have the distinguished Senator from Colorado with us, Senator Allott.

We are glad to have, sir.

STATEMENT OF HON. GORDON ALLOTT, UNITED STATES SENATOR FROM THE STATE OF COLORADO

Senator ALLOTT. Thank you, Mr. Chairman.

Mr. Chairman, everyone worries about the national debt. S. 1738 does something about it—something constructive in terms of reducing it. I want to state my unequivocal support of it. If I read my mail correctly, I have some solid backing in Colorado.

My very distinguished colleague from Massachusetts, in introducing this bill, made very accurate observations in justification of this bill.

He stated that controlled reduction of the national debt is essential to (1) reduce the tremendous sum required annually for payment of the interest charges, (2) to control Federal spending, (3) to prepare for tax relief, (4) to combat inflation, and (5) to make us stronger for the economic struggle in our fight to meet the threat of communism.

His analysis is so obviously sound and complete that he leaves little to be said, but I want to add a few thoughts about the disaster which I believe lies at the end of the fiscal road we are now traveling.

First I want to say that I am neither an economist nor an expert on public finance. And I might say this, also: that I come before this group of experts with a great deal of temerity. But I do feel that this is an effort that has to be made.

And I do not know that Senator Saltonstall's bill is the best one that can be devised to deal with this problem. It may well be that what is needed is a constitutional rather than a statutory limitation.

It may also be that the timing and amount of debt reduction should be altered.

I only know that the future of the Republic requires a realistic look at the alarming delinquency of present procedures for developing congressional fiscal policy, with particular emphasis on control of spending and reduction of debt.

A 1955 report to Congress by the Comptroller General—Audit Report to the Congress of the United States, Review of use of cumulative sinking fund for retirement of public obligations, 1921–25—clearly states the need for "revising the machinery for debt retirement on a more realistic basis."

That report goes on to note that Federal debt policy has become increasingly important in the trend of Government spending, stability of the dollar's purchasing power, and the general economic level.

The Tax Foundation has pointed to four real perils surrounding our national debt: (1) the dilution of the dollar, (2) the risk of boom and bust, (3) the smothering of enterprise, and (4) the loss of human freedom.

But our people have not needed a Government agency to point out the hazards of ignoring the $275 billion debt in hopes it would go away. They know it won't. They know that interest payments on it account for about one-tenth of our budget expenditures. They know that individual integrity is the basis for individual credit, and recognize that national fiscal integrity is just as important.

Herbert Miller, who is an expert on these problems, stated the problem quite accurately when he said:

> There is evidence that there is more understanding and concern among citizens over our Federal debt trends than is reflected by congressional action. This concern stems from a basic understanding of human nature born of intimate and close experience and observation. Most Americans know that human needs and wants are practically unlimited while resources to satisfy them are relatively limited. When Government assumes a role of providing for those unlimited needs and wants, and competitive political ambitions contend in outbidding and outpromising each other to supply those wants, they know the aggregate of individual and group wants is likely to be more than available resources can meet prudently. If the immediate cost of supplying such wants can be deferred and diffused by using debt to finance them, prudent citizens know that some harness is needed in the incurrence of debt and some definite retirement policy must invoke the fiscal discipline of paying our debts.

The debt which until recently had been mounting steadily must be brought under effective control. In 1914 the debt was less than $1 billion. In 1940, only $49 billion. And 5 years later it had risen to $269 billion. And of course we all know what happened in those 5 years.

With great effort it has been contained at about $275 billion and even reduced slightly during the past few years. This amount is far beyond what many economic thinkers consider our peril point, that is, the point where the public's confidence in the Government's ability to pay its debts begins to deteriorate. So the problem really is one of national security.

I think it is interesting to note that only five of these United States do not have constitutional controls on deficit financing. In 1954, the average per capita debt of those States which require constitutional amendments was $43. The average per capita debt for the 20 States which require a vote of the people was $49.

In contrast, for those eight States which have no constitutional restrictions, or minor ones, the average per capita debt was $77.

That there is a need for control of public debt is evidenced by the number of States with such controls. And the effectiveness of such controls is nicely attested by the comparative debt figures just mentioned.

The extraordinary thing is that there is no comparable constitutional control at the Federal level. Perhaps our Founding Fathers thought the operations of the Federal Government were so circumscribed that this type control was unnecessary.

But at this point, it appears obvious that some control is vital, and S. 1738 strikes me as an approach to the problem which will do the job, at least until someone suggests something better.

Mr. Chairman, I am concerned about the fact that we as individual Members of Congress do not really have an opportunity to shoulder the responsibility for our fiscal operation. In this regard, I am very much interested in a proposal recently introduced by Senator Wiley and cosponsored by many of my colleagues, providing for a joint budget committee and a legislative budget.

I make this point only to emphasize the obvious fact that S. 1738 does not solve, nor attempt to solve, all our fiscal problems. And it is not clear how much progress we can make toward a really sound fiscal operation until expenditure control is effectuated.

But we must take these problems one at a time, and I personally entertain no doubts that S. 1738 is essential legislation, and strongly urge its favorable consideration by this committee.

We need fiscal procedures which make the incurrence of debt an issue in each fiscal year, and relate that issue to expenditures and income.

Without it, our ship of state has too much sail and too little anchor, and I would say too little rudder, too. The time has arrived to adopt the flexible debt retirement policy devised by my good friend from Massachusetts with, of course, such improvements as I feel certain this committee can develop.

May I say, only in a personal vein, at the conclusion of this statement, Mr. Chairman and members of this committee, that I feel that all of us in our personal finances do not feel that we can continue to operate at a constantly increasing debt, even though our income may also be increasing, because the end is almost certain financial disaster.

And I see no reason, although the Government is not a profit-making institution, I can see no reason for adopting a different attitude toward the fiscal affairs of our Government.

I want to thank you for this opportunity to appear here.

The CHAIRMAN. You made a very valuable contribution, sir, and we certainly thank you very much. And, if you have no objections, I would like to insert your statement in the Congressional Record today in connection with that of Senator Saltonstall.

Senator ALLOTT. Thank you, Mr. Chairman.

Senator MARTIN. Mr. Chairman, I would like to make a brief statement.

We are very appreciative of this very well-thought-out statement from the senior Senator from Colorado. It is a matter that I feel every Member of Congress should give careful personal consideration to.

I have always held—of course, I have been termed "very conservative"—I have always held that Government can go broke just the same as individuals. There are many subdivisions of Government in the United States where their bonds can hardly be sold at any price.

We have them in my own Commonwealth of Pennsylvania, counties where natural resources have become exhausted, and their taxable property has become greatly reduced, and they are having very serious fiscal problems.

The same can occur in this great Nation if we do not start to control this debt and reduce it a little bit, and I am terribly worried as to the outcome.

Individuals every once in a while liquidate all their debts, and you made a very good statement that regardless of the fact that their income may increase, every once in a while they liquidate all their debts and they start over.

Government is just no stronger than individuals. While we do not run the United States for profit, nevertheless we do run it for the defense and service of our people, and we cannot do the job we set out to do unless our fiscal policies are sound and we keep a financial position such that in case of an emergency, we have got an opportunity to extend our debt.

And if we should have a war today of any size, we might have a great deal of difficulty in financing it, because our debt now—Senator Byrd some time ago put in the record a statement, and I believe perhaps Senator Saltonstall quoted from that this morning—that our debt now equals all our tangible property.

The CHAIRMAN. Assessed value.

Senator MARTIN. Assessed value. That is real estate, machinery, and mines, and so on and so forth. And I tell you, it is a thing we ought to stop and give serious consideration concerning.

Senator ALLOTT. I appreciate very much what the Senator from Pennsylvania has said. I believe that I personally have an obligation to leave a little better inheritance to my children and their children than we are leaving at the present time, and that is my real impelling motive for appearing before this committee this morning.

Senator MARTIN. Mr. Chairman, without taking too much time, I would like to be in the position to hand over to my children a nation financially as strong as my father and his generation turned over to me. But unless we take some action pretty soon, that is not going to be possible.

Senator ALLOTT. Thank you very much, Mr. Chairman.

Senator SALTONSTALL. Mr. Chairman, there are gentlemen from the General Accounting Office here, and also, as I said, Mr. T. J. Coolidge, a former Under Secretary of the Treasury.

The CHAIRMAN. We will first hear Mr. T. Jefferson Coolidge.

Mr. Coolidge, will you please come forward, sir?

I would just like to say, it is well known to the committee that Mr. T. Jefferson Coolidge is a very distinguished citizen of Massachusetts, and is one of the heads of the United Fruit Co., one of the biggest corporations in this country.

I have gone through his plantations down in South America.

He was Under Secretary of the Treasury, and he is one of the most competent and able men to serve Government.

STATEMENT OF T. JEFFERSON COOLIDGE, UNITED FRUIT CO., BOSTON, MASS., FORMER UNDER SECRETARY OF THE TREASURY

Mr. COOLIDGE. It is a pleasure to hear that from you, Mr. Chairman. I cannot agree with it all, but this reminds me of old times.

The CHAIRMAN. I say that on the basis of long acquaintance with this gentleman.

Mr. COOLIDGE. It has been some 22 years since I sat before you in this committee.

The CHAIRMAN. Twenty-two years.

Senator CARLSON. Mr. Chairman, I would like to add, if I may, it was my privilege to serve under the chairmanship of the distinguished witness at the present time, as a member of the Hoover Committee on Reorganization of the Executive Branch of the Government. He was chairman of a task force committee on Federal-State affairs, and as Governor of the State of Kansas I was privileged to serve on that committee, and I can well attest to his ability. He is an outstanding citizen.

Mr. COOLIDGE. Thank you, sir.

I have a very brief memorandum here, Mr. Chairman. It is more on the question of the economics than the technical side of this.

I do not believe I need dwell on the details of the bill, with which others are more familiar, but I do want to emphasize the desirability of the policy proposed by this bill as regards the stability of the dollar.

For over 20 years, this Nation has kept borrowing and borrowing. Sometimes it is the Federal Government. At other times, the local and State governments and/or private corporations and individuals engaged in their multitude of private pursuits.

The result has been the creation of public and private debt that would have been regarded as impossible 15 years ago. I am attaching some figures showing the magnitude of this credit inflation.

(The information referred to is as follows:)

Data on public and private debt

[Billions of dollars]

	1939	1949	1956
Public and private, total:			
Gross	207.7	520.3	802.7
Net	183.2	448.4	683.8
Public, total:			
Gross	70.1	287.0	348.5
Net	58.9	236.7	268.1
Federal:[1]			
Gross	50.1	266.1	300.5
Net	42.6	218.6	225.4
State and local:[2]			
Gross	20.0	20.9	48.0
Net	16.3	18.1	42.7
Private, total:			
Gross	137.6	233.3	454.2
Net	124.3	211.7	415.7
Corporate (net), total	73.5	118.0	208.2
Long-term	44.4	56.5	97.3
Short-term	29.2	61.5	110.9
Individual and noncorporate (net), total	50.8	93.7	207.5
Farm	8.8	11.9	19.4
Mortgage	6.6	5.6	9.8
Other	2.2	6.4	9.6
Nonfarm	42.0	81.8	188.0
Mortgage	25.0	50.6	121.7
Other	17.0	31.2	66.4
Commercial	3.8	7.9	13.4
Financial	6.0	6.0	11.1
Consumer	7.2	17.3	41.9
Nonfarm mortgage debt	25.0	50.6	121.7
1–4 family	15.5	35.7	94.2
Multifamily and commercial	9.5	14.9	27.5
Consumer credit	7.2	17.3	41.9
Installment	4.5	11.6	31.6
Automobile	1.5	4.6	14.4
Noninstallment	2.7	5.7	10.3
Total loans—All commercial banks	17.2	43.0	91.2
Mortgage debt guaranteed by Federal Government	1.8	15.0	44.1

[1] Includes categories of debt not subject to statutory limit.
[2] State and local debt as of June 30 each year.

Sources: Survey of Current Business, May 1957, and September 1953; Federal Reserve Bulletin April 1957, and April 1950; Economic Report of the President, January 1957.

Mr. COOLIDGE. Our dollar has been depreciated by one-half in the process. Our credit machinery has been expanded to the extent of its reasonable limits. The higher money rates give warning it is not safe to continue along this same road.

The Treasury has sold many billions of E bonds and other securities to many millions of people, and is repaying in dollars worth 50 cents of the original. This should not continue. Our Government's own credit can be maintained only by a stable dollar. The savings of our people, pensions, life insurance, and so forth, can be kept intact only by a stable dollar.

The evil consequences of depreciating money are incalculable, as we have seen all around the world in the last 40 years.

This bill, if passed by Congress, would seem to me to be a statement of intent that Congress will assist in maintaining the value of the dollar by putting reduction of Federal debt ahead of many other demands for the taxpayers' money. It is high time for such action, and I would regard this as an important step in the direction of much-needed economy and a stable currency.

I thought I might mention 1 or 2 of the figures attached here on the growth of public and private debt. In 1939, it was $207 billion. In 1949, $520 billion. In 1956, $802 billion.

The Federal debt which we are speaking of here, the gross Federal debt, which includes other debts which are not in the debt limit, was $50 billion in 1939, $266 billion in 1949, and $300 billion in 1956.

The total loans of all commercial banks were $17 billion in 1939, $43 billion in 1949, $91 billion in 1956.

The whole credit situation seems to me, Mr. Chairman, to be carried to its utmost extent, and this is a very important step to gradually correct it.

The CHAIRMAN. Mr. Coolidge, the dollar has lost 2 cents of value in the last year, according to the records which I have just received from the Library of Congress. Now, that is 4 percent of the present value of the present 50-cent dollar. What do you think has caused this recent inflation? In 1953, we had a stable dollar; in 1954, and in 1955. In 1956, it started to go down slightly. In the last year it has gone down 2 cents, or 4 percent of the present value of the dollar. What do you think has caused that?

Mr. COOLIDGE. There has been a constant extension of credit. The dollar will not go evenly; it will go at one time, stop at another. I do not pretend to be an expert. I think it is largely the play of wages going up first, and the prices following.

The CHAIRMAN. You mean the wages have gone up more than the productivity of labor has gone up?

Mr. COOLIDGE. There is no question about that. And it has been, the whole thing has been, aided and abetted by constantly increasing credit.

The CHAIRMAN. Is there any reason to think the dollar will be stabilized under present conditions? If we continue to lose 2 cents over a period of some years, that would then cut the 1940 dollar down to one-third or one-fourth. What would be the consequences then?

Mr. COOLIDGE. It is pretty hard, Mr. Chairman, for me to say. I do not pretend to be a great expert on that business. It seems to me that some people will not get credit pretty soon, at the rate the extension is going. And if credit extension is restrained, you may then see an effect on the wages and prices.

The CHAIRMAN. You mean they will not get credit because of the interest rates, or simply because they cannot borrow the money?

Mr. COOLIDGE. Both.

The CHAIRMAN. Both. Do you anticipate that interest rates are going up still higher than they are now?

Mr. COOLIDGE. I do not know about that. I think they are pretty high now, considering that the banks pay no interest on demand deposits and considering what other rates have been in the past.

The CHAIRMAN. As Under Secretary of the Treasury, you, of course, had a great knowledge of how the Federal debt is handled. This last issuance of bonds by the Treasury was $4 billion, and the Treasury offered to sell the total issue on a 5-year basis for 3⅝, which is the highest interest rate since 1923. And they only sold a part of it at that rate on the 5-year basis. They had to put it on a 1-year basis. Would you anticipate that, in August when they have $16 billion to refinance, an interest rate higher than 3⅝ would be offered in order to be able to get the money?

Mr. COOLIDGE. I would expect so, for a 3-year period.

The CHAIRMAN. For a 3-year period. Would you think probably at a 1-year period——

Mr. COOLIDGE. One-year period, it would be more of a question of Federal Reserve action.

The CHAIRMAN. Do you think it would be safer for the Government to have long-term paper than having so much of it coming due in 1 year?

Mr. COOLIDGE. Very much so. The Government should have a great deal more of long term, but it is a very difficult time for them to get that.

The CHAIRMAN. In other words, you would have to pay a very high interest rate.

Mr. COOLIDGE. And a question of how many they could sell on the market.

The CHAIRMAN. I notice the long-term bonds are now selling below 90. That is because of the interest rate, of course.

Mr. COOLIDGE. Entirely.

Senator BENNETT. Mr. Chairman, may I ask Mr. Coolidge some questions?

I, too, have been the recipient of 3 or 4 questions from our colleague, Senator Flanders, who could not be here, and my cards indicate that these should be asked of Mr. Coolidge.

But, before I get to Senator Flanders' questions, may I ask this: If the Federal Government, if we should pass a law which, by law, forced the Federal Reserve Board to buy whatever bonds were not sold in the open market at rates approximating the rates that existed in 1945, would that be inflationary?

Mr. COOLIDGE. It would be, in my opinion, inflationary. I think it would—I think today a great many people are afraid of the eventual value of the dollar in their investing, and any action of that kind would hasten or increase their fear.

Senator BENNETT. Any use of force to bring interest rates down out of their present free-market level would tend to—well, I will say it another way: The only way that could be done would be to force an increase, an artificial increase, in credit?

Mr. COOLIDGE. And if you should at the same time frighten the investigating public, you would have them unwilling to buy long-term bonds.

Senator BENNETT. You would have an even more serious situation.

Mr. COOLIDGE. You would have an even more serious situation than at the present time.

Senator BENNETT. These are Senator Flanders' questions: Do you believe that a reduction in the debt and annual surplus budgets would, which would be created—better, say, which might be created—by this act, would have a healthy effect on the economy?

Mr. COOLIDGE. I do.

Senator BENNETT. Do you believe that annual payments on the principal of the national debt would alleviate any of the current problems in connection with the financing of the national debt?

Mr. COOLIDGE. In time.

Senator BENNETT. Do you believe that a continuation of deficit financing and the maintenance of a national debt at least of the size of our present one, would be harmful to our economy, and is there any danger of bankruptcy because of it?

Mr. COOLIDGE. That may be a little hard to answer clearly. But the Treasury, in my opinion, can always meet its bills. The only test of bankruptcy is the devaluation of the dollar, that becoming less.

Senator BENNETT. In other words, we would go bankrupt, not as a private individual does because he cannot pay his bills, we would go bankrupt because we would in the process destroy the value of our currency?

Mr. COOLIDGE. That is correct. It would be lower in value.

Senator BENNETT. Yes.

Mr. COOLIDGE. It would be valued less.

Senator BENNETT. I put it that way simply because that is the inference of Senator Flanders' questions, but it would certainly tend to lower it?

Mr. COOLIDGE. It certainly would.

Senator BENNETT. And the last one: Do you believe that the passage of this act would help to stabilize the dollar and to prevent further depreciation of the value of the currency?

Mr. COOLIDGE. It would help.

Senator BENNETT. It is an indirect—it has an indirect rather than a direct effect?

Mr. COOLIDGE. It is an indirect aid. It gives a certain amount of more confidence, and would be helpful with other measures to stabilize the debt.

Senator BENNETT. Thank you very much, Mr. Coolidge.

Thank you, Mr. Chairman.

The CHAIRMAN. I have one more question: Is it your judgment, Mr. Coolidge, that the difficulty in selling the bonds which have been offered recently on a 5-year basis, was to some extent due to the thought by prospective purchasers that they would be paid off at the end of 5 years with cheaper dollars?

Mr. COOLIDGE. I would not say that on these Government bonds. I think there is a tendency in the investment world to buy stocks rather than bonds because of their fear of being paid off in cheaper dollars.

The CHAIRMAN. If it does, for instance, suppose it loses 2 cents.

Mr. COOLIDGE. But that short-time money is a little different.

The CHAIRMAN. I am thinking of 5-year bonds.

Mr. COOLIDGE. I consider that short.

The CHAIRMAN. Take the present situation. We have lost 2 cents in a year. All right. Now, you have got a 5-year bond. If that continues for 5 years, you have lost 10 cents of the value of the dollar, because you will get the smaller dollar when the bond is paid off.

Of course, the Government will always pay off its debts when they come due in 100 percent dollars, but the question is, what is the value of the dollars?

Do you think that is a deterrent to buying bonds now on a 5-year basis?

Mr. COOLIDGE. A large market for the shorter Governments up to, we will say, 5 years, are the corporations and the banks, who do not buy anything else. So you do not have the competition with other forms of investment as when you get to a private individual who may buy a farm or stock.

The CHAIRMAN. You think it is mainly an interest-rate matter?

Mr. COOLIDGE. It is mainly their desire to use money themselves. They do not have the money for it.

Senator BENNETT. May I just interpose there, Mr. Chairman?

Is not one of the main reasons the fact that, as you said earlier, we are beginning to bump our heads on the ceiling of available credit?

Mr. COOLIDGE. I would agree on that entirely. We are. There are more borrowers than there are savers.

Senator BENNETT. Savers.

Mr. COOLIDGE. And we are running out of money.

Senator BENNETT. Mr. Coolidge, that last statement bothers me. Are there more statistically, or is the greater pressure for borrowing? Is there currently greater pressure for borrowing than for saving?

When you try to statistically count up the number of savers and you get the people who are paying life-insurance premiums and all the rest of it, I wonder if there are not more individuals actually who are savers. They may also be borrowers, but I imagine there are more savers than there are borrowers.

Mr. COOLIDGE. I think there are more individuals.

Senator BENNETT. Yes.

Mr. COOLIDGE. But I was talking in sums of money, not the number of individuals.

Senator BENNETT. That is what I wanted to have clearly in the record.

Mr. COOLIDGE. Yes.

Senator BENNETT. In terms of the total number of individuals affected, there are undoubtedly more people who are putting part of their income aside as savings than there are——

Mr. COOLIDGE. I agree entirely. The small man is usually a saver.

Senator BENNETT. That is right.

Mr. COOLIDGE. It is the big man, the corporation or someone, who is the borrower.

Senator BENNETT. Or homeowner.

Mr. COOLIDGE. That is right.

Senator MARTIN. Mr. Chairman, might I ask a question?

The CHAIRMAN. Yes.

Senator MARTIN. While they might not be considered savers, I think we have in our country, I think it is, 15 or 16 million who are on social security; they are securing pensions and railroad retirement and things like that. While they may not be considered savers, nevertheless inflation hits all of that group.

Senator BENNETT. Mr. Chairman, I think they are savers.

Senator MARTIN. I think they are, too, Senator Bennett.

Senator BENNETT. They may be involuntary savers.

Senator MARTIN. But I mean they would come in on that great list. I sometimes feel like Senator Bennett, that we have so many more savers in our country because a man who owns common stock is a saver, and a man who owns savings accounts and a man who owns a life-insurance policy, they are all savers, and they are the ones who are being damaged by inflation.

Mr. COOLIDGE. I could not more agree with you.

The CHAIRMAN. Thank you very much.

Senator JENNER. When you speak of savings, Senator, like social security, my conception of savings is someone who puts something away and knows it is safe. But in social security when he puts it in the Government and the Government spends it in current operations of the Government, there has nothing been saved; it is not a saving.

Senator MARTIN. That is all very true.

Senator JENNER. That just adds to the flow of money.

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

Mr. COOLIDGE. Thank you, Mr. Chairman.

Senator SALTONSTALL. Mr. Chairman, there are several men here from the General Accounting Office, if the Chair would wish to call on them, representing Mr. Campbell.

The CHAIRMAN. Will one representative make the presentation? Mr. Savage, you may proceed.

STATEMENT OF SIMMONS B. SAVAGE, JR., DEPUTY DIRECTOR, CIVIL ACCOUNTING AND AUDITING DIVISION, GENERAL ACCOUNTING OFFICE; ACCOMPANIED BY JOHN W. MOORE, LEGISLATIVE ATTORNEY, OFFICE OF THE GENERAL COUNSEL, GENERAL ACCOUNTING OFFICE

Mr. SAVAGE. Would you like me to sit right here?

The CHAIRMAN. We will be glad to hear from you, sir.

Mr. SAVAGE. My name is Simmons B. Savage, Jr., and I am the Deputy Director of the Civil Accounting and Auditing Division.

I have with me Mr. John Moore of our Office of General Counsel.

The CHAIRMAN. Let me say for the record, you represent a very fine agency. The General Accounting Office does an invaluable job. I have been familiar with its work for twenty-some years.

Mr. SAVAGE. Thank you very much.

I have a letter here, Mr. Chairman, from Mr. Campbell, the Comptroller General, to Senator Saltonstall, and in view of the shortage of time, I was wondering whether it would be agreeable to just introduce this into the record.

The CHAIRMAN. I think that would be the best procedure, because we should be on the floor of the Senate. It is in session now.

Mr. SAVAGE. I might read just one paragraph here to indicate the general tenor of the letter:

> We are fully cognizant of the dangers in long-continued deficit spending. We consistently have advocated generally the Government's operation on a balanced budget and the maintenance of utmost economy and efficiency in the performance of governmental functions. However, the objective of S. 1738, providing for a systematic reduction in the public debt limit, is a matter of policy peculiarly within the province of the Congress to decide and one on which we have no recommendation to make. Our comments below relate only to the feasibility of the proposed method of accomplishing the objective of S. 1738.

(The letter referred to is as follows:)

COMPTROLLER GENERAL OF THE UNITED STATES,
Washington, D. C., June 10, 1957.

Hon. LEVERETT SALTONSTALL,
United States Senate.

DEAR SENATOR SALTONSTALL: Your letter of June 3, 1957, acknowledged June 5, and supplemental letter of June 6, requests our views and assistance concerning S. 1738.

Mr. Simmons B. Savage, Jr., Deputy Director, Civil Accounting and Auditing Division, accompanied by Fred Smith, Associate Director, Accounting and Auditing Policy Staff, John Bard, supervisory auditor, Civil Accounting and Auditing Division, and John W. Moore, legislative attorney, Office of the General Counsel, have been designated to attend the hearings before the Committee on Finance on Tuesday, June 11, to explain the nature of the statistical information we transmitted to you by letter of May 21, 1957, B–131526, and to discuss the technical operation of S. 1738, as requested in your letter, and also as informally requested by the chairman of that committee.

We are fully cognizant of the dangers in long-continued deficit spending. We consistently have advocated generally the Government's operation on a balanced budget and the maintenance of utmost economy and efficiency in the performance of governmental functions. However, the objective of S. 1738, providing for a systematic reduction in the public debt limit, is a matter of policy peculiarly within the province of the Congress to decide and one on which we have no recommendation to make. Our comments below relate only to the feasibility of the proposed method of accomplishing the objective of S. 1738.

S. 1738, as introduced, would provide for the reduction of the public debt limit contained in section 21 of the Second Liberty Bond Act, as amended (31 U. S. C. 757b), as of the beginning of each fiscal year by a specified percentage of the "net revenue of the United States," as defined in the bill, for the next preceding fiscal year. In view of the fact that the public debt presently approximates the public debt limit, any plan which provides for a reduction in the debt limit to be effective should of necessity provide for a corresponding reduction in the public debt. The public debt, of course, cannot be reduced unless there is a surplus of revenues over expenditures which will be available for the redemption of the required portion of the public debt. We, therefore, feel that S. 1738, as introduced, may not be effective in accomplishing its purposes because it contains no provisions for assuring that there will be a surplus of revenues over expenditures when needed to reduce the public debt.

Your letter of June 6 enclosed a draft of a proposed committee amendment which will add a new section 4 to S. 1738. This section 4 would amend section 201 of the Budget and Accounting Act, 1921, as amended (31 U. S. C. 11) to provide that the President's budget for the fiscal year 1959 and each fiscal year thereafter shall include a sufficient surplus of funds to keep the public debt within the public debt limit as it would be reduced by the terms of S. 1738. The submission of the budget on that basis by the President would be one constructive step toward providing the surplus which would be required to reduce the public debt, but even this would not, in itself, assure that surplus revenues will be available when needed to reduce the public debt.

The proposed committee amendment provides that the estimated receipts set forth in the President's budget "shall exceed the estimated expenditures, and proposed appropriations therefor." We are not sure what is intended by this language, but the language seems to contemplate that the receipts shall exceed the sum of the estimated expenditures and the appropriations proposed in the budget. We do not believe this was intended and suggest clarification in view of the fact that amounts appropriated in 1 fiscal year, in many instances, are expended in subsequent fiscal years. Also, since the President has little, if any, control over the level of prospective receipts, but does have control over the proposed expenditures, we suggest that if the amendment is proposed its language, in recognition of this fact, be revised to require that the expenditures proposed in the budget be less than the estimated receipts by such amount as the President determines necessary so that the public debt on July 1 of the fiscal year following the fiscal year for which the budget is submitted will not exceed the public debt limit which he estimates will become effective on such July 1 under subsection (b) of section 21 of the Second Liberty Bond Act, as amended.

The only point of real control over the expenditures is at the time the funds are appropriated by the Congress. Even the Congress does not have complete control over the expenditures of the executive branch so long as appropriations are made on an obligation basis. The enactment of S. 434, 85th Congress, which has passed the Senate, providing for the stating of appropriations on an accrued expenditure basis, would vest in the Congress greater control over the expenditures of the executive branch. If appropriations were stated on an accrued expenditure basis, the expenditures under such appropriations during each fiscal year could not exceed the amount of funds appropriated for such fiscal year so that the Congress would be in a better position to keep expenditures below the estimated receipts and have the surplus applied toward the retirement of the public debt if the Congress so desires. The stating of appropriations on an accrued expenditure basis would aid in the accomplishment of one of the stated purposes of S. 1738 which is to provide an effective control of expenditures of the Federal Government.

In discussions with a member of your staff, representatives of the General Accounting Office suggested a need for revision and clarification of section 2 of the bill. We understand, as also stated in your letter of June 6, that section 2 of the bill will be revised and appropriately designated as a statement of congressional policy. Furthermore, we undertand you intend to propose certain minor changes in other parts of the bill.

Your letter of June 3 requests any comments we may have concerning the relationship between the proposal contained in S. 1738 and the recommendations we made to the Congress in our audit report concerning the cumulative sinking fund for retirement of public debt obligations, Bureau of the Public Debt, Treasury Department, for the fiscal years 1921 through 1955. The cumulative sinking fund procedure provides for appropriations to be made each fiscal year so that funds would be available for the redemption of certain bonds and notes prior to or at maturity. In periods of deficit financing, the making of appropriations for this purpose cannot result in a reduction of the public debt. We stated in that audit report that, in our opinion, the cumulative sinking fund no longer served any useful purpose because it had ceased to operate as a systematic plan for debt retirement and recommended that the Congress consider reviewing the ineffectiveness of the present sinking fund legislation and the desirability of revising the machinery for debt retirement on a more realistic basis. The provisions of S. 1738, together with the proposed amendment and changes mentioned in this letter, would seem to provide a more realistic approach to the problem of reduction of the public debt.

In the preparation of the schedules illustrating the operation of S. 1738 we transmitted to you in our letter of May 21, 1957, B–131526, we had some difficulty in determining the "net revenue of the United States" as that term is defined in the proposed subsection (f) of section 21 of the Second Liberty Bond Act, as amended (pp. 7 through 9 of the bill). One suggestion to avoid this difficulty would be to define "net revenues" to mean the "net budget receipts" of the Government as published by the Treasury Department in the Annual Combined Statement of Receipts, Expenditures, and Balances of the United States Government. The only effect of this change would be the addition of the miscellaneous receipts of the Government, such as interest, dividends, and proceeds of property sales, to the calculation base, which would result in a rather insignificant increase in the amount of the reduction of the debt limit proposed in S. 1738. The amount of the "net budget receipts" would always be readily available and consistent with other financial statements of the Treasury.

We are glad to have been in a position to assist you in this matter, and if we can be of any further assistance, please call upon us.

Sincerely yours,

JOSEPH CAMPBELL,
Comptroller General of the United States.

SCHEDULE 1.—*Computation of estimated reductions in the public debt limit as of July 1, 1958, through 1963 on the assumption that S. 1738 will be enacted in the 1st session of the 85th Cong.*

[Sec. 3 of S. 1738 would amend sec. 21 of the Second Liberty Bond Act, as amended (31 U. S. C. 757b). Reference herein to subsections are to proposed amendments to sec. 21]

	Fiscal year ending June 30—					
	1957	1958	1959	1960	1961	1962
Amount required for reduction of the public debt limit as provided in subsec. (b), on the assumptions that net revenues for the fiscal years 1958 to 1962, inclusive, will approximate the estimated revenue for the fiscal year 1957 and that the provisions of subsec. (c) will not apply: [1]						
Net revenue of the United States	$66, 964, 015, 610	$67, 000, 000, 000	$67, 000, 000, 000	$67, 000, 000, 000	$67, 000, 000, 000	$67, 000, 000, 000
Percent prescribed by subsec. (b)	2	3	4	5	5	5
Amount required for reduction under subsec. (b) [1]	$1, 339, 280, 312	$2, 010, 000, 000	$2, 680, 000, 000	$3, 350, 000, 000	$3, 350, 000, 000	$3, 350, 000, 000
	Public debt limit effective July 1—					
	1958	1959	1960	1961	1962	1963
Application of reduction to public debt limit on basis of foregoing assumptions:						
Public debt limit, before reduction	$275, 000, 000, 000	$273, 660, 719, 688	$271, 650, 719, 688	$268, 970, 719, 688	$265, 620, 719, 688	$262, 270, 719, 688
Amount required for reduction under subsec. (b)	1, 339, 280, 312	2, 010, 000, 000	2, 680, 000, 000	3, 350, 000, 000	3, 350, 000, 000	3, 350, 000, 000
Public debt limit on July 1	273, 660, 719, 688	271, 650, 719, 688	268, 970, 719, 688	265, 620, 719, 688	262, 270, 719, 688	258, 920, 719, 688
	Fiscal year ending June 30—					
	1957	1958	1959	1960	1961	1962
Amount required for reduction of the public debt limit as provided in subsec. (b), on the assumption that net revenues for the fiscal years 1958 to 1962 inclusive, will approximate the estimated revenue for the fiscal year 1957 but giving effect to the estimated revenue loss if the present corporate normal tax rate and certain excise tax rates are not extended beyond the periods provided for by Public law 85-12: [2]						
Net revenue of the United States	$66, 964, 015, 610	$67, 000, 000, 000	$64, 660, 000, 000	$64, 660, 000, 000	$64, 660, 000, 000	$64, 660, 000, 000

Percent prescribed by subsec. (b)	2	3	4	5	5	5
Amount required for reduction under subsec. (b)	$1,339,280,312	$2,010,000,000	$2,586,400,000	$3,233,000,000	$3,233,000,000	$3,233,000,000
	Public debt limit effective July 1—					
	1958	1959	1960	1961	1962	1963
Application of reduction to public debt limit if provisions of subsection (c) will not apply:						
Public debt limit, before reduction	$275,000,000,000	$273,660,719,688	$271,650,719,688	$269,064,319,688	$265,831,319,688	$262,598,319,688
Amount required for reduction under subsection (b)	1,339,280,312	2,010,000,000	2,586,400,000	3,233,000,000	3,233,000,000	3,233,000,000
Public debt limit on July 1	273,660,719,688	271,650,719,688	269,064,319,688	265,831,319,688	262,598,319,688	259,365,319,688
Application of reduction to public debt limit if provisions of subsec. (c) apply:						
Public debt limit before reduction	275,000,000,000	273,720,719,688	273,720,719,688	273,474,319,688	270,241,319,688	267,008,319,688
Amount required for reduction under subsec. (b)	1,339,280,312	2,010,000,000	2,586,400,000	3,233,000,000	3,233,000,000	3,233,000,000
Less:						
Estimated net loss of revenue resulting from enactment of revenue law (subsec. (c) (1), Public Law 1010, 84th Cong., approved Aug. 6, 1956 [3]	60,000,000					
Estimated loss of revenue if present corporate normal tax rate and certain excise tax rates are not extended beyond the periods provided for by Public Law 85-12 (subsec. (c) (2)) [2]		2,340,000,000	2,340,000,000			
Total estimated revenue losses (subsec. (c))	60,000,000	2,340,000,000	2,340,000,000			
Net amount required for reduction	1,279,280,312	0	246,400,000	3,233,000,000	3,233,000,000	3,233,000,000
Public debt limit on July 1	273,720,719,688	273,720,719,688	273,474,319,688	270,241,319,688	267,008,319,688	263,775,319,688

The notes following schedule 2 are an integral part of this schedule.

SCHEDULE 2.—*Computation of estimated reductions in the public debt limit as of July 1, 1952, through 1957 on the assumption that S. 1738 had been enacted by the Congress during 1951, effective July 1, 1952*

	Fiscal year ended June 30—					
	1951	1952	1953	1954	1955	1956
Amount required for reduction of public debt limit as provided in subsec. (b):						
Gross revenue of the United States (subsec. (f) (2))	$48, 043, 477. 506	$61, 333, 914, 740	$65, 532, 469, 633	$65, 230, 498, 791	$60, 447, 240, 692	$68, 308, 411, 683
Less refunds (subsec. (f) (3))	$2, 106, 599, 546	$2, 270, 581, 531	$3, 106, 891, 104	$3, 316, 689, 105	$3, 361, 842, 719	$3, 601, 949, 688
Net revenue of the United States [4]	$45, 936, 877, 960	$59, 063, 333, 209	$62, 425, 578, 529	$61, 913, 809, 686	$57, 085, 397, 973	$64, 706, 461, 995
Percent prescribed by subsec. (b)	2	3	4	5	5	5
Amount required for reduction under subsec. (b)	$918, 737, 559	$1, 771, 899, 996	$2, 497, 023, 141	$3, 095, 690, 484	$2, 854, 269, 898	$3, 235, 323, 099
Budget surplus or deficit (−) [5]	$3, 509, 782, 624	−$4, 016, 640, 378	−$9, 449, 213, 457	−$3, 116, 966, 256	−$4, 180, 228, 921	$1, 625, 553, 403
	Public debt limit effective July 1—					
	1952	1953	1954	1955	1956	1957
Application of reduction to public debt limit if provisions of subsec. (c) do not apply:						
Public debt limit before reduction	$275, 000, 000, 000	$274, 081, 262, 441	$272, 309, 362, 445	$269, 812, 339, 304	$266, 716, 648, 820	$263, 862, 378, 922
Amount required for reduction under subsec. (b)	918, 737, 559	1, 771, 899, 996	2, 497, 023, 141	3, 095, 690, 484	2, 854, 269, 898	3, 235, 323, 099
Public debt limit on July 1	274, 081, 262, 441	272, 309, 362, 445	269, 812, 339, 304	266, 716, 648, 820	263, 862, 378, 922	260, 627, 055, 823
Application of reduction to public debt limit if provisions of subsec. (c) apply: [6]						
Public debt limit before reduction	275, 000, 000, 000	274, 081, 262, 441	272, 309, 362, 445	269, 812, 339, 304	269, 812, 339, 304	268, 358, 069, 406
Amount required for reduction:						
Under subsec. (b)	918, 737, 559	1, 771, 899, 996	2, 497, 023, 141	3, 095, 690, 484	2, 854, 269, 898	3, 235, 323, 099
Less:						
Estimated net loss of revenue resulting from enactment of revenue laws (subsec. (c) (1)):						
Internal Revenue Code of 1954, approved Aug. 16, 1954 (68A Stat.) [7]				1, 400, 000, 000	1, 400, 000, 000	
Excise Tax Reduction Act of 1954, approved Mar. 31, 1954 (68 Stat. 37) [8]				1, 000, 000, 000		
Public Law 1010, 84th Cong., approved Aug. 6, 1956						60, 000, 000
Estimated loss of revenue resulting from decrease in tax rates or expiration of tax provisions (subsec. (c) (2)):						

Excess Profits Tax Act of 1950 (64 Stat. 1137), expired Dec. 31, 1953 [9]				1,600,000,000		
Revenue Act of 1951 (65 Stat. 452), rates decrease effective Dec. 31, 1953 [10]				1,900,000,000		
Total estimated revenue losses (subsec. (c))				5,900,000,000	1,400,000,000	60,000,000
Net amount required for reduction	918,737,559	1,771,899,996	2,497,023,141	0	1,454,269,898	3,175,323,099
Public debt limit on July 1	274,081,262,441	272,309,362,445	269,812,339,304	269,812,339,304	268,358,069,406	265,182,746,307
Temporary increases in public debt limit not included above:						
Public Law 686, 83d Cong., effective Aug. 28, 1954, to June 30, 1955 — $6,000,000,000						
Public Law 124, 84th Cong., effective July 1, 1955, to June 30, 1956 — 6,000,000,000						
Public Law 678, 84th Cong., effective July 1, 1956, to June 30, 1957 — 3,000,000,000						

1 For the fiscal year 1957 the estimated net revenue, as defined in the bill, is based on data contained in the budget of the United States Government for the fiscal year ended June 30, 1958.

In the absence of acceptable estimates for the fiscal years 1958 to 1962, inclusive, computations for these fiscal years are based on net revenues approximating those used for the fiscal year 1957.

However, if the net revenues were to increase in the fiscal years 1958 to 1962, inclusive, by the same amount by which the net revenues increased during the fiscal years 1953 to 1957, inclusive, and if this amount of increase were prorated equally among each of the years involved (1958-62), the average annual increase would amount to about $1,580,000,000.

Based on the foregoing assumption and the further assumption that there would be no change in the present tax rates or that no new tax legislation would be enacted, the estimated annual amount required for reduction of the public debt limit would be:

Effective July 1, 1958	$1,339,280,312
Effective July 1, 1959	2,057,400,000
Effective July 1, 1960	2,806,400,000
Effective July 1, 1961	3,587,000,000
Effective July 1, 1962	3,666,000,000
Effective July 1, 1963	3,745,000,000

2 Public Law 85-12 (H. R. 4090), approved Mar. 29, 1957, amended the Internal Revenue Code of 1954 to provide for the extension of the corporate normal tax rate and certain excise tax rates to July 1, 1958.

According to S. Rept. No. 183, 85th Cong., the extension of tax rates, as finally enacted in Public Law 85-12, would prevent an estimated annual revenue loss of $2,340,000,000. On the assumption that further extensions will not be made, the annual estimates of net revenue have been reduced by this amount beginning with fiscal year 1959.

3 Public Law 1010 amended the Internal Revenue Code of 1954 to provide that the tax on admissions will apply only if the amount paid for the admission exceeds 90 cents.

According to the 1956 fiscal year Annual Report of the Secretary of the Treasury, the enactment of this law will result in an annual loss of revenue of about $60,000,000.

4 For each fiscal year the amount of gross revenue and the amount of refunds made as defined in the bill, have been determined from data contained in the Combined Statement of Receipts, Expenditures, and Balances of the U. S. Government issued annually by the Treasury Department and from other official sources within the Treasury Department.

5 The amounts of budget surplus or deficit were obtained from the annual report of the Secretary of the Treasury. Except for the fiscal year 1951 there were either budget deficits or (as in the case of the fiscal year 1956) a budget surplus less than the computed amount required to reduce the public debt limit. It therefore appears that a reduction in expenditures or an increase in taxes would have been necessary in order to comply with this bill had it been enacted in 1951.

6 Data on revenue laws were obtained from officials of the Internal Revenue Service and officials of other branches of the Treasury Department. In addition to the revenue laws taken into consideration, there were numerous minor tax laws enacted. As to these minor laws, Treasury officials advised that data with respect to the impact on gross revenues, if any, are not available.

7 Certain provisions in the Internal Revenue Code of 1954, approved Aug. 16, 1954, made structural changes in the tax system which, according to the Annual Report of the Secretary of the Treasury for the fiscal year 1954, reduced the fiscal year 1955 yield of the income tax by about $1,400,000,000. For purposes of illustration, it is assumed that the fiscal year 1956 yield was reduced by the same amount.

8 The Excise Tax Reduction Act of 1954, approved Mar. 31, 1954, reduced a substantial number of excise taxes effective Apr. 1, 1954. According to the Annual Report of the Secretary of the Treasury for the fiscal year 1954, these reductions resulted in an annual loss of revenue estimated to be $1,000,000,000.

9 The Excess Profits Tax Act of 1950 expired on Dec. 31, 1953. The Annual Report of the Secretary of the Treasury for the fiscal year 1954 indicates that the expiration of this act resulted in an estimated revenue loss of $1,600,000,000 for the fiscal year 1955.

10 The Revenue Act of 1951, approved Oct. 20, 1951, provided for the automatic reversion on Dec. 31, 1953, of the individual-income-tax rates to those prevailing before the enactment of the Revenue Act of 1951.

The Annual Report of the Secretary of the Treasury for the fiscal year 1954 indicates that the reduction of the individual-income-tax rates resulted in an estimated revenue loss of $1,900,000,000 for the fiscal year 1955. However, the report did not indicate the amount of the impact on revenue for the last half of the fiscal year 1954.

Mr. SAVAGE. If there are any questions, I would be happy to try to answer them.

The CHAIRMAN. I imagine this is more in the nature of a technical statement.

Mr. SAVAGE. Yes. Basically, the point we make is that we do not see how there can be a reduction in the public debt limit and a reduction in the public debt itself, without a surplus of revenues over expenditures. And it is on that point that we make——

The CHAIRMAN. That surplus is only likely to come by reducing expenditures?

Mr. SAVAGE. That is right.

The President, the executive branch, has more control over expenditures than they do over revenues. All of this relates to projecting into the future, and I guess there is a limit as to how much control anybody can have.

The CHAIRMAN. Mr. Savage, if you do not have the information here, I would like you to furnish it, on this matter: Another committee of which I am chairman, the Joint Committee on Reduction of Nonessential Expenditures, has just submitted a report to Congress showing the unexpended balances of the different agencies. We shall send a copy of it to you.

Could you indicate what latitude the President has with respect to transferring these balances from department to department, one department to another, or within the same department?

Mr. SAVAGE. Yes, I think we could, sir.

The CHAIRMAN. We will send that to you, because I think that it is closely related to this discussion about limitation of debt.

In other words, what I would like is a picture, as well as we can draw it of how far the President can go with these balances, whether he can transfer them in any respect, or whether he has to spend them for the specific object for which they were not originally appropriated, and such other information as you can give.

Mr. SAVAGE. I think we can do that.

The CHAIRMAN. I would like, Senator Saltonstall, to make this a part of the record, because I think it is very pertinent.

Senator SALTONSTALL. Certainly. (The following was later received for the record:)

COMPTROLLER GENERAL OF THE UNITED STATES,
Washington, July 12, 1957.

Hon. HARRY F. BYRD,
Chairman, Committee on Finance,
United States Senate.

DEAR SENATOR BYRD: Your letter of June 11, 1957, acknowledged June 13, requested the views of the General Accounting Office on four specific questions concerning control by the Congress and the executive branch over unexpended balances of the Federal Government carried forward at the end of each fiscal year. You also asked for our general views on the problem of management and administration of expenditures from these unexpended balances. One of these questions was asked a representative of the General Accounting Office during the hearings on S. 1738 on June 11, 1957.

We believe there is a relationship between the degree of control and the time elapsed between congressional review and approval of budget requests and expenditure of funds relating to such approved requests. Therefore, we have made an analysis of the unexpended balances of appropriations and authorizations of approximately $75 billion at June 30, 1956, as to no-year, multiple-year, and annual limitations.

[In millions of dollars]

	Total	No year	Multiple year	Annual
Unexpended balances of appropriations and revolving funds	53, 238	41, 061	1, 595	10, 582
Unfunded contract authorizations	4, 040	3, 990	49	1
Authorization to expend from debt receipts	18, 253	18, 253		
Total	75, 531	63, 304	1, 644	10, 583

Briefly, the nature of these balances is as follows:

1. Of the unexpended balances of no-year appropriations, amounting to $41,061 million, $34,710 million are those of the Department of Defense.

2. The unexpended balances of annual appropriations of $10,582 million consist mostly of funds appropriated to the President of $6,187 million and to the Department of Defense of $3,979 million. Included in the funds appropriated to the President and allocated to the Department of Defense is an amount of $2,642 million representing a reserve for reimbursement to the military departments for common item orders (68 Stat. 1224–1225). This amount is for ultimate transfer to the military departments for credit primarily to no-year funds.

3. Unfunded contract authorizations of $3,990 million include $3,100 million for Federal aid to the highway program.

4. Unused authorizations to expend from debt receipts are as follows:

	[In millions of dollars]
Funds appropriated to the President including expansion of defense production of $956 million	1, 139
Export-Import Bank of Washington	2, 794
Federal Farm Mortgage Corporation	500
Federal Deposit Insurance Corporation	3, 000
Federal Home Loan Banks	1, 000
Federal Savings and Loan Insurance Corporation Fund	750
Housing and Home Finance Agency	4, 370
Department of Agriculture	1, 515
Treasury Department	2, 823
Other	362
Total	18, 253

Our comments on your questions relating to expenditures from the unexpended balances are as follows:

1. To what extent does the Congress lose expenditure control over appropriations by the current procedure of so-called forward financing which creates these continuing balances?

Under existing division of responsibilities between the legislative and executive branches of the Government, control over the granting of authority to expend funds is reserved to the Congress while control over the actual expenditures is, in effect, vested in the executive branch. The present method of forward financing does not require an annual review by the Congress of the continuing balances at the time that new appropriations are requested, but there is nothing to prevent such a review and any resulting action deemed necessary by the Congress. In general, it is our understanding that these continuing balances receive only a very limited review by the Congress because under existing procedures, once the spending authority is approved by one Congress, no additional action by subsequent Congresses is required. Accordingly, to the extent that the Congress does not review these continuing balances and to the extent that conditions change from those anticipated at the time Congress approves these balances, it might be said that the Congress has relinquished control thereof to the executive branch.

The authority to borrow from public debt receipts results in even greater delegation of control by the Congress to the executive branch. In most instances this type of authority is contained in substantive legislation and no review or other action by the Appropriations Committees of the Congress is required. This type of authority administered under existing requirements results in a weakening of control by the Congress. However, because the exercise of this type of authority in many instances is dependent on the future economy of the country and other intangibles involving the public, expenditures under such authority is to some extent beyond control of either the Congress or the executive branch. The extent to which borrowing authority may be used by the Department of Agriculture, Housing and Home Finance Agency, the Treasury Department, and the Federal Deposit Insurance Corporation, for example, depends on future economic conditions as they affect agriculture, real estate, finance, and international affairs. On the other hand, it is probable that much of the borrowing authority will never be used.

2. To what extent does the executive branch exercise control over expenditures from these balances; and

4. To what extent does the executive branch control the rate of expenditure from these balances?

These two questions are closely related and, therefore, will be discussed together.

The basic control over expenditures from unexpended balances, including the rate of expenditure, is exercised by the executive branch. This control is exercised through the apportionments made by the Bureau of the Budget and related administrative processes of the departments and agencies. The system of allotments and related administrative requirements of the departments and agencies are required to be approved by the Bureau of the Budget, but these controls are designed primarily to assure that the congressional authorizations are not exceeded and generally not to prevent nonessential expenditures. Control over nonessential expenditures is largely dependent on the efficiency of internal management in the various departments and agencies.

In many areas control by either the Congress or the executive branch is limited by contingencies arising from economic conditions and other intangibles involving the public, as previously explained. In the area of long-range procurement, which constitutes a large portion of the unexpended balances, the Nation's productive capacity constitutes a limitation on the rate at which these balances can be expended. In general these authorizations are made without an annual limitation, because it is not feasible to obtain the materials and facilities authorized within the period of 1 year. The productive facilities of the country at present are not available to produce all the military supplies, materials, and armaments which could be procured from present balances in 1 year. Deliveries of these supplies within this time limitation could only be made with a substantial expansion or conversion of present facilities. Thus, the possibility that the rate could be appreciably accelerated by the executive branch is not great.

The public-debt limitation prescribed by the Congress acts as a limited brake on Federal expenditures. However, when the debt ceiling has been reached and additional expenditures are necessary to be made to carry out programs approved by the Congress and for which it has granted spending authority, the Congress has little alternative but to authorize an increase in the debt limitation to preserve the credit standing of the Government.

The extent of control over the authority to borrow from public-debt receipts was discussed under the first question.

3. To what extent is it possible for the executive branch to transfer, divert, or otherwise change the use of funds in these balances from original purposes?

Section 1210 of the General Appropriation Act, 1951, Public Law 759, approved September 6, 1950 (64 Stat. 765), provides:

"No funds made available by this or any other Act shall be withdrawn from one appropriation account for credit to another, or to a working fund, except as authorized by law: * * *"

In view of that statutory prohibition, the executive branch cannot transfer these balances to other appropriation or fund accounts unless specifically authorized by the Congress. The amounts authorized by the Congress to be transferred from one appropriation to another are not of major significance when compared with the total balances of unexpended appropriations and authorizations under consideration.

The most commonly used provisions of law to authorize this transfer of funds between appropriations are those which authorize an agency, within certain limits, to decrease one or more of its appropriations and to increase others by corresponding amounts to serve some management or budgetary purpose. Such provisions are usually incorporated in the appropriation acts, but at least one such provision is contained in basic law. For example, the Department of Agriculture, in its organic act (5 U. S. C. 572), has authority to transfer funds from one item of appropriation to another up to 7 percent of the items involved. Since this authority is granted in the organic act, there is no requirement that there be an annual congressional review of the matter. For fiscal year 1958, General Services Administration has a transfer authority between appropriations of

2 percent, the Treasury Department 5 percent, and the Veterans' Administration 10 percent applying to specific no-year appropriations. The authority of the Treasury Department, for example, was granted in connection with a reduction in the Treasury's budget and is intended to provide a flexibility to aid management in applying the reduction to the best advantage.

While the executive branch, in the absence of specific provisions of law, cannot use the unexpended balances for a purpose outside of the scope of the appropriation language itself, the executive branch is not legally limited in many cases to the specific purposes set out in the budget requests for the appropriation. For example, the budget request for the appropriation "Aircraft and related procurement" may specify certain types and quantities of aircraft to be procured. However, prior to the procurement of such aircraft, military plans and programs may be modified and the need for those specific types and quantities of aircraft may be changed to other items or types of materiel. In such case, the funds legally are used for other purposes within the scope of the appropriation "Aircraft and related procurement." The extent of these program substitutions has been a matter of concern to the Congress in recent years and the Department of Defense has been directed to advise the Appropriation Committees of these changes.

From the viewpoint of congressional control over expenditures of the Federal Government, the accumulation of these "huge unexpended balances" which are available for expenditure by the executive branch without further congressional approval has certain disadvantages. It allows the executive branch to exercise almost unlimited control over the rate of expenditures of such balances subject, of course, to the ability of the country's industries to provide the materials, equipment and services for which the appropriations or other authorizations were made. The Congress, therefore, has very little control over expenditures from these unexpended balances which have been provided on an obligation basis.

We have strongly advocated the stating of appropriations on an accrued expenditure basis. One of the primary purposes of stating the appropriations on an accrued expenditure basis is to vest in the Congress greater control over the expenditures of the executive branch. The stating of appropriations on an accrued expenditure basis is proposed in S. 434, 85th Congress, which has passed the Senate, and in H. R. 8002, 85th Congress, which has been unanimously approved by the House Committee on Government Operations. If appropriations were stated on that basis, the expenditures under such appropriations during each fiscal year could not exceed the amount of funds appropriated for such fiscal year, and any portion of the appropriation in excess of the accrued expenditures for that fiscal year would lapse. The Congress would thus have greater control over the expenditures of all appropriations stated on an accrued expenditure basis. The present situation with respect to available balances stems from the fact that congressional control through appropriation authorizations and Budget Bureau control through apportionments are both stated in terms of authority to obligate rather than budgeted work plans for the cost of goods and services estimated to be received.

If we can be of any further assistance to you in this matter, please feel free to call upon us.

Sincerely yours,

JOSEPH CAMPBELL,
Comptroller General of the United States.

The CHAIRMAN. It will be appreciated if you let us have that information to be made part of the record, along with any other information you have as to expenditure control by Congress or the control by the Executive, with regard to these balances which have already been appropriated and have not been spent. Do you agree that this is important?

Mr. SAVAGE. I agree with you entirely.

The CHAIRMAN. In consideration of fiscal legislation, we must fully understand these powers, and we must have some better expenditure control. I hope the General Accounting Office can put this matter in concrete form.

And I think, Senator Saltonstall, in view of the committee's interest in your bill, we probably shall have further hearings from time to time.

So it would be just as well to put this General Accounting Office statement in the record.

Mr. SAVAGE. Yes.

Senator Saltonstall also asked us if we would work up a chart explaining how this would work. We have Mr. Bard here, who would explain it if we have time.

The CHAIRMAN. That is a little complicated, in view of our time limitation.

Mr. SAVAGE. Yes.

The CHAIRMAN. And we really should be on the floor of the Senate. So if there are no objections, Senator Saltonstall, would you agree to putting the chart in the record?

Senator SALTONSTALL. Yes, indeed.

The CHAIRMAN. If that meets with the approval of the committee, then we will have further sessions on this bill. I am personally very much interested in this subject.

Senator CARLSON. Mr. Chairman, before you let the witness go, I have a commitment to Senator Flanders to keep.

The CHAIRMAN. Here is a statement from Senator Flanders which he wished to have placed in the record. So, without objection, the statement from Senator Flanders will be inserted in the record. And, Senator Carlson, you may proceed.

Senator CARLSON. Mr. Savage, we have received, since coming here to the committee this morning, what is listed as a marked copy of S. 1738, which I notice had some changes or corrections in the original bill. Are you familiar with those?

Mr. SAVAGE. The changes in the bill?

Senator CARLSON. Yes, the proposed bill.

Mr. SAVAGE. I am not sure whether we are familiar with those particular ones, but we did see some changes that were made. Section 4 is the one you have reference to?

Senator CARLSON. Yes, sir, and several other changes.

The reason I bring this up is because the question seems to bear on that. This is Senator Flanders' question: Assuming Congress determines that a system for reducing the national debt is in the public interest and recognizing there may well be other methods to do it, do you favor the enactment of this legislation in the form set forth with the changes you have recommended?

Mr. SAVAGE. Well now, the point that we make on that particular question is stated in this letter in this fashion: We say that we feel that S. 1738, with the proposed amendments, is a more realistic approach to the problem of debt reduction than anything that is on the lawbooks that we are aware of today. And that is our feeling.

Senator CARLSON. Mr. Savage, one more question. Senator Flanders wants this question asked: How long would it be before a significant reduction would be made in the debt, in your opinion?

Mr. SAVAGE. Well, if the bill were to operate as introduced, it would be a mathematical proposition, depending on net revenues of the Federal Government and the application of these various percentages against those net revenues, 2 percent in the first year, and 3 percent, and so on, up to 5 percent.

And I think in one of these tables here, we did show that the reduction on the basis of the existing levels of revenue for 1957, making certain assumptions that you would have to make in connection with the bill because of the discretion of Congress and the Executive, and so on, would be approximately $1.3 billion in the first year; approximately $2 billion in the second; approximately $2.6 billion or $2.7 billion in the third; $3.3 billion in the fourth; and, since we assumed the same level of income, once you reached the 5-percent level, the amount of the reduction would remain constant.

We had no way of predicting what the level of income might be in the future. So, just for purposes of illustration, I think that gives some idea.

Also I think that Senator Saltonstall, in his statement, made the point that if the bill had been enacted into law back in 1951, and assuming that all of the provisions worked in the interest of the bill to reduce the debt, and that there was a surplus, and so forth, in order that the debt could be reduced, that the limit would be around, I think it was, $260 billion by this time.

So that gives another indication as to how fast it could operate.

The CHAIRMAN. In how many years?

Mr. SAVAGE. That was 6 years.

Senator CARLSON. Do I understand, Mr. Savage, that statement or table which you quoted from, was a part of your statement and would be in the record?

Mr. SAVAGE. Yes; that would be introduced in the record.

Senator CARLSON. That is all.

The CHAIRMAN. Mr. Savage, one more question: Will you give us the citation to the present law with respect to paying on the public debt?

Mr. SAVAGE. I was thinking of the sinking fund.

The CHAIRMAN. Explain the sinking fund. How long has it been in existence, and what has been its result?

Mr. SAVAGE. Well, we made a report about a year ago in which it covers that particular point.

As I recall, the law was enacted in 1919, and our report covers the fiscal years 1921 through 1955. And in that period of time, there is a table in here which shows what the actual reduction has been as a result of the operation of the sinking fund.

While I cannot seem to find it offhand, the main point that we make was that during that period there were many years of deficit financing, and therefore the actual permanent authority for appropriations into the sinking fund could not, of necessity, work to reduce the debt, because you had to borrow money in order to refund some of the prior issues; it was just a refunding proposition.

The CHAIRMAN. There were several years they did not have deficits. What was the effect of those years?

Mr. SAVAGE. In 1 year, I believe, that was recently, too, that was well within the last 4 or 5 years——

Senator BENNETT. It was in 1948 or 1949.

Senator JENNER. It was 1948.

Mr. SAVAGE. Well, at the present time there is a balance in the fund, or was in 1955, of $10 billion, which was not used for that particular purpose.

The CHAIRMAN. What good has it done? What is the net result of it?

Mr. SAVAGE. The net result is nil, I think, is our appraisal.

The CHAIRMAN. Nil?

Mr. SAVAGE. We do not feel that it has really accomplished anything worthwhile in terms of reducing the debt.

The CHAIRMAN. It has not accomplished anything, has it?

Mr. SAVAGE. I cannot see that it has.

The CHAIRMAN. It is one of the useless laws we have on the books?

Mr. SAVAGE. It was a good thought, maybe.

The CHAIRMAN. Do you think that the use of the debt ceiling as proposed in Senator Saltonstall's bill is the proper way to reduce the debt?

Mr. SAVAGE. Well, the reservation that we express in our letter concerning that is that the debt ceiling approach, we do not say that it would be ineffective, but we feel that the first thing you have to have is a budget surplus, and we feel that whatever means could be adopted to deal with the attainment of the surplus might be a more direct approach than the implicit approach brought about by this particular bill.

So it is a question of overcoming that particular problem, insofar as we are concerned. In other words, there has to be a budget surplus, because we are almost at the debt limit now, the actual debt approximates the debt limit. Even though you might have a law which provides for the reduction of the limit, you cannot effectively reduce the debt or the limit without reducing the debt, and you have to have a surplus in order to do that.

So that our point is one of emphasis that whatever means could be brought about——

Senator JENNER. How many surpluses have we had in the last 20 years?

Mr. SAVAGE. I cannot give you that figure offhand, sir.

Senator JENNER. It shows in one of your tables there, I think; three.

Mr. SAVAGE. Is that it, three?

The CHAIRMAN. Just one other question. I would like to have a memorandum as to the so-called escape clauses in this bill. In other words, how is it possible to avoid reducing the debt limit; under what conditions and so forth. Would you be prepared to furnish that?

Mr. SAVAGE. Yes, sir, I think so.

(The information referred to is as follows:)

COMPTROLLER GENERAL OF THE UNITED STATES,
Washington, D. C., June 21, 1957.

Hon. HARRY F. BYRD,
Chairman, Committee on Finance,
United States Senate.

DEAR MR. CHAIRMAN: At the hearings on June 11 before the Senate Committee on Finance on S. 1738, you requested representatives of the General Accounting Office to furnish the committee a memorandum on the so-called escape clauses in S. 1738 and our opinion as to their practicability. In other words, how can the President or the Congress prevent the annual automatic reductions in the public debt limit provided in S. 1738 from becoming effective?

The following proposed subsections to be added to section 21 of the Second Liberty Bond Act, as amended (31 U. S. C. 757b), would provide for the suspension, in whole or in part, of the reductions in the public debt limit proposed in the bill:

(1) Subsection (c) (1) provides that the amount of the reduction shall be reduced by an amount equal to the net loss of revenue during the fiscal year resulting from any revenue law enacted during such fiscal year or the fiscal year ending on June 30 of the preceding year, if the Congress so provides in such revenue law.

(2) Subsection (c) (2) provides that the amount of the reduction shall be reduced by an amount equal to the loss of revenue during the fiscal year resulting from certain decreases in tax rates, if the Congress so provides by law.

(3) Subsection (d) automatically suspends the reductions in the fiscal years during which there is in effect a joint resolution of the Congress declaring the existence of a state of war with a foreign power or during which there is in effect a proclamation by the President proclaiming an unlimited national emergency because the Armed Forces are engaged in armed conflict with the armed forces of a foreign power, and the period of armed hostilities during such war or national emergency has not been terminated.

(4) Subsection (e) provides that the proposed reductions would be suspended if, prior to July 1 of any year, the President recommends such suspension to the Congress and the two Houses of the Congress consent thereto by passage of a concurrent resolution. Subsection (e) (2) provides that the President can recommend such suspension for any fiscal year only if he determines that such suspension is necessary in the national interest because of economic conditions existing or threatening in the United States.

The suspension of the reductions in the public-debt limit is automatically effective only in item (3) above. Whether these reductions should be automatically suspended during a state of war or periods of armed hostilities with the armed forces of a foreign power or suspended only by some affirmative congressional action is a matter of policy for the Congress to decide.

In items (1) and (2), the suspensions can become effective only if the Congress so provides by law. In item (4), the suspension can become effective only through the agreement by the two Houses of the Congress to a concurrent resolution consenting to a suspension which had been recommended to the Congress by the President as being necessary in the national interest because of economic conditions existing or threatening in the United States.

The President has power to submit to the Congress his recommendations for any legislative action, including the suspension of any reductions in the public-debt limit, and the Congress has power to pass legislation to amend, modify, or repeal any law, including any law providing for reductions in the public-debt limit. In view thereof, we doubt the necessity for the foregoing provisions, especially those set out in items (1), (2), and (4) above, for suspending, in whole or in part, the proposed annual reductions in the public-debt limit. The bill would be stated in much more positive terms if all of such provisions were omitted.

We would like to repeat the view stated in our letter of June 10, 1957, to Senator Saltonstall on S. 1738, which was introduced into the record at the hearings on June 11, that the bill cannot be fully effective unless there can be assured a surplus of revenues over expenditures each fiscal year in an amount sufficient to reduce the public debt to the reduced public-debt limit for such fiscal year.

Sincerely yours,

JOSEPH CAMPBELL,
Comptroller General of the United States.

The CHAIRMAN. Thank you very much, sir.

Any further questions?

Senator SALTONSTALL. Thank you very much, Mr. Chairman, for your courtesy and the courtesy of the committee.

(The statement of Senator Flanders is as follows:)

STATEMENT BY SENATOR RALPH E. FLANDERS

Mr. Chairman, since a previous commitment prevents my being present at the hearings of our committee on Tuesday, the 11th of June, I should like to ask that a few comments which I have in connection with the bill under discussion be read into the record of the hearings. As you know, I have had an opportunity to study Senate bill 1738, and I am particularly impressed by it. In my opinion, the Public Debt Reduction Act represents a genuine and workable plan for substantially improving the Government's credit structure.

One of the problems which we on the committee are primarily concerned about at this session of Congress is the problem of management of the national debt. One way to solve the problems of refinancing the debt is to reduce that debt as quickly as possible. In this respect, S. 1738 may well be the timely answer to the problem.

It is my understanding that in a brief period of 10 years the operation of S. 1738 would reduce the annual interest payments on the national debt by almost a billion dollars. Theoretically, it is also possible that 30 years of the program's normal operation would then permit annual payments consisting primarily of principal. At that point in time, the money to be paid annually as interest and principal on the national debt would be equivalent to the money we now expend annually for interest alone. These very revealing statistics give good reason for a very thorough consideration of the proposals of this bill.

In a period of peace and prosperous circumstances, we must free ourselves from the inflexibility of an enormous Government debt. It is imperative that we begin to make systematic plans for the reduction of that debt.

It is my opinion that S. 1738 does this in an effective manner and with a moderate approach, and I am very pleased that the senior Senator from Massachusetts is appearing before our committee. I trust that our committee will want to listen with care to the excellent proposal which has been made.

RALPH E. FLANDERS,
United States Senator.

The CHAIRMAN. The committee will be adjourned.

(Whereupon, at 12:30 p. m., the committee adjourned.)

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