INVESTIGATION OF THE FINANCIAL CONDITION OF THE UNITED STATES

HEARINGS

BEFORE THE

COMMITTEE ON FINANCE
UNITED STATES SENATE

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INVESTIGATION OF THE FINANCIAL CONDITION OF THE UNITED STATES

TUESDAY, JUNE 18, 1957

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

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

Present: Senators Byrd (chairman), Kerr, Frear, Long, Smathers, Anderson, Douglas, Gore, Martin, Williams, Flanders, Malone, Carlson, Bennett, and Jenner.

Also present: Elizabeth B. Springer, chief clerk; and Samuel D. McIlwain, special counsel.

The CHAIRMAN. The committee will come to order.

The Senate Finance Committee, by resolution, today is undertaking to make a complete study of the financial condition of the United States, including—

(1) The revenue, bonded indebtedness, and interest rates on all public obligations, including contingent liabilities;

(2) Policies and procedures employed in the management of the public debt and the effect thereof on credit, interest rates, and the Nation's economy and welfare; and

(3) Factors which influence the availability and distribution of credit and interest rates thereon as they apply to public and private debt.

This will be the first full-dress examination of our fiscal and monetary policies since the one conducted by the Aldrich Monetary Commission in 1908.

The immediate occasion for this study is the existing credit and interest situation and, more important, inflation which has started again with its ominous threat to fiscal solvency, sound money, and individual welfare.

Legislative matters relating to Federal revenue and debt, tariff and trade, and social security and pensions are under the jurisdiction of this committee. In the discharge of its direct responsibilities with respect to these subjects, the committee has become convinced that serious conditions exist in the areas to be studied, and that these conditions have exceedingly dangerous potentialities.

It is the purpose of the committee to explore these areas, examine the conditions, determine the cause, and, so far as possible, find the remedies.

To make such a study complete, the committee must examine fiscal and monetary policies, mark the distinctions between them, and study their relationships, one to the other.

The hearings incident to this study are opened today against a background of historical facts, documented developments, and obvious conditions which are of grave concern to the country and to every individual citizen.

Some of these facts, developments, and conditions which necessarily must be examined by the committee may be summarized as follows:

Generally speaking, the United States maintained itself on a pay-as-you-go basis until 1932. The principal exceptions were periods of war, and until World War II we hastened to pay off our war debts. For example, after World War I, we paid our war debt down to $16 billion.

But, for the quarter of a century since 1932, the Federal Government has been virtually on a deficit-financing basis in all but 5 years. We have been at peace three-fourths of that period.

Now our direct Federal debt is approximately $275 billion. This direct debt is practically even with the statutory debt limit which this committee has preserved as a safeguard against even greater excessive spending.

In addition to the $275 billion in direct debt, there are more than $250 billion in contingent liabilities, and effort will be made on this committee to determine to what extent these contingent liabilities may become an actual charge on the Treasury.

State and local debt have been rising steadily since 1946. All public debt, Federal, State, and local, is now estimated to total more than $325 billion.

Debt increase has not been confined to public operations. Private and corporate debt also has been on a constant rise. Commercial bank loans are now at their alltime high.

All debt in this country, estimated as of last December by Treasury Department officials, totals nearly $800 billion:

	Billion
Corporate	$253
Private	213
Federal	277
State and local	50
Total	793

This is an increase of $200 billion, or about 33 percent, in 4 years.

With only temporary exceptions to the rule, Federal expenditures have been constantly rising, and in recent years—since 1954—the greatest increases have been in strictly domestic-civilian programs; not military and foreign aid. (See table on p. 4.) State and local governments have been following suit. Combined Federal, State, and local expenditures from tax revenue, miscellaneous receipts, and borrowing are running to a total of more than $132 billion annually.

In the past 25 years we have raised Federal taxes to their alltime high in both rate and take. Now, 4 years after the Korean war, we are still practically on a wartime Federal tax rate.

State and local taxes are rising steadily. Total receipts—Federal, State, and local—are now estimated at approximately $110 billion for fiscal year 1958, as compared with the pre-World War II total of $14.6 billion in 1940. (These figures exclude State and local miscellaneous receipts from such sources as business-type activities.)

As a measure of magnitude, it may be noted that taxes are now nearly equivalent to one-third of the national income as reported by the United States Department of Commerce.

This committee is vitally concerned with the question as to how long our economy can absorb taxation of these proportions and still provide the stimulus of the profit motive necessary to the free enterprise system. When the currently continuing Korean war taxes were imposed on corporations, Mr. C. E. Wilson, formerly president of General Electric Co., said these rates could not be endured indefinitely by American industry. Mr. Wilson made this statement in testimony before this committee as Chairman of the Office of Defense Mobilization.

The committee is equally concerned over the question as to whether we can risk even higher taxation or debt which is likely to result from increased spending at the Federal, State, or local level, or all down the line.

This committee can never lose sight of the fact that the Government's integrity depends upon a stable currency. This involves not only the value of the money with which the Government redeems its own bonds, but it involves also the savings, pensions, life insurance, and so forth, of the people of the Nation, which can be kept intact only by a stable dollar.

When the Government increases expenditure programs, it contributes to the inflation spiral and thereby increases costs, and perhaps the cost of living, taxes, and debt. Secretary of Defense Wilson recently demonstrated the effect of inflation on the cost of Government in the military field. He said it will take $38.5 billion in fiscal year 1958 to buy what $33.4 billion bought for defense in 1954.

The committee cannot overlook the fact that responsibility for sound currency is a prime responsibility of the Central Government.

May I divert briefly from my prepared statement. I will give you the record of one of the greatest inflationary periods in our Nation's history, from 1940 to the present date. These are official Government figures from the Departments of Treasury and Labor and the Federal Reserve Board, as compiled by the Treasury Department.

It should be noted that in this table the Treasury Department has used a Consumer Price Index based on 1947–49=100 and the decline in the purchasing power of the dollar is shown on a base of 1939=100.

A more proper comparison would show both on the 1939=100 base. On this basis the 1939 Consumer Price Index figure would have been 100 and the April 1957 figure would have been 201.3, and the index figures between would have been higher accordingly. But there would be no difference in the increase span or in the percentages of increase.

There is reason to assume there will be further references to the figures in this table as compiled by the Treasury Department. It is desirable to keep the record both consistent and accurate. So with this notation relative to the figures in this table, I shall use it without requesting conversion of the Consumer Price Index to the 1939=100 base at this time. My purpose is to trace the development of inflation since 1940, and the table, as it stands, will serve that purpose.

(The table referred to follows:)

Consumer prices (1947–49=100), purchasing power of the dollar (1939=100), and selected factors affecting prices, 1939–57

Calendar years	Consumer prices		Purchasing power of dollar [1]		Federal surplus or deficit (in billions of dollars) [2]	Money supply (in billions of dollars) [3]	
	Price index (1947–49=100)	Percent change	In cents	Change in cents		Total	Change
1939	59.4	....	100.0	....	−3.9	36.2	....
1940	59.9	+0.8	99.2	−0.8	−3.9	42.3	+6.1
1941	62.9	+5.0	94.4	−4.8	−6.2	48.6	+6.3
1942	69.7	+10.8	85.2	−9.2	−21.5	62.9	+14.3
1943	74.0	+6.2	80.3	−4.9	−57.4	79.6	+16.8
1944	75.2	+1.6	79.0	−1.3	−51.4	90.4	+10.8
1945	76.9	+2.3	77.2	−1.8	−53.9	102.3	+11.9
1946	83.4	+8.5	71.2	−6.0	−20.7	110.0	+7.7
1947	95.5	+14.5	62.2	−9.0	+.8	113.6	+3.6
1948	102.8	+7.6	57.8	−4.4	+8.4	111.6	−2.0
1949	101.8	−1.0	58.3	+.5	−1.8	111.2	−.4
1950	102.8	+1.0	57.8	−.5	−3.1	117.7	+6.5
1951	111.0	+8.0	53.5	−4.3	+3.5	124.5	+6.9
1952	113.5	+2.3	52.3	−1.2	−4.0	129.0	+4.5
1953	114.4	+.8	51.9	−.4	−9.4	130.5	+1.5
1954	114.8	+.3	51.7	−.2	−3.1	134.4	+3.9
1955	114.5	−.3	51.9	+.2	−4.2	138.2	+3.8
1956	116.2	+1.5	51.1	−.8	+1.6	139.7	+1.5
April:							
1956	114.9	....	51.7	....	....	[4] 134.4	....
1957	119.3	+3.8	49.8	−1.9	....	[4] 135.2	+.8

[1] As measured by BLS consumer price index, assuming purchasing power at 100 cents in 1939.
[2] Fiscal year ending June 30 of year shown.
[3] Currency outside of banks and demand deposits adjusted, end of December.
[4] Seasonally adjusted.

Source: Department of Labor, Treasury Department, and Federal Reserve Board.

The CHAIRMAN. So we see that the Consumer Price Index from 1939 to 1957 increased by more than 100 percent while the value of the dollar declined by more than 50 percent. It went from 100 cents down to 49.8 cents and the loss is continuing.

I am aware that a number of factors contribute to inflation, and all of these must be carefully evaluated.

The conditions I have just mentioned stand forth by the record. The record shows further that the combined tax burden of the Federal, State and local governments has increased 8 times in 17 years, and that the combined State and Federal debt has increased in that period from $63.3 billion to $325 billion, exclusive of contingent liabilities. The record certainly indicates that there is need in the public interest for an exhaustive inquiry to be undertaken to determine the cause, the effect, and the remedy.

I will, then, go back to my prepared statement.

The squeeze of this inflation, even at this point, is being felt seriously by individuals of fixed incomes, and in businesses which cannot pass on inflated costs. The cost of living, as we all know, has increased steadily for 8 consecutive months.

Actually, confidence in the American dollar is the principal deterrent in the world today to Russian aggression. The pages of history detail the stories of nations which have been wrecked by unsound fiscal policies and debased currencies. If the value of the dollar continues to drop at the rate of 2 cents a year, as it has in the past year, it will be worth only 25 cents in 12 years, as compared to the 1940 dollar.

This committee wants to know the casues of this new inflation, and it wants to find the remedy before the consequences become disastrous.

The committee has reason to be concerned also over the fact that the cost of money is rising. The Federal Government offered 3⅝ percent interest on a recent 5-year bond issue which was not fully taken despite the highest interest rate in 34 years.

The committee has been watching the cost of interest on the Federal debt for some time. Interest is now taking more than 10 cents out of every tax dollar collected from American citizens. It amounts now to more than $7 billion annually. If the Federal debt were refinanced at 3¾ percent interest, it would cost taxpayers $10 billion a year, or an increase of $3 billion in interest.

Interest paid by the Federal Government is taken as a standard, and refinancing any substantial part of the nearly $800 billion total debt in the country at a percentage of increase in interest comparable to that already offered by the Federal Government is a matter of general concern. It would place new burdens on all taxpayers and consumers.

There is obvious need for appraisal in all of the areas covered by the resolution under which the committee is working, to determine to what degree the present prosperity is sound.

The committee would be remiss in its duty if it did not examine the possibility of a recession even though it may be a minor one. Few people realize the great effect levels of income have upon budget receipts. For example, if present corporate and personal income levels dropped to the level of only 2 years ago, that is, the 1954–55 level, the currently estimated budget surplus, according to Mr. Colin F. Stam, of the Joint Committee on Internal Revenue Taxation, would be converted to a deficit of $12 billion.

With the Federal debt at its present precarious heights, miscue in its management can be costly. The same sort of tremendous responsibility rides on actions through the Federal Reserve System.

It is easy for a nation indulging in excessive expenditures, taxation, debt, and credit to close its eyes to reality. It is easy to charge the whole matter off to growth. But the growth of our Nation is not commensurate with the burden we have undertaken.

In this statement I have touched on only some of the matters of vital concern which prompted this study. From its years of experience with the fiscal affairs of the Nation, the Senate Finance Committee is acutely aware of the importance and complexity of its work, and it approaches the undertaking with a consciousness of its implications.

It is the committee's purpose to conduct an objective examination to clarify the situation and be helpful in the effort to avoid further inflation, and to establish sound fiscal principles flexible enough to meet possible recessions as well as increasing prosperity.

As chairman of the committee, it will be my purpose to see that each member of the committee is afforded opportunity to develop all phases of the vital questions before us. It is the desire of the chairman that the discussion at public hearings be completely free, so that out of the wisdom of the individual Senators may come helpful contributions, and out of the collective wisdom of the committee may come constructive recommendations.

The fact that the committee is composed of men of great capacity, and long training in business and fiscal affairs, is a source of pride and confidence to the chairman. We open these hearings sincerely hoping that the effort will be worthwhile.

For the record, and the information of the witnesses and the public, the committee has agreed to the following rules of procedure:

1. The witness will not be interrupted while he is presenting his prepared statement.

2. Questioning by members of the committee will be in order of seniority, beginning with the chairman, followed first by the ranking Democratic member, then the ranking Republican member, and so on, until each member has had an opportunity to interrogate.

3. No limitation on time will be imposed on a Senator during the first round of questioning of the committee.

This resolution was adopted by the committee unanimously.

4. In addition, no Senator will be asked to yield part of his questioning time to another member. However, one Senator may yield his entire time to another member for questioning if he so desires. The Senator yielding will take the turn of the member to whom he yields.

The first witness is Hon. George M. Humphrey, Secretary of the Treasury.

I want to say to Mr. Humphrey, as I said recently on the floor of the Senate, I deeply regret his resignation as Secretary of the Treasury. My close association with him in the past 5 years has impressed me with his great ability and his high patriotism, and I am sorry to think, Mr. Secretary, that at the end of these hearings we will no longer have you before the committee as you have come so frequently in the past.

STATEMENT OF HON. GEORGE M. HUMPHREY, SECRETARY OF THE TREASURY

Secretary HUMPHREY. Mr. Chairman, I appreciate very much indeed your very kind personal remarks, and I am very glad indeed to have this opportunity to be here to appear before this committee just before I leave the Government service, to try to be as helpful as I can in discussing with you the serious problems that you, Mr. Chairman, have outlined all of which I recognize and which I believe, as you have suggested, are subjects of the most serious import to our country, and deserve the most serious thought and consideration of this committee.

Broadly speaking, your study relates to the financial condition of the United States.

(Discussion off the record.)

Secretary Humphrey. I was just saying that in order to assist you in this inquiry, it seems appropriate that I provide a statement as to the problems we have faced, the goals we have set, and the record of our accomplishments in the past 4 years.

This is a record of a prospering America with new high levels of employment, rising income, and increasing purchasing power. It is a record of more and better jobs, more homes, more cars, more leisure, and more recreation. It is a record of unequaled prosperity with both the blessings and the problems of such a period.

Last year an average of 65 million of our people were gainfully employed, an increase of 3,700,000 in only 4 years. During the same 4 years, unemployment has averaged only 3.8 percent of the civilian labor force compared to 4.1 percent during 1949 through 1952, and 15 percent from 1937 until the beginning of World War II.

The present low level of unemployment has been achieved although the civilian labor force has increased from 63 million in 1952 to 68 million today. For the first 5 months of this year, unemployment has averaged about 3.7 percent.

The record of the past 4 years is also a record of rising levels of living, widely shared. During this period, average annual family income, after Federal income taxes, has increased from less than $4,600 to an estimated $5,200, an increase of about 12 percent, even after eliminating the effect of price changes.

In 1956, the average family purchased 12 percent more goods and services, in real terms, than in 1952.

Almost 5 million families have moved into new homes since 1952. Almost 30 million families own their own homes today, an increase of 13 percent in only 4 years.

The number of homes with electric refrigerators has increased from 38 million to 45½ million, accounting for 96 percent of all wired homes. In only 4 years, the number of homes with food freezers has increased from 5 million to 8½ million; the number with clothes dryers (either electric or gas) from 1½ million to 5½ million, and the number with television sets from 21 million to 38½ million. The number of families owning automobiles has increased from 31 million to 37 million.

This growing prosperity has extended to nearly all segments of our society except the farmer. The postwar adjustment in farm income has only recently been reversed, with a small increase last year for the first time in several years.

Farm income per worker last year was $1,862, up $151 from 1955. Farm prices have been rising moderately in the last few months, and on May 15, were up 3 points above the level of a year earlier.

The objective of this administration is to enable our farm families soon to share more fully in the record prosperity which characterizes the rest of the economy.

The record of the past 4 years is one of great enhancement in personal financial security. The number of life-insurance policies increased from 219 million 4 years ago to an estimated 265 million in 1956, an increase of 21 percent, and the number of persons covered by hospital insurance increased from 91 million to 112 million, or 23 percent.

Time deposits in banks and share accounts in savings and loan associations increased from $79 billion to about $112 billion, or 41 percent, and the estimated number of shareholders in American industry increased from 6½ million to more than 8½ million people.

The record of the past 4 years is also one of increased leisure. There has been a 19 percent increase in the amount of time Americans took for their vacations—85 percent with pay.

About 55 million of our people visited national park areas last year, an increase of 30 percent in the last 4 years, and approximately 60 million are anticipated for this year.

Now, this great increase in the income, the living standard, the recreation, and security of our people has been achieved at a time when there has been a substantial contraction in defense expenditures.

Our free economy has again demonstrated its ability to absorb the reductions in Government expenditures not by contracting, but by expanding employment and the living standards of our people.

The record of the past 4 years has been one of unequaled investment. The Nation has devoted a vast amount of its resources to improving and enlarging its productive capacity.

Businesses have spent an alltime high of $152 billion on new plant and equipment, compared with $123 billion in the preceding 4 years. This record volume of capital outlays has provided a dramatic answer to those who would contend that our economy would run down without the artificial stimulus of chronic deficit spending and the backlog of private demands deferred by the war.

Outlays to make better provision for needed public facilities have also been at very high levels in recent years. Total public construction in 1956 was $13.4 billion, 23 percent above 1952 levels, and educational construction outlays during this same period increased 56 percent, from $1.6 billion in 1952 to $2.5 billion in 1956.

The increased confidence of our people and of our business concerns, that they will be free to determine their own course—free from unnecessary regulation or harassment—greater confidence in the stability of our Government and the wider distribution of purchasing power, have encouraged our consumers, our homeowners, our business concerns, and our communities, to plan for the future, and to buy the automobile, or the home, to build the factory or the schoolhouse, that a brighter future justifies.

Thus the record of the past 4 prosperous years has been characterized by the many blessings of widely shared prosperity—but it has also been beset by one of the problems of prosperity.

The tremendous outlays to expand our public and private facilities have required financing, and this has inevitably given rise to a heavy demand for borrowings. With growing confidence on the part of lenders as well as borrowers, there has been a rapid increase in the volume of both long- and short-term credit.

Almost all of this increase has come from savings and not from an increase of money supply in the banks. Nevertheless, there has been, and is, the ever-present threat of rising prices.

The monetary policies of the Federal Reserve and the fiscal policies of this administration have been designed to encourage the growth of the supply of goods (as the foregoing figures indicate), but not to encourage excessive credit expansion.

The cost of living has risen an average of only six-tenths of 1 percent per year for the past 4 years, as compared with an average increase at the rate of about 7 percent per year for the preceding 13 years.

In short, the rise in prices during this administration has been at only one-tenth the average annual rate of the preceding 13 years. Even this rise is more than I like to see, but it is a record of far better price stability than in many years.

Nevertheless, prices have been rising a little faster for the past 12 months, and the threat of renewed inflation, which had been so severe from 1946 to 1952, is perhaps our most serious domestic economic problem.

The greater increase in demand for credit than in the supply thereof has inevitably brought about higher interest rates.

The record of the past 4 years is one of sensitive and flexible adjustments to the release of controls, and to the return to free markets, an accommodation of the post-Korea curtailment in military spending, and of a free market's emphasis first on housing, then automobiles, and now on new plant construction with continuous improvement in the total economy.

It is a record of encouraging savings and investment in increased productive capacity, of encouraging an adequate volume of credit, but of not encouraging that excess of credit which, in a period of high employment, could only penalize our people by bidding up prices without increasing production.

It is essentially a record of flexible and quickly adjusting fiscal and monetary policy designed to continue the sound improvement in levels of living, widely shared, which is the wonder and ambition of all the rest of the world.

It is a most significant record, important to us all, because the monetary activities of the Federal Reserve System and the fiscal activities of the Treasury affect the wages, the standard of living, and the savings—indeed the entire financial well-being—of each one of our citizens.

It is above all a record of the renewal of widespread confidence of the people in the preservation of their individual freedom of choice, in their jobs, in their right to the enjoyment of the fruits of their own initiative and endeavor, and in the security of their savings. It is a record of renewed confidence in the security of our country.

Feeling as I do that there should be the widest possible public interest in this subject, and feeling such a deep pride in what this administration has done and is doing, I welcome this opportunity to speak to your committee and, through you, to the more than 171 million Americans whom the Congress represents.

Let me review the major policies of, and the fiscal actions taken by, this administration since we took office in January 1953.

In discussing fiscal, monetary, and credit policies, as I am doing today, I do not want to give the impression that they alone can prevent inflation and assure economic growth. They are, however, a subject of the present inquiry and I shall concentrate my attention on them.

Certainly if they are not sound, there is little chance for sound money and sound long-term economic growth.

As a preface to our present policies, let us review the situation as it existed when we came into office. We came in in 1953.

The direction in which we had been going was as follows:

You will recall the tremendous changes that had occurred in the period before 1953. In 10 of the 13 fiscal years from 1939 through 1952, the Government operated at a deficit, as it had in the preceding 9 years.

Largely as a result of World War II, the Federal debt increased in only 13 years from \$47.5 billion at the end of 1939, to \$267.5 billion at the end of 1952. Those are figures that to me are simply astounding. It is attributable to a war period, but a debt going from \$47.5 billion to \$267.5 billion, in only 13 years.

The interest charge on this indebtedness had grown from an annual rate of \$1¼ billion per year in December of 1939, to \$6¼ billion in December of 1952, an average increase in interest cost of almost \$400 million per year.

In 13 years, annual Federal taxes had increased from a little less than \$5 billion in 1939, to almost \$65 billion in 1952. This amounted to an increase in the average tax burden of each American citizen from \$36 in 1939, to \$413 in 1952.

The conditions which we faced when we took office in 1953:

When this administration came to office in January of 1953, we faced:

1. A Federal debt equal to 89 percent of our annual national income.

2. Budget expenditures of $74.3 billion for fiscal 1953, and proposed budget expenditures, a prepared and then existing budget, of $77.9 billion for 1954.

3. A budget deficit of $9.4 billion for 1953, and a planned deficit of $9.9 billion, almost $10 billion, for 1954.

4. A continuing spiral of inflation which had reduced the purchasing power of the dollar from 100 cents in 1939 to 77 cents by 1945, and down to 52 cents by 1952.

In appraising these conditions and the course to pursue, we were influenced by a recognition of the overpowering importance of preventing other devastating postwar inflation which, prior to 1953, the Government was attempting to control by inadequate means.

Now, what were our goals?

Within less than a month of his taking office in 1953, President Eisenhower, in his state of the Union message, called attention to the "inescapable need for economic health and strength," and he stated:

> Our immediate task is to chart a fiscal and economic policy that can—
>
> First, reduce the planned deficits and then balance the budget, which means, among other things, reducing Federal expenditures to the safe minimum;
>
> Second, meet the huge costs of our defense;
>
> Third, properly handle the burden of our inheritance of debt and obligations;
>
> Fourth, check the menace of inflation;
>
> Fifth, work toward the earliest possible reduction of the tax burden;
>
> Sixth, make constructive plans to encourage the initiative of our citizens.

Let us review these goals and our efforts, our difficulties, and our accomplishments to date, in following them.

The first objective was to reduce the planned deficits and then balance the budget.

To what extent have we accomplished this goal?

1. We first reduced and then entirely eliminated planned deficits.

The budget in effect when we took office in 1953 produced a $9.4 billion deficit, and the budget proposed for the fiscal year 1954 called for a $9.9 billion deficit. Our administration immediately went to work, with the help of the Congress, to reduce the planned deficit for fiscal 1954, and indeed the final deficit ($3.1 billion) was only one-third of that anticipated by the prior administration.

Without the largest tax cut in our Nation's history, the budget would have been balanced in 1955. However, in view of the transition resulting from the reduction in military spending, and anticipated further reductions in spending which in fact materialized concurrently with our action, we were able to pass some of the savings from our reduced expenditures back to the people, even though this meant another year's delay in achieving a balanced budget. Fiscal 1955 was, however, the last year of deficits.

2. We have balanced the budget.

By fiscal 1956, we had entirely eliminated deficits, balanced the budget, and completed the year with a surplus of $1.6 billion.

The 1957 budget will result in another surplus, and the budget proposed by the President for 1958 provides for a third successive surplus for the first time in 25 years.

3. We have reduced Federal expenditures.

Federal expenditures were reduced from $74.3 billion in the inherited budget of 1953, to $67.8 billion in 1954, and down to $64.6 billion in 1955. As a result of additional programs authorized by the Congress, substantial pay increases, and the need for increasingly expensive military equipment, expenditures increased slightly in the past year to $66.5 billion, with further increases anticipated to $68.9 billion for 1957 and $71.8 billion for 1958.

The 1957 budget is nearly $5.5 billion below the budget we inherited in 1953, and is but 16 percent of our current gross national product now as compared to 21 percent in 1953.

The second objective was to meet the huge costs of our defense.

Major national security expenditures have been reduced from $50.4 billion in 1953, to $46.9 billion in 1954, to an estimated $41.0 billion in 1957, with a proposed $43.3 billion in 1958.

This reduction has been achieved despite the fact that, though not at war, we are still engaged in a titanic contest which requires not only the expense of preparedness, but extremely expensive research and development.

Such research is necessary to assure preparedness for tomorrow, and the days beyond, in the terrible race for primacy in the most complete transition from old to new weapons in the history of the world.

While our fantastically costly weapons of tomorrow are still in the expensive research and development stage, we must continue to maintain our maximum strength in the weapons of today. This means that during the transition period we must support increased costs of two systems of defense.

We have met these huge costs with a balanced budget and with a reduced tax burden. We have provided the necessary large amounts of expensive and revolutionarily new equipment needed for our national safety, greatly expanded our productive facilities, and at the same time enabled far more capital and labor to be directed toward building more cars, more houses, more of all of the good things our people need and want.

Our third objective was to properly handle the burden of our inheritance of debt and obligations.

As you have invited the Under Secretary, Mr. Burgess, to meet with you, I have asked him to report to you in detail on our handling of the debt.

In preface to his remarks, I might say that the management of $275 billion of debt is not a simple assignment under any circumstances. The Federal Reserve's proper withdrawal from the pegging of the Government bond market, which withdrawal was the most effective single action taken in the battle against inflation, has made it more difficult to manage debt operations than it was when a fixed rate was assured.

Had such a policy continued, however, the resulting inflation would eventually have produced even greater complications for debt management than we have experienced under a system whereby interest rates are determined by the forces of the market.

In January 1953, when this administration took office, the average rate on all Government interest-bearing issues outstanding was 2.35 percent. The total net computed interest cost at an annual rate at that time was $6.2 billion.

Four years later the average rate on all Government issues outstanding was 2.67 percent, or an increase of about three-tenths of 1 percent. The total net annual computed interest cost, as of December 31, 1956, was $7.3 billion, of which $0.9 billion is due to increased interest rates, and $0.2 billion is due to an increase in the debt incurred to pay obligations inherited from previous commitments.

This increase in interest rates results from the free market influences of supply and demand in a period of unparalleled prosperity. It is a continuation of a rise that has been going on for the past 10 years under the growing pressure of borrowing demands.

In this little table the computed interest rate is shown:

Computed interest rate on the public debt

	Percent
December—	
1946	2.06
1952	2.35
1956	2.67
May 1957	2.75

So that the rate has increased over the 10-year period from 2.06 to 2.75, or a little less than three-fourths of 1 percent.

For the entire period from December 1946 through May 1957, there was an increase of sixty-nine one-hundredths of 1 percent in the computed interest rate on the public debt. Of that increase, twenty-nine one-hundredths occurred prior to this administration, and forty one-hundredths occurred during this administration, right up to now.

During the past 4 years there has been no increase in public debt interest cost in relation to national income. The interest cost was 2.1 percent of national income in December 1952, and was exactly the same percentage in December 1956, for the increase in interest cost has only kept pace with the increase in national income.

Furthermore, the $1 billion increase in interest paid reflects increased earnings received by the investors who own the securities.

Now, who are those investors?

Of the $7 billion of interest paid on the public debt during calendar year 1956, $1.4 billion represented the payment of interest to social-security funds and other Government investment accounts.

About $0.6 billion of public debt interest was received by the Federal Reserve banks, and 90 percent of that comes back to the Treasury as surplus earnings.

Commercial banks received approximately $1.4 billion of such interest last year. About $0.6 billion went to other financial institutions—mostly insurance companies and savings banks; about $0.5 billion to corporations, about $0.4 billion to State and local governments, and about $0.4 billion to nonprofit institutions, foreign accounts, and so forth.

The remainder, of about $1.8 billion—the largest single segment of the interest on the public debt—went to individuals, either in the form of cash payments or accumulated interest to the 40 million holders of savings bonds. Millions of Americans are benefiting from these higher interest rates.

I am asking Mr. Burgess to review other phases of our debt management program.

The fourth objective, check the menace of inflation.

1. The problem

At the risk of oversimplification, let me condense the story of inflation to about a dozen lines.

Almost all of our employable labor force is employed—and at higher wages than they have ever received before. Our people are buying virtually all that they are producing, but they want to buy more, both more consumer goods and more productive facilities.

Being confident of the future, they desire to borrow to buy more. The lenders are lending more than ever before, but still not as much as the public would like.

However, with most resources fully utilized, additional bank credit would not put any more people to work—it would merely provide additional demand in excess of the supply of both labor and goods. Such a demand in excess of supply would cause a rise in prices if it were fed by excessive bank credit expansion.

A rise in prices hurts every housewife, everyone on a pension, every person with a fixed or lagging income, every saver. It robs labor of much of its gain in wages. This rise in prices has been a principal cause of the farmers' difficulties, because while income per farm remained fairly static during the last 10 years, the farmer has had to pay higher prices. As a consequence, he has been particularly hurt by the inflation which, to a lesser extent, injures every single one of us.

There are two ways to check this rise in prices: (*a*) increase the supply of goods, and (*b*) slow the expansion in the number of dollars bidding for the goods.

We have utilized both methods. The administration in many ways has encouraged an increase in productive facilities which is the only way to increase the supply of goods. The Federal Reserve and the administration have taken action to restrain a too rapid growth in the number of borrowed dollars available to bid up the price of the limited supply of goods and services.

2. The respective roles of the Federal Reserve and the Treasury

Now, what are the respective roles of the Federal Reserve and the Treasury?

I would like to take a moment to identify the respective roles played, on the one hand by the Treasury, which influences fiscal policy—through its recommendations on tax and budget policy as well as its management of the public debt—and on the other hand by the Federal Reserve, which is responsible for monetary policy—through its influence on the cost and availability of money and credit.

A mere statement of the respective functions demonstrates the major role of the Federal Reserve in the effort to stop inflation. The Federal Reserve has the authority and the tools to take monetary and credit action. We do not.

The Treasury cannot determine the level of interest rates, but must pay the rates determined by market forces. The Federal Reserve can influence the levels of market rates, although there are definite limits to its power to maintain any fixed level of rates, as is shown by history.

I do not point this out to shift any responsibility from the Treasury. On the contrary, we approve wholeheartedly the course which the Federal Reserve has followed, and have admiration for the courage and decisiveness with which the Board has acted.

(*a*) *Through 1952*

As you will recall, throughout the decade prior to 1951, the Federal Reserve followed a policy of supporting the market for United States Government securities at or above par. This was done to enable the Government to sell, at a low interest cost, the great volume of securities which was necessary to finance World War II.

It accomplished that purpose, but it created cruel inflationary conditions which required the sale of more bonds and increased debt to pay the resulting higher costs of the war.

In artificially holding interest rates at low levels, the Federal Reserve made credit cheap, not only for the Government, but for all borrowers. By maintaining a market which enabled the banks to liquidate their Government bonds at any time at par or better, it encouraged a continuance of the war-born expansion of excessive bank credit.

This cheap and plentiful credit was an important cause of the wartime inflation which, despite wartime restrictions of direct controls and rationing, robbed the dollar of 23 cents of its purchasing power between 1939 and 1945.

Then follows a table, Mr. Chairman, which recites the same figures that you recited a few minutes ago, which shows that the dollar was at 100 cents in 1939, and was 77 cents in 1945.

The CHAIRMAN. Without objection, that will be inserted in the record.

(The table referred to is as follows:)

Calendar year average	Consumer Price Index (1947-49=100)	Purchasing power of dollar (1939=100)
1939	59.4	100.0
1940	59.9	99.2
1941	62.9	94.4
1942	69.7	85.2
1943	74.0	80.3
1944	75.2	79.0
1945	76.9	77.2

Secretary HUMPHREY. At the end of World War II there was an acute shortage of goods. There was, however, a pent-up demand, a demand made effective by both a large amount of liquid assets accumulated during the war and a rapid increase in private credit.

The war-born policy of the Federal Reserve, mistakenly continued into peacetime under Treasury insistence, enabled the supply of credit to rise too rapidly, with the result that this credit-backed demand for goods exceeded the supply of goods.

While interest rates were held at artificially low levels, prices continued their serious rise, at an average annual rate of over 7 percent from 1945 to 1951, and in those 6 years the dollar lost another 23½ cents of its purchasing power.

Then follows, Mr. Chairman, another table, following out the rest of the table you showed, that period after the war.

The CHAIRMAN. Without objection, that will be inserted.

(The table referred to is as follows:)

Calendar year average	Consumer Price Index (1947-49=100)	Purchasing power of dollar (1939=100)
1945	76.9	77.2
1946	83.4	71.2
1947	95.5	62.2
1948	102.8	57.8
1949	101.8	58.3
1950	102.8	57.8
1951	111.0	53.5

Secretary HUMPHREY. The dollar at 77 cents in 1945 depreciated to only 53.5 cents in 1951.

It was becoming clear to increasing numbers of observers that the unwise credit stimulus provided by the Federal Reserve should be withdrawn. Such a withdrawal could be achieved only by paying the lesser penalty of an increase in the interest rates to be paid.

It was clear that if the Federal Reserve ceased purchasing Government securities at par, natural market forces, reflecting increasing demand for credit, would result in the higher interest rates which the Federal Reserve purchase policy had so far postponed.

During this postwar period the Federal Reserve made several modest moves toward freer short-term markets but was held back by the Treasury. After a most thorough review of the relative advantages and disadvantages of such a change, the Subcommittee on Monetary, Credit and Fiscal Policies, known as the Douglas subcommittee, concluded in 1950 that, and I quote from the Douglas committee report:

> As a long-run matter, we favor interest rates as low as they can be without inducing inflation, for low interest rates stimulate capital investment. But we believe that the advantages of avoiding inflation are so great and that a restrictive monetary policy can contribute so much to this end that the freedom of the Federal Reserve to restrict credit and raise interest rates for general stabilization purposes should be restored even if the cost should prove to be a significant increase in service charges on the Federal debt and a greater inconvenience to the Treasury in its sale of securities for new financing and refunding purposes.

Partly as a result of that review and report, the administration then in office and the Federal Reserve, by an agreement referred to as the "accord," changed the prior policy, and the Federal Reserve began to withdraw its support of the market for Government bonds in March of 1951.

While this was a step in the right direction, it was not a complete step. On a number of occasions during 1951 and 1952, the Treasury still relied on Federal Reserve purchases to keep new issues from sinking in the market.

Let me pause in this chronology to remind you of the facts about that change in policy.

It was put into effect by an independent agency, the Federal Reserve.

It was urged by many of the best informed Members of Congress.

It occurred during the preceding administration—21 months before this administration took office.

This new policy of the Federal Reserve was not so much anti-inflationary as it was a tempering of what formerly had been positively inflationary action. The Federal Reserve began to reduce the amount of credit it had been artificially creating. It freed natural market forces.

As an incidental result of the reduction in the volume of artificial credit generated by the Federal Reserve, the supply of credit grew somewhat more slowly than the demand for credit. As a consequence, interest rates began to rise, and the market prices of bonds went down.

Though the full force of this change in the Federal Reserve policy was not immediately effective, almost a quarter of the increase in the computed interest rate on the public debt—from 2.22 percent at the time of the Federal Reserve-Treasury accord in 1951, to 2.75 percent in May 1957—almost a quarter of that occurred in the 21 months prior to the time this administration took office.

As a result, banks and insurance companies, which had such large blocks of Government securities, were more hesitant to sell them at a 3- or 4-point loss in order to make a loan. This caused them to make fewer loans than they would have made had the earlier policy been continued.

Although by the accord of March 1951, the administration then in office had reluctantly agreed to the right of the Federal Reserve to take such monetary action, that administration itself continued to rely on direct controls on wages, prices, and rents.

In addition, after the short-lived budget surplus of 1951, increasing Government spending, and renewed deficits in 1952, largely as a result of the Korean conflict, encouraged a further depreciation in the dollar to 52.3 cents.

And then follows a table.

(The table referred to is as follows:)

Calendar year average	Consumer Price Index (1947–49=100)	Purchasing power of dollar (1939=100)
1951	111.0	53.5
1952	113.5	52.3

Secretary HUMPHREY. Inflation had been appreciably slowed, but if inflation was to be effectively checked, the Federal Reserve's new policy had to be supported more vigorously and supplemented with parallel fiscal policies.

(*b*) *Since 1952*

In 1952, General Eisenhower campaigned for the Presidency in part on the ground that further inflation must be prevented, and advocated, and I quote:

> A Federal Reserve System exercising its functions in the money and credit system without pressure for political purposes from the Treasury or the White House.

i. We have conducted our affairs so as not to interfere with the Federal Reserve's monetary policies.

We have lived up to that promise that the President made. To do so, however, has subjected the Treasury to certain burdens, just as it has other borrowers. Not to do so would have created much more serious burdens for all of us.

Although new financing was less expensive and easier in 1954, it has again become more costly. With a very high percentage of bank and insurance company assets now in loans, these institutions are not clamoring for long-term—or even intermediate-term—Government securities.

We must, therefore, at present, sell mostly shorter-term securities, which are attractive because of their high liquidity. I do not say this to complain, but to acknowledge an obvious fact.

We will meet these difficulties and solve them as we have in the past, continuing our flexible policy, postponing debt extension when we must, achieving it whenever we can.

There is a strong demand for short maturities. Our bill auctions each week are always well oversubscribed. The Treasury faces no crisis. Our securities are the most highly regarded in the world.

But in a free market, we must compete for funds. That means the factors of supply and demand determine the rates we must pay. Rates may decline or they may go higher. I would be disappointed to see them go higher, but if that is the price we must pay to prevent growth of excessive credit and consequent inflation, it will well justify the price.

This administration, in addition to supporting the Federal Reserve's independence, has utilized its debt management and fiscal functions to help check inflation.

ii. Planned deficits have been eliminated.

Federal deficits necessitate increased Federal borrowing. More Federal borrowing, to the extent it comes from the banks, means the creation of additional bank credit. This tends to create more spendable dollars than there are goods to buy.

As your chairman, Senator Byrd, so clearly pointed out in his remarks to the Senate on August 13, 1954:

> Deficit spending is perhaps the greatest single factor in the cheapening of the value of the money.

In ending deficits, we have eliminated this very inflationary pressure.

iii. The debt is being reduced.

We reduced the public debt in fiscal 1956 as a result of our budget surplus of $1.6 billion. Another budget surplus is being applied to the debt this year, and we expect to do it again in 1958. Reduction of the public debt is one of the best ways to fight inflation.

iv. Government expenditures have been reduced.

Government expenditures are inflationary, particularly when the economy is at a high level of output and employment. Taxes divert to Government spending some funds which, in the hands of the taxpayer, would have gone into savings.

Furthermore, some Government expenditures go into payrolls to produce goods and services—especially military equipment and military services—which neither contribute to the Nation's capital account nor become available for private consumption.

Yet this additional purchasing power competes for the existing supply of both goods and services.

By reducing Government expenditures, we have released more workers and materials directly to private industry where they could add further to the supply of goods and services needed to meet our heavy demands for plant and equipment, and greatly increase the supply of homes, cars, television sets, and other consumer products necessary for our rising standard of living. Reduced Government expenditures have been an anti-inflationary influence.

v. We have reduced the floating debt.

The amount of marketable public debt maturing within a year, plus demand obligations (other than E and H savings bonds) in the hands of the public—securities which in many ways are close to cash—has been reduced by $25 billion from the high point in 1953.

vi. We have also shifted some of the debt away from the banks.

Since increases in bank loans represent additional spendable money, they tend to be more inflationary than loans that grow out of a transfer of existing savings. As a consequence, one of the Treasury's long-range debt management objectives has been to reduce bank holdings of Government securities to a reasonable minimum.

To this end we have, in the past 4 years, reduced the amount of Government securities held by the banks by $4 billion. This has been achieved in part by paying off some securities and in part by designing the terms of new issues—such as tax anticipation bills and certificates—to be particularly attractive to nonbank investors.

vii. We have stimulated increased savings.

Greater confidence in the future, higher rates of interest, and increasing confidence in the stability of the dollar, have all encouraged our people to save more, both in dollars and in relation to disposable income.

As one means of encouraging savings and combating inflation, we have emphasized the continued sale of series E and H savings bonds. The amount of these small-saver bonds outstanding has increased from $35.3 billion to $41.4 billion during the past 4 years.

Moving thus on all of these fronts, by ending deficits, by reducing the debt, by reducing expenditures, by keeping down the bank-held debt, by reducing the floating debt, and by selling more E and H savings bonds, as well as by working closely with the Federal Reserve, we have accomplished a tempering of inflationary pressures during these years, with a decline in the purchasing power of the dollar of only eight-tenths of a cent in 4 years.

And then follows a table which shows that up to the end of the year 1956, the dollar went down from 51.9 to 51.1.

The CHAIRMAN. Without objection, it will be inserted.

(The table referred to is as follows:)

Calendar year average	Consumers price index (1947-49=100)	Purchasing power of dollar (1939=100)
1953	114.4	51.9
1954	114.8	51.7
1955	114.5	51.9
1956	116.2	51.1

Secretary HUMPHREY. The past 4 years have been characterized by greater price stability than any other 4-year period since 1939. But inflation is not stopped. It is only slowed down.

Indeed, there has been a disturbing renewal of pressures in the last 12 months, during which the dollar has lost almost 2 cents in purchasing power.

And then follows a table which shows that in April of 1956, the dollar was 51.7, and in April of 1957, April just last past, was 49.8, down almost 2 cents.

The CHAIRMAN. The table will be inserted.
(The table referred to is as follows:)

Month	Consumers' price index (1947–49=100)	Purchasing power of dollar (1939=100)
1956—April	114.9	51.7
July	117.0	50.8
October	117.7	50.5
1957—January	118.2	50.3
February	118.7	50.0
March	118.9	50.0
April	119.3	49.8

Secretary HUMPHREY. This most recent decline in purchasing power is disturbing. It reinforces our conviction that we must continue the vigorous pursuit of our present policies. We should certainly not abandon them.

3. The necessity for flexibility

While over the past 4 years it has been necessary to follow generally anti-inflationary fiscal and monetary policies, we have had changes in the economy which have required us to moderate them on occasion, and we may encounter other circumstances which may require some relaxation at some times in the future.

We approve the philosophy expressed in the Douglas subcommittee report that—

> Timely flexibility toward easy credit at some times and credit restriction at other times is an essential characteristic of a monetary policy that will promote economic stability rather than instability.

Our administration had been in office only a few months when the coincidence of the full effect of the Federal Reserve's new policy, and the curtailment of defense spending, temporarily changed the problem.

We were, at that time, more concerned with preventing a decline in employment and production than with a rise in prices. Taxes were reduced, and the administration relaxed downpayment and maturity terms on FHA- and VA-guaranteed housing loans.

At the same time, Federal Reserve policy also eased, making funds more readily available. The decline was stopped and a sound economic expansion got underway with renewed public confidence in the courage of the administration and the flexibility of its policies.

By 1955, economic activity was again vigorous and the problem was one of inflationary pressures—which have continued—and easy bank credit expansion was no longer encouraged.

What are the available alternatives?

4. The available alternatives

In view of the breadth of the subject of your inquiry, it is appropriate that we consider what might have been some available alternatives to general monetary and credit policy.

Some of these alternatives are:

(*a*) Direct controls prohibiting or limiting certain types of credit.

(*b*) Compulsory saving.

(*c*) Physical controls on prices and wages—plus, perhaps, rationing and allocation of materials and labor.

(*d*) Higher taxes and large governmental surpluses to be applied on the bank-held debt.

(*e*) Greater individual savings and voluntary effort at restraint.

(*f*) A reversion to the pre-1951 policy of Federal Reserve purchase of Government securities at or above par—and consequent encouragement of severe inflation.

The use of any of the first three alternatives in peacetime would have been inequitable, impractical, and inconsistent with our traditions of freedom.

The fourth alternative would have required the imposition of additional taxes on top of our present heavy load, and would not have been acceptable.

The fifth, which the President emphasized in his state of the Union message just a few months ago—namely, voluntary efforts—can help immeasurably, but can be achieved only if other policies are effective.

Thus, as a practical matter, the real choice is between the anti-inflationary course which we have pursued, and a new round of inflation.

Those who, in a period such as this, urge an abandonment of our anti-inflationary policies, those who urge either deficit financing or a policy of artificially creating more spendable dollars are, whether unwittingly or by intention, inflationists.

No matter what their motives, their proposals for further credit expansion are proposals to further reduce the purchasing power of the dollar, to rob every housewife, every farmer, every pensioner, every wage earner, and every family with savings. Their arguments must be understood to urge just that.

There can be no doubt as to the wisdom of our choice in utilizing the tools of monetary and credit policy. As to the extent to which we used these tools, I can only say that I gain confidence from the fact that we are criticized with equal vigor by those who feel that credit has been restricted too severely, and those who feel it has not been restricted severely enough.

Despite some recent tendency for prices to rise again, the administration can take considerable pride in what has been achieved to date in respect to this, the President's fourth goal.

Now, the fifth goal was to work toward the earliest possible reduction of the tax burden.

The Eisenhower administration and the Congress, working together, have already made possible the greatest single tax cut in history.

In 1954, in order that the people might benefit from the substantial reduction in Government expenditures, we brought about a tax cut that has provided them with annual savings of about $7.5 billion.

As the President pointed out in his letter of April 18, 1957, to the Speaker of the House, this tax cut has already saved our people almost $25 billion in taxes.

More than 60 percent of that reduction went to individuals. Every taxpayer benefited.

That was a creditable accomplishment by the Congress and the administration. Tax receipts are now at an all-time high as a result of our current prosperity; but, even so, Federal taxes account for a slightly smaller proportion of our national income than they did in 1953.

We intend to go further at the earliest justifiable opportunity, for the tax burden is still far too heavy. However, the possibility of a reduction in taxes depends upon the degree of success of the administration and the Congress in keeping the budget position sound.

The sixth goal, to make constructive plans to encourage the initiative of our citizens.

A primary goal of this administration is a free and prosperous America. To encourage the initiative, energy, and savings of our people, which are the only means to prosperity, our most important steps were our anti-inflationary actions which have increased public confidence in the security and stability of our economy.

In addition, we have taken other helpful action:

1. We relieved the public of the burden of controls.

When this administration took office in 1953, the country was still handicapped with controls over prices and wages, and the use of certain materials. We promptly terminated these controls.

2. We have reduced Government activities which compete with private business.

During the past 4 years, some 500 Federal enterprises competing with business have been abolished. We have disposed of the Government-owned synthetic rubber producing facilities and the Government-owned tin smelter to private enterprise; and the Reconstruction Finance Corporation is now in the process of liquidation. Surplus real estate, worth $366 million, has been sold and turned back to local tax rolls.

3. We have created a more favorable climate for enterprise.

(*a*) We have moved vigorously to prevent monopolies.

The number of antitrust prosecutions has been materially increased and the number of convictions, guilty pleas, and consent decrees obtained in the past 4 years has been more than 40 percent higher than in the preceding 4 years.

The number of prosecutions under section 7 of the Clayton Act, as amended in 1950, has increased from only 1 in the 2 years, 1951 and 1952, to 29 during this administration.

(*b*) We have encouraged small business.

Upon the success of small business firms to prosper and grow depends much of our production and our survival as a free competitive society. This administration has sought in many ways to aid smaller firms and to relieve them of burdensome taxes and requirements.

In the past 4 years, small business has benefited materially from tax law changes—the expiration of the excess profits tax law, the reduction in personal income tax rates in 1954, and the extensive revision of the Internal Revenue Code. Even more important to the smaller firms is the general prosperity of the past 4 years.

To aid small firms which are unable to obtain adequate credit from normal sources, President Eisenhower signed the Small Business Administration Act on July 30, 1953. That act created the Small Business Administration, and authorized a revolving fund of $275 million to provide needed loans to small business concerns.

Subsequently, the administration supported increases in the SBA funds to $375 million in 1956, and to $455 million in 1957. The administration now has a bill pending to increase this to $600 million, and to make the SBA a permanent organization.

Each year the SBA has made a larger number of loans, with over $125 million made in the last 10 months, and currently is making loans to about 60 percent of the applicants whose files have been reviewed.

(*c*) We have encouraged trade with other countries.

This administration has effected measures which have aided the increase in our total foreign trade in 1956 by 22 percent (exports 25 percent) over 1952.

In addition, the Treasury, with the cooperation of your committee, has put into effect a number of customs simplification acts which have reduced the complexities attendant on the movement of goods into the United States. We have also provided greater certainty in our administration of the tariff laws.

(*d*) We have encouraged initiative and activity.

Throughout the past 4 years this administration has continuously attempted to encourage rather than discourage enterprise. As a result, our productivity and living standards have been rising steadily.

During the past 4 years, 500,000 new business corporations were formed in the United States. Of course, not all succeeded. A free economy is not a riskless economy. During that period, 44,000 enterprises—noncorporate as well as corporate—failed, but that is lower in relation to the number of new corporations formed than during the preceding 4 years—34,000 failures and 355,000 new incorporations.

(*e*) We have encouraged savings.

The importance of savings as the anti-inflationary source of financing is so great that I would like to make these points:

i. There are many people who benefit from higher interest just as there are many who find it an additional cost.

You and I hear complaints today about the increased cost of money. We know it is nowhere as important as the increased cost of labor, but we also know that higher labor cost is a 2-sided coin, it is a 2-way street. Someone pays more—but someone receives more.

Now, the same is true of interest.

Although many of us owe money in one form or another, it is equally true that many of us have savings in one form or another. As a result, we have a stake in protecting our principal against deterioration in the value of the dollar.

We have a further stake in a higher interest return on our money. We are owners of millions of share accounts in savings and loan associations, time deposits in banks, and mutual life-insurance policies.

Many of us belong to a pension system, and our benefit payments tend to increase as interest earnings rise.

Some critics allege that higher interest rates benefit only the bankers. That is nonsense. Earnings of insured commercial banks as a return on average capital accounts in 1956 were 7.82 percent.

This is lower than the average for the prior 3 years, or for the years 1948–52. Such bank earnings have averaged 8.29 percent for the past 4 years. This is less than the average of 8.62 percent for the entire 8 years of the prior administration.

Bank earnings for 1956, of 7.82 percent, are substantially less than the average earnings of all manufacturing companies which averaged 12.3 percent. In 1952, bank earnings of 8.1 percent compared with manufacturing earnings of 10.3 percent.

Bankers are brokers of money. When they receive more, they pay more. Our people have approximately 90 million savings accounts in banks and savings and loan associations. As you know, during the past few years most banks and savings and loan associations have increased the rates they pay to the saver.

The amount of return paid or accrued for savers in the savings and loan associations (members of the Federal Home Loan Bank System) increased from less than $500 million in 1952, to an estimated billion dollars in 1956, a little more than double.

The amount of interest so accrued for savers in mutual savings banks rose from $500 million to almost $800 million in 1956. Interest paid or accrued to depositors in commercial banks increased from about $450 million in 1952, to about $800 million in 1956.

In the past 4 years, interest rates on all these types of savings have been moving upward and, in a modest way, we have followed with our recent increase in the interest rates on newly purchased savings bonds.

ii. Increased interest stimulates savings.

The higher interest rates paid in the past few years have encouraged greater savings. During the 4 years of the Eisenhower administration, our people saved more, both in terms of dollars ($75 billion of personal savings compared to $56½ billion in the preceding 4 years), and in relation to disposable income, 7.1 percent as compared to 6.4 percent.

iii. Increased savings are a major means of assuring continued high employment and prosperity.

Increased capital investment—more tools, more factories, more equipment—is necessary to provide the jobs with the high wage levels which are paid in this country today. It is the principal means by which we can raise our living standards.

To the extent such increases in capital investment are provided by excessive bank credit expansion, they are inflationary. To the extent they are financed out of savings, they are not.

With the great increase in capital investment in tools, it is essential to encourage savings in order that as little of this investment as possible be financed in such a way as to stimulate another round of inflation.

In the past 4 years, we have moved to an unparalleled prosperity. More people are living better than ever before. It is this prosperity, in turn, which creates heavy demands for money and requires some anti-inflationary restraint.

We have made great progress toward the sixth goal established by the President—to make constructive plans to encourage the initiative of our citizens.

Current monetary and fiscal policies have been beneficial to the economy.

This administration has successfully encouraged saving, enterprise, and production. This is a demonstrable and desirable accomplishment. With such means as it has had at its disposal, the administration has attempted to arrest inflation and has been largely successful.

I note, however, that there have been some complaints that the monetary and fiscal policies have been too severe and have affected certain segments of the economy unfairly.

A. Has the administration's anti-inflationary program been injurious?

Let me review again what the administration has done to fight inflation.

We have reduced the Government debt.

We have reduced Government expenditures.

We have balanced the budget.

We have reduced the floating debt.

We have moved some of the debt out of the hands of the banks and put more of it into the hands of individual citizens.

The reduction in Government expenditures has perhaps injured those corporations which might have received orders had the Government spent more money. The entire course of action, having been anti-inflationary, may have injured those few who might have benefited, at the expense of the rest of our citizens, from runaway inflation.

But, except for these few, the good of the overwhelming majority of our people was best served by the course we have followed.

We have also endorsed the independence of the Federal Reserve and conducted our affairs in such a way as to avoid interference with its anti-inflationary monetary policy.

B. Has the Federal Reserve's anti-inflationary program been injurious?

1. By restricting the growth of credit?

The Federal Reserve's program is one of allowing the natural market forces to operate, while adjusting credit availability to meet the needs of normal seasonal activities and sustainable economic growth.

The Federal Reserve has ceased its earlier policy of creating additional bank credit, except to the extent needed to meet the basic requirements of a healthy economy.

(a) The Federal Reserve has not reduced the volume of available credit

Some current discussions of Federal Reserve policy proceed on the mistaken assumption that the Federal Reserve has reduced the amount of credit below an amount previosly available.

Nothing could be further from the truth. Credit—the aggregate of new savings and new bank credit—has expanded substantially in the past 4 years, and at a rate fully equal to the need, to sustain a very high use of both services and materials.

There is more credit outstanding today than ever before—$146½ billion more than in 1952.

I am going to read that again: There is more credit outstanding today than ever before—$146½ billion more than in 1952.

Then follows a table, Mr. Chairman, which outlines where that extension of credit has taken place, and I would just refer to the last column to illustrate.

The CHAIRMAN. Without objection, it will be inserted.

(The table referred to is as follows:)

Uses and sources of credit

[In billions of dollars]

	Amount outstanding		
	Dec. 31, 1952	Dec. 31, 1956	Change
Uses of credit:			
Individual:			
Mortgage	72.4	121.5	+49.1
Consumer	27.4	41.9	+14.5
Other	25.7	34.1	+8.4
Total	125.5	197.5	+72.0
Corporate	202.9	249.3	+46.4
State and local government	31.2	50.0	+18.8
Total (other than Federal)	359.6	496.8	+137.2
Federal Government	267.4	276.7	+9.3
Total	627.0	773.5	+146.5

Secretary HUMPHREY. Mortgage credit has gone up $49 billion, consumer credit $14 billion. This is over a period of 4 years we are now talking about, over the period of 1952 to 1956, through December of 1956. Mortgage credit has gone up $49 billion; consumer credit $14 billion; and "Other," $8½ billion, or a total of $72 billion.

Corporate has gone up $46.4 billion; State and local governments nearly $19 billion, for a total of $137 billion.

Now then, the Federal Government has gone up during that same period $9.3 billion, making a total, if you add it all up, of $146.5 billion which occurred during the 4-year period.

As important as the fact of the increase in credit, is the source of this increase.

Now, the sources of the increase, Mr. Chairman, again a table, of which I will read only the last figures:

Nonbank credit over the 4 years which came about through savings during that period, nearly $136 billion; bank credit, less than $11 billion—for a total of $146.5 billion.

The CHAIRMAN. The table will be placed in the record.

Secretary HUMPHREY. What is that?

The CHAIRMAN. I say we will put the complete table in the record.

Secretary HUMPHREY. All right.

(The table referred to is as follows:)

Uses and sources of credit

[In billions of dollars]

	Amount outstanding		
	Dec. 31, 1952	Dec. 31, 1956	Change
Sources of credit:			
Nonbank credit (savings)	507.0	642.8	+135.8
Bank credit (money supply)	120.0	130.7	+10.7
Total	627.0	773.5	+146.5

Secretary HUMPHREY. In 1956 alone, total debt—other than Federal Government—increased $37.5 billion. Of this increase, $17.5 billion was individual debt, $15.5 billion corporate, and $4.5 billion State and local government debt.

The increase in total credit in the past 4 years has been greater than in either of the 2 preceding 4-year periods. But a most important fact to note is that 93 percent of this increase has come from savings and only 7 percent from an expansion in the money supply.

Then follows another table, Mr. Chairman, which shows where this has come from, and it shows that $136 billion came from nonbank credit; and about, a little less than, $11 billion from extension of bank credit, for the total of $146 billion of extended credit, increased credit.

(The table referred to is as follows:)

Uses and sources of credit

	Increases in 4-year period		
	December 1944-48	December 1948-52	December 1952-56
	In billions of dollars		
Uses of credit:			
Individual:			
Mortgage	19.4	32.0	49.1
Consumer	9.3	13.0	14.5
Other	3.7	7.4	8.4
Total	32.4	52.4	72.0
Corporate	29.6	63.2	46.4
State and local government	2.7	11.5	18.8
Total (other than Federal)	64.7	127.1	137.2
Federal Government	20.8	14.5	9.3
Total	85.5	141.6	146.5
Sources of credit:			
Nonbank credit (savings)	64.3	124.2	135.8
Bank credit (money supply)	21.2	17.4	10.7
Total	85.5	141.6	146.5
	Percent		
Percent of increase accounted for by:			
New savings	75	88	93
Expansion in money supply	25	12	7
Total	100	100	100

Secretary HUMPHREY. Of the $146.5 billion increase, $135.8 billion has come from existing funds of nonbank investors—which amount may be called "savings"—and only $10.7 billion from bank credit expansion, or increased money supply—new and additional spendable dollars.

The total increase has been adequate for our most healthy economic expansion in many years. The growth in the money supply, at the rate of only 2 percent per year, has prevented any objectionable bank credit inflation.

The secret of success in providing adequate funds for proper expansion without inflation is to encourage savings as the principal source. That we have done.

The foregoing table points out three most important facts:

(i) Total loans have increased substantially in the past 4 years—indeed more than in either of the 2 preceding 4-year periods.

(ii) This increase has been primarily in private credit—credit to buy homes, cars, consumer goods—rather than tanks or guns.

(iii) This increase has come much more from savings and less from bank credit expansion than in prior years—hence it has been much less inflationary.

The Federal Reserve policy of not encouraging more rapid bank credit expansion has been based on the premise that further expansion of bank credit would merely have enabled more would-be buyers to bid up the price of the limited supply of goods and services.

This policy has been necessary and in the best interests of the great majority of our people. But despite the substantial credit expansion that has taken place, since there has been less new credit created than the demand therefor, there has been some disappointment, and in some cases, real hardship.

It is said that the unavailability of unlimited credit has been particularly burdensome on the housing industry, on small business, and on State and municipal projects. As these areas are very important to all of us, perhaps we should briefly review them.

Let's look at housing.

It is charged that we have impeded the flow of credit to housing. During the past 25 years, far from restricting credit to housing, the Government has greatly increased the volume of credit available to this industry—over what it would be in a normal free market—by stepping in and guaranteeing the payment of millions of homeowners' mortgages.

This has helped to provide many Americans with homes which they otherwise could not afford. On the whole, this has been a good program, but we must recognize that it has introduced certain artificialities into the free market for the purpose of diverting credit from other uses into home mortgages—credit that wouldn't be available to housing without these Government guaranties.

That was true under the prior administration; it is true under this administration.

Has this administration restricted the terms on new housing loans? We have not—we have relaxed them. We have lowered the minimum downpayment on FHA loans, and we have permitted 30-year loans in place of the former 25-year maximum. We have materially liberalized FHA mortgage terms on existing homes.

In addition, FNMA special-assistance programs have been innovated since 1952 to provide mortgage support for relocation, redevelopment, and rehabilitation housing under sections 220 and 221 of the National Housing Act, for housing for the elderly, and for Capehart military housing.

Also, the voluntary home mortgage credit program, started in 1954, has helped obtain home financing for veterans and others in small and remote communities, and for minority group members.

Has the administration restricted the availability of mortgage funds by curtailing the FNMA secondary market operations? Again, let's look at the record.

Purchases of mortgages by FNMA in the secondary mortgage market, during the last 12 months, have totaled nearly a billion dollars, an amount surpassed only in the calendar year 1950.

Furthermore, in 1950, all of those funds were provided by the Treasury; under the sounder participating program as Congress has now revised it, the funds largely come from private sources.

According to preliminary figures, in May of this year there were 96,000 private nonfarm housing starts. This is a second consecutive monthly increase on a seasonally adjusted basis, and brings the annual rate of new housing starts in May up to 990,000.

While this is somewhat below the annual rate of 1,146,000 starts in May a year ago, and even further below the 1,398,000 rate in May 1955, it is still a substantial volume of housing.

There are undoubtedly many contributing causes to this decline. For the past few years, home construction has been running ahead of new family formation, with a consequent reduction in the backlog of young families needing a home.

Building costs have risen substantially in the past 10 years. The price of land has also risen, as have State and local taxes, which are an element of cost. As the aggregate of these costs result in substantial increases in the price of a home, the number of potential purchasers is reduced.

This cost increase has been accentuated by the host of new labor-saving appliances and luxury equipment which our people feel are now necessary in a home. There has been actual overbuilding in some localities and a diminishing supply of desirable building sites in others.

All of these factors have had an adverse effect on new home construction, but the unavailability of unlimited mortgage credit is also a major factor, and it falls most heavily on those who heretofore have been able to obtain mortgage credit only through Government assistance.

The number of new homes financed through conventional mortgages (based entirely on the credit of the borrower and the amount of his equity) has not declined. Indeed the number of such housing starts so financed in the first 5 months of this year (269,400) was slightly higher than the number so financed in the first 5 months of last year.

It is the Government-guaranteed mortgages which are finding the less receptive market. The number so financed in the first 5 months of this year (114,200) was 42 percent less than the number financed in the first 5 months last year. This decline is due to the lower interest rate which such guaranteed loans bear.

The increase in the maximum rate on FHA loans from 4½ percent to 5 percent has given such financing renewed strength, but the lack of congressional authorization of an increase in the rate on VA-guaranteed mortgages has made it increasingly difficult for a veteran to obtain such a loan.

The significance of rate limitations is indicated by the most recent figures. Housing starts financed by conventional mortgages increased from 63,900 in April to 69,000 in May—which compares with 64,500 in May 1956.

Housing starts under the FHA program increased from 12,100 in April, to 15,000 in May—as compared with 19,700 in May 1956.

Housing starts under VA inspection declined from 13,500 in April, to 12,000 in May—compared with 26,600 in May 1956.

Thus it appears that there is only a relatively limited supply of mortgage credit available for the small downpayment, extended terms, and 4½ percent interest rate on VA guaranteed loans.

There is a substantial volume of mortgage money available for FHA insured mortgages at the 5 percent rate, although there is some insistence on higher downpayments than the minimum permitted under FHA terms. There appears to be sufficient mortgage credit available to finance those borrowers who can make an adequate downpayment and pay the going rate of interest.

This is the result of a free money market. It undoubtedly has caused many young families to postpone the purchase of a new home. Their disappointment, and that of the builder, is understandable.

Yet how much better off would they have been if a more than adequate supply of credit had brought about increased prices, not only of their home but of all of the other articles which they desire?

Lets look at small business.

I am sure that there have been some small business firms which have been unable to obtain all of the credit that they would have liked at the rates they would like to pay. I believe this has been true in every year through history, and it has been true for each of the past 4 years, but this does not mean that there has been any reduction in the dollars of credit extended small business in the past 4 years. Quite the contrary. Both the number and amount of loans made to small business have been increasing substantially.

In this connection, we must remember that the great majority of our banks are themselves quite small, and the size of the loans they can make is limited by law. Of the 13,101 insured commercial banks in the United States, 10,853 have deposits of less than $10 million each and, in general, cannot make loans above $100,000.

That is almost 11,000, out of the 13,000, that are small banks.

Total loans of banks in this category increased by almost $2.1 billion during the past 4 years, an increase of 19 percent. Virtually all of their loans are to farmers, homeowners, consumers, and small business firms.

Another 1,802 banks generally can make loans up to $500,000, but most of their loans would actually be in amounts of less than $100,000. Total loans of banks in this category increased by $4.4 billion during the past 4 years, an increase of 44 percent.

The remaining 446 banks do indeed represent almost two-thirds of the Nation's deposits, and are of great importance to the economy. They are the primary source of bank credit to larger business firms, but even they make many loans to small business.

A survey made of a representative group of 78 such large banks indicated that in the year from September 1, 1955, to August 31, 1956, their small business loans—for amounts of under $100,000—had increased by $228 million, or 14 percent; and that the number of such loans had increased by 5 percent.

Within this group there was more of an increase, both in numbers and dollar amount, in the loans under $50,000 than in those between $50,000 and $100,000.

While it is true that total business loans of banks increased somewhat more rapidly than those loans for amounts under $100,000, this is a pattern which would be expected in such a period of rapid economic expansion, for the cyclical heavy goods industries naturally tend to require a larger volume of credit in such a period.

At all times the established, successful firm is more able to obtain necessary credit than is the new, unproven or unsuccessful company, and this is particularly true of a period of credit stringency. Not all firms have obtained all of the credit they have wanted. Yet, in the aggregate, they have obtained more than ever before.

In addition to the increased amount of bank credit received by small business during the past 4 years, there has also been a sizable volume of book credit extended by larger firms to smaller firms—distributors, merchants, and suppliers.

I do not mean to minimize the disappointment, inconvenience, and in many cases real hardship, that some businesses have experienced because of their inability to obtain as much credit as they would have liked.

Indeed, this is a matter of deep interest to the administration which, as you know, has supported the creation of the Small Business Administration, the enactment of improved tax laws, and the granting of exemptions from certain Securities and Exchange Commission regulations.

In addition, we have made vigorous efforts to see that more defense work is subcontracted to smaller firms.

I understand that you intend to invite Mr. Mueller, Assistant Secretary of Commerce, to testify before you, and I believe he will discuss the matter of small business financing at somewhat greater length. I do, however, want to make the point that there has been a large volume of credit available to, and used by, small business in the past 4 years.

Let's look at States and municipalities.

In the past 4 years, a quarter of a million new schoolrooms have been built for our youngsters. Total public construction in 1956 was 23 percent above 1952 levels, and educational construction was up 56 percent.

During 1956 alone, new borrowing by States and municipalities totaled $5.4 billion; and during the last 9 months for which figures are now available, more elementary and secondary school bonds were sold than in any 9-month period in our history.

State and municipal financing has increased by $18.8 billion in the past 4 years. This is more than it has ever increased in any other 4-year period, and compares with only $11.5 billion during the period 1948–52.

These figures do not demonstrate any extraordinary burden on State and municipal financing from lack of available credit. Undoubtedly, local governments have been unable to obtain all of the funds they would have wished, but they have built more and they have financed more than in any other 4-year period.

The Federal Reserve's monetary policy for the past 4 years has been, and is, one of discouraging the growth of credit at quite as rapid a rate as would-be borrowers desire. As a consequence, some individuals, some home purchasers, some small businesses, and some municipalities, and other categories of our citizens, have felt some pinch as a result of limited credit. But—in the past 4 years, small loans to business have increased substantially.

In the past 4 years, $57.5 billion has been spent for housing—as much as had been spent in the preceding 6 years.

In the past 4 years, $16.7 billion has been spent for new highway construction—more than had been spent in the preceding 11 years.

In the past 4 years, $8.8 billion has been spent for school construction—more than had been spent in the preceding 20 years.

This is not the record of extreme credit stringency. Any freer credit would have further inflated prices.

Let's look at the rise in interest rates.

The Federal Reserve's abandonment of its pegging of prices in the bond market has prevented an unlimited growth in credit. It was intended to, and did, slow the rate of growth of bank credit.

It also has resulted in some increase in interest rates. It is alleged by some that this increase in interest rates has brought about a severe increase in the burden of taxes and in the prices we pay for manufactured goods, or utility services; that it has materially increased farmers' costs, or the price of a home.

Now, are these charges true?

Higher interest—although the result of a lesser supply of credit than the demand therefor, a condition which prevents far greater inflationary increases in other costs—is itself an element of general costs and in some cases may be reflected in higher prices.

However, interest payments are such a small fraction of the total cost of business operations, that a rise in the rate does not represent much of an increase in total cost.

What is the interest burden on the taxpayer?

Total budget expenditures for fiscal 1957 are estimated at $68.9 billion. Of this, $7.2 billion, or 10.4 percent, represents interest expenditures. The per capita cost of all expenditures of the Federal Government for this fiscal year is $406; for interest alone, the per capita cost is $42.40.

In 1952, interest on the public debt was $37.57 per capita. Thus the increase in interest on the public debt during the past 4 years amounts to less than $5 per person.

Now, what is the effect on the price of manufactured goods?

In 1946, gross sales of all manufacturers amounted to $132 billion. Manufacturers had net interest expense in that year of about $154 million, equal to one-eighth of 1 percent of total sales.

In 1952, interest expense had increased to about one-fourth of 1 percent; and on the basis of limited information now available, it appears that the 1956 ratio will be about one-third of 1 percent. Thus, interest costs are only one-third of 1 percent of the average sales price of manufactured goods.

Of the cost of an article selling for $100, about 33 cents represents interest, with no more than 10 cents of that representing an increase since 1952.

Furthermore, the increase in this minor item of interest costs reflects an increase in the amount of debt as well as an increase in interest rates.

The relative unimportance of interest as a part of total costs is reflected in the fact that during the same 10-year period, prices of goods that consumers buy rose 27½ percent, or $27.50 on a $100 item (due to labor and other costs), compared to the 20-cent increase due to higher interest.

In other words, $27.50 for other items as compared to 20 cents for interest.

The far greater significance of the increase in labor and other costs is reflected quite clearly in the price of consumers' services which have risen 43½ percent during the same 10 years.

It is apparent from these figures that even with increased interest rates and increased indebtedness, the burden of interest costs on manufacturers in reference to their total costs is very slight. The effect of higher interest on the sales price of goods is hardly significant.

This is even more apparent when we compare the increased costs of the last year. Prices of goods bought by consumers (which reflect material, labor, interest, and profit) have risen 1.3 percent. The price of consumers' services (which reflect primarily labor costs) has gone up 2.3 percent.

How does it affect public utility rates?

It has been suggested that higher interest rates lead to substantial increases in public utility rates. This sounds plausible because public utilities rely heavily on bonded indebtedness.

However, the latest figures available indicate that the net interest expense of public utilities is still less than 4 percent of gross revenue—the same proportion as in 1952. Even for electric utilities, where average interest cost on long-term debt now exceeds 5 percent of gross revenue, the relative cost of interest has risen very slowly.

The estimated average of 5.2 percent for both 1955 and 1956 compares with 4.8 percent in 1952 and 5.0 percent for 1946. In other words, 5.2 in the last 2 years; 5.0 percent in 1946.

Now, farmers' costs:

Difficult as the farmer's position has been, it is not the result of interest rates. The Department of Agriculture estimates that only about 5 percent of farmers' costs are for interest.

Interest rates on farm loans outstanding in insured commercial banks on June 30, 1956, averaged 6.1 percent. This was four-tenths of a percentage point higher than the average rate reported in a similar survey made in 1947; less than one-half of 1 percent difference since 1947.

Thus, this four-tenths of 1 percent increase in rate would be less than one-half of 1 percent of his total costs, or 5 cents on a sale of $10 worth of farm products.

Now, the cost of a home.

The effect of higher interest rates in relation to the decline in private nonfarm housing starts from 465,000 units in the first 5 months of last year to 384,000 for the same period this year, has been grossly exaggerated.

Housing is perhaps the most dramatic example of the effect of rising costs. Hourly wage rates in building construction have risen 21 percent in the past 4 years. In the manufacture of some products, the increased cost due to hourly labor rates has been offset by greater efficiency. Through use of additional capital goods—tools—the productivity per man-hour has been increased enough so that the total cost has been kept fairly stable. This is true of most of our home appliances.

However, in those fields in which mechanization is not practicable or in which restrictive practices or legal requirements have prohibited maximum efficiency, the cost of the finished product has risen in close relation to the increase in hourly labor rates. There is no better example of this than housing.

Many home purchasers consider only the size of the required monthly payment—not the number thereof or the elements that make it up. To them, interest is of no significance. To the more sophisticated purchaser who inquires as to the component elements in his mortgage payments, increased interest rates are small in relation to increased labor and material costs.

This is apparent if we compare the cost and financing charges of the same house in the spring of 1946, the spring of 1953, and the spring of 1957. Let us take as an example a house that cost $10,000 to build in the spring of 1946, and compute the required monthly payments on the basis of 15 percent down and the balance over a period of 20 years.

Then, Mr. Chairman, there follows a table, and I will not read that table.

The CHAIRMAN. That will be inserted.

(The table referred to is as follows:)

	Spring of—		
	1946	1953	1957
Estimated cost of house	$10,000	$17,300	$19,000
Interest rate (FHA) ....percent	4	4¼	5
Monthly payment (for 20 years)	$51.51	$91.08	$106.58
Increase in cost of house since 1946		$7,300	$9,000
Increase in monthly payment since 1946:			
Due to interest rate			$8.71
Due to other costs			$46.36

NOTE.—Housing costs are based on data compiled by Roy Wenzlick & Co.

Secretary HUMPHREY. This shows that the $10,000 house in the spring of 1946 cost $19,000 in the spring of 1957; and of the amount of increase in monthly payments, $55.07, $46.36 was due to other costs and $8.71 was for interest.

The monthly payment has more than doubled in 11 years. Of this increase of $55.07, $46.36 reflects higher labor and material cost, and $8.71 is due to higher interest rates.

During the past 4 years in which our policies have resisted inflation, the sales price of that house has gone up much less—about $400 per year as compared to about $1,000 per year from 1946 to 1953. And I want to repeat that the increase in the cost of that house, from $10,000 to $19,000, has gone up much less in the 4 years since we have had these restrictive practices than it did in the 4 years when we had the easy money.

In other words, it went up $400 in these years as against $1,000 in the easy-money years, and the interest went up only $8 a month.

Which has been the major factor in discouraging construction? The $9,000 increase in building cost ($46.36 per month), or the 1-percent increase in the cost of interest ($8.71 per month)?

While interest is an element in the cost of mortgaged homes, the increase in interest rates has not been the major factor in delaying home construction. Mortgage interest rates were higher in 1955 than in any prior recent year; yet new nonfarm housing starts were the second highest in history, at more than 1,300,000.

Almost 5 million new dwelling units have been built in the past 4 years. Less than 3½ million new households have been formed in that period, so that 1½ million units have gone to satisfy prior shortages and to cover houses abandoned or razed to make way for new construction. The proportion of married couples without their own household has declined 21 percent since 1952.

A strong desire continues to exist for better housing, but it is hindered from becoming an effective demand by today's inflated prices. To attempt to force an acceleration in home construction today by making more credit available for housing would add further to the already increased building costs.

This would not only be inflationary, it would encourage uneconomic practices and curtail the new construction that we might otherwise expect in years to come.

The foregoing review of the effects of this administration's fiscal policies indicates that the supply of credit has not been reduced. The supply of credit has merely been prevented from expanding as rapidly as the demand therefor.

This slowing of the rate of growth of credit has inconvenienced those who have found credit unavailable, and imposed a higher charge on those who have borrowed. These results are hardly welcomed for their own sake, but they are the price we have to pay for the price stability that we have achieved in the past 4 years.

This has been a far greater stability in prices and in the purchasing power of the dollar than we have enjoyed for two decades. Faced with this choice between the inconvenience of limited credit and the robbery of renewed inflation, our people would certainly choose the course which we have pursued for the past 4 years.

In conclusion, I have attempted to review for you the conditions existing when the Eisenhower administration took office, the goals that the President set for us, and our progress toward those goals.

We have not achieved perfection by a long way. We have been unable to fully accomplish some of our debt-management objectives. We have perhaps checked, but not entirely stopped, inflationary pressures.

In the process, some of our citizens, some of our municipalities, and some of our businesses have been unable to obtain all of the credit they would have liked.

We have had a large measure of success in encouraging the initiative of our citizens, but not every business has prospered as much as it might, nor every citizen had all of the comforts he would enjoy.

I acknowledge imperfections in our accomplishments, but I entertain no doubt as to the propriety of our goals or the wisdom of our policies. To aid you in your consideration of the alternative courses, and to help you measure their promises against the actual results of the past 4 years, let me remind you of some of our achievements.

When we took office in 1953, the Federal debt was equal to 89 percent of our national income—in December 1956, it was 79 percent, as compared with 89.

For the fiscal year 1953, budget expenditures were $74.3 billion; and, for the year 1957, they are estimated at $68.9 billion, and $71.8 billion for 1958.

For the fiscal year 1953, the budget resulted in a deficit of $9.4 billion—for 1957, it will result in a surplus.

From 1939 through 1952, the cost of living increased an average of 7 percent a year—for the past 4 years, the average increase has been only six-tenths of 1 percent.

In the past 4 years, civilian employment has risen 6 percent, average weekly earnings of production workers in manufacturing have risen 18 percent and, after allowance for the 2.4-percent increase in consumer prices which occurred between 1952 and 1956, the gain in workers' earnings, after taxes, amounted to about $10 per week, or more than 15 percent in real purchasing power gained during the period.

Personal income of individuals has risen every year, from $272 billion in 1952 to $325 billion in 1956, a gain of 20 percent, and an estimated $340 billion for 1957.

Labor income has not only risen in dollars; it has increased from 67.2 percent of national income in 1952 to 69.8 percent in 1956, while corporate profits declined from 12.7 percent of national income to 11.9 percent.

Striking achievements have been made in housing. The 5 million dwelling units that were constructed exceeded the number built in any previous 4-year period, and substantially enlarged the housing stock available to the American people.

There were improvements in the size, design, and equipment of new homes, and sizable outlays for repairs and alterations added to the comfort and convenience of existing homes. A growing proportion of our homes were owner occupied—60 percent in 1956, as compared with 55 percent in 1950.

This is a gratifying record of the improvement in the level of living that can be achieved only through a vigorous, competitive, free-market economic system which offers both individual freedom of choice and the stimulation of initiative through personal incentive.

In particular, it shows the capacity of such a system to bring about confidence and daring in enterprise and widespread participation in the benefits of economic expansion. This is in sharp contrast to the artificial restrictions, interferences, and controls of a paternalistic bureaucracy.

The past 4 years have demonstrated the ability of the Nation's private economy to expand, to provide an increasing number of better jobs at better pay, and to raise levels of living.

These 4 years have tested the capacity of our economy to adjust to large changes in the pattern of demand and the effectiveness of public policies designed to promote growth of individual freedom and stability in the economy.

Because the problems are continually changing in a dynamic economy, policies aimed at promoting stable growth must be flexible. This fact was well illustrated in the past 4 years of the Eisenhower administration. Our problems have shifted from those of a controlled, wartime economy to those of a rapidly widening prosperity. We have been able to encourage this prosperity.

Through the flexibility of monetary and fiscal policies, the Government has been able to adjust to the rapid changes in our economy. We have moved forward toward our goals and demonstrated the great capacity of a free economy to correct imbalance and to maintain growth with a high degree of stability.

We have accommodated the reduction in wartime Government spending, accompanied by recordbreaking tax reduction, and offset a threatened decline in employment and business activity in 1953–54.

We have encouraged an expansion of enterprise to new high levels, and, through expenditure and debt reductions as well as debt management, we have slowed the growth of inflationary credit.

We have encouraged a rapidly rising economy which has brought more wealth, more purchasing power, more comfort, more jobs, more homes, more luxuries, more leisure, more education, and more security to our people than they have ever enjoyed before.

Gentlemen, I take great pride in making this report.

The CHAIRMAN. Mr. Secretary, the committee thanks you very much for your statement.

The committee will recess until 10 o'clock tomorrow morning, when Mr. Humphrey will be available for questions by the committee.

(Whereupon, at 12:30 p. m., the committee recessed, to reconvene at 10 a. m., Wednesday, June 19, 1957.)

INVESTIGATION OF THE FINANCIAL CONDITION OF THE UNITED STATES

WEDNESDAY, JUNE 19, 1957

United States Senate,
Committee on Finance,
Washington, D. C.

The committee met, pursuant to recess, at 10:00 a. m., in room 312, Senate Office Building, Senator Harry Flood Byrd (chairman) presiding.

Present: Senators Byrd (chairman), Kerr, Frear, Long, Smathers, Gore, Martin, Williams, Flanders, Malone, Carlson, Bennett, and Jenner.

Also present: Elizabeth B. Springer, chief clerk; and Samuel D. McIlwain, special counsel.

The Chairman. The committee will come to order.

Mr. Secretary, I have a few questions that I would like to ask you.

Your statement of yesterday will be of great current and historical value, but I want to discuss certain of your statements which were not clear to me.

You said on page 34 of your prepared statement, that the administration had reduced the public debt. Treasury statements show on January 15, 1953, when the present Republican administration came in, the public debt was $266.7 billion; and on June 30, the end of that fiscal year, 1953, the debt was $265.5 billion. The debt is now $274.2 billion. That is a substantial increase of about 9 billions.

Would you please explain that?

STATEMENT OF HON. GEORGE M. HUMPHREY, SECRETARY OF THE TREASURY—Resumed

Secretary Humphrey. Well, Mr. Chairman, the difference comes about through the inherited obligations that we took over which had to be paid when we came in. I just deducted those inherited obligations as matters that were already contracted, bills that were a part of the debt.

The Chairman. What inherited obligations were they?

Secretary Humphrey. Well, as a matter of fact, there were about $80 billion of total outstanding, and there was a projected deficit of about 9 as I recall it, $9.9 billion, which was estimated for fiscal 1954, which grew mostly out of bills that we had to pay during the first part of the administration.

The Chairman. You know, Mr. Humphrey, that we run our affairs on a cash-in and cash-out basis. As of the end of the fiscal year we balance the books, making no allowance for the income that has accrued or for expenditures to be paid out.

If the system of bookkeeping you are suggesting is to be adopted, there should be another column for the income which, as of that date, had accrued to the Government but had not spent.

Secretary HUMPHREY. Well, that is right. And it would work that way, if we did it that way.

The CHAIRMAN. But followed to its completion it may not work in a way to show a reduction in the debt.

Secretary HUMPHREY. Well, I think it would.

You see, we have all sorts of complications in figuring it, because you have, and you had at that time, a considerably greater collection of income in the first half of the year than—you see, at that time, under the Mills plan, you had a large part of your income collected in the first 6 months. That would be an overaccrual for the year.

The CHAIRMAN. Why did you institute a new method of bookkeeping in your calculation of the debt? It is completely new to Government procedure.

Secretary HUMPHREY. We did not change the books. I was trying to show here, as nearly as I could, what had actually occurred.

The CHAIRMAN. You did not conform to the Treasury daily statement?

Secretary HUMPHREY. No.

The CHAIRMAN. The daily statement shows the true debt as of the date.

Secretary HUMPHREY. No. I think the figures you have given are the correct figures for the daily statements.

The daily statements; I will read them beginning with the end of 1951, 267.4; 1952, 275.2; 1953, 278.8; 1955, 208.8. And then down to 276.7 at the end of 1956.

And these figures in this statement are mostly made up for the end of the fiscal year 1956, and there was a reduction, you see, not from the beginning, but a reduction during the period. The debt was going down at the end of the period.

The CHAIRMAN. You have increased the Federal debt under terms used in recording it for years. In fact the debt has been increased by $9 billion since the Republican Party took over.

If you want to take obligations that have accrued, you should start with June 30, 1953, and make the comparison with the situation as of today. But from your prepared statement, one would think you were talking about the Federal debt in its officially recorded terms.

Secretary HUMPHREY. Well, we can do that, and I can have that figured for you.

But just on the face of it, you see, the debt is going down from the high even during our period. The high——

The CHAIRMAN. It is not going down——

Secretary HUMPHREY. The high during our period was 280.8, and it is now, at the end of the period under discussion here, it was 276.7, which is a reduction of about $4.1 billion in those particular figures on those particular days.

Actually, the only reduction in the debt that has taken place during our administration has got to be the surplus that we had last year, when we balanced the budget. We had $1.6 billion of surplus. Now, that was a definite reduction in the debt.

The CHAIRMAN. You said the high in your period was $280.8 billion. It may not have been intentional, but do you not think your statement on the debt might be misleading?

Secretary HUMPHREY. We reduced it last year $1.6 billion, there is no question about that.

The CHAIRMAN. This was your prepared statement of yesterday:

> Let me review again what the administration has done to fight inflation.

Secretary HUMPHREY. That is right.

The CHAIRMAN. Then you said:

> We have reduced the Government debt.

You were referring to the period of this administration; were you not?

Secretary HUMPHREY. Well, not necessarily. I think a trend in debt reduction is a very healthy anti-inflationary measure—and last year it was $1.6 billion just in a single year—and I think that is a very healthy move toward the reduction of inflationary pressures.

The CHAIRMAN. You are saying today that you did not mean you had reduced the Government debt——

Secretary HUMPHREY. Not over the whole——

The CHAIRMAN (continuing). Under its level as of the time you came in?

Secretary HUMPHREY. Not over the whole period.

The CHAIRMAN. Would not this statement, without this explanation, indicate to a person reading it—it certainly did to me——

Secretary HUMPHREY. Well, if it does, it should be corrected to say, which is beyond any question of doubt at all, in the past year. And I will be very glad to make that amendment to it if that will clear it up here.

The CHAIRMAN. The facts are clear. During this Republican administration the debt has increased $9 billion.

Inflation has not been reduced in the past year. In fact, it started again in the past year.

Secretary HUMPHREY. That is right, and that is why this trend——

The CHAIRMAN. You reduced the debt last year only, but it has had no effect, apparently, on the new inflation which has occurred.

Secretary HUMPHREY. That is why it was particularly useful to have it in the past year.

The CHAIRMAN. But you meant that you have reduced the Federal debt only in the past year, then?

Secretary HUMPHREY. A billion six in the past year.

The CHAIRMAN. And I respectfully suggest that we should not try here to change the Government's long-standing method of bookkeeping to take in the accrued liabilities and the accrued income. That would be a very complex operation.

We have been operating this Government, as you and I know on a cash-in and cash-out basis with a balance taken at the end of each fiscal year, and I would like the record clearly to show that your statement of yesterday does not mean that the public debt has been reduced during the period of this administration.

Secretary HUMPHREY. Not been reduced, you mean.

The CHAIRMAN. It has not been reduced.

Secretary HUMPHREY. That is right.

The CHAIRMAN. On the contrary, there has been an increase of $9 billion by the orthodox methods of showing the debt.

Secretary HUMPHREY. That is correct.

The CHAIRMAN. Is there any doubt about that?

Secretary HUMPHREY. That is correct.

The CHAIRMAN. Another question——

Secretary HUMPHREY. The only real reduction during that period, on the orthodox system, is $1.6 billion last year.

The CHAIRMAN. Another question; You said that the administration had reduced the Government expenditures. What did you mean by that? You certainly did not have reference to the last budget, did you?

Secretary HUMPHREY. Well, even the last budget is below the expenditure of the year we came in. The highest expenditure that we have had in the time that we have been here was the $74.3 billion which was spent in fiscal 1953, which was the finishing of the expenditures of the past Administration.

The next highest is the $71.8 billion which is the budget projected for next year.

The CHAIRMAN. When you came in——

Secretary HUMPHREY. But if you compare the spending in the first year that we were here, and the spending in the last full year, which is 1956, is down almost $8 billion.

The CHAIRMAN. Do you not think that some consideration should be given to the fact that when you came in, in January 1953, we were engaged in the Korean war, which did not end until June 1953, the end of that fiscal year?

Now, you are comparing a peacetime budget with a war budget.

Secretary HUMPHREY. Well, Mr. Chairman, I do not think it is fair to talk about a wartime budget and a peacetime budget in comparing the period of the Korean war and comparing the present.

The Korean war was characterized as a police action during all of the time that it was being carried forward. It was a bitter war for those who were engaged in it, but it was not a major war from the point of view of comparison with world wars.

We are carrying on and are obligated to carry on, and believe that it is necessary and desirable for the protection of this country to carry on, a security program and military programs today with items of military equipment which are so much more costly than they were even in the Korean war that there is no comparison, and I just do not believe it is fair to say that one period was war and one was just peace.

The CHAIRMAN. What do you estimate the Korean war cost?

Secretary HUMPHREY. I do not have those figures, Mr. Chairman. I could try to get them, but I do not have them.

The CHAIRMAN. In my spending comparisons I am including the $1.8 billion transferred to the highway trust fund.

Secretary HUMPHREY. Yes, sir.

The CHAIRMAN. I am adding that $1.8 billion, to the $71.8 billion budget expenditure estimate for fiscal year 1958 because in most prior years road expenditures were in the regular budget figures. Including roads the President's expenditure budget, assuming it is enacted, would be $73.8 billon as compared——

Secretary HUMPHREY. $73.6.

The CHAIRMAN. You are right, $73.6 billion, as compared to the Korean war budget of $72.9 billion.

Secretary HUMPHREY. Well, the 1953 budget was $74.3, so it is still higher.

The CHAIRMAN. The 1953 budget?

Secretary HUMPHREY. Expenditures.

The CHAIRMAN. I wish you would check that again.

Secretary HUMPHREY. Is that not correct? $74 billion.

The CHAIRMAN. I have $73.9 billion—$72.9 billion. You are right. I was looking at the column for appropriations instead of expenditures.

Secretary HUMPHREY. The actual round figure is $74.3 billion.

The CHAIRMAN. Then, assuming adoption of the President's budget, you will spend in 1958 approximately what was spent during the last year of the Korean war; is that correct?

Secretary HUMPHREY. It will be about a billion dollars less, $600 million less.

The CHAIRMAN. $600 million less. All right. But, I have added in only the road figure at this point. For completely accurate comparison with 1953 we should include also the 1958 Federal National Mortgage Association expenditures and the postal deficit. These would raise the 1958 expenditure estimate to $74.7 billion. But, since we have started by including only road expenditures, let it stay on that basis for the time being.

Federal budgets—appropriations and expenditures, fiscal years 1953 to 1958, inclusive

[In billions of dollars]

Categories	Appropriations							Expenditures						
	Truman			Eisenhower				Truman			Eisenhower			
	1953	(1954)	1954	1955	1956	1957	1958	1953	(1954)	1954	1955	1956	1957	1958
National security:														
Military functions	$48.8	($41.3)	$34.6	$30.8	$33.2	$36.4	$38.5	$43.6	($45.4)	$40.3	$35.5	$35.8	$36.0	$38.0
Stockpiling and defense production	.2	(.2)	------	.4	.5	------	.1	1.0	(.9)	1.0	.9	.6	.4	.4
Atomic energy	4.1	(2.0)	1.1	1.3	1.2	2.0	2.5	1.8	(2.7)	1.9	1.9	1.7	1.9	2.3
Subtotal, national security	53.1	(43.5)	35.7	32.5	34.9	38.3	41.1	46.4	(49.0)	43.3	38.3	38.0	38.4	40.7
Foreign aid:														
Military assistance	4.2	([1])	3.8	1.2	1.0	2.0	2.4	4.0	([1])	3.6	2.3	2.6	2.6	2.6
Economic aid	1.9	([1])	1.1	2.1	1.9	1.9	2.1	2.0	([1])	1.5	2.0	1.6	2.1	2.1
Subtotal, foreign aid	6.2	(7.7)	4.8	3.3	2.9	3.9	4.5	5.9	(7.6)	5.1	4.3	4.2	4.7	4.7
International affairs	.2	(.3)	.2	.2	.2	.3	.4	.3	(.3)	.2	.2	.2	.3	.4
Total, other than domestic-civilian	59.5	(51.5)	40.7	36.0	38.0	42.6	46.1	52.6	(56.9)	48.6	42.8	42.5	43.3	45.8
Domestic-civilian:														
Veterans services and benefits	4.1	(4.6)	4.3	4.4	4.8	4.9	5.0	4.3	(4.6)	4.3	4.5	4.8	4.9	5.0
Labor and welfare	2.5	(3.0)	2.5	2.6	2.9	3.2	3.8	2.4	(3.1)	2.5	2.6	2.8	3.0	3.5
Agriculture and agricultural resources	1.3	(1.5)	4.0	2.7	3.3	5.1	4.8	2.9	(1.8)	2.6	4.4	4.9	4.7	5.0
Natural resources	1.4	(1.5)	1.2	1.0	1.2	1.4	1.6	1.5	(1.4)	1.3	1.2	1.1	1.4	1.5
Commerce and housing	2.5	(2.8)	2.6	2.9	4.5	4.0	2.8	2.5	(2.8)	.8	1.5	2.0	2.3	1.7
General government	1.3	(1.5)	1.0	1.1	1.6	1.9	1.4	1.5	(1.5)	1.2	1.2	1.6	1.9	1.6
Interest on the debt	6.6	(6.4)	6.5	6.4	6.8	7.3	7.4	6.6	(6.4)	6.5	6.4	6.8	7.3	7.4
Allowance for contingencies	------	------	------	------	------	.2	.5	------	------	------	------	------	.2	.4
Total, domestic-civilian	20.8	(21.3)	22.0	21.1	25.2	27.9	27.3	21.7	(21.7)	19.1	21.8	24.1	25.6	26.0
Grand total, budget	80.2	(72.9)	62.8	57.1	63.2	70.5	73.3	74.3	(78.6)	67.8	64.6	66.5	68.9	71.8
Items not budgeted:														
Trust funds:														
Highways	------	------	------	------	------	2.6	2.9	------	------	------	------	------	1.2	1.8
FNMA	------	------	------	------	------	------	------	------	------	------	------	.1	.3	.5
Postal-rate increase	------	------	------	------	------	------	.6	------	------	------	------	------	------	.6
Increases to domestic-civilian and grand budget totals	------	------	------	------	------	2.6	3.5	------	------	------	------	.1	1.5	2.9

[1] Not split.

NOTE.—Figures are rounded and in some instances will not add precisely to totals.

Secretary HUMPHREY. That is including the roads, which are special.

The CHAIRMAN. But I think the roads should be included for proper comparison with prior years.

Secretary HUMPHREY. Well, you remember that you and I both, Mr. Chairman, fought rather bitterly to be sure that the road money did not get into the budget, so that we could use it either on the income or expenditures side; that we made it stand on its own feet.

The CHAIRMAN. But these figures are comparative. In other words, we are comparing the 1958 budget estimate which excludes roads to expenditure figures of other years that did not exclude the road expenditures.

Secretary HUMPHREY. That is correct.

The CHAIRMAN. And I think it is only fair to include road expenditures in both instances for comparison purposes.

Secretary HUMPHREY. That is right.

The CHAIRMAN. Road funds were included in the previous figures.

Secretary HUMPHREY. That is right.

The CHAIRMAN. The highway trust fund was established to assure a pay-as-you-go Federal road program.

Secretary HUMPHREY. That is something we both believed in. We both believed in that.

The CHAIRMAN. I think you will agree with me that the road expenditures should be included in the 1958 estimate, if you want to compare the figures to those of other years when the road expenditures were included.

Secretary HUMPHREY. You would put the expenditures on one side and income on the other, for strict comparison.

The CHAIRMAN. But the point I am making is that in previous years, the road expenditures have been in the regular budget.

Secretary HUMPHREY. That is right.

The CHAIRMAN. Now they are taken out of the budget. And if you want to compare the years, you should add, this $1.8 billion to this $71.8 billion 1958 estimate; am I correct about that?

Secretary HUMPHREY. I think that is a fair way to approach it.

The CHAIRMAN. It is proper for comparison.

If you add that, you are spending more than——

Secretary HUMPHREY. No. You are still less.

The CHAIRMAN. I have $72.9 billion as the total expenditures.

Secretary HUMPHREY. In what year?

The CHAIRMAN. No, I was reading appropriations again. You are speaking of 1953 expenditures?

Secretary HUMPHREY. I am speaking of 1953, that is the big year, $74.3 billion. And $73.6 billion is still $600 million less than the peak. That is nothing to be very proud of, but it is still there.

The CHAIRMAN. All right. I am not especially proud of this present budget. [Laughter.]

I think you said something to indicate you were not proud of it, either. [Laughter.]

Let us discuss a little further the Eisenhower budgets.

The budget was reduced, of course, as you know, in 1954.

Secretary HUMPHREY. I recall that very well.

The CHAIRMAN. Expenditures totaled $67.8 billion. We are both speaking about expenditures?

Secretary HUMPHREY. I am talking about expenditures, not appropriations. That is misleading, I think, in this sort of a discussion.

The CHAIRMAN. And then the expenditures were reduced to $64.6 billion, in fiscal year 1955.

Secretary HUMPHREY. That is right.

The CHAIRMAN. You will recall that the President announced he intended to reduce the budget to $60 billion.

Secretary HUMPHREY. That was before he was elected, and before he——

(The Secretary was interrupted by general laughter.)

The CHAIRMAN. Has he carried out all his election promises?

Secretary HUMPHREY. I will say this: I never saw anybody in the world who tried so hard or demanded such service from his associates in attempting to carry them out.

The CHAIRMAN. He made an election promise to bring expenditures down to $60 billion which has not been reached yet.

In fiscal year 1956 he started to raise expenditures, and finally in this year you presented the largest peacetime budget in the history of the country.

It might be interesting to recall Mr. Truman's last peacetime budget—he was not especially noted for economical management.

Secretary HUMPHREY. Well, this matter of peacetime is a little misleading. As I said before, I think it is honestly just a little unrealistic to compare, to talk about 1953 as a war year and this as a peace year. I do not think there is any such distinction between them.

The CHAIRMAN. Well, Government activities certainly cost more money in time of war.

Secretary HUMPHREY. I think not. I think the things we are doing today are costing, in items, far more than anything we had at that time.

If you will go over the sort of things that we are having to acquire for our protection today, you will find that their cost is tremendously more than anything we had in the Korean war.

The CHAIRMAN. It had not occurred to me that anyone would contend that war was not more costly than peace. But if conclusive proof is needed, it is to be found in Federal budget figures. In 1953, the last year of the Korean war we spent $43.6 billion for the military; in the pending 1958 budget the military estimate is $38.0 billion. (See table 2, p. 42.)

Secretary HUMPHREY. That is right, and I think it is because——

The CHAIRMAN. It was $5.6 billion more in the war year of 1953.

Secretary HUMPHREY. That is right, and it is because of a whole lot better management and better operation.

The CHAIRMAN. I agree with you in a great many things, but when you say it is cheaper to run a wartime government than a peacetime government, I just cannot agree with that.

Anyway, we might as well put in Mr. Truman's last peacetime budget. In fiscal year 1950 it was $39.6 billion, compared to the proposed peacetime budget of $73.6 billion or more for fiscal year 1958.

Secretary HUMPHREY. That would be your peacetime budget, and mine would be $74.3 billion. The last Truman budget was $74.3 billion, and that is the figure from which we started down.

The CHAIRMAN. Again I say that was a Korean war budget.

Secretary HUMPHREY. Well——

The CHAIRMAN. I just cannot follow your philosophy when you contend it is cheaper to run a government when we are at war than when we are at peace.

Secretary HUMPHREY. Well, Mr. Chairman, I went out on the *Saratoga*——

The CHAIRMAN. The records, Mr. Secretary, do not show that.

Secretary HUMPHREY. Well, you are discounting all—you are allowing nothing for improvement in practices and management and efficiency.

The CHAIRMAN. I am dealing with dollars.

Secretary HUMPHREY. There has been a tremendous difference, and if you take the 2 years you will find it is a great difference.

The CHAIRMAN. I am dealing in budget dollars. The budget deals with the number of dollars spent.

Secretary HUMPHREY. I will deal with dollars, and I will simply take the $74.3 billion as the last Truman budget, and I will take our figures as our budget.

The CHAIRMAN. Well, I do not suppose there is any use in continuing the argument.

Senator KERR. May I hear that last statement?

Secretary HUMPHREY. The 74.3 was the conclusion of the Truman budgets——

The CHAIRMAN. Let the record show that 1953 figure was completely a wartime budget, because the war ended in June, the end of the fiscal year 1953. Let those who read this record decide whether we can operate a government more cheaply in war than in peace.

Secretary HUMPHREY. Well, the Truman budget, you will recall, just to clear the record and then I will say nothing further, the Truman budget that we found when we came here in January, the $74.3 billion, was the year in which we were spending the money.

The Truman budget for the next succeeding year, for 1954, was $78 billion; and that was the budget we started with, and that we began working with for the year 1954, a budget of $78 billion.

The CHAIRMAN. That is true, and I often have complimented the administration for reducing that proposed Truman budget. But that Truman budget also was prepared without the thought of the ending of the Korean war.

Secretary HUMPHREY. That is right.

The CHAIRMAN. I assume he followed the military advice, and it was prepared on that basis.

Now, I think an excellent job was done by the present administration in cutting that budget. My complaint is that now they have gone back to a budget level which is close, if not equal to, the last Truman budget, which was on a war basis.

I would like to ask you, if you care to express yourself, why you think it was necessary to increase the Eisenhower budget $9 billion or more between 1955 and 1958, assuming that you include the road expenditures? What conditions justified a $9 billion increase?

Secretary HUMPHREY. Well, that, of course, is a very long story, and I will not attempt to get into anything but just the highlights of it.

There have been increases in costs, increases in governmental wages, in military wages, military costs of that kind. There have been substantial increases in military supplies, as I said a minute ago, the sort of things that we must have.

A bomber in the old days cost a few hundred thousand dollars. Today it costs several millions of dollars.

A fighter used to cost less than a hundred thousand, and today it costs 1½ to 2 million dollars.

And everything you look at, in this military business, has gone up in tremendous figures.

Now, at the same time, the country has grown substantially. The workload upon all of the departments has increased very substantially. And I think that you will find that, in spite of efficiencies which can be put in, as the country grows and as services are rendered to more people all the time, while you can offset some of the increase by better efficiency, you probably will not offset all of it, because you are rendering more service to many more people.

But on top of all that, the Congress, as well as the administration, has expanded programs. The Congress has adopted a great many programs which provide for expenditures in increasing amounts as time goes on, and those programs start in rather small ways and just automatically keep increasing year after year.

It is a combination of all of those things that has pushed this budget up, and I think that——

The CHAIRMAN. Is inflation pushing it up?

Secretary HUMPHREY. To the extent that we have rises in prices, that is so. And, of course, if we have a greater inflation, why, we will have greater expenditures, and the increases will be greater.

The one thing and the one basis of comparison that I think you should keep in mind, we all should keep in mind, when we are talking of these advances, is that the original budget, the 1953 budget, was 21 percent of our gross annual product, and this present estimated budget is about 16 percent of it.

So that, relatively, with a growing country, there has been a relative decrease, even though the dollar increase has gone on.

The CHAIRMAN. Do you think percentage of the national product justifies increasing Federal expenditures?

Secretary HUMPHREY. It is illustrative of the comparison with the growth of the country.

Now, frankly, I think that the dollars themselves, just the dollar expenditures, have got to be watched with the very greatest care, and I think it is one of the great burdens and obligations and one of the extreme difficulties that this country faces over the next few years.

The CHAIRMAN. In your statement yesterday you spoke of the anti-inflationary program of the administration. And now you say that these increases are made necessary by inflation?

Secretary HUMPHREY. Said what, Mr. Chairman?

The CHAIRMAN. Do I understand that you think these budget increases which you regard as necessary, are due to inflation?

Let me ask this question, too: I frequently hear those in the administration refer to programs Congress has approved. What about the programs the President has recommended to Congress? Have you put those in a separate category?

Secretary HUMPHREY. No. I think they are all reflected in the cost of the budget.

The CHAIRMAN. But do you not think it would be well, when making the statement the Congress has approved programs, to say upon the recommendation of the President, where that is the case?

Secretary HUMPHREY. I think we might try to divide them. But this is not an attempt to dodge responsibility. What I was trying to do was to state the facts, that these are programs that have gone through the regular congressional process.

The CHAIRMAN. I say this without prejudice against this administration, but whenever anybody in the administration talks about these programs, they refer to them as programs Congress has approved.

What about the school program the President wants now? I have not seen any tremendous demand on the part of Congress for it, or on the part of the people. It is recommended in the President's budget, and not only is that program included in this present budget, but 13 other Federal grants to State programs are included.

I question the accuracy and fairness the inference that all of these programs were initiated by Congress.

Secretary HUMPHREY. As I say, I was not trying to fix blame. Of course, there are programs such as the one in which Senator Symington put a billion dollars of extra money into the Defense Department a year ago that nobody asked or wanted, and there have been other instances where Congress has voted more. But I was just trying to state a fact, that by using the words "that Congress has approved," perhaps we should say "programs approved by law," or something of that kind.

The CHAIRMAN. I do not think it is fair to put all of the burden on Congress for new programs when the administration has recommended many of them.

Secretary HUMPHREY. I was not counting one person as against the other. The fact is, Congress passed laws approving these programs that cost us this money.

The CHAIRMAN. We are being high-pressured by the President to enact this school program, which is going to open up an area of spending unprecedented among Federal domestic-civilian programs, and, incidentally, I think you made a very strong argument here against this school program in which you said:

> During the past 4 years a quarter of a million new schoolrooms have been built for our youngsters. Total public construction in 1956 was 23 percent above 1952 levels, and educational construction was up 56 percent.
>
> During 1956 alone, new borrowing by States and municipalities totaled $5.4 billion, and during the last 9 months for which figures are now available, more elementary and secondary school bonds were sold than in any 9-month period in our history.
>
> State and municipal financing has increased by $18.8 billion in the past 4 years.

Then on the next page you say:

> In the past 4 years, $8.8 billion has been spent for school construction—more than had been spent in the preceding 20 years.

That is one of the best arguments I have heard against the President's proposal for the Federal Government to build school buildings. If this is started, it will never be stopped. Billions and billions will be spent.

The Federal Government does things in a grand and wasteful style. It would build the most luxurious school buildings. These will go into only a few school districts at first. But all other school districts will then demand Federal school buildings of equal or greater grandeur. You would open up a Pandora's box that would become one of the largest single items in the budget, once it is started, because of the pressure on the Congress by people in counties which have not been chosen for one of these great, improved, fine school buildings.

So when you speak of the Congress doing these things, I think we ought to make it clear that, while I do not have a list of them, quite a few of these expenditure programs have been advocated and pressured by the administration.

Do you think I am correct about that, or not?

Secretary HUMPHREY. Well, we tried to state facts here with respect to financial demands and financial requirements, and we were not in any way attempting to point the finger at anybody with respect to them.

The CHAIRMAN. Well, you are not pointing the finger at anybody except that you repeated in your statement the assertion that much of the expenditure increase results from new programs authorized by Congress.

Secretary HUMPHREY. I do not think I quite said it was necessary to do that for that reason. What I said was, Congress had passed the law which required these expendituress, which is the fact, Mr. Chairman. We cannot spend the money until Congress does pass the law, and I was simply stating a fact, that Congress had authorized these expenditures.

The CHAIRMAN. But does that, Mr. Secretary, account for a difference of $9 billion or more between fiscal 1955 and the present budget?

Secretary HUMPHREY. The items that I listed do account for that whole difference, I think.

The CHAIRMAN. Nine billion?

Secretary HUMPHREY. For the whole 9 billion; yes.

The CHAIRMAN. Well, we do not spend that——

Secretary HUMPHREY. It is the increase in programs, the changes in programs, the increase in pay that has been granted, the increase in service that is demanded, and the increase in population that requires greater service by the departments.

The CHAIRMAN. Is the public demanding these new services now? I have been over the country, and I find, especially after the statement you made a short time back, there is a tremendous sentiment everywhere for reduction in Federal spending.

Secretary HUMPHREY. Well, Senator, that raises one of the questions, which I think are very serious that confront the country. There is a great undercurrent in this country of almost revolt against expenditures for everybody but themselves.

Each person is for economy and talkes about less Government spending for everything except the project that fits him. As to the project that fits him, he is down here in the Halls of Congress and in your offices, demanding your votes and demanding your help in getting money for his pet project; and at the same time he goes right after lunch to a meeting in the chamber of commerce or NAM and votes to cut Government expenditures.

And by that illustration I do not mean just businessmen. It is everybody. It is schoolteachers, it is unions, it is businessmen, it is all kinds of people everywhere. It is localities.

And whether in this country this feeling of desire for economy is going to reach the place where people are willing to economize on their own account as well as have the other fellow do all the economizing, I do not know. But I certainly hope that it does, and I hope that we reach the time when the American citizens are going to say, "I will take a little less for myself, provided everybody else does, and we get some of this down."

But until that time comes, you are going to have great cries for economy and less Government spending "for everybody but me, and I am going to be here demanding that you do more for me and less for everybody else."

The CHAIRMAN. Mr. Secretary, I want to respectfully and emphatically disagree with you on that, because I have attended as many of these meetings as anyone. Back in January, 500 leading businessmen of the country came to Washington for an emergency meeting. Their only purpose was to urge that the budget be cut. They said nothing about not cutting this and not cutting that. They wanted the budget cut.

And another delegation, as I recall, came from Illinois, 50 of them, and stayed here for 10 days, going around to Congressmen and Senators urging them to cut the budget.

Now, I think that situation you described did exist at one time. But I think there has been a tremendous change of sentiment; that the people realize if we keep this up we are going over the precipice of financial disaster, and I think you indicated something to that effect.

There is no doubt about the fact; they are in favor of economy, and Congress is trying to practice economy. But the administration is the obstacle and, as you know, the administration can destroy the effort. It can use unexpended balances to replace reductions in appropriations.

Secretary HUMPHREY. I am sure, Mr. Chairman, that nobody can feel I am not an advocate of economy.

The CHAIRMAN. I know that; I know that your opinion is an impartial one; I am trying to learn why the President has found it necessary to add $9 billion or more to his budget since 1955 most of which is in domestic civilian expenditures and not in the military expenditures.

Furthermore, I am concerned over the fact that the President is asking now for new spending programs which, if once started, will grow and grow throughout the years.

I regard this present fight by Congress to cut the budget as being one of tremendous consequences, because if this huge budget is approved, we will be committed indefinitely to high spending and high taxes, until some recession comes; and then the situation will be serious.

I think you recognize these dangers probably much more than I do. You are a man of great competence and capacity along these lines.

Let the record show the official budget expenditure figures—actual for fiscal year 1955, and estimated for fiscal year 1958.

Expenditures for military functions in 1955 totaled $35.5 billion. The estimate for 1958 is $38.0 billion, an increase of $2.5 billion.

Expenditures for other national-security items in 1955 totaled $2.8 billion. The estimate for 1958 is $2.7 billion, a reduction of $0.1 billion.

Expenditures for foreign aid in 1955 totaled $4.3 billion. The estimate for 1958 is $4.7 billion, an increase of $0.4 billion.

Expenditures for international affairs in 1955 totaled $0.2 billion. The estimate for 1958 is $0.4 billion, an increase of $0.2 billion.

Expenditures for domestic-civilian programs in 1955 totaled $21.8 billion. The estimate for 1958 is $28.9 billion, an increase of $7.1 billion. Figures for both years include expenditures for roads, Federal National Mortgage Association, and postal deficit.

From these figures it will be seen that as between 1955 and the 1958 estimates there are increases as follows:

	Billion
Military functions	$2.5
Foreign aid	.4
International affairs	.2
Domestic-civilian	7.1

Against this total of $10.2 billion, there is a reduction of $0.1 billion in other national-security items, making a net increase of $10.1 billion.

The 1958 budget proposes postal rate increases to eliminate the $0.6 billion postal deficit. For this reason, and to use a conservative round figure, I am contending that there is an increase between 1955 and 1958 of at least more than $9 billion, and that the increase in domestic-civilian items is at least more than $6 billion. (See table 2, p. 42.)

I did not want to take this interrogation so far afield, but I think we must meet these questions. I was influenced by the fact that the blame is being put on Congress for all of these things, when Congress this year has shown every indication of wanting to reduce expenditures. On the other hand the administration has brought the most enormous pressure to prevent the reduction of expenditures, at least in substantial areas, as you know.

I have made some examination of the record, and I think it will show that never in the history of this country has Congress reduced the budget to the extent it has this year in the face of strong opposition by the President of the United States.

We will pass from that subject.

I would like, if possible, for you to show or have your assistants show the particular programs which necessitated the increase of $9 billion or more between 1955 and 1958. It may be furnished for the record.

Secretary Humphrey. I think we can show where the differences took place.

(The information referred to with related comments by the chairman subsequently submitted follow:)

Budget expenditures, fiscal years 1955 and 1958

[In millions]

	Actual, 1955	Estimated, 1958 (January budget)	Change, 1958 compared with 1955
Military:			
Defense Department (military)	$35,532	$38,000	+$2,468
Mutual military assistance	2,292	2,600	+308
Subtotal, military	37,824	40,600	+2,776
Nonmilitary:			
Agriculture Department:			
Commodity Credit Corporation [1]	3,414	2,201	−1,213
Soil-bank program		1,253	+1,253
Other	1,223	1,876	+653
Atomic Energy Commission	1,857	2,340	+483
Commerce Department	[2] 495	772	+277
Mutual security (other than military assistance)	1,928	1,756	−172
Export-Import Bank	−101	243	+344
Health, Education, and Welfare Department	1,993	2,831	+838
General Services Administration	973	654	−319
Federal National Mortgage Association	237	140	−97
Postal deficiency	356	58	−298
Veterans' Administration	4,405	5,068	+663
Interest on public debt	6,370	7,300	+930
All other	3,001	4,715	[3] +1,714
Subtotal, nonmilitary	[2] 26,151	31,207	+5,056
Total	[2] 63,975	71,807	+7,832

[1] Includes reimbursements to CCC.
[2] For comparative purposes excludes $595,000,000 for Federal-aid highway program.
[3] Accounted for mainly by net receipts in 1955 exceeding those for 1958 by $440,000,000 for RFC and Federal Facilities Corporation, inclusion of a large part of the increased Government payment of $536,000,000 in 1958 to civil-service retirement fund, and allowance for undistributed contingencies in 1958 of $400,000,000.

Chairman's comments.—It should be noted that $595 million in highway expenditures has been deducted from the 1955 total in the table above. With this figure included, the 1955 total was, as recorded by the budget, $64.6 billion. When the $1.8 billion highway expenditure estimated is added to the 1958 estimate, the total is $73.6 billion, an increase of $9 billion, instead of $7.8 billion as shown in the table.

The Chairman. Next I wish to take up inflation.

Secretary Humphrey. Let me just get clear, "these 2 years." We can do that——

The Chairman. It is fiscal 1955 compared to fiscal 1958.

Secretary Humphrey. The proposed new budget.

The Chairman. Expenditures in 1955 totaled $64.6 billion. The 1958 budget was submitted in January 1957. I want someone in authority to advise the committee what happened in those 2 years between to raise the expenditure estimate for 1958 by $9 billion, or more.

Secretary Humphrey. We will try our best to show you just where this is.

The Chairman. Now, the next thing I want to talk about is inflation.

It was indicated by your statement that inflation had been practically stopped by the present administration; is that a correct interpretation?

Secretary Humphrey. No; I do not think so. It had been retarded.

The Chairman. You stated it was an anti-inflationary program.

Secretary HUMPHREY. I think you are referring to the following paragraph in my prepared statement:

> The past 4 years have been characterized by greater price stability than any other 4-year period since 1939. But inflation is not stopped. It is only slowed down. Indeed there has been a disturbing renewal of pressures in the last 12 months, during which the dollar has lost almost 2 cents in purchasing power.

Is that the thing you were referring to?

The CHAIRMAN. You say it practically stopped for 4 years, that is, 1953, 1954, 1955——

Secretary HUMPHREY. We went 4 years with a loss of 0.8 of 1 cent. Then we took a jump, and we have lost over 2 cents in a relatively short period.

The CHAIRMAN. In other words, it was practically stabilized.

Secretary HUMPHREY. It was very steady. It moved up and down a little, but it was very steady for about 4 years, and during the last several months it has——

The CHAIRMAN. What concerns me, is the fact that in the past year, from April 1956 to April 1957, there was a loss of 2 cents.

Secretary HUMPHREY. A loss of what?

The CHAIRMAN. A loss of 2 cents.

Secretary HUMPHREY. That is right.

The CHAIRMAN. From April of 1956 to April of 1957.

Secretary HUMPHREY. That is right. That is what I say here.

The CHAIRMAN. Now, that inflation is still continuing, of course. These figures are up to April.

Secretary HUMPHREY. That is correct. More pressure, that is correct.

The CHAIRMAN. Why do you think, that after a practically stabilized dollar for 4 years, another period of inflation has started which may continue for a long time?

Secretary HUMPHREY. Well, I do not know whether it will continue or not, of course. I think the main thing that has started this movement forward again has been the increasing prosperity and the increasing demands that have occurred in the country.

These inflationary pressures grow in direct relation to the degree of prosperity in the country, and the fuller the employment, the greater the demand for goods; the more money there is to spend, the more pressure there is on prices and on demand for all sorts of things. And we have been in the last 12 months under very high pressure and very high demand and very high employment.

So that you have had all the forces at work that move toward inflation. You have had high spending all along the line, including the Government spending. And about the only pressures you have had to the contrary have been the monetary pressures which have been exercised, leaning against the wind to try to restrain the effect of these pressures in the other direction. And they haven't quite done it.

The CHAIRMAN. What do you think will be done or can be done to stop this creeping inflation?

Secretary HUMPHREY. I think the pressures that we now have against the creeping inflation—or, if not creeping, a moving inflation—work slowly. There is a lag in their operation.

I think they will gradually become more effective. I think, too, that these things go in waves. I think some of the expenditures, pressures for expenditures, may be relaxed somewhat.

I think that as those pressures for expenditures relax, both in industry where there is very heavy pressure, and in municipalities and governmental subdivisions, and the Government itself, the Federal Government itself, some relaxing of expenditures all along the line would immediately help to ameliorate the situation.

The CHAIRMAN. Had this new inflation started when the 1958 budget was prepared?

Secretary HUMPHREY. It was just about the same time.

The CHAIRMAN. Notwithstanding that fact, the President brought in budget expenditures of $5 billion more than the previous year. Is that a wise thing to do, or not?

Secretary HUMPHREY. Well, it was not five, was it?

The CHAIRMAN. I should have said $3.5 billion, including roads.

Secretary HUMPHREY. You are putting in your road money; putting in the road money, I mean, too?

The CHAIRMAN. It is $3.5 billion.

Secretary HUMPHREY. Of course, there is a lot—again, Mr. Chairman, you have to relate this, if you are going to put in the roads, you have to relate it to road expenditures and not just to what is set aside in the trust fund for the roads, because it is the expenditure that really causes the pressures.

The CHAIRMAN. Well, the expenditures are estimated at $1.8 billion. The amount received by the trust fund at this time is larger.

Secretary HUMPHREY. That is a larger amount, and that is a helpful——

The CHAIRMAN. And the previous year, when the roads were put in——

Secretary HUMPHREY. That is a helpful anti-inflationary pressure, you see. As you collect in more money than you spend out, it is helpful to retard purchasing power to some extent, so that the road program up to date is anti-inflationary rather than inflationary.

It may turn out to be the other way, but at the present time it is not.

The CHAIRMAN. Do you regard Government spending as inflationary?

Secretary HUMPHREY. I do.

The CHAIRMAN. Has anything been done by the Administration to reduce that Government spending?

Secretary HUMPHREY. Well, Mr. Chairman, I do not want to get into an argument that sounds political. I want to make it and keep it factual in every way that I can. [Laughter.]

The CHAIRMAN. I am nonpolitical, Mr. Secretary.

Secretary HUMPHREY. What is that?

The CHAIRMAN. I am nonpolitical.

Secretary HUMPHREY. Well, I try to be.

I just want to say this: that there is nobody—I have worked with a lot of people in my life, in a lot of ventures of various kinds, and I have never seen anybody more concerned, more thoughtful, who puts in more time and effort than the President of the United States on this budget, and who is more concerned about increasing Government expenditures.

Now, how you balance the services that the people ought to have, that the people demand, how you balance what Congress may do with respect to certain programs where they exceed the requests, how you balance what you ask for, how you balance what is needed for our security against a threatened attack, a threatened enemy, and it is real, and the terrible expenditures that are required continually for the security to save our lives, and how you balance all those things out with an expenditure level for the whole Government that will help to reduce and confine inflationary pressures and still, at the same time, maintain us between inflation and deflation—because that is where we want to try to be, where you are just balanced and can turn either way, that is the happiest situation that America could be in—and how you balance that and maintain it is an extremely difficult thing.

Now, in my experience, I have never seen anybody more dedicated, more honestly attempting to arrive at a proper balance of those factors than the President of the United States, nor anybody who works harder at it.

The CHAIRMAN. Do you think it is the duty of the President of the United States to yield to all requests for Federal expenditures?

Secretary HUMPHREY. No, I do not.

The CHAIRMAN. You mentioned the fact these programs are being demanded by the public. You say the public have not changed their minds. I do not agree with that.

I have been over the country a good deal, and people have changed their minds. That is reflected by what Congress has done to appropriations.

Secretary HUMPHREY. Well, I of course recognize, Mr. Chairman, just as you do, that there is a great wave of public protest against Government spending. But I still believe you are wrong, to a degree at least, in the extent to which that Government spending protest has reached to the person who is after something for himself.

There are just two groups of people who come to see me: One group who want their taxes out, and the other group who want money for something. And your——

The CHAIRMAN. Could I ask you a personal question?

Secretary HUMPHREY. Yes, sir.

The CHAIRMAN. How many letters did you get when you made that statement on the Budget about "curling the hair"? How many approving letters did you get?

Secretary HUMPHREY. I got a great many.

The CHAIRMAN. That indicates, I think, that there is public demand. It has been evidenced in every way. There have been meetings all over the country. A number of Congressmen and Senators have attended these meetings.

Secretary HUMPHREY. Well, the fellow I am waiting for is the fellow who will come to me and say, "I asked for a waterpower project or a flood-control project," or some kind of farm subsidy or some kind of a business subsidy or a ship subsidy, or something of that kind, "and I have been down here with a great crowd demanding action from Congress. And I have turned around and I have gone to Congress and said, 'We ought not to have this.' "

When I see that man, I am going to have a lot more confidence in getting our expenditures cut down.

The CHAIRMAN. You do not mean we ought to yield to organized minorities, do you? [Laughter.] I thought the taxpaying people——

Secretary HUMPHREY. Did you say we ought to yield? I say we ought not.

The CHAIRMAN. You seem to be saying that if a group is organized for a specific thing, it necessarily must have it.

Secretary HUMPHREY. Unfortunately——

The CHAIRMAN. I think the taxpayers ought to be considered, too.

Secretary HUMPHREY. It is not, Mr. Chairman, that they ought to have it. It is the unfortunate thing, Mr. Chairman, that they so often get it.

The CHAIRMAN. Is the President not strong enough to resist pressure of this kind?

Secretary HUMPHREY. This is largely congressional pressure, I think. [Laughter.]

The CHAIRMAN. Mr. Secretary, it has not been this time. The Senate, for the first time in 25 years, has reduced the appropriations bills below House figures. That has never been done before in the 25 years I have been here.

Secretary HUMPHREY. I think maybe it would be worth while, and I will spend a few minutes trying to do it, to take a few of the bills that have been passed, and just see how much they are either over or under, the appropriations actually passed, are over or under the requests.

The CHAIRMAN. We may as well understand that, with $70 billion of unexpended balances, a great many of the appropriation cuts we are making will have no effect on 1958 expenditures.

Secretary HUMPHREY. We do not have that much now, as you know. We are down to around 50.

The CHAIRMAN. I think the budget shows a total of $70 billion.

Secretary HUMPHREY. It is 46.3.

The CHAIRMAN. I am using the budget total of $70 billion, in all expenditure authorizations, not appropriations alone. I shall insert in the record table 7, 1958 Budget Document, pages A12 and A13, which shows the total:

Balances available at start of year by type and agency based on existing and proposed legislation

Description	1955 actual		1956 actual		1957 estimate		1958 estimate		1959 estimate	
	Obligated	Unobligated	Obligated	Unobligated	Obligated	Unobligated	Obligated	Unobligated	Obligated	Unobligated
BALANCES OF PRIOR AUTHORIZATIONS FOR EXPENDITURES										
Appropriations enacted or recommended:										
Legislative branch	$14,826,808	$772,378	$22,601,102	$7,986,254	$27,167,897	$7,238,852	$29,046,880	$16,167,686	$32,252,344	$86,888
The judiciary	1,231,886	8,786	2,261,890		2,274,041		1,826,100		2,262,300	
Executive Office of the President	726,027	294,002	549,123	96,400	654,980	89,157	686,250	35,000	782,118	
Funds appropriated to the President:										
Mutual security	7,938,388,206	2,151,201,618	2,083,300,083	46,494,162	3,376,344,482	337,968,576	3,008,207,136	169,482,000	1,780,724,120	
Other			9,682,546	16,132,032	9,567,464	23,786,628	12,196,232	18,424,868	13,741,045	800,000
Independent offices:										
Atomic Energy Commission	3,342,282,912	906,720,251	1,130,217,587	756,221,370	975,524,675	275,810,475	1,291,280,130	38,686,000	1,280,972,818	
Veterans' Administration			90,407,959	112,636,305	89,947,578	129,786,882	89,230,468	147,625,652	111,878,558	111,928,988
Other			101,104,808	129,118,686	101,075,900	181,223,882	161,080,000	160,537,254	319,457,518	92,978,286
General Services Administration	1,426,198,183	458,981,162	497,077,428	223,882,982	408,067,880	412,211,780	286,774,460	146,754,280	190,065,221	840,781
Housing and Home Finance Agency	646,822	15,291,588	576,691	984,000	604,967	2,378,794	1,784,780	1,380,794	2,943,574	
Department of Agriculture	132,724,154	255,673,789	148,877,208	210,606,354	164,660,280	253,624,627	135,886,326	219,636,586	185,859,305	198,318,596
Department of Commerce	189,286,754	24,680,796	122,680,100	90,257,762	173,128,980	182,601,379	286,007,722	85,288,418	411,152,424	82,688,088
Department of Defense:										
Military functions	40,708,961,144	9,372,280,380	25,198,701,785	18,254,872,462	25,154,070,441	12,340,582,880	27,080,061,076	10,588,356,683	26,738,218,183	7,916,120,630
Civil functions	268,994,282	126,064,046	112,315,962	37,180,840	146,687,474	104,021,380	212,716,667	86,451,027	280,474,220	5,582,780
Department of Health, Education, and Welfare	426,518,008	65,644,880	431,046,332	101,068,353	454,280,776	142,482,000	690,300,228	186,354,720	665,720,698	97,682,821
Department of the Interior	194,283,618	114,313,789	124,127,991	73,548,817	131,125,422	96,197,000	168,281,478	48,987,707	288,065,115	23,361,425
Department of Justice	28,882,765	847,645	22,386,257	302,942	14,486,829	244,981	14,206,730	380,000	20,790,072	
Department of Labor	2,286,029	8,044,900	5,277,786	2,000	4,282,601	3,218,562	21,732,553		37,754,388	
Department of State	63,815,455	34,465,562	21,536,404	18,888,622	28,020,517	14,225,302	81,012,181	5,086,678	85,385,914	1,265,623
Treasury Department	87,068,125	9,041,796	61,548,776	5,171,630	55,066,202	11,247,574	64,886,910	542,480	73,865,216	450,487
District of Columbia (general fund)		12,000,000		23,487,000		30,887,000		37,387,000		37,198,000
Total balances of appropriations enacted or recommended	64,741,080,634	12,088,786,377	31,773,246,288	20,222,308,126	31,318,262,654	14,640,888,488	34,186,425,620	11,838,888,682	32,880,376,177	8,544,915,640

Appropriations for later transmission:										
The judiciary							40,000			
Funds appropriated to the President: Mutual security									2,420,482,000	
Independent offices:										
Atomic Energy Commission									138,800,000	
Veterans' Administration							250,000	880,000	200,000	
Other							28,474,832	1,105,367	78,656,575	20,000,000
General Services Administration							5,300,000			
Housing and Home Finance Agency							242,000	99,140,000	465,000	40,000,000
Department of Agriculture							7,992,000	10,000,000	5,000,000	
Department of Commerce							28,012,000	28,500,000	34,280,000	42,200,000
Department of Defense:										
Military functions							38,000,000		1,429,421,242	520,485,738
Civil functions							300,000	275,000	7,984,000	330,000
Department of Health, Education, and Welfare							1,221,540		282,077,500	
Department of the Interior							14,870,400		2,500,000	
Department of Justice							20,000			
Department of Labor							5,100		40,000	
Department of State							280,000			
Treasury Department							175,000			
Total balances of appropriations for later transmission							137,790,040	131,873,867	5,420,326,317	653,088,738
Grand total, balances of appropriations	64,741,680,636	12,668,706,277	31,773,246,360	53,222,338,194	21,318,242,664	14,640,886,480	34,324,186,261	11,970,738,679	27,960,112,494	9,178,814,386
Authorizations to expend from debt receipts:										
Funds appropriated to the President	1,154,047,420	747,262,000	663,157,571	626,801,904	786,008,120	349,857,381	837,672,730	232,038,368	748,925,882	395,544,000
Independent offices: Other	939,242,631	5,924,365,724	841,414,777	7,549,420,523	812,286,980	7,883,291,310	1,146,942,040	6,325,292,080	1,274,190,040	5,551,068,909
Housing and Home Finance Agency	1,373,830,676	2,410,067,637	1,284,753,540	2,645,027,640	1,124,383,971	2,346,070,000	1,307,656,080	2,823,966,434	1,844,080,494	1,958,037,630
Department of Agriculture	1,144,317,071	2,565,885,303	1,904,190,870	1,160,829,149	1,621,216,252	[1] 107,636,877	1,617,232,296	663,004,500	1,576,115,810	438,337,580
Treasury Department	4,532,212	2,784,280,288	4,300,000	2,783,260,942	2,714,155	2,830,523,845	2,386,080	2,765,786,911	2,345,069	2,786,254,911
Department of Defense, civil functions		150,000,000								
Total balances of authorizations to expend from debt receipts	4,397,082,010	15,088,466,012	4,797,816,516	14,765,068,236	4,288,583,507	12,898,167,319	5,114,215,444	13,078,080,948	5,442,096,272	11,130,834,740

[1] Deduct.

Balances available at start of year, by type and agency based on existing and proposed legislation—Continued

Description	1955 actual		1956 actual		1957 estimate		1958 estimate		1959 estimate	
	Obligated	Unobligated	Obligated	Unobligated	Obligated	Unobligated	Obligated	Unobligated	Obligated	Unobligated
BALANCES OF PRIOR AUTHORIZATIONS FOR EXPENDITURES—con.										
Authorizations to expend from debt receipts for later transmission:										
Independent offices: Other									$26,128,300	$8,871,700
Housing and Home Finance Agency								$350,000,000	205,000,000	920,000,000
Department of Agriculture							$8,000,000		9,000,000	
Total balances of authorizations to expend from debt receipts for later transmission							8,000,000	350,000,000	240,128,300	928,871,700
Grand total of balances of authorizations to expend from debt receipts	$4,597,080,010	$15,603,408,012	$4,797,816,516	$14,765,088,238	$4,358,583,507	$13,893,107,319	5,122,215,444	13,428,080,948	5,682,794,572	12,050,706,440
BALANCES OF CONTRACT AUTHORIZATIONS										
Legislative branch	21,186,064	4,200,000 26,246,000		44,246,000	10,291,846	128,654,154	10,040,205	102,637,605	88,496,675	14,603,325
General Services Administration	85,800,000	19,500,000	11,980,328	3,019,662	2,652,869	2,640,131		280,000		
Housing and Home Finance Agency	70,302,143	321,687,857	96,757,682	326,242,318	85,550,617	497,449,383	206,725,617	536,699,383	448,140,617	295,580,383
Department of Agriculture				48,000,000		24,000,000				
Department of Commerce	923,874,303	774,196,571	1,012,377,381	872,744,332	1,190,374,805	2,004,919,446	67,120,433	65,254,567	108,220,433	54,154,567
Department of Defense—Military functions	136,177,388	54,276,612	44,716,094	31,283,906	18,428,000	21,000,000				
Department of Health, Education, and Welfare	22,200,000	6,475,891	782,848	2,682,352	678,455	1,853,400	678,455	834,525	951,676	561,304
Department of the Interior	1,800,000		7,206,879	73,329,904	12,707,694	39,774,919	10,607,045	44,550,527	12,157,572	44,000,000
Contract authorizations for later transmission:										
Housing and Home Finance Agency										250,000,000
Total balances of contract authorizations	1,260,329,408	1,206,501,031	1,174,791,222	1,411,748,474	1,320,791,286	2,720,291,433	295,171,755	750,256,607	657,966,973	658,878,579

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BALANCES IN REVOLVING AND MANAGEMENT FUNDS (Including U. S. Government securities held)										
Legislative branch	121,292	17,450	7,891,779	4,441,038	7,944,520	3,792,622	6,581,000	7,145	4,541,000	7,145
Executive Office of the President	5,874	49,728	10							
Funds appropriated to the President	77,086,106	[1] 17,224,832	110,085,452	300,000	12,847,204		14,761,989		15,510,468	
Independent offices:										
Veterans' Administration			119,892,142	49,455,429	40,776,286	181,896,300	63,728,584	246,037,096	137,875,677	95,825,807
Other	451,982,229	96,736,064	92,397,569	529,428,785	96,661,906	501,792,652	111,849,418	379,941,801	51,398,297	456,179,411
General Services Administration	13,972,829	4,474,290	29,932,340	[2] 17,701,217	59,366,826	[2] 25,305,050	45,795,393	[2] 30,689,926	60,108,147	[2] 41,744,568
Housing and Home Finance Agency	171,821,416	698,706,781	147,460,371	341,506,287	193,096,796	390,447,956	198,924,906	492,392,462	176,626,318	694,021,880
Department of Agriculture	6,617,314	85,435,914	30,925,635	65,957,664	29,248,282	57,932,564	24,735,224	62,413,185	26,729,890	81,261,625
Department of Commerce	[1] 5,771,412	21,198,066	2,826,562	40,345,152	479,880	35,377,191	1,222,132	32,288,645	2,382,440	43,248,105
Department of Defense:										
Military functions	[1] 1,948,309,283	1,882,574,902	[1] 754,928,447	4,037,504,190	[1] 285,031,922	2,948,176,440	[1] 294,228,804	2,308,128,771	[1] 133,880,727	2,242,496,094
Civil functions	19,498,316	32,540,577	61,586,196	28,164,782	45,525,106	30,556,188	45,184,411	27,418,315	47,018,700	22,489,626
Department of Health, Education, and Welfare	1,489,514	592,767	705,152	1,574,068	288,096	1,364,430	375,549	1,389,728	401,521	1,370,472
Department of the Interior	[1] 10,155,157	25,052,491	11,296,744	14,631,706	10,014,151	21,795,355	10,900,000	14,635,869	11,828,617	12,967,850
Department of Justice	2,771,977	1,100,869	[1] 7,286,363	12,629,560	[1] 6,183,348	9,733,001	[1] 6,128,000	9,642,943	[1] 6,136,000	9,653,943
Department of Labor	1,433,860	2,048,509	553,492	1,894,580	657,202	639,551	622,616	495,006	562,616	764,006
Post Office Department	298,877,237	4,957,594	206,044,250	88,493,493	191,579,513	22,180,957	215,881,000	7,000,000	224,273,000	7,000,000
Department of State	396,427	281,591	289,115	263,257	206,611	134,819	462,485	43,350	525,168	
Treasury Department	8,515,690	3,476,401	7,756,523	115,870,371	14,985,721	53,543,727	15,271,762	10,997,294	12,665,303	7,062,875
Total balances in revolving and management funds	[1] 897,396,081	2,642,852,672	77,242,526	5,315,758,154	404,462,928	4,224,066,712	458,584,675	3,562,211,679	632,450,444	3,542,062,070
Allowance for contingencies							50,000,000		150,000,000	
Total balances available at start of year	49,709,552,481	23,120,298,092	37,828,006,620	41,814,802,998	37,492,079,775	35,497,353,922	40,290,108,125	29,711,289,408	45,083,324,483	26,430,282,487

[1] Deduct, excess of receivables over obligations.

[2] Deduct, excess of obligations over cash and receivables.

The CHAIRMAN. Can the executive branch use those balances to replace the cuts by Congress in expenditure authorizations in many instances?

Secretary HUMPHREY. Well, these appropriations are very strict, as you know, very strict regulations as regards shifting of funds from one account to another.

The CHAIRMAN. Within the departments?

Secretary HUMPHREY. I regret to say there sure are. I went to Congress this year, for the Treasury Department, where they had made some reductions in the budget, which I was glad to accept, provided they would give me a 5 percent movement, which they willingly did.

The CHAIRMAN. That is true.

Secretary HUMPHREY. That was only 5 percent.

The CHAIRMAN. But, as you know, the Treasury now is assisting me in an effort to ascertain to what extent reductions in appropriations and other expenditure authorizations to date will be reflected in expenditure reductions in the coming fiscal year, beginning July 1, and it is practically impossible to ascertain that because we don't know to what extent these unexpended balances in old authorizations will be used.

Now, why is that?

Secretary HUMPHREY. Well, it is difficult because——

The CHAIRMAN. I have been working with your own staff in connection with that, as you know.

Secretary HUMPHREY. That is right. We have been working trying to get it better in hand than it is.

The CHAIRMAN. And they are finding it difficult to show definitely what the reduction in expenditures will be.

Secretary HUMPHREY. That is so. I know that.

The CHAIRMAN. There are billions in these balances which can be spent, despite appropriation reduction, if the President chooses to allow it. Last year for instance, we reduced the foreign aid appropriation by a billion, but the reduction in the cash expenditures was estimated at $200 million.

Secretary HUMPHREY. That is right.

The CHAIRMAN. I know you have done your utmost to wipe out these unexpended balances, but I think you will agree with me that the Congress has lost control of budget expenditures.

Secretary HUMPHREY. They have been too large.

The CHAIRMAN (continuing). In large measure because of these unexpended balances. You have testified to that effect, and you have done everything you could—you and former Budget Director Dodge—to get that corrected.

Secretary HUMPHREY. That is correct.

The CHAIRMAN. Let us go to inflation again.

You said in your statement yesterday—I do not have the page—something which indicated that the cost of living had only increased a very small percent.

Secretary HUMPHREY. That the what?

The CHAIRMAN. The cost of living as shown by the consumer's price index.

Secretary HUMPHREY. Yes.

The CHAIRMAN. Did you include the period from April 1956 to April 1957?

Secretary HUMPHREY. Yes; I go through April 1957. The table starts with April 1956, and goes through the quarters of that year, and then comes to the 4 quarters of the following—the 4 months, I mean, of the following year, that is 1957. That is this year. So we come right down——

The CHAIRMAN. I know, but in your statement yesterday, I do not have it before me, you made reference to a decline of only a fraction of 1 percent.

Secretary HUMPHREY. Well, that was up through the period of 1956, I think you are thinking about.

The CHAIRMAN. I say that is a——

Secretary HUMPHREY. It is a fraction, as I recall it; six-tenths of 1 percent a year for the 4-year period through 1956.

If you will turn to the very next page, right at the top of the page, you will then see I brought that right down to date, right down to the first day of May, which is the last figure that is published.

The CHAIRMAN. I know it was unintentional, but that would mislead because actually from April 1956, to April 1957, the Consumer Price Index went up 5 points. That was a very considerable rise during that time.

Secretary HUMPHREY. A little less than 4½, I think.

The CHAIRMAN. Well, less than 4½.

Do you think there are specific things that should be done to stop this inflation, or are you concerned about it? Do you think it may be serious? And I will also ask, if we should continue losing 2 cents a year for 10 years, what would be the condition of this country?

Secretary HUMPHREY. I think it would be extremely serious, and I feel exactly as I expressed myself before: that if, over a long period of time, we do not get better control of our expenditures, and if we are not able to control our Government expenditures, Government services, and the expenditures that individuals make, at the same time, if we are unable to get a better control of our situation, that we can get ourselves into a very great deal of trouble.

The CHAIRMAN. In your judgment, how long can we continue to lose 2 cents, which is 4 percent of the present dollar, and not get into very serious difficulty?

Secretary HUMPHREY. I do not think anybody, Mr. Chairman, can pinpoint dates on this. These things go for some time before there is a public realization of what is going on, and then you get rather unexpected swings that usually are not anticipated, but then all of a sudden the public develops some loss of confidence that moves over the country like a blanket, and everybody gets to thinking the same thing at the same time, and you get into difficulty.

The CHAIRMAN. Suppose it continued for 5 years. That would be 10 cents further loss, bringing the value of our dollar down to less than 40 cents compared to 1940. Would that be serious?

Secretary HUMPHREY. I would not be able to guess a time. All I could say is that it is a trend that we ought to get hold of and that we ought to retard and stop.

The CHAIRMAN. Do you agree with Mr. Stam? He has furnished me with a memorandum showing that if we go back to the national income of 1955, there will be a loss of $13 billion of revenue to the Treasury?

Secretary HUMPHREY. Well, I have not made up those figures. It would not be hard to do. But of course, if we had a very substantial drop in activity, we would have a drop in our income, and that would seriously affect our budget position.

The CHAIRMAN. I am just speaking of 2 years, going back to 2 years ago. We were supposed to be very prosperous then.

Secretary HUMPHREY. Let me see if we cannot figure it here very quickly. I have forgotten what the income was during that year you are talking about. What 2 years? The new budget, 1958 budget?

The CHAIRMAN. I am talking about fiscal 1955, going back to fiscal 1955 as compared to the period that generates the revenue for this fiscal year 1958.

Secretary HUMPHREY. For 1958, yes.

The CHAIRMAN. Mr. Stam is a recognized authority. He estimates there would be a $13 billion loss of revenue.

Secretary HUMPHREY. The difference is $13.2 billion, as I make a quick figure here, which would confirm—there may be some little adjustment that makes——

The CHAIRMAN. In round figures, $13 billion.

Secretary HUMPHREY. It would be a large amount of money.

The CHAIRMAN. In other words, a $13 billion loss that would wipe out the $1 billion or so estimated surplus, and we would have a $12 billion deficit.

What would that do to the economy of the country?

Secretary HUMPHREY. Well, I think it would have very serious consequences.

The CHAIRMAN. Going back just 2 years, Mr. Secretary, would not be regarded as a great recession. We thought we were very prosperous 2 years ago.

Secretary HUMPHREY. That is right.

The CHAIRMAN. Well, is it not a fact that we have not gotten into difficulty before because we have had a rising period of prosperity since 1940?

Secretary HUMPHREY. That is correct.

The CHAIRMAN. Has any preparation been made or any reserve established against a minor recession? I am not talking of a great depression, but I am talking of a minor recession, just going back to 1955.

Secretary HUMPHREY. You mean have we some nest eggs laid away here and there?

The CHAIRMAN. Not nest eggs.

Secretary HUMPHREY. Not that I know of.

The CHAIRMAN. I know there are no nest eggs.

Secretary HUMPHREY. I have been looking for nest eggs and have not been able to find them.

The CHAIRMAN. All of those nest eggs have been hatched out and spent.

But you must have some plans, because here we are skimming along now on thin ice, and all we have got to do is go back 2 years and we would be in terrible difficulties. What are the plans for meeting such a situation?

Secretary HUMPHREY. Well, the unfortunate thing is, Mr. Chairman, that until you know what the conditions are that you have to meet, it is very difficult to make plans to meet them.

I think you have to be guided by conditions as they develop, and try to use the appropriate, try to do the appropriate, things.

I, of course, think this, and I have said so many times: that while there are things that the Government can do to be helpful in these situations, either up or down, the real, the real force in our economy are the citizens of America. It is not the Government. The Government's participation is relatively small.

Now, the Government should do what it can and should conduct itself in a sound way and in a proper way as far as it can. But the real strength of America lies in the citizens, in the free initiative, the free thinking, the free choice of the American citizen, and his own activity and his own confidence in himself, in his future, in his security, and in the reasonable and right and proper conduct of his Government.

The CHAIRMAN. The American citizen cannot be expected to understand the details of all these things, and I do not see how he can act effectively when the situation is upon him. He depends upon us, his Representatives, in the Government at Washington, to take care of such matters.

Secretary HUMPHREY. Every American citizen, or most, the great majority of American citizens, looks after his own affairs pretty well, and it is the cumulative effect of millions of American citizens looking after their own affairs well which gives the strength to the country. There is nothing the Government can do that can give strength to the country if the American citizens themselves fail to look after their own affairs.

The CHAIRMAN. If we were to have a $12 billion deficit, then it would be up to the Government to do something, would it not? I do not know what the citizen back home could do about it.

Secretary HUMPHREY. Well, there would be some things the Government could do, and there probably would be some things the citizens could do.

The CHAIRMAN. What could citizens back home do, make a contribution to the deficit?

Secretary HUMPHREY. They eventually would have to pay it, yes. Whatever the deficit is, it finally lands in the citizen's pocketbook.

The CHAIRMAN. I am not predicting any such thing will occur, but as you well know, and this committee well knows, our taxes are up to a point where, if we raise them higher, there will be diminishing returns. They are close to the highest taxes this country has ever had.

There was a reduction in 1954. But it is well to bring out the figures. Notwithstanding that reduction, there has been an increase in tax revenue collected from the people. In 1953, we collected $64.7 billion; in 1957, we collected $70.6 billion. That is an increase in collections of more than 10 percent.

Now, the point that concerns me, and I am deeply concerned about it, is that we have no reserves. We are just assuming everything is going up and up. And you know better than I know that that does not happen without interruption. Things go down sometimes. They may come back again, but they go down too.

Secretary HUMPHREY. Well, Mr. Chairman, you want to remember this: that we would have $25 billion more either on hand or in reduction of debt or something else, if everything had gone as you say and we had not handed that much money back to the people in tax reduction.

So the people have had the benefits of $25 billion in lesser taxes over this same period you are talking about.

The CHAIRMAN. I am bringing out the point there was a reduction in tax rates, but an increase in collection.

Secretary HUMPHREY. There would have been $25 billion more collected.

The CHAIRMAN. I do not know the total. But there has been a 10 percent increase in actual cash collected from American taxpayers.

Secretary HUMPHREY. If all other conditions had remained equal, which I would doubt.

The CHAIRMAN. It seems to me the Treasury ought to have something in mind. You have said you would not regard going back to 1955 as any great depression.

Secretary HUMPHREY. No; I would not.

The CHAIRMAN. Would you regard it as a recession?

Secretary HUMPHREY. I think I called it a rolling readjustment. [Laughter.]

The CHAIRMAN. All right, rolling readjustment.

If you have a "rolling readjustment" now, you are going to have a $12 billion deficit. What are you going to do about rolling that? [Laughter.]

Secretary HUMPHREY. Well, I would try to meet it as I saw what my problem was, and I know of no other way to do it.

The CHAIRMAN. Is that not a great potential danger? We have exhausted our capacity to tax. I think we have exhausted our capacity to borrow.

Now, if something adverse happens to us, even in a small way, in these conditions that confront us——

Secretary HUMPHREY. Well, Mr. Chairman, every housewife in America knows if you spend all you earn and you borrow more money than you can repay, and then a rainy day develops, you are in more trouble than you would be if you had been more cautious as you proceeded along.

The CHAIRMAN. You are talking my doctrine 100 percent. [Laughter.] It is what I have been preaching here for 25 years, and have not been able to get many people to agree with me.

I just want to ask a few more questions——

Secretary HUMPHREY. Our trouble is, there are not enough housewives in the Government.

The CHAIRMAN. I want to ask a few more questions on inflation.

Inflation is a very complex thing. The Library of Congress has supplied me with a definition, but it is rather complicated. I want to ask you this question:

Can it be said simply that the decrease in the purchasing power of the dollar is the best measurement of inflation?

Secretary HUMPHREY. Well, I do not know that it is the best, but it certainly is a measurement.

I am not—I do not know much about the theory of these things. As you know, I am just an ordinary businessman. I know the effect of what happens.

The CHAIRMAN. Yes.

Secretary HUMPHREY. I would certainly say that that was a measure.

The CHAIRMAN. I understand that there are many elements, but is this not the outstanding measurement?

Secretary HUMPHREY. Well, they are all relative, you see. If your cost of living goes up, the value of your dollar goes down.

The CHAIRMAN. That is a good index of inflation; is it not?

Secretary HUMPHREY. It is an index; yes, sir.

The CHAIRMAN. Without going into this complicated definition from the Library of Congress—I have confidence in the Library's work——

Secretary HUMPHREY. I cannot understand most of those.

The CHAIRMAN. It is complicated.

But for a simple-minded man, as I am, would it be accurate to say that inflation or deflation is measured by the purchasing power of the dollar?

Secretary HUMPHREY. I think that is about right.

The CHAIRMAN. All right.

Now, we understand that credit inflation and price inflation exist today. If that is true, would you, in clear and concise and simple language, as you always use, define each of these two kinds of inflation?

Secretary HUMPHREY. Well, you are getting over my head in theoretical definition. I cannot do that.

And I do not know that the two are too far apart. They come from a little different causes, they develop in a little different way, but the net effects merge after you get down the road a little way.

A price inflation occurs through increases in costs, of one kind and another, that result from either increases in costs from excessively high employment or from various causes of that kind, and prices going up because of an excessive demand over the supply of goods.

Whereas the credit inflation comes about originally or starts originally with the monetary policies, developing more credit in the country, and providing more money and more credit than you previously had.

Now, as you get along a little way, either one will have an effect on the other, I think, and the net result of both is that as they become operative, you finally find that your dollar buys less and your costs of living are more.

The CHAIRMAN. I think you have said before that large deficit spending—and we had large deficit spending during World War II and the Korean war—is probably the most important factor in inflation; is that correct?

Secretary HUMPHREY. I think there is nothing that will push you along the road to inflation much faster than large Government deficit spending.

The CHAIRMAN. We did not have deficit spending last year, and it was not estimated for this year; yet inflation has started again. Do you think the high Government spending is responsible for that?

Secretary HUMPHREY. I think it is a part of the pattern.

The CHAIRMAN. What else would you say?

Secretary HUMPHREY. As I said before, I think that it is the degree of prosperity in the country that we are enjoying, and in direct proportion to the degree of prosperity that you have, your inflationary pressures develop.

The CHAIRMAN. Then Government spending——

Secretary HUMPHREY. And Government spending is contributing to that pressure.

The CHAIRMAN. We have increased borrowing in the last 4 years by $200 billion—that is the corporations, individuals, and Government. Now, that money is circulating in the economy of the country. Has that borrowing been inflationary?

Secretary HUMPHREY. I think probably it has.

The CHAIRMAN. Would you name, in order, the major causes of inflation, starting first with high deficit spending?

Secretary HUMPHREY. Well, I cannot give you any textbook determination of it, Mr. Chairman. I have told you as much as I can of the cause of the pressures that develop, and it is those pressures which, if they are not offset in some way, gain in momentum and you finally get to where you cannot control them.

The CHAIRMAN. I would rather not have any textbook definitions. I would rather take a definition based on your experience and your judgment as a man who has perhaps had as much business experience as any man in the United States today, combined with Government experience. These textbooks are very difficult to understand in a matter like this. In the first place they do not always come from people with practical experience.

Secretary HUMPHREY. Well, by and large, and over a sufficient period of time, you cannot have much more than you produce, and that is true for people and it is true for the whole Nation.

By and large, if your costs are pushed up in various ways, in ways to an extent that cannot be offset by increases in productivity of your people, if your wage costs go up substantially faster than your productivity goes up, by and large, if your investment goes up very much more rapidly than your savings go up, if your expansion is very largely in debt and very little in savings instead of vice versa, you sooner or later get to a place where you get an imbalance.

And as you get those imbalances, you get excessive or decreased demands, which result in either inflationary or deflationary pressures that affect the costs of your goods and the prices of your commodities and, finally, your cost of living and the value of your money.

The CHAIRMAN. Is reduction in taxes inflationary?

Secretary HUMPHREY. I think perhaps temporarily, under certain conditions, it might be. In one of the most important cases of the Supreme Court they enunciated long ago the doctrine that the power to tax is the power to destroy.

I believe that, and I believe that the excessive use of the power to tax can destroy the American system, if it is carried to a sufficient excess; that it will so limit and so decrease the natural pressures that we rely upon to stimulate individual incentive, individual activity and individual endeavor, that you can first change and then perhaps ultimately and finally destroy our system of government.

The CHAIRMAN. Well then, you regard the reduction of taxes when they are too high as not inflationary?

Secretary HUMPHREY. I think our taxes now are too high. I think we are taking too much.

Again, these things are never just for the moment. Their effects are extended, they are over a period. But the effect sometimes comes suddenly and very unexpectedly. And I think our taxes are too high, and we should move in every way that we can, and as rapidly as we can and still perform our other obligations, and reduce these taxes.

The CHAIRMAN. But it should be done only when there is a balanced budget and a surplus in the Treasury?

Secretary HUMPHREY. That is my belief.

The CHAIRMAN. How much Treasury surplus do you think you should have, to justify a reduction of the taxes?

Secretary HUMPHREY. That, again, is not a fixed amount, it is not a definite thing you can pin right down. We are collecting, in round figures, $70 billion. A 10 percent reduction of all taxation would be $7 billion. Five would be 3½. I think that to make a suitable and a proper tax reduction, it would take several billion dollars.

The CHAIRMAN. Would you favor a percentagewise tax reduction, or some other kind?

Secretary HUMPHREY. Well, there again, Mr. Chairman, I have been asked many times to state exactly what to do. I do not think any man can intelligently state exactly what he would do until he knows the amount that would be available for disbursing.

Now, whether it would be advisable to reduce or increase excise taxes simultaneously with a reduction or an increase in income taxes, or how you would apportion it, I think depends very largely upon how much money you have and very largely upon conditions existing at the time a reduction is made.

The CHAIRMAN. Let us take the imaginary figure of $5 billion. If you had $5 billion, would you pay any part of that on the public debt?

Secretary HUMPHREY. That again would depend very largely on the times that you were in. If you were in a period of very high prosperity and all, your inclination would be to use more of it in debt reduction than in tax reduction.

If you were in a different period of time, you might favor more tax reduction and less debt reduction. It would depend upon the pressures that were on the economy at the time you were confronted with the movement.

The CHAIRMAN. Eliminate the debt reduction, and if you had $5 billion that could be used for tax reduction, what are your views as to how a $5 billion tax reduction should be made?

Secretary HUMPHREY. I would try to do it in two ways: I would try to do it in ways that would cover the broadest list of people. I would try to cover, if possible, every single taxpayer in some way. And I would try to keep in mind the things that would best serve to stimulate the growth and development of the country.

And between the two, I would try to figure out the most advantageous tax reduction.

The CHAIRMAN. What has been the history of the effects of inflation on other countries, so far as you know?

Secretary HUMPHREY. Well, of course, it has been terribly serious, and in a good many places in the world it has destroyed them.

The CHAIRMAN. The governments of many countries have been destroyed, have they not?

Secretary HUMPHREY. That is right.

The CHAIRMAN. Does that not come somewhere along the line when 66 percent, say, of the value of the money is destroyed? We have already lost 50 percent.

Secretary HUMPHREY. I do not know. I heard somebody, perhaps it was you, say that the other day, and it is a very interesting figure, but I really do not know whether that is borne out. I did not have a chance to see. I do not know that there is a fixed thing.

The CHAIRMAN. There is not any fixed standard for it. It depends upon the country. But it is possible for inflation practically to destroy governments.

Secretary HUMPHREY. Mr. Chairman, as you know, the history of the world is when this thing starts, the first decreases are the slowest, and as it goes along it gathers momentum, and it goes faster and faster, and as people lose confidence in their money they seek to turn their money into goods, and the price of goods soars and the value of money declines until—I had a friend of mine who told me that he and three of his friends—just before the complete debacle in China, that he paid a million dollars for a dinner, his check for dinner was a million dollars, and he gave the waiter a tip of a hundred thousand dollars.

The CHAIRMAN. What you have just said about inflation growing and growing, is what disturbs me about this new inflation. It stopped for 4 years, and now it has started anew.

Let me ask this question: Is the increase in interest rates inflationary?

Secretary HUMPHREY. Is what?

The CHAIRMAN. The increase in interest rates, is that inflationary or not?

Secretary HUMPHREY. I think under the conditions existing at the present time, it is certainly deflationary. As the cost of money rises, there are two very simple things that occur: As the cost of money rises, the rent for money rises—interest is rent for money, and as you get higher rent bid for your money, there is more incentive to save that money and to put it out for rent than to spend it. That is particularly true if, at the same time, you are not worried about the loss of the value of your money, if you think that if you lend it out and get some rent for it you will get the money back and it will buy as much as it did before you rented it out.

So the stimulation of savings comes about through two things: It comes about through increased interest, which is increased rent for the money, plus a widespread feeling of security that the value of the money is not going to decline. And you have to have them both to stimulate savings.

Now, as you stimulate the savings, why, of course, that generates more money for use in the development of the country, in the building of equipment and machines, and increasing the productive power of the people.

The CHAIRMAN. Take, for instance, a corporation which under its competitive conditions is able to pass on to the consumer an increase in interest rates. Would the increased interest be inflationary in that case?

Secretary HUMPHREY. Well, what you can pass on, what one person with goods to sell can pass on to a buyer of those goods depends upon the competitive situation that is existing at the time. Whether you are a manufacturer or a farmer or just an individual trader, there is not a bit of difference, that I can see, in making an automobile and selling it, or trading a horse, you can price it at what the market will take, what the demand will stand. And if you price it too low, you will sell out so quick you will be out of business.

The CHAIRMAN. That is not quite the situation now. The farmer cannot pass it on because he is in an overproduced market. Some of these great corporations and combinations can pass it on, as you well know.

Secretary HUMPHREY. Well, I hear that a lot, but I have never——

The CHAIRMAN. Is this not true——

Secretary HUMPHREY (continuing). I have not seen it.

The CHAIRMAN. Is it not true that an increase in rents, the interest rates, is the same as an increase in wages or anything else?

Secretary HUMPHREY. It reflects an increase in costs.

The CHAIRMAN. And the effort, then, of the corporation or the businessman is properly to pass it on if he can?

Secretary HUMPHREY. That is right.

The CHAIRMAN. Some corporations or some businessmen can pass it on because of the competitive situation, and others cannot.

Secretary HUMPHREY. I think that is right. And sometimes they can do it at one time, and they cannot at another.

The CHAIRMAN. Yes.

It would seem to me that those corporations which have an overwhelming production of a particular product are in a better position to pass it on than other corporations which are in a more competitive position.

Secretary HUMPHREY. Well, I do not really know of a business where there is not competition; and I have never seen one that lasted very long, where there was not some competition, because there are just too many smart fellows around looking for a place where there isn't competition, to get in to make some money, and the first thing you know they get into business there and you have got competition.

The CHAIRMAN. You made a statement a little while back that the increase in wages in excess of the productivity of those wages is inflationary.

Secretary HUMPHREY. That is right.

The CHAIRMAN. What is the effect of interest rates in excess of the productivity of the money on which they are paid?

Secretary HUMPHREY. I think it probably would have the same effect, except that there is a deterrent effect that rises from an increase in the cost of interest, in that people are deterred from taking on obligations that require that additional payment. They do not expand quite so rapidly or they do not expand inventories quite so rapidly, or they become more cautious, if they have that obligation.

So an increase in the amount of interest, in rent for money, creates a precautionary atmosphere which does not exist the other way around.

The CHAIRMAN. Does the same general principle apply when business costs are increased in excess of their productivity?

Secretary HUMPHREY. Yes.

The CHAIRMAN. Any increased cost of that nature, if it is passed on to consumers, is inflationary?

Secretary HUMPHREY. Not necessarily, because I think perhaps the deterrent effect more than offsets the inflationary effect.

As I showed you in this paper yesterday, the actual interests costs are so relatively minor in a movement of this kind that they are almost lost in the shuffle. They do have some effect in that direction, there is no question about it.

On the other hand, they have a deterrent effect that offsets it to quite—I would think, myself, that the deterrent effect would be greater than the inflationary effect.

The CHAIRMAN. Well, I cannot agree about this being so minor, because these interest rates have increased rapidly.

Let us take the case of the Federal Government. You offered this last bond issue at 3⅝. As I understand it, only a part of them were sold, on a 5-year basis.

Of course, I know various issues have different maturity dates, but suppose the entire Federal debt were to be refinanced at the rate on this last offering; what would it cost in interest?

Secretary HUMPHREY. Well, I think, in the first place, that there is a lot of misunderstanding about this last issue of bonds.

We did not offer bonds for sale for cash at all. What we had was a refunding of an issue that was held by certain holders.

Now, some of those holders, a large percentage of those holders, had purchased those bonds for particular purposes and for particular uses, cash uses, and we knew before we started that a large amount of those bonds, the holders of them wanted cash, and they were not going to turn them into any kind of bonds.

So that the fact that we had as large a loss of conversion as that was just about, frankly it was very close to, what we estimated when we started. It was not anything that was a surprise to us or that we did not expect.

We estimated something in excess of a billion dollars of attrition at the time we made this offer, and we made it with that expectation, and then planned to raise the money in another way, in a cash offering.

If this had been a cash offering, tailored to terms that met the public requirements, and then we could not sell them, that would have been something serious.

The CHAIRMAN. Could you have sold them——

Secretary HUMPHREY. But this was not that kind of a case at all.

The CHAIRMAN. Could you have sold those bonds as a cash offering at 3⅝ percent?

Secretary HUMPHREY. That depends entirely on the situation—I think we might have sold it for less, we are selling some issues for less.

The CHAIRMAN. Could you have sold it on a 5-year basis?

Secretary HUMPHREY. I do not know. There again, Mr. Chairman, you have got to tailor your goods to meet the market requirement, and I cannot sell you a winter suit this afternoon. You would not buy one. It is too hot. And if I try to sell you a winter suit this afternoon, it does not make much difference what price I put on it, you would say, "I am not interested."

So I have got to sell you a thin suit if I want to sell it to you today; and if I sell you a thin suit at a decent price, you will buy it.

Now, it is just exactly the same with bonds. If I tried to sell you an overcoat, a fur-lined overcoat, this afternoon, I would not get very far.

The CHAIRMAN. Mr. Secretary, the Southern people especially have to be on the Senate floor——

Secretary HUMPHREY. I hope they are not going to spend a lot of money.

The CHAIRMAN. No. There is another matter on which I am confused. I will have more questions tomorrow—but now I want to ask you about our gold supply. We have $22.406 billion of gold. The foreign dollar holding of gold is $13 billion. Does that $13 billion come out of the $22 billion?

Secretary HUMPHREY. I do not quite know what the figures are you are talking about. Are you talking about gold, or short-term credits?

The CHAIRMAN. I am talking about the gold we have at Fort Knox which, as I understand it, is supposed to be $22 billion; is that approximately right?

Secretary HUMPHREY. Yes; $22.4 billion. It does not happen to be all at Fort Knox, but that is all right.

The CHAIRMAN. Is part of this gold in Fort Knox owned by other countries, or not?

Secretary HUMPHREY. We own the gold. But foreign countries have dollars in this country with which they could buy some of this gold.

The CHAIRMAN. What?

Secretary HUMPHREY. There are thus potential claims on a considerable part of that gold; yes, sir.

The CHAIRMAN. That means——

Secretary HUMPHREY. By other countries.

The CHAIRMAN. That means that we do not own 58 percent of this gold?

Secretary HUMPHREY. No. We own the gold. I do not know just what the percent of foreign balances in relation to the gold is at the moment. I can get the figures.

The CHAIRMAN. I have the figures.

(Secretary Humphrey subsequently submitted the following:)

United States gold stock and foreign short-term dollar holdings, end-year, 1945–56 and Mar. 31, 1957

[In millions of dollars]

End-period	United States gold stock	Required gold reserves [1]	Foreign short-term dollar holdings [2]			
			Foreign countries			International institutions (official)
			Official	Private [3]	Total	
1945	$20,083	$10,919	$4,179	$2,704	$6,883	....
1946	20,706	10,780	3,044	2,963	6,007	$474
1947	22,868	11,341	1,832	3,022	4,854	2,262
1948	24,399	11,938	2,837	3,017	5,854	1,864
1949	24,563	10,795	2,908	3,052	5,960	1,658
1950	22,820	11,045	3,620	3,497	7,117	1,528
1951	22,873	11,758	3,548	4,113	7,661	1,641
1952	23,252	12,092	4,654	4,307	8,961	1,585
1953	22,091	12,187	5,667	4,352	10,019	1,629
1954	21,793	11,847	6,774	4,379	11,153	1,770
1955	21,753	12,009	6,956	4,768	11,724	1,881
1956	22,058	12,120	8,032	5,449	13,481	1,452
March 1957	22,406	11,761	7,530	5,520	13,050	1,558

[1] Required gold reserves are fixed by law at 25 percent of notes and deposit liabilities of the Federal Reserve System. These figures also include small amounts of statutory gold reserves against certain other types of currency.

[2] Foreigners also held U. S. Government bonds and notes amounting to $1,638 million on Mar. 31, 1957.

[3] The Treasury Department does not engage in gold transactions with foreign individuals or private institutions, but only enters into such transactions for monetary purposes with foreign governments, central banks, and certain international institutions.

Secretary HUMPHREY. But there is a substantial amount of the gold that might be purchased by other countries to be shipped to them.

The CHAIRMAN. Well, the figures I have are $26.406 billion in March 1957, and that is carried on the financial——

Secretary HUMPHREY. Twenty-six billion?

The CHAIRMAN. I meant to say $22 billion.

Secretary HUMPHREY. Twenty-two billion of gold on hand.

The CHAIRMAN. On hand—in March; it is carried as an asset on the Treasury daily statement.

Secretary HUMPHREY. That is right.

The CHAIRMAN. Now, the foreign holdings are $13 billion-plus, which is 58 percent.

Is it correct to understand that foreign countries own, for practical purposes, 58 percent?

Secretary HUMPHREY. I cannot quite identify the figures, but the fact is that foreign countries do have possible claims against a substantial part of our gold.

The CHAIRMAN. And that means they own it?

Secretary HUMPHREY. No; it means that under present laws and regulations, they can use their dollar balances to purchase it for export.

The CHAIRMAN. That means they own it?

Secretary HUMPHREY. They do not own it, but they can ask that it be shipped to them. It is not theirs, it is ours now, but under present regulations they can demand that it be shipped to them.

The CHAIRMAN. If they can demand it, it must belong to them.

Secretary HUMPHREY. No, they can demand that we sell it to them, but unless they do so, it is ours.

The CHAIRMAN. You are just the custodian of it; you are not the owner?

Secretary HUMPHREY. Well, that is not right.

The CHAIRMAN. If somebody asked me to keep a thousand dollars for them, I do not own that money, because they can call for the thousand dollars.

Secretary HUMPHREY. No, no. But if you have a thousand dollars, and you give me a little slip of paper saying that "I owe you $500," you still have got your thousand dollars until I say I want $500 of it, and then you turn it over to me.

The CHAIRMAN. I might have it, but if I spend it——

(Laughter.)

Secretary HUMPHREY. If you spent it, you would be in trouble.

The CHAIRMAN. If I spent it, I could not pay when it was demanded.

Secretary HUMPHREY. That is right.

The CHAIRMAN. I do not understand what you have said. Would you be prepared to discuss this subject tomorrow?

Secretary HUMPHREY. I will.

The CHAIRMAN. All right.

We will adjourn until 10 o'clock tomorrow morning.

(Whereupon, at 12 noon, the committee adjourned, to reconvene at 10 a. m., Thursday, June 20, 1957.)

INVESTIGATION OF THE FINANCIAL CONDITION OF THE UNITED STATES

THURSDAY, JUNE 20, 1957

United States Senate,
Committee on Finance,
Washington, D. C.

The committee met, pursuant to recess, at 10:00 a. m., in room 312, Senate Office Building, Senator Harry Flood Byrd (chairman) presiding.

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

Also present: Elizabeth B. Springer, chief clerk; and Samuel D. McIlwain, special counsel.

The Chairman. The committee will come to order.

When we recessed yesterday, I had asked the Secretary to explain the gold stock, and the Secretary has advised that it would be necessary to obtain additional information. It is a complicated subject. When will you have that ready, Mr. Secretary?

STATEMENT OF HON. GEORGE M. HUMPHREY, SECRETARY OF THE TREASURY—Resumed

Secretary Humphrey. We will try to have it for you tomorrow, just as soon as we can pull the data together.

The Chairman. We will not take it up at this time, Mr. Secretary; I have a few other questions to ask.

Our public debt, as you know, is approximately $275 billion. In addition to that, the debts of the States, the localities, and the corporations and individuals is $525 billion, making a total of $800 billion.

This is an increase of $200 billion or 33 percent in 4 years.

Do you regard this as a healthy situation?

Secretary Humphrey. I can say this without the slightest doubt, Mr. Chairman, it would be a whole lot better for all of us if it was a lot less.

The Chairman. Has it added to the inflationary pressure?

Secretary Humphrey. It very definitely has added to the inflationary pressure.

The Chairman. Do you anticipate this gross total of indebtedness will increase or decrease?

Secretary Humphrey. To be realistic about it, much as you would hope that it might not go on increasing certainly at anything like current rates, some of this debt is going to increase for a while.

The Chairman. What segment of debt do you think will increase?

Secretary HUMPHREY. I am thinking more of the State, local and political subdivisions debt. I hope not the Federal, provided of course we do not engage in a war or have some international complication.

The CHAIRMAN. What do you think about the personal and corporate indebtedness?

Secretary HUMPHREY. Personal and corporate indebtedness is a little different. Personal and corporate indebtedness, if it is incurred in connection with increased productivity and the development of lowering costs and increasing production performs a very useful function and is not nearly as inflationary as debt spent for a good many other things.

Now the opposite is not true of all public debt by any means, but it is more true of public debt than it is of private debt.

The CHAIRMAN. You would mean that some of the corporation debt would be for productive purposes?

Secretary HUMPHREY. That is right.

The CHAIRMAN. It would be used for increasing production?

Secretary HUMPHREY. A substantial part of that is to provide more goods, more, cheaper, better goods for more people.

The CHAIRMAN. But the consumer debt of course is in a different category, is it not?

Secretary HUMPHREY. Yes, in a way, and yet I have said a number of times, Mr. Chairman, that consumer debt within proper limits—and I am not talking about gross figures, I am talking about proper limits for the individual that does the borrowing—if that consumer borrowing is done within amply careful limits, it really has gotten in this country to become sort of a means of saving, sort of a disciplinary situation that promotes savings to a greater extent than the individual would discipline himself to do without.

The CHAIRMAN. Would that apply to the purchases of radios and things like that?

Secretary HUMPHREY. It applies mostly to things that help in adding to production and are of a long-term nature, not just straight consumer goods.

The CHAIRMAN. Do you think the present consumer debt is excessive?

Secretary HUMPHREY. It is extremely difficult to reach a conclusion on that. I don't think anybody knows, Mr. Chairman. I think that that is one of those things that is going on in our modern society that has to be worked with, and I think we have to sort of feel our way with respect to it.

I personally have so much confidence in the good sense and the intelligence of the American people over a period of time that I would much rather trust the peoples' judgment than I would some arbitrary limitation.

The CHAIRMAN. How would you regard, for example, a practice of making initial payments on automobiles so low that a purchaser is encouraged to buy a higher-priced automobile than he can actually afford?

Secretary HUMPHREY. Of course you presuppose reasonable terms. Now these terms can be stretched until they are out of proportion. All of this is neither black nor white. It is elastic in the way you must look at it. It can be done in a proper way; it can be done in an improper way. If it is done properly and within proper limits, I think it is beneficial. I think that it gets more things into more use more advantageously for more people than would otherwise be the case.

If you push it to extremes, it can have very seriously prejudicial effects.

The CHAIRMAN. Do you think that to date it has been pushed to extremes?

Secretary HUMPHREY. I don't think so. I think that it is paying off—if you will notice the figures, you will see that about the amount that is borrowed, while it keeps increasing some each year in the borrowing, it also keeps increasing in the repayments, and we just keep rolling it over about a year behind all the time, with a little increase each year.

The CHAIRMAN. Assuming that we have a further period of prosperity, what policy and rules should the Government follow to reduce the public debt?

Secretary HUMPHREY. Of course how rapidly you reduce the public debt depends entirely upon how much surplus you have currently in excess of receipts over expenditures, and in a high state of activity such as we have now, why I would think that it would be wise to use at least a substantial part of your savings in debt reduction.

The CHAIRMAN. Assume we have a $5 billion surplus, what percentage of that do you think under present conditions should be applied to the public debt?

Secretary HUMPHREY. I don't believe I can tell you, Mr. Chairman.

The CHAIRMAN. It is generally reported in the press that the Treasury was unsuccessful in its attempt to refinance a maturing issue of Government bonds on a 5-year basis.

Would you please comment on that?

Secretary HUMPHREY. Yes; I explained that yesterday or spoke about it yesterday. There has been a great deal of misconception about that, and a good deal has been said about it by people that just did not understand quite what they were talking about.

This particular issue was a refunding of about $4 billion of outstanding debt. A substantial part of it was held by people that had bought it with a specific need in prospect for the use of money at the time the maturity occurred, and we made an exchange offer for conversion of that debt.

We did not offer to sell debt for cash; we proposed a conversion of debt. This was not a public offering to sell securities to raise money; it was a rollover, and we proposed two alternative issues for the rollover and we did it deliberately. I did it. I will take the full responsibility for it myself. I did it deliberately on what were very narrow margins.

I pinned it right smack on the market with no advantage to the holder to take advantage of his rollover as compared to buying it on the market that day.

I thought it was wise to do it that way. We tested the market. We could see there had been a continually increasing movement toward wanting shorter term maturities and we had further financing coming and we wanted to test the market to get an idea of the trend and the way it was going to go.

We were in a position that we could take care of it if it was not fully subscribed.

We priced it close to the market, and what we thought might occur happened. We had about a billion dollars of shrinkage in the subscription, in the rollover, and it was not a surprise.

The CHAIRMAN. The offer was 4 billion, was it not?

Secretary HUMPHREY. The offering was 4 billion and there was about a billion of it that was not rolled over—that was not taken in the new securities that were offered.

The CHAIRMAN. You mean 3 billion was taken?

Secretary HUMPHREY. That is right; 3 billion was taken and about a billion was not, and that was about the estimate that we had made. We had made an estimate that we might have about a billion dollars of shrinkage in it.

The CHAIRMAN. I am glad to have that information. I was under the impression that it was the reverse.

Secretary HUMPHREY. Oh, no.

The CHAIRMAN. That only 1 billion was taken.

Secretary HUMPHREY. No, no, it was a billion dollars that was not rolled over, and a billion dollars was approximately our estimate of what we might find.

The CHAIRMAN. If that offer had been made as a straightout sale of bonds at three and five-eighths, 5-year bonds; would they have been taken under those conditions?

Secretary HUMPHREY. I think they were priced very close. I don't know whether they would have been taken or not.

As I said to you the other day, selling bonds is not much different than selling clothing. You cannot sell a fur overcoat to a man in July. You have to tailor your bonds like you have to tailor the goods you are selling to fit the market to which the customer wants to buy and you sell him the kind of goods that he wants to buy at the time he is buying.

Now as for these bonds, the demand in the market is for shorter term securities and we have to tailor them to fit the market and price them to fit the market just as you would with a suit of clothes.

You don't want fur-lined underwear in July. You want a nice thin suit.

The CHAIRMAN. Why is there the demand for short-term paper instead of long-term bonds?

Secretary HUMPHREY. I think it is because people are interested in greater liquidity. They don't know just how the markets are going and they are interested in greater liquidity to get their money.

The CHAIRMAN. Is it with the thought that interest rates will go higher?

Secretary HUMPHREY. I think they just don't know whether they are going to go higher or whether they are not and they want to be mobile. They want to be in a position to meet whatever conditions may exist.

The CHAIRMAN. Are they concerned about inflation—the possibility that if they buy on a 50-cent dollar basis now they may be paid off by the Government later with dollars worth less?

Secretary HUMPHREY. I think the fear of inflation is very definitely in the minds of a great many investors, and I don't know why it should not be.

The CHAIRMAN. Right. How much of the debt will have to be refunded in the next 12 months?

Secretary HUMPHREY. I do not have those figures right here. Of course there is always a good deal. We take bids, you know, on billion six hundred million to a billion eight hundred million dollars of Treasury bills every Monday, and there is a large demand. Our business community has grown up on the basis of a large amount of short-term obligation, so that there is a lot of demand.

The CHAIRMAN. Will you repeat that statement?

Senator Martin did not hear it.

Secretary HUMPHREY. We sell more than a billion and a half of Treasury bills every week. They are sold at auction.

The CHAIRMAN. They are for how long—90 days?

Secretary HUMPHREY. Ninety-day paper. They are sold at auction.

The CHAIRMAN. What was the last sale?

Secretary HUMPHREY. As I recall it last Monday it was a billion six and it was about 3.40 percent.

The CHAIRMAN. 3.40 percent for 90-day?

Secretary HUMPHREY. One billion six hundred million.

The CHAIRMAN. Ninety-day bonds?

SECRETARY HUMPHREY. Those are called bills, not bonds, just to keep the record clear. The differentiation, Mr. Chairman, so that we will all understand the terms in the trade, is that a bill is a 90-day bill and a note is for a year or longer, and a bond is for 5 years or longer.

The CHAIRMAN. What was the interest rate on the same class of bills a year ago?

Secretary HUMPHREY. Just a second and we will see if we can find that. It would be less. This has fluctuated widely within the last few months you know, within the last few weeks. It fluctuates from week to week.

The CHAIRMAN. Do you have the averages for the last 12 months?

Secretary HUMPHREY. We can get anything you want. I don't know that we have it all right here.

The CHAIRMAN. Will you supply interest rate figures on the same class of bills 30 days ago, and 90 days ago?

Secretary HUMPHREY. You would like bill rates average for 6 months this year and 6 months last year, the first half of this year and the first half of last year?

The CHAIRMAN. As part of the figures, yes.

Secretary HUMPHREY. All right, the first half each year for these 2 years.

The CHAIRMAN. I did not understand what you said.

Secretary HUMPHREY. I have not got the figure. I will have to look it up. I am just trying to write down what it is that you would like to have and then we will get it for you.

The CHAIRMAN. That is to be part of the comparison?

Secretary HUMPHREY. We will get that.

The CHAIRMAN. You do not have it now?

Secretary HUMPHREY. This won't tell you what you want to know. What you want to know are the new sales, not the averages.

The CHAIRMAN. Suppose we have it in this form.

What were the interest rates on these same classes of bills 30 days ago. Have you got that?

Secretary HUMPHREY. We can get it. I don't know as we have it here. We do not have all this data with us here. We would have to bring a truck, but we can get it all.

The CHAIRMAN. What were they a year ago; do you have that?

Secretary HUMPHREY. No.

The CHAIRMAN. In addition to the latest rate paid, for what other date do you have the rate on these bills?

What I am trying to find out, Mr. Secretary, is to what extent the interest rates have increased?

Secretary HUMPHREY. I know it. What you want is to get some picture of how much we have had an increase and that is what I would like to give you.

Wait just a minute and let me see if we cannot get you what you want. I think this is about what you want. Let me read you here—and I think this will answer exactly what you are looking for—here are the monthly bill rates by months, and I will start with June.

The CHAIRMAN. Is that the average of the month?

Secretary HUMPHREY. This is for the month, yes. This is for June a year ago, 2.527. July, 2.334. This is the average rate on new sales for each month.

August, 2.606; September, 2.850; October, 2.961; November, 3.000; December, 3.230; January, 3.210; February, 3.165; March, 3.140; April, 3.113; May, 3.042; and then I will give you a few weeks.

The week ending May 4, 3.039; May 11, 2.909; May 18, 2.894; the 25th 3.122; the 1st of June, 3.245; the 8th of June, 3.374; June 15 was 3.256; and the last one is 3.404.

I think that illustrates what you are looking for.

The CHAIRMAN. In what month was the greatest increase? In what 3 months period?

Secretary HUMPHREY. It varies. You see this varies, Mr. Chairman, currently with use of money in other markets and the demand for money from other sources and it does not follow any special pattern.

It moves, and this would move with the demands for money from time to time. You see, we are competing, the Government is competing with the citizens and with the other governmental subdivisions for money every time we go into the market.

We are in competition with somebody else to get that same money, and again it is not any different trying to get money than it is buying clothes.

People shop for it, shop around for it, and if the fellow across the street will sell you a suit cheaper than I do, why you go and get it from him, and if I want to get the suit I have to bid for it. There are a lot of people that want money and they all bid for it and that is about the way it goes.

The CHAIRMAN. There has been a general rise though in the interest rates?

Secretary HUMPHREY. What is that?

The CHAIRMAN. There has been a continuing rise in the interest rates, apparently beginning last October?

Secretary HUMPHREY. Yes. It is even a little longer than that but it has been a slow continuous rise. Well, not quite continuous. It goes up and down.

The CHAIRMAN. There have been some fluctuations?

Secretary HUMPHREY. The general trend has been up, and as I said yesterday, the reason the general trend is up is because there are more people wanting money and credit than there is money and credit available for them to have.

The CHAIRMAN. Do you expect that general trend to continue upward?

Secretary HUMPHREY. As long as we have the high levels of prosperity that we are now enjoying and people have the confidence that they want to spend more than they have got.

The CHAIRMAN. Mr. Secretary, I would like for you to furnish to the committee the total amount of the contingent liability of the Federal Government along with your own opinion as to the possibility of these contingent liabilities becoming actual liabilities. I know the total can be run up to a tremendous figure, depending upon definition. I have thought that a conservative figure may be approximately $250 billion. I don't expect you to answer that now.

Secretary HUMPHREY. Mr. Chairman, I will do the very best I can. You and I have been on a committee for 4 years looking at this picture and you know better than anyone how extremely difficult it is to try to estimate the contingent liabilities of this country.

The CHAIRMAN. Just give your personal opinion, that is about all any of us can do.

Secretary HUMPHREY. To know even what they are—contingent liabilities can be put into a number of different classes.

You start, of course, with the form of debt that you owe or that you have endorsed or that you have guaranteed.

Then you go to programs where you undertake obligations for the future like guaranteeing mortgages, State matching programs, and things of that kind.

These State matching programs, there is no way in the world to to know exactly what you are going to be up against because you agree to put up 2 or 3 times as much as the State does.

The CHAIRMAN. Mr. Secretary. Would you regard Federal contributions to a State-aid program as a continuing obligation except to the extent that Congress has appropriated the funds?

In other words, a Federal grant to the States——

Secretary HUMPHREY. As long as that program is in effect, you have an obligation under the law whether the appropriation has been made or not.

The CHAIRMAN. I have never included Federal grants-to-State programs. For instance, President Eisenhower contends the school program he is advocating will last only 4 years.

Secretary HUMPHREY. That may be, that particular one, but we have got a lot of them that are unlimited.

The CHAIRMAN. I may be wrong but I just cannot believe that these programs we are entering into in perpetuity must be appropriated for in future years regardless of whether Congress desires to do so or not. That is not the kind of contingency I had in mind.

Secretary HUMPHREY. What are your thoughts about, for instance, social security?

Suppose we come to a point where on social security our reserves are insufficient. Isn't that a contingent liability where we would have to go on and put up the money?

The CHAIRMAN. That is a contingent liability because under the law in that case we guarantee these particular benefits.

Secretary HUMPHREY. How in the world are you going to estimate the contingent liability on that?

The CHAIRMAN. If you cannot do it just say "I am unable to do it."

Secretary HUMPHREY. All right. I will do the best I can. The real contingencies that this Government is liable for is a lot but I will do the very best I can.

(Secretary Humphrey subsequently submitted the following for the record:)

LONG-RANGE COMMITMENTS AND CONTINGENCIES OF THE UNITED STATES GOVERNMENT AS OF DECEMBER 31, 1956

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

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

Caution should be exercised in any attempt to combine the amounts in the statement with the public debt outstanding for that would involve not only duplication, but would be combining things which are quite dissimilar. As indicated by the enclosed statement, there are $101.8 billions of public debt securities held by Government and other agencies as part of the assets that would be available to meet future losses. The following examples illustrate the need for extreme caution in using data on the contingencies and other commitments of the United States Government.

1. The Federal Deposit Insurance Corporation had insurance outstanding as of December 31, 1956, amounting to $121 billion. The experience of the Federal Deposit Insurance Corporation has been most favorable. During the period this Corporation has been in existence, premiums and other income have substantially exceeded losses which has permitted the retirement of Treasury and Federal Reserve capital amounting to $289.3 million (all repaid to Treasury), and the accumulation of $1.7 billion reserve as of December 31, 1956. The Corporation's holdings of public debt securities as of that date amounted to $1.8 billion which already appears in the public debt total. Out of $241.4 billion of assets in insured banks as of December 31, 1956, $63.5 billion are in public debt securities (also reflected in the public debt). The assets, both of insured banks and the Federal Deposit Insurance Corporation, as well as the continued income of the Corporation from assessments and other sources, stand between insured deposits and the Government's obligation to redeem them.

2. The face value of life insurance policies issued to veterans and in force as of December 31, 1956, amounted to $43.6 billion. This does not represent the Government's potential liabilities under these programs since some of these policies will probably be permitted to lapse and future premiums, interest and the invested reserves amounting to $6.7 billion of public-debt securities should cover the normal mortality risk.

3. Under the Federal Reserve Act of 1913, as amended, Federal Reserve notes are obligations of the United States which as of December 31, 1956, amounted to $27.5 billion. The full faith and credit of the United States is behind the Federal Reserve currency. These notes are a first lien against the $52.9 billion of assets of the issuing Federal Reserve banks which includes $24.9 billion of Government securities already included in the public debt. These notes are specifically secured by collateral deposited with the Federal Reserve agents which as of December 31,

1956, amounted to $17.6 billion in Government securities and $11.6 billion in gold certificates.

Long-range commitments and contingencies of the U. S. Government as of Dec. 31, 1956

[In millions of dollars]

Commitment or contingency and agency	Gross amount of commitment or contingency	Public-debt securities held by Government and other agencies
Loans guaranteed or insured by Government agencies:		
Agriculture Department:		
Commodity Credit Corporation	[1] $791	...
Farmers' Home Administration: Farm tenant mortgage insurance fund	[2] 146	...
Commerce Department: Federal Maritime Board and Maritime Administration	20	([3])
Export-Import Bank of Washington	31	...
Housing and Home Finance Agency:		
Federal Housing Administration:		
Property improvement loans	[4] 296	$50
Mortgage loans	19,432	412
Office of the Administrator: Urban renewal fund	67	...
Public Housing Administration	2,857	...
International Cooperation Administration: Industrial guaranties [5]	96	...
Small Business Administration	20	...
Treasury Department: Reconstruction Finance Corporation (in liquidation)	[6] 10	...
U. S. Information Agency: Informational media guaranties	8	...
Veterans' Administration	15,986	...
Defense Production Act of 1950, as amended	309	...
Total loans guaranteed or insured by Government agencies	40,069	362
Insurance in force:		
Agriculture Department: Federal Crop Insurance Corporation	[7] 307	...
Civil Service Commission: Employees' life insurance	10,084	3
Export-Import Bank of Washington	10	...
Federal Deposit Insurance Corporation	120,996	1,830
Held by insured commercial and mutual savings banks	...	63,465
Federal Home Loan Bank Board: Federal Savings and Loan Insurance Corporation	34,000	258
Held by insured institutions	...	2,559
Veterans' Administration:		
National service life insurance	41,974	5,472
U. S. Government life insurance	1,632	1,191
Total insurance in force	209,003	74,778
Obligations issued on credit of the United States: Postal Savings certificates:		
United States Postal Savings System	[8] 1,621	1,616
Canal Zone Postal Savings System	[8] 6	7
Total postal savings certificates	1,627	1,623
Other obligations: Federal Reserve notes (face amount)	27,476	[9] 24,915
Undisbursed commitments, etc.:		
To make future loans:		
Agriculture Department:		
Commodity Credit Corporation	1	...
Disaster loans, etc., revolving fund	2	...
Farmers Home Administration: Loan program	11	...
Rural Electrification Administration	668	...
Defense Department: Loan to Peru [5]	9	...
Export-Import Bank of Washington:		
Regular lending activities	1,553	...
Defense Production Act of 1950, as amended	1	...
Housing and Home Finance Agency:		
Office of the Administrator:		
College housing loans	138	...
Liquidating programs	([3])	...
Public facility loans	2	...
Urban renewal fund	104	...
Public Housing Administration	241	...
Interior Department:		
Defense Minerals Exploration Administration: Defense Production Act of 1950, as amended	6	...
Virgin Islands Corporation	([3])	...

See footnotes at end of table, p. 82.

Long-range commitments and contingencies of the U. S. Government as of Dec. 31, 1956—Continued

[In millions of dollars]

Commitment or contingency and agency	Gross amount of commitment or contingency	Public-debt securities held by Government and other agencies
Undisbursed commitments, etc.—Continued		
To make future loans—Continued		
International Cooperation Administration: Loans to foreign countries [5]	$446	....
Small Business Administration	37	....
Treasury Department:		
Reconstruction Finance Corporation (in liquidation)	2	....
Defense Production Act of 1950, as amended	7	....
Federal Civil Defense Act of 1950, as amended	3	....
Veterans' Administration (veterans' direct-loan program)	21	....
Total undisbursed commitments to make future loans	3,252	....
Other undisbursed commitments:		
Agriculture Department: Commodity Credit Corporation	597	....
Housing and Home Finance Agency: Federal National Mortgage Association:		
Management and liquidating functions	8	....
Secondary market operations	2	....
Special assistance functions	(3)	....
Treasury Department:		
Federal Facilities Corporation	2	....
All other	(3)	....
Total, other undisbursed commitments	609	....
To purchase mortgages:		
Agriculture Department: Farmers' Home Administration: Farm tenant mortgage insurance fund	(3)	....
Housing and Home Finance Agency: Federal National Mortgage Association:		
Management and liquidating functions	8	....
Secondary market operations	283	....
Special assistance functions	69	....
Total commitments to purchase mortgages	360	....
To guarantee and insure loans:		
Agriculture Department: Farmers' Home Administration: Farm tenant mortgage insurance fund	8	....
Commerce Department: Federal Maritime Board and Maritime Administration	18	....
Housing and Home Finance Agency: Federal Housing Administration	3,672	....
Small Business Administration	7	....
Defense Production Act of 1950, as amended	102	....
Total commitments to guarantee and insure loans	3,807	....
Unpaid subscriptions: International Bank for Reconstruction and Development	2,540	....

[1] The Corporation finances part of its activities by issuing certificates of interest to private lending agencies. The outstanding amount of $208 million as of December 31, 1956, is included in this figure.
[2] Includes accrued interest of $1 million.
[3] Less than $500,000.
[4] Represents the Administration's portion of insurance liability. The estimated amount of insurance in force and loan reports in process as of December 31, 1956, is $1,081 million. Insurance on loans shall not exceed 10 percent of the total amount of such loans.
[5] The Export-Import Bank of Washington acts as agent in carrying out this program.
[6] Includes loans sold subject to repurchase agreements and deferred participation agreements.
[7] Represents estimated insurance coverage for the 1956 crop year.
[8] Excludes accrued interest.
[9] Includes public debt securities amounting to $17,605 million that have been deposited with the Federal Reserve agents as specific collateral.

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

The CHAIRMAN. Take the Federal housing programs. Are they a real contingent liability?

Secretary HUMPHREY. Yes.

The CHAIRMAN. There is approximately $40 billion in current gross housing program authority, exclusive of additional billions in authority to insure veterans housing loans.

Secretary HUMPHREY. That is right.

The CHAIRMAN. I don't mean for you to do the impossible. If you think you cannot give an opinion just say "I am unable to give an opinion."

Secretary HUMPHREY. Fine.

The CHAIRMAN. But I would value your opinion very highly for future reference.

Just state frankly to what extent you think these liabilities will become a charge some day upon the Treasury.

Secretary HUMPHREY. We will do that and be very glad to.

The CHAIRMAN. Now, Mr. Secretary, the best figures available indicate that all taxes for fiscal year 1958 Federal, State, local, individual, corporate, payroll taxes amount to a total of $110 billion.

This is equivalent to nearly one-third of the current national income. How long do you think our competitive-enterprise system can stand a total tax take of this magnitude?

Let me break that down a little further.

The Joint Committee on Internal Revenue Taxation under Mr. Stam estimates that many corporations pay in all taxes of 60 percent of their income. That means the Federal, State, and local taxes, including the unemployemnt taxes, the social security taxes, and so forth. That leaves 40 percent for dividends, development, and incentive.

Then, as you know, individuals pay from approximately 18 percent of their income to 91 percent.

I know it is a big question, but your opinion briefly as to how long our competitive enterprise system can continue under the current tax burden would be helpful. After all, the profit motive is the motor, so to speak, that turns our private enterprise system and makes it go.

How long can we stand taxation of this magnitude?

Secretary HUMPHREY. I believe, Mr. Chairman, that the nearest figure you can get to total taxation as compared to national income is about 31 percent. I am convinced, as you have indicated, that you cannot over a long period take 31 percent of national income in taxes and have that spent by public authorities and maintain the kind of a system that we have had.

You are impairing the individual's rights and liberties, the individual incentives, the individual desires to save.

At that rate of taxation you create so many imbalances that I think you will get into serious difficulty if that is continued over a long period.

Now as I said to you yesterday, I don't think anybody can tell what that period may be. The period is going to be determined very largely by public appreciation of what is going on and how serious it is and how they feel about it, and it is very difficult to estimate when that will take place.

But I have said ever since I have been here, and I cannot repeat it too strongly, that our present rates of taxation in my opinion are too high to be maintained over a period of years, and that we should shape our affairs to reduce those at the earliest possible moment.

I just want to add this, which I have always said and which always also has to be kept in mind.

When you are living in a world that is the kind of a world we have that we are living in today, and when you have got a pistol pointed at your head and the man says "Give me your money or give me your life," he is going to get the money first instead of the life.

Now we are in that position to a certain extent.

I hope and pray that the time will come when the pistol will be put down, but as long as the pistol is there, you have got to balance out whether you give your money or your life over a period of time and balance how you conduct your affairs in that way.

You have got to see that you have got a pistol of your own that is pointed at him that will be just as effective as his for a stalemate.

The CHAIRMAN. There is a tremendous increase in domestic expenditures. Who is pointing that pistol?

There is where the biggest increase in expenditures has come during this administration. It has not been in the military.

Secretary HUMPHREY. You said that the other day.

I don't think that is quite right. This increase period, I think it is about 50–50, the last couple of years.

The CHAIRMAN. We will take the low budget that Mr. Eisenhower brought in, for which he is to be tremendously commended, in 1955, 64.6, including roads.

Now he brings in a budget now of 73.6 or more including roads, and the increase in the domestic expenditures in that was $6 billion or more?

Secretary HUMPHREY. Of course if you put the roads in, you distort the figures somewhat.

The CHAIRMAN. It would seem they should be included in the 1958 figure for purposes of proper comparison, but we argued that yesterday and won't go into it again.

Actually, the domestic-civilian increase is even higher than that. For this comparison I have not included in the 1958 figures $0.5 billion for Federal National Mortgage Association and $0.6 billion for the postal deficit. Both of these items, along with roads, were included in the 1955 figure, and excluded from the 1958 expenditure total of $71.8 billion. If they were counted for proper comparison, the 1958 estimate would total $74.7 billion. On this basis 1955 expenditures for military and so-called national security totaled $38.3 billion and the 1958 estimate is $40.7, an increase of $2.4 billion; 1955 expenditures for foreign aid and international affairs totaled $4.5 billion and 1958 estimate is $5.1 billion, an increase of $0.6; the 1955 expenditures for domestic-civilian programs totaled $21.8 billion and the 1958 estimate is $28.9 billion, an increase of $7.1 billion. But I will not count the postal deficit until we see what happens to the proposal to raise the rates.

Secretary HUMPHREY. Yes. If you put the roads in, it is 2 to 1.

The CHAIRMAN. The figures stand for themselves.

Secretary HUMPHREY. That is right.

The CHAIRMAN. They are in the record. (See table 2, p. 42.)

Secretary HUMPHREY. That is right.

The CHAIRMAN. Now Mr. Secretary, I am going to ask you my final question.

Mr. Secretary, I want to summarize what I regard as the dangers of our present fiscal situation, this represents my concern as to our present situation.

1. Our debt has reached the level of the permanent statutory debt limit. I am of the firm opinion that the Congress will not extend the $3 billion additional temporary debt ceiling, which expires on June 30, 1957. In fact, I would say that any debt now in excess of $275 billion would be dangerous, and fiscally unsound. Authority for any additional debt will be difficult to obtain from Congress.

2. I am convinced that we have reached maximum taxation and that further increase in taxes would not only result in great hardship to individuals and injury to the competitive enterprise system but would, in some classifications, at least, result in diminishing returns.

3. New inflation has started. From April 1956 to April 1957 the dollar lost 2 cents of its 100-cent value—the equivalent of 4 percent of the present dollar. This new inflation will, in all likelihood, continue, and may, in fact, be accelerated. The present dollar is now worth 49.8 cents as compared to 1940. If this debasement of the dollar continues, most serious consequences will result.

4. We have no reserves to meet even a slight business recession. Colin F. Stam, the chief of staff of the Joint Committee on Internal Revenue Taxation estimates that if we return to the national income of 1955, just 2 years ago, a loss in tax revenue of $13 billion will result. This was confirmed yesterday by you. A $13 billion loss in revenue will mean a deficit of $12 billion, which, should it occur, will shake the financial foundation of this country to a dangerous degree.

As I understood you yesterday, you would not regard a return to the national income to its 1955 level as a serious recession. So, taking the situation as a whole, we are certainly skating on very thin ice. We cannot expect business prosperity to go up and up. History shows there have always been peaks and valleys in business activity.

In fact, to date the budget has been balanced only once in the past 4 years and that was in fiscal 1956, when the surplus was $1.6 billion.

In fiscal 1957 there is some uncertainty as to whether or not the budget will be balanced, due to unanticipated increases in expenditure.

For fiscal 1958 the President has indicated his budget as presented was in precarious balance depending upon two uncertainties: first, the increase in postage rates, and second, a continuing increase in national prosperity at a rate of approximately 6 percent.

All in all, this presents to me a picture of the most dangerous implications, and certainly some preparation should be undertaken to avoid or meet the evils that would result from even a slight recession in future national income.

What do you think should be done?

Now Mr. Secretary, I am not going to ask you to answer this now, but very seriously I would like you to answer that question directly treating all the points I mentioned, right down the line. I know your opinions will be sincere and honest, as to what should be done to avoid the evils which would result from the conditions that I have described. We are geared so highly to income taxes, I am especially anxious to have your views on the effects of even a slight recession on revenue, deficit spending and debt.

I don't want you to give a quick answer now. But I would appreciate the benefit of your views for the record. When your answer is submitted it will be made part of the record.

Secretary HUMPHREY. I will be very glad to do so, Mr. Chairman.

(Secretary Humphrey later submitted the following for the record:)

THE SECRETARY OF THE TREASURY,
Washington, July 18, 1957.

Hon. HARRY FLOOD BYRD,
Chairman, Committee on Finance.

DEAR MR. CHAIRMAN: I am glad to give you the following answers to the questions you asked of me when you summarized what you regard as "the dangers of our fiscal situation."

I share some of your concern, but, I think, perhaps not to the same extent. I do not believe that great difficulties are inevitable. The good sense of the American people in the conduct of their own affairs supported by appropriate action by the administration and the Congress, can minimize, if not entirely avoid, most of the difficulties you fear, but this will not be easy. It will take careful thought and analysis and persistent and courageous effort by all concerned.

More specifically:

1. I hope very much that there will be no necessity for increasing the debt limit, even temporarily. As you know, we have worked very closely with you for the past 3 years on narrower margins than were previously thought possible in order to preserve this debt limit and still permit the Government to function. I believe in the debt limit. It is a wholesome deterrent to undue spending and it would be unfortunate if it had to be increased permanently, barring, of course, some unforeseen change in worldwide conditions.

2. I agree with you that a further increase in taxes is not only undesirable but I do not think it could be accomplished and accepted by the public unless some very unusual and unforeseen conditions would justify it. In fact, I will go further and again repeat what I have said so many times before: I believe our present taxes are far too high and must be reduced in successive reductions over a period of time whenever an excess of receipts over disbursements becomes available in sufficient amount to justify a decrease in taxes, which should then be made concurrently with the accrual of the excess. I think our fiscal policy should be so fashioned that this will result.

3. I hope that the fear of inflation will continue to concern us because inflationary pressures are incident to prosperity. Just a little continuous inflation, which is often urged, is neither inevitable nor desirable. The happiest situation for the people of this country is to have our economy so balanced between inflation and deflation, with both in such good control, that neither predominantly develops. This is best accomplished by relying principally upon the good sense, the industry, and the great care with which the American people are capable of looking after their own affairs, aided by proper governmental monetary and fiscal policies. It will however, require courageous action, promptly taken, probably against criticism, but which, in the end, will prove its worth in better times and better living for our whole Nation.

4. I cannot agree with you that we have no reserves. The United States has a real reserve of credit. Our governmental credit is not unlimited, but as long as we have a Government in power which not only believes in, but practices, sound monetary and fiscal policies, controls its expenditures, and is wise in its operations, the Government of the United States has ample credit and the people will have sufficient confidence in it to meet its needs for financing for whatever it properly may require.

Finally, I do not think it particularly significant to consider what might happen if we returned to the level of governmental receipts in fiscal 1955 which reflect national income levels of 1954. Our population is growing; our individual earnings are increasing; our whole economy has been expanding, and, I hope, will continue to do so. We have had a substantial growth in both population and in income since 1954 as well as in the number of income producers and people employed. If we were to reduce our total governmental income now to the dollar amounts of 1955, it would involve mich higher unemployment and deeper cutbacks in production than occurred in 1954 because of this growth in the meantime.

I do, however, share your belief which is based on history that the economy will not grow continuously and uninterruptedly. We will have periods when buying will not be as extensive, confidence will not be as great, and jobs will not be as plentiful nor the income of the people or of the Government as large as at other times. Just when conditions may develop that will effect such changes, it is impossible for anyone to forecast. How much conditions might change, what might be the immediate causes, and how they should best be met can be told only as the conditions unfold and the problems are presented.

It is not as productive to speculate in such unknown areas as to spend our time, our thought, our energies, in forceful and persistent efforts to best handle the problems that face us today. By handling them properly now we will at least lessen, if not entirely avoid, many problems of tomorrow. Inflationary pressures already may be abating. Some of the indexes are leveling off. Natural reactions may be forming. These approaching changes never are crystal clear but we must watch with the greatest care to revise our flexible policies as soon as and whenever changing conditions warrant.

I would like to again emphasize what I said in my opening statement. We should continue to work to reduce Federal expenditures, to reduce the public debt, to achieve a sufficient surplus to allow an equitable cut in taxes. We should continue to encourage saving by all of the people, with sound money and incentive for initiative and with more dependence by the people on themselves and less on the Government. These are the ways by which the levels of living for our people will rise most rapidly in the years ahead.

Yours very truly,

George M. Humphrey,
Secretary of the Treasury.

The Chairman. Mr. Secretary, you have been very patient and very kind about answering questions and very frank.

Now I turn you over to the tender mercy of Senator Kerr.

Secretary Humphrey. I hope your appraisal is correct.

Senator Bennett. Mr. Chairman, an inquiry.

The Senate goes into session in 7 minutes. Has the chairman decided the status of this committee?

The Chairman. We will be notified if there is any voting or any other necessity for us to be on the Senate floor. In that event we will adjourn immediately.

The Japanese Prime Minister comes in at 12:30.

Senator Bennett. Of course, as the chairman knows, there is a rather unusual parliamentary maneuver scheduled sometime today.

The Chairman. There are some southerners on this committee and I imagine that we will want to be there.

Senator Flanders. Mr. Chairman, is it too late to have the Senate proceedings televised for our benefit?

The Chairman. These proceedings?

Senator Flanders. The Senate proceedings.

The Chairman. I am afraid we could not make those arrangements now.

Senator Kerr?

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

I want to express my appreciation for the very objective and statesmanlike approach that the chairman has taken in this inquiry.

In my judgment insofar as he is concerned, he is highly negating the charges made on the floor yesterday that Democratic members of this committee were making this investigation a political maneuver. I am glad that the chairman has done what he has in the way that he has because I feel there is somewhat less of a burden on me to devote the major part of my effort to maintaining that same atmosphere.

Mr. Secretary, you have been pronouncing here with a considerable degree of facility and eloquence the principle that the chairman or you or somebody should not try to sell fur coats in August.

Secretary HUMPHREY. Should not try to what?

Senator KERR. Should not try to sell fur coats or fur-lined underwear in August.

Secretary HUMPHREY. Yes, sir; I think that is right.

Senator KERR. I think that is a very wholesome admonition.

What I would like to know is why in violation of that principle you did just that thing in the offer of your $4 billion renewal in May.

Secretary HUMPHREY. As I explained to the chairman just a minute ago, Mr. Kerr, we were feeling out the market. We were in a position where we could feel the market under circumstances that were entirely appropriate for that purpose, and we offered in addition to the usual short term security of 11 months an alternative proposal of nearly 5 years maturity just to see what the market would develop, and to keep trying to stretch out the debt a little.

Senator KERR. You knew what month it was?

Secretary HUMPHREY. Yes, sir.

Senator KERR. And you made the statement repeatedly to the chairman that you gaged your offering so as to hit the market right on the nose?

Secretary HUMPHREY. That is right.

Senator KERR. I take it that in that regard you were avoiding that very unwise suggestion of selling fur-lined underwear in August?

Secretary HUMPHREY. We offered an alternative proposal to see just how it would develop.

Senator KERR. But you offered it as you said and you took full responsibility for doing so right on the market?

Secretary HUMPHREY. That is right.

Senator KERR. But they did not sell?

Secretary HUMPHREY. Well, they sold about what we estimated.

Senator KERR. The holders of those maturing securities were not the only ones who could have taken advantage of the offer?

Secretary HUMPHREY. They were the only ones that could.

The only way anybody else could get in would be to buy the rights from them to do so.

Senator KERR. Do you suppose that if the rights had been worth anything that those who owned them would have hoarded them and made the sacrifice of not selling them?

Secretary HUMPHREY. No, the rights would have been available for sale.

Senator KERR. Aren't they always available for sale?

Secretary HUMPHREY. They are available.

Senator KERR. Aren't they always available for sale?

Secretary HUMPHREY. Sometimes they are not purchased.

Senator KERR. Aren't they always available for sale?

Secretary HUMPHREY. Somebody usually has some for sale.

Senator KERR. They are always available for sale if the holders do not want to take advantage of the offer of renewal, aren't they?

Secretary HUMPHREY. That is right.

Senator KERR. And wasn't one of your offers for new forms of indebtedness on a short-term basis?

Secretary HUMPHREY. That is right.

Senator KERR. And yet there was a billion two hundred million not accepted?

Secretary HUMPHREY. It was 1.156 billion, but I won't quarrel with you over that.

Senator KERR. I don't want to quarrel over anything because there is a way for us to address ourselves to these matters factually, and I want to say that I am going to try to do that myself and try to help you to do the same thing.

Secretary HUMPHREY. Good, and I will try to help you.

Senator KERR. Then we ought to get somewhere.

Secretary HUMPHREY. And I hope the same limitations that you have suggested for yourself from the chairman's conduct will also apply to me.

Senator KERR. I want to say you established that precedent when you read a speech prepared for you by the chairman of the Republican National Committee here 2 days ago. I want to say that any political obligations you had to your administration, if they were not met by your statement, I don't know how they could be.

Secretary HUMPHREY. I hope you will give credit where credit is due, however.

Senator KERR. I will try to and I am not going to charge too much interest on it.

I have here an editorial from the Wall Street Journal of June 3, 1957, headed "Fiscal Mess."

Neither you nor I have any control over that paper, but it has been in your corner a lot more often than it has been in mine.

Secretary HUMPHREY. I am not sure of that.

Senator KERR (reading):

> Early this spring the Treasury raised its interest rate on Government savings bonds from 3 percent to 3¼ percent. Despite this the parade of people walking up to cash in their savings bonds has hardly diminished.
>
> Early this month the Treasury, faced with the job of refunding nearly $4.2 billion of the public debt, offered a 57-month note at 3⅝ percent. It was a flop. People who held the expiring securities preferred cash over the new Treasury notes to the tune of $1.2 billion.
>
> And just a week ago Treasury officials gave up hope of selling the public a long-term bond to raise cash.

I wonder if that is correct.

Secretary HUMPHREY. It is to the extent that I don't believe that you can wisely sell a long-term bond to raise cash today. I don't think it would be a desirable thing to do.

Senator KERR (reading):

> They found the market was not receptive at the interest rate the Treasury was willing to pay.
>
> In the meantime the Government's expenses have been rising and tax collections have been coming in only "moderately well." The national debt is already some $5 billion more than it was 4 years ago and officials expect it to go higher before it goes lower.
>
> Although there are plenty more such unhappy statistics, this is enough to show that when Robert Anderson takes over as Secretary of the Treasury this summer he will have his job cut out for him.
>
> The plain, simple, and incontrovertible fact is that the Government of the United States is in a fiscal mess.
>
> To put it bluntly, the Treasury of the richest Nation on earth is short of money. At one point this spring it had hardly enough cash to pay a week's worth of bills and with current spending rising faster than current income despite the balanced budget, the squeeze threatens to get worse.

I read that, Mr. Secretary, because it suggests to me either that you were trying to sell "fur-lined underwear in August" when you offered those renewals last May or that you were mistaken when you said that you gaged the market situation accurately and offered them right on the nose. If you have any comment to make on that, I would be glad to have it.

Secretary HUMPHREY. Yes, Senator. I told the chairman that this was a very good opportunity for us to offer this in this way. We have goods to sell right along, and so far as being in a crisis is concerned—in a way I have been in a crisis or 2 or 3 crises at a time for the last 4½ years and I have gotten kind of used to them and we are not in any more crises now than we have been at any time since I have been here.

Senator KERR. Are you in any less of one than you were when you got here?

Secretary HUMPHREY. Well, yes, I think we are.

There are a great many places that are in much better shape than they were then.

Senator KERR. I am talking about the Treasury now.

Secretary HUMPHREY. That is what I am talking about.

I am talking about the Treasury entirely, and I think it is in much better shape than it was.

We did this, this was a sale just as you would make it in your store or any other place to test your market and see what your market was to be sure just how you were going to conduct yourself in the future, and we were prepared to handle exactly the situation that arose, so that there was no surprise or nothing unusual about this at all.

Senator KERR. Then these observers in such publications as Barrons, the Wall Street Journal, the New York Herald Tribune and others who indicated that they were quite shocked at what had happened were just not aware of the degree of the crisis to the extent that you were?

Secretary HUMPHREY. No, no. They have to have things to write about.

As you know, a lot of sensation makes good newspaper writing.

Senator KERR. And I thought too, it was quite a sensation at that time. That is what I am talking about.

Secretary HUMPHREY. There were some articles that attempted to make it so and there were a lot of other articles that pointed out what an error that was, so we can read each others' articles back and forth on both sides, and there were articles, just as many on one side as the other.

Senator KERR. In your statement, Mr. Secretary, in about the middle of the page, the last sentence of the paragraph——

Secretary HUMPHREY. Which page?

Senator KERR. Page 1.

> It is a record of unequaled prosperity with both the blessings and the problems of such a period.

I understood at the time you were reading the statement that you were referring there to the problems as being the problems in connection with financing the public debt and the fiscal management policies of the Treasury.

Secretary HUMPHREY. No. The problems that I referred to here are the problems of inflation, the great problem of a period of high prosperity is the problem of correlative inflation.

Senator KERR. Let's stop right there and get 1 or 2 things in the record.

On June 12, 1953 there was an interview in the U. S. News & World Report of the then Secretary of the Treasury, Mr. George Humphrey, and one of the questions was this:

When do you think we will have a sound dollar?
Answer. I think you have it today. I think the dollar today is a pretty stabilized dollar.

That was a little over 4 years ago that you were quoted as having said that.

Did you say that?

Secretary HUMPHREY. I did, and it proved to be so for 4 years. I was right for at least 4 years.

Senator KERR. You said the other day that this last serious inflation started a year ago in April.

Secretary HUMPHREY. I did not say there was a serious inflation, and I don't think there is.

I said it had lost two points in purchasing power in the last year.

Senator KERR. Can you name any other peacetime year in the history of the Nation when it moved that much?

Secretary HUMPHREY. Oh, yes. I can show you some that moved 3 or 4 times that.

Senator KERR. Peacetime years?

Secretary HUMPHREY. Yes, sir; peacetime.

Senator KERR. That is going to be an interesting development.

Secretary HUMPHREY. I will let you do your own arithmetic.

Senator KERR. No, you are the expert.

Secretary HUMPHREY. 1945 to ——

Senator KERR. Was that a peacetime year, Mr. Secretary?

Secretary HUMPHREY. Between 1945 and 1946 was, and that is the comparison I am going to make.

Senator KERR. Are you talking about fiscal 1945?

Secretary HUMPHREY. The period from 1945 to 1946.

Senator KERR. If you are going to call either fiscal 1945 or fiscal 1946 a peacetime year——

Secretary HUMPHREY. These are calendar years.

Take the calendar year 1946. It does not make any difference. Take 1946. It was 71.2; 1947 was 62.2, or a difference of nine cents.

The next year——

Senator KERR. Wait a minute, let me go along with you. I don't want to get derailed.

Secretary HUMPHREY. This table is on page 19 of my statement.

The CHAIRMAN. I am very sorry to interrupt, but we have been called to the Senate floor.

We shall meet again at 10 o'clock tomorrow morning.

(Whereupon, at 11:10 a. m., the committee was adjourned, to reconvene in executive session at 10 a. m., Friday, June 21, 1957.)

93633—57——7

INVESTIGATION OF THE FINANCIAL CONDITION OF THE UNITED STATES

FRIDAY, JUNE 21, 1957

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

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

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

Also present: Senator Bush.

Elizabeth B. Springer, chief clerk; and Samuel D. McIlwain, special counsel.

The CHAIRMAN. The committee will come to order.

Senator Kerr is recognized.

STATEMENT OF HON. GEORGE M. HUMPHREY, SECRETARY OF THE TREASURY—Resumed

Senator KERR. Mr. Secretary, yesterday we were discussing the sharp rise in living costs and the shrinkage of the purchasing power of the dollar which occurred between April of 1956 and April of 1957.

According to the table that you gave us, it had been about 3.8 percent in the 12 months.

Secretary HUMPHREY. That is right, it had been 1.9 cents.

Senator KERR. And we do not have those for May, but I anticipate, of course, when that index is released it will show an additional rise.

Secretary HUMPHREY. Well, I think you would have a right to expect that.

Senator KERR. I asked you if you knew of any other peacetime year in which there had been that much change in that direction, and I believe you said there were many of them, and you had called my attention to 1946, 1947, and 1948.

Secretary HUMPHREY. That is correct.

Senator KERR. What was the extent of it, on the basis of the information that you have there, in 1946?

Secretary HUMPHREY. As compared with the 2 cents in the past year, it was 6 cents in 1946; it was 9 cents in 1947; and it was 4.4 cents in 1948.

Senator KERR. Do you have a suggestion as to what might have caused the increase in 1946?

Secretary HUMPHREY. No, I do not, Mr. Kerr.

Senator KERR. Do you remember that that was the year price controls were terminated?

Secretary HUMPHREY. Well, I do not remember; but I have no doubt, if you say they were, that was it.

Senator KERR. I am asking the questions. You have a staff present who can advise both of us if that is correct.

Secretary HUMPHREY. Yes; they say that is correct. June 1946.

Senator KERR. Now, do you have any suggestion as to the basis of the sharp rises in 1947 and 1948?

Secretary HUMPHREY. I do not think necessarily the release of price controls should account for the sharp increase. We released price controls the first year we were here, and we did not have any sharp increase.

Senator KERR. Did you have anything like the same pent-up demand for goods and wares, and did you have the limited productive facilities as we had in 1946?

Secretary HUMPHREY. No, I do not—we had greater productive facilities at that time. The country had grown, and I think we had greater productive facilities and, of course, the Korean episode was not comparable to the Second World War.

Senator KERR. What was the gross national product in 1946?

Secretary HUMPHREY. $209 billion.

Senator KERR. $209 billion?

Secretary HUMPHREY. Yes.

Senator KERR. What was it when you ended controls?

Secretary HUMPHREY. $345 billion.

Senator KERR. $345 billion?

Secretary HUMPHREY. Yes.

Senator KERR. That was quite an increase in productive facilities.

Secretary HUMPHREY. Oh, yes. The country is growing right along; it has grown up every year.

Senator KERR. Yes.

Secretary HUMPHREY. But relatively, I suppose things would be about the same. The labor forces and productive factors all have moved up, of course, to accomplish this. And the very fact that in the meantime we had these very sharp price increases, these very things we are talking about, of course greatly increased those figures we are talking about; because every time the dollar goes down, the gross national product goes up.

Senator KERR. We are talking about a lot of figures.

Secretary HUMPHREY. Let me make it perfectly plain. Every time the dollar goes down as it was going down very rapidly during this period that you are talking about, that meant that the national gross product figures were going up. Because the gross product rises as the dollar goes down, the figures go up.

Senator KERR. Well, do you have the figures there of the productive output in 1953 as compared to 1946?

Secretary HUMPHREY. I just gave you those.

Senator KERR. On an adjusted basis?

Secretary HUMPHREY. No, I do not have them adjusted.

Senator KERR. Well, you have a man there who can figure it for us.

Secretary HUMPHREY. Well, let's see if he can. I do not know whether he can do it that quickly.

Senator KERR. While we are talking about something else, let's see if he can.

Secretary HUMPHREY. Let him try.

He says this, I hope it is right: that it went from 290 in 1946 to 366, on an adjusted basis.

Senator KERR. In what year?

Secretary HUMPHREY. Well, it was from 1946 to 1952.

Senator KERR. To 1952.

Secretary HUMPHREY. That is right. Both inclusive.

Senator KERR. Now, the 1947 and 1948 years, was there anything special about those years, do you recall?

Secretary HUMPHREY. I do not recall, Senator.

Senator KERR. Did you ever hear of the Republican 80th Congress? [Laughter.]

Secretary HUMPHREY. Yes, indeed.

Senator KERR. Do you remember the big fight in 1947 about a tax-reduction bill which was twice vetoed and had been passed over the veto of the President, against the warnings that the result of it would be inflationary?

Secretary HUMPHREY. I do not know that I do recall that; no. But I think—I think there was something of that kind, but I do not remember just when it occurred.

Senator KERR. Well, I have here in the hearings before the Joint Economic Committee in January of 1957 (January 1957 Economic Report of the President, Hearings before the Joint Economic Committee, Congress of the United States, 85th Cong., 1st sess., p. 89), a statement by Ewan Clague, Commissioner of Labor Statistics, Department of Labor, on prices, which I think might be illuminative about that period for both of us.

> When we come to the last of the subjects assigned to me, prices, we move into an area in which there is no agreement at all as to the "normal" trend.

You would agree that that is a fairly accurate statement?

Secretary HUMPHREY. Yes.

Senator KERR (reading):

> We are now in the midst of the third period of price increases during the past 10 years. The first (1947–48) was due to heavy demand arising out of war-created shortages of goods. The second (1950–51) was due primarily to the outbreak in Korea. Unlike the two earlier ones, the present price rise, which began in mid-1955, is due entirely to strong forces of domestic origin in both consumer and producer markets.
>
> The charts show that there are several distinctly different factors at work in the current price situation—

This is in January 1957—

> in addition to the continuing strong demands resulting from our rising standards of living and increasing population. One of these has been the extremely strong business demand for new plant and equipment. A second factor in price movements in 1956 was the firming up of the farm situation after several years of steady decline. From the peak in early 1951 to the end of 1955, farm prices fell about 30 percent * * *.

Do you accept the accuracy of that statement?

Secretary HUMPHREY. I have no reason to doubt it.

Senator KERR. Now, the 4 years with reference to which you said in your statement there had been a decline in the purchasing power of the dollar of only 0.8 cent for 4 years. What do you think that decline would have been had the farmer not been so severely penalized by the policies of your Department of Agriculture whereby his prices went down, according to the Commissioner of Labor Statistics of the Department of Labor, 30 percent?

Secretary HUMPHREY. Well, of course, as long as our Department of Agriculture had to enforce the laws passed by the Democratic administration, the farmer did suffer, and I presume there would be some——

Senator KERR. That is quite a bad guess.

Secretary HUMPHREY. There would be some. [Laughter.]

Senator KERR. That is quite a bad guess, because in the first place, to the great detriment of the farmer, he has not been under the laws passed by a Democratic administration during these 4 years.

And in the second place, the administrator of those laws was trying to do it on the basis so as to nullify them instead of implement them. But that is a matter of disagreement, and I do not care to get into it with you.

Secretary HUMPHREY. Senator——

Senator KERR. The Commissioner of Labor Statistics of the Labor Department says in those 4 years farm prices went down 30 percent.

Secretary HUMPHREY. Well, Senator, that was facetious, and I will just omit it from now on.

Senator KERR. Let's not do that, because if we do not get a little bit facetious here once in a while, we both might get serious. [Laughter.]

Secretary HUMPHREY. If farm prices had not gone down during that period, the rise would have been somewhat greater. Just how much I do not know.

Senator KERR. Well, it happens that the Joint Economic Committee asked this gentleman to furnish that information, and he had a good deal to say about the amount of rise or fall in the price index caused by the price of food. And at page 154 of the hearings, he makes this statement:

> Let me say a word about our Consumer Price Index. It is very much influenced by what happens to farm prices, because foods make up 30 percent of the weight of the average family budget. So what Mr. Wells says about agriculture and agricultural prices will have a great bearing on what will happen to our index. I am quite sure that we will have continued rises in rents and services, but what will happen to commodities is the question.

Then they asked him to make an estimate on what that rise would have been had the price of food followed the trends of other commodities.

Secretary HUMPHREY. In which price was it he was going to adjust?

Senator KERR. On how much——

Secretary HUMPHREY. Consumer prices?

Senator KERR. How much the rise would be on the figures we are talking about here.

Secretary HUMPHREY. I thought you said——

Senator KERR. The Consumer Price Index.

Secretary HUMPHREY. Yes. That is different, you know, than the purchasing power of the dollar.

Senator KERR. Is there no relation between them?

Secretary HUMPHREY. Oh, yes, there is a relation, but they are not the same.

Senator KERR. Oh, no, they are not the same?

Secretary HUMPHREY. But there is a relationship.

Senator KERR. You figure the purchasing power of the dollar in relation to the price index.

Secretary HUMPHREY. The Consumer Price Index is the way of measuring it.

Senator KERR. That is the one you submitted to the committee, is it not?

Secretary HUMPHREY. Yes, that is it.

Senator KERR. That is the one you submitted to the committee.

Secretary HUMPHREY. That is right. That is in my statement.

Senator KERR. And you were fairly comprehensive in what you presented to the committee.

Secretary HUMPHREY. That is right. I try to be.

Senator KERR. Well, and I am trying to stay with it, part of the time. [Laughter.]

And later, at page 598 of the hearings, the following statement was supplied by Mr. Clague and Mr. Wells of the Department of Agriculture:

A third estimate is based on the data supplied by Mr. Wells, who has provided another measure of the change in the food component, based upon the estimates made by the Department of Agriculture of the change in value to the farmers of their farm food market basket. The farm food value figure for February 1951 was increased by the change in our wholesale price index for all commodities, less farm commodities and food. To this figure was added the gross margin estimated for December 1956 as estimated by the Department of Agriculture. This yielded a theoretical current retail value for the farm food market basket. That figure is 14.6 percent higher than the current actual cost to the consumer of that market basket. Applying that 14.6 percent increase to the food component of the Consumer Price Index produces an index of 122.7 in December of 1956, or 4 percent higher than the actual index of 118.

I cannot verify that, but I take it that until one of us can find a better estimate, that of the Commissioner of Labor Statistics in the Department of Labor would be entitled to some respect.

Secretary HUMPHREY. I think that is right.

Senator KERR. Can your expert there figure for us the average increase of the 4 years subsequent to the 80th Congress, being for the years 1950, 1951—no, 1949, 1950, 1952, 1953, that is, except the——

Secretary HUMPHREY. Let's see, that is 1949, 1950, 1951, and 1952?

Senator KERR. And 1953.

Secretary HUMPHREY. And 1953?

Senator KERR. Let's include the Korean war year.

Secretary HUMPHREY. 1949——

Senator KERR. No.

Secretary HUMPHREY. You want 1949——

Senator KERR. We will pick up now after the 80th Congress.

Secretary HUMPHREY. We will take now 1949——

Senator KERR. 1950.

Secretary HUMPHREY. 1950.

Senator KERR. 1951.

Secretary HUMPHREY. 1951.

Senator KERR. 1952.

Secretary HUMPHREY. 1952.

Senator KERR. And 1953.

Secretary HUMPHREY. And 1953.

I can pretty near do it in my head. It is about 6 cents during that period.

Senator KERR. Well now, either you do not understand my question or I do not understand your answer.

Secretary HUMPHREY. Maybe I am confused, then.

Senator KERR. No, I would not think that.

What was it for 1949?

Secretary HUMPHREY. 1949, the dollar——

Senator KERR. I am talking about the Consumer Price Index.

Secretary HUMPHREY. Well, wait a minute, then. That is the other column.

1949, it was a minus 1.

Senator KERR. No, it was 101.8, was it not?

Secretary HUMPHREY. You want the total figure. I was giving you the changes.

Senator KERR. I am trying to get an average for the 5 years subsequent to 1948.

Secretary HUMPHREY. All right. It is 101.8.

Senator KERR. Well, the first year it was minus 1, was it not?

Secretary HUMPHREY. Well, the change, if you want to stick to change, is minus 1.

Senator KERR. If we are going to get the average plus or minus, you have got to figure it on the change.

Secretary HUMPHREY. That is the way to do it. It is a minus 1.

The next year is a plus 1, which offsets it.

Senator KERR. All right.

Secretary HUMPHREY. So the next year is 8.2.

Senator KERR. It is a plus 8.

Secretary HUMPHREY. It is a plus 8.2.

The next year it is a plus 2.5.

And the next year, it is a plus 0.9.

Senator KERR. All right. What do those three total?

Seecretary HUMPHREY. Those 3 total 11.6, is it not? I think it is 11.6.

Senator KERR. All right.

Now, 11.6 divided by 5 is how much?

Secretary HUMPHREY. 2.3.

Senator KERR. 2.3. What has it been in the last 12 months?

Secretary HUMPHREY. 1.9.

Senator KERR. I thought it had been 3.8, according to your table.

Secretary HUMPHREY. On percentage.

Senator KERR. Well, the same figures.

Secretary HUMPHREY. That is right. It is 3.8.

Senator KERR. So that the 5 years——

Secretary HUMPHREY. Wait a minute. We are talking about—we have got it in too many ways, Senator. It gets me confused.

Senator KERR. I am taking it the way you gave it to me.

Secretary HUMPHREY. Yes.

Senator KERR. If it does that to you, what do you think it is doing to the committee? [Laughter.]

Secretary HUMPHREY. There is a little confusion among the experts, but I think it is 4.4.

Senator KERR. 4.4——

Secretary HUMPHREY. I believe so.

Senator KERR (continuing). In the last 12 months, as compared to the average for those 5 years, including the Korean war years, of——

Secretary HUMPHREY. 2.3.

Senator KERR. 2.3.

Secretary HUMPHREY. That is right.

Senator KERR. Do you have there the figures giving the increase in the gross national product, per year, for those 5 years, and then for the last 12 months?

Secretary HUMPHREY. Let's see. I do not know as we have it for the last 12 months, but we have it for the years.

Senator KERR. I think you have got it. If you do not, I will give it to you.

Secretary HUMPHREY. If you have got it, why do you not let us have it, and we will have it.

Senator KERR. I would rather have it from your expert, and then you and I do not have to argue about the accuracy of it.

Secretary HUMPHREY. You want it for each of the years?

Senator KERR. Yes.

Secretary HUMPHREY. Beginning with which year?

Senator KERR. 1949, 1950, through 1953.

Secretary HUMPHREY. 257.3; 285.1; 328.2; 345.4; 363.2.

Senator KERR. Is that the increase in each year in gross national product?

Secretary HUMPHREY. No. These are totals. We do not have increases here.

That is inclusive of 1953, is that right?

Senator KERR. Yes, sir.

That is correct. There were four increases.

Secretary HUMPHREY. We divided by 5.

Senator KERR. I took the 5 years with reference to the increase in the price index, so to be fair about it I was taking the 5 years on the basis of the increase in the national product.

Secretary HUMPHREY. Yes. But when I gave you the average, I divided by 5 instead of by 4. I think probably you ought to divide by 4, ought you not?

Senator KERR. No, you divide by 5 both ways. If you are going to figure 5 years and get the average, you have got to divide by 5, although some of the years may be minus.

Secretary HUMPHREY. There are only 4 increases.

Senator KERR. I understand.

Secretary HUMPHREY. If you are going to get the average of increases, you have to divide by 4.

Senator KERR. There were only 4 increases in the Consumers Price Index.

Secretary HUMPHREY. I think they both ought to be divided by 4.

Senator KERR. You can do that later, but I am taking the average of 5, and to be fair about it you have got to divide by 5.

Secretary HUMPHREY. The figure he has got divided out here, if you divide 4 increases by 5 years, it is $21 billion a year average.

Senator KERR. Now then, what was it in 1956?

Secretary HUMPHREY. You mean the increase compared to the last of these 5 years?

Senator KERR. No, sir. I just want to know what the increase was in 1956.

Secretary HUMPHREY. The total in 1956—the increase in 1956 over 1955?

Senator KERR. Yes.

Secretary HUMPHREY. $21.5 billion.

Senator KERR. And what was it for each of those other 5 years, including the one in which there was a decrease?

Secretary HUMPHREY. It was an average of 21.

Senator KERR. So that in the 5-year period there, even including the Korean war period, the average annual increase in the Consumer Price Index was how many points?

Secretary HUMPHREY. Twenty-one——

Senator KERR. 2.3?

Secretary HUMPHREY. The average in the index——

Senator KERR. 2.3.

Secretary HUMPHREY. If you divide by 5; and it is about 3 if you divide by 4.

Senator KERR. 2.3, which produced as much average annual increase in the gross national product as was true in the last 12 months, approximately, where you had a 4.4 increase in the Consumer Price Index and the same amount of increase in the national product.

Secretary HUMPHREY. I think that would be right.

Senator KERR. Now then, Mr. Secretary, let us go back to your statement of June 1953, in the U. S. News & World Report in which you said we had a stable dollar. However, before we do, I want at this point to put into the record the statement in the United States Board of Governors, Federal Reserve System report, 1953, beginning at page 21 of the 39th annual report, covering 1952, entitled "Prices":

> In sharp contrast to the shortages and rapid price advances after the outbreak of war in Korea, supplies of most materials except certain metals were ample to meet current needs in 1952. Prices of such materials consequently eased and, with farm prices declining, the general level of wholesale prices gradually moved downward. Prices of finished goods changed little over the year, however, at either wholesale or retail. Wage rates rose at about the same rate as in 1951. Changes in capital values were moderate. Urban real property values and farmland values were generally maintained and common stock prices rose somewaht toward the end of the year.
>
> Consumer prices were about 1 percent higher at the end of 1952 than a year earlier. The change mainly reflected higher rents and prices for services; food prices were slightly lower. Wholesale prices were 3 percent lower than a year earlier, with especially sharp reductions in cotton, corn, and livestock. Many farm products were at support levels and Government expenditures for price support operations were large. Domestic demand for cotton improved somewhat but export demand declined sharply. The number of cattle on farms continued the rise of the preceding 3 years and reached a new high. Cattle marketing expanded rapidly after midyear and beef prices started to decline sharply late in the year. Prices of some industrial materials declined further during the year. A few materials increased in price but not sufficiently to prevent the index of basic commodity prices from declining considerably. Prices of most finished goods remained exceptionally stable throughout the year.

Now, with that affirmation of stability through 1952, and your own affirmation of stability in June of 1953, and with your being able to say that in 4 years, due to the terrible penalization of farmers in the reduction of their prices 30 percent, that the purchasing power of the dollar declined only 0.8 cent in 4 years, I would like to ask you your explanation of the inflationary trend in the last 12 months that has sent the consumer index up by, how much did you tell us——

Secretary HUMPHREY. 4.4 points.

Senator KERR. 4.4 points and 3.4 percent?

Secretary HUMPHREY. 3.8 percent.

I think, Senator, you have conclusively proved that the best year your administration had in about 12 or 13 years is a little better than the worst year that we had in 4 years, and is not as good as our average for the 4-year period.

Senator KERR. That is a very intelligent and responsive answer, Mr. Secretary [laughter], and again shows your attitude of unfairness of including a comparison of the wartime years. I do not believe that you want to do that, do you, Mr. Secretary?

Secretary HUMPHREY. I will take out the wartime years and take the peacetime years.

Senator KERR. Why do you not just answer my question?

Secretary HUMPHREY. And the same thing is true.

Senator KERR. I say, why do you not just answer the question?

Secretary HUMPHREY. I think it was——

Senator KERR. I asked you that in view of the fact——

Secretary HUMPHREY. That year——

Senator KERR. In view of the fact of several years of stability——

Secretary HUMPHREY. Yes.

Senator KERR. As attested to—you and I cannot change the situation of World War II, can we?

Secretary HUMPHREY. No.

Senator KERR. What would you have done if you had been Secretary of the Treasury; how would you have financed that war?

Secretary HUMPHREY. Well, I was not, and I am not prepared to say.

Senator KERR. Well, you are prepared to say everything else about it.

Secretary HUMPHREY. No; I have not said anything about it.

Senator KERR. Yes; you have talked about it and brought it back in the answer to this central question about the last 12 months.

Secretary HUMPHREY. I drop it out of that and take the peacetime years.

Senator KERR. Do not do that. You brought it in. Just tell the committee how you would have financed World War II.

Secretary HUMPHREY. Oh, well, Senator—I was not Secretary of the Treasury.

Senator KERR. It had to be financed, did it not?

Secretary HUMPHREY. It did, of course.

Senator KERR. And had you been there, you would have done the best you could; would you not?

Secretary HUMPHREY. I would have done the best I could.

Senator KERR. You think those men did not?

Secretary HUMPHREY. I think they did the best they could.

Senator KERR. All right.

Secretary HUMPHREY. Whether that was good enough or not I do not know.

Senator KERR. If you are going to be critical, you at least ought to tell us how you would improve on it.

Secretary HUMPHREY. I am not critical. I am simply taking the figures from the way it was handled, and just comparing it with the figures, just as you are, with the figures of a subsequent time.

Senator KERR. But we got here to the point where, on the basis of the Federal Reserve report, on the basis of your statement, on the basis of the statistics as provided to the committee by your and your staff, we had these years of stability.

Secretary HUMPHREY. You had 1 year of stability compared to our 4, and it does——

Senator KERR. Will, does that add——

Secretary HUMPHREY. One year of stability that you point out in your administration compares favorably, not as favorably, but reasonably favorably——

Senator KERR. You do not want to answer my question?

Secretary HUMPHREY. With the 4 of our years.

Senator KERR. You do not want to answer my question?

Secretary HUMPHREY. What is your question?

Senator KERR. Read it to him. If you would have paid attention to it, you would know.

(The question was read by the reporter.)

Secretary HUMPHREY. If what your question means is this——

Senator KERR. If you do not understand it, I will ask it again.

Secretary HUMPHREY. Ask it again.

Senator KERR. On the basis of the description of the economic conditions before us, regardless of how little you think of what went before that, regardless of how horrible you might think it was and of how badly you fared during it, I am asking you, in view of the fact that stability had been achieved, it was a reality, it was not a theory, it was not an aim or an objective, and maintained, on the basis of your evidence or your statement, over a period of 4 or 5 years, what explanation do you have of the condition whereby, in the last 12 months, we are in the midst of another inflationary spiral to the extent that we are?

Secretary HUMPHREY. Well now, just——

Senator KERR. And to the extent that you saw fit to give us a statement here that resulted in one of the great Washington newspapers, following your testimony, having this headline, "Inflation Called No. 1 Problem by Humphrey."

Secretary HUMPHREY. That is right.

Senator KERR. All right. I am asking you, in view of the stability that had been achieved by the preceding administration or that fell upon us——

Secretary HUMPHREY. For 1 year.

Senator KERR. Well now, Mr. Secretary, in the first place, that is not true. There are many years of the preceding administration in which it was stable, and your own evidence indicates it.

If you would address yourself to the question rather than to the intensified effort to keep——

Secretary HUMPHREY. I am trying to find out what it is that you want to know.

Senator KERR. Oh, no, you are not.

Secretary HUMPHREY. Yes, I am.

Senator KERR. No, you are not, because I have told you. I will tell you, there is not any man on this committee that can come any nearer, in 30 minutes, of telling a witness what he wants on one question than I can.

Secretary HUMPHREY. Well, if you would take 2 minutes instead of 30, maybe I would understand it. What is it that you want, now?

Senator KERR. I want you to tell us your explanation of the inflationary spiral of the last 12 months.

Secretary HUMPHREY. Well now, I am glad to do it.

The reason that these inflationary pressures are on us now is because of the great prosperity which the country is enjoying at the present time. It is the demand for building, it is the demand for goods, it is the demand for all sorts of things that are exceeding the supply, and that is what is putting the pressures, the inflationary pressures, on us today.

Senator KERR. That is fine, that is very fine.

Now tell us, if you will, what goods were in short supply during these past 12 months that brought that about?

Secretary HUMPHREY. Well, there have been a lot of them that have been in short supply.

Senator KERR. Let's just take them one at a time, now, in the past 12 months.

Secretary HUMPHREY. I will just take one in your line of business. I will take line pipe and I will take oil well supplies.

Senator KERR. Those are steel goods.

Secretary HUMPHREY. Yes, sir. And we had a shortage, an acute shortage, of your kind of material in the first half of this year.

Senator KERR. At what rate have the steel mills been operating this year?

Senator HUMPHREY. They are catching up.

Senator KERR. I say, at what rate have they been operating?

Secretary HUMPHREY. They have been right up at around a hundred percent.

Senator KERR. This year?

Secretary HUMPHREY. Ninety-odd percent.

Senator KERR. Will your staff verify that?

Secretary HUMPHREY. They are in the 90-percent brackets.

Senator KERR. I say, will your staff verify that?

Secretary HUMPHREY. Yes, we will verify that.

Senator KERR. You had better be careful, Mr. Secretary, because you and I will have to verify everything we are telling each other.

Secretary HUMPHREY. The steel business has been around the 90's all the first 6 months of this year.

Senator KERR. All right, let's check it.

Secretary HUMPHREY. I am talking about oil country goods.

Senator KERR. I asked you about steel.

Secretary HUMPHREY. Pipe——

Senator KERR. At what percent of capacity were the steel mills operating?

Secretary HUMPHREY. Well, you switched on me, because we were talking about the kind of goods that you asked were in short supply.

Senator KERR. Yes, sir.

Secretary HUMPHREY. I told you——

Senator KERR. And when you told me that, I asked you——

Secretary HUMPHREY (continuing). The kind of things that are in short supply.

Senator KERR. I asked you, because what you have said is not correct.

Secretary HUMPHREY. I beg your pardon, it is correct.

Senator KERR. I know nearly as much about the supply of oilfield supplies as you do.

Secretary HUMPHREY. And line pipe has been in short supply all this spring.

Senator KERR. I am asking now, at what percent of capacity has the steel industry been operating, and you said well up in the 90's.

Secretary HUMPHREY. Do you mean for all kinds of products, or just for the kinds of products we are talking about?

Senator KERR. I am talking about the steel industry.

Secretary HUMPHREY. Well, if you want to talk about all kinds of products, we will look it up.

Senator KERR. All right.

Secretary HUMPHREY. But that is not what I was talking about. I was talking about particular products.

Senator KERR. You talk about things I am talking about. You talked about yours the other day. Now you talk about what I am talking about, if you will.

I have been reading the papers. It was down as low as 86 percent.

Secretary HUMPHREY. Well, it depends on the commodities, Senator.

Senator KERR. Well, the steel industry, Mr. Secretary.

Secretary HUMPHREY. Well, if you want to talk about the steel industry——

Senator KERR. I am talking about it.

Secretary HUMPHREY. All right. Now we will find out. I did not answer with respect to the steel industry; I answered with respect to the commodities. We will find out, and I will answer you with respect to the steel industry, and I will get the figures and show you there has been a surplus of full body, auto body, sheets because automobile production has been down.

There has been a shortage of structural and line goods of that kind. So some of the commodities have been short and some of the commodities have been long.

If you want the average of the industry——

Senator KERR. We are going to start with the average of the industry.

Secretary HUMPHREY. You asked me what had been short.

Senator KERR. Yes, sir.

Secretary HUMPHREY. And I tried to answer that. If——

Senator KERR. You did.

Secretary HUMPHREY. If you want the average of the industry, I will give you the average of the industry.

Senator KERR. You answered that, and I asked you another question, and you said the steel industry had been operating well up in the 90's.

Secretary HUMPHREY. No, I was talking about the demand for the kind of goods I was saying was short.

Senator KERR. I will be glad to have you explain that, because I want to know what you said.

Secretary HUMPHREY. You understand it now?

Senator KERR. I do, and I understood it then.

Secretary HUMPHREY. We do not seem to have——

Senator KERR. There is not a better informed man in America than you are, and is it not a fact that the steel industry, overall, was operating as low as 86 percent a number of weeks this year?

Secretary HUMPHREY. I do not know, Senator.

Senator KERR. Is it not a fact after 2 or 3 weeks of increasing percentage of capacity, they are operating at less than 89 percent?

Secretary HUMPHREY. I do not know. I can tell you, we will look it up and get you the exact figures, we will get what they are for the overall industry.

Senator KERR. All right.

Now, the first item, then, of goods with reference to which there is a shortage is line pipe; is that what you have told me?

Secretary HUMPHREY. Pipe business; yes, sir.

Senator KERR. Well now, Mr. Secretary, there is no shortage in oilfield pipe.

Secretary HUMPHREY. Line pipe.

Senator KERR. Well, I say——

Secretary HUMPHREY. Yes.

Senator KERR. Line pipe is not oilfield pipe.

Secretary HUMPHREY. That is right.

Senator KERR. You know there is no shortage in oilfield pipe, because you know it is stacked up in every supply company's yard in this country. If you do not, you can find it out.

Secretary HUMPHREY. Here we are. Wait a minute, I have got it right now.

Let's see here, this is May.

Senator KERR. What was it in May? You said it was well up in the 90's for all this year.

Secretary HUMPHREY. January, 97.1.

Senator KERR. All right.

Secretary HUMPHREY. February, 97.5; March, 93.4; April, 89.4.

Senator KERR. Where is that, now, what page of that Indicator?

Secretary HUMPHREY. Page 18.

Senator KERR. Is that June or May you have there?

Secretary HUMPHREY. This is June.

Senator KERR. O. K.

Secretary HUMPHREY. June.

Senator KERR. What was it in May?

Secretary HUMPHREY. 86.5.

Senator KERR. All right, 86.5.

Secretary HUMPHREY. Then the various weeks run along from 87, 86.7, 84, 86.4, 88, 87.5, being an average of 91 or 92 or 93 percent for the whole period.

Senator KERR. When it had in October and November—in October of last year it was at 101.6.

Secretary HUMPHREY. That is right, and that is part of the period, that is where the difficulties——

Senator KERR. Since which time it has gone down to 86.5, resulting in sharply curtailed supplies or inability to meet the market demand?

Secretary HUMPHREY. No, no, it is this whole period here of—we are talking about the period from 1956 on through. These figures that we are talking about here are for the year of 1956, and the period of the first 4 months of 1957.

Senator KERR. All right.

Secretary HUMPHREY. And during that period that we are talking about, the steel business averaged—I cannot do it in my head here.

Senator KERR. You can.

Secretary HUMPHREY. I will say it was around 95 percent.

Senator KERR. Then you made a mistake. So let's let the man there figure it up while you and I argue about something else.

Secretary HUMPHREY. Let's take the average for 1956 and the first 4 months of this year, which is what these figures are——

Senator KERR. All right.

Secretary HUMPHREY (continuing). For 1956, and see what it is. And it will be around 95 percent.

Senator KERR. Let's take it for the last 12 months, is what we are talking about.

Secretary HUMPHREY. No; let's take what we are talking about. It is 1956 and the 4 months of this year.

Senator KERR. Let's do that. It gives you 5 months this year. You do not want to exclude May, do you?

Secretary HUMPHREY. The figures I have here on my sheet that you have been talking about right along, with respect to inflation——

Senator KERR. The figures on that Indicator——

Secretary HUMPHREY. The inflationary figures; you asked me about inflation, and that ends with April.

Senator KERR. I asked you about the steel business, and you said throughout the first 6 months of this year.

Secretary HUMPHREY. Well, I will put in—you can put in a month.

Senator KERR. No; I am not going to put it in. It is in that Economic Indicator you were reading from there.

Secretary HUMPHREY. All right. Put it in.

Senator KERR. You say there is a shortage in line pipe; that is what you told me, is it not?

Secretary HUMPHREY. Yes.

Senator KERR. What else is there a shortage on?

Secretary HUMPHREY. Well, during these earlier months, there was a very tight steel market in most all items.

Senator KERR. Well, just give them to me.

Secretary HUMPHREY. I will have to get, again, some figures. You want everything proved, so I will have to——

Senator KERR. Yes, I do.

Secretary HUMPHREY. So I will have to get the exact figures. I will do no guessing.

Senator KERR. Well, you are going to start a new policy, then.

Secretary HUMPHREY. I think, Senator, that, if you want the percentages of operation in these items, we will have to get them for you.

Senator KERR. Well, Mr. Secretary——

Secretary HUMPHREY. I do not think they are here.

Senator KERR. You just brushed it off with a wide brush and said it would average 95 percent.

Secretary HUMPHREY. Let's see; we will see. Let's get this figure.

Senator KERR. Maybe it did; and if it did, why, let's see it. Do not strike out anything.

Secretary HUMPHREY. You certainly do not count the period when the strike is on, when the mills are all shut down.

Senator KERR. Was that during the last 12 months?

Secretary HUMPHREY. Sure.

Senator KERR. Then I think we will count it.

Secretary HUMPHREY. It started in May.

Senator KERR. I knew there had been a strike when I asked you the question.

Secretary HUMPHREY. Well, it was including the strike, so we will put the strike in.

Senator KERR. We will have to, because it was there.

Secretary HUMPHREY. And about that, that was 2½ months or so of complete shutdown.

Senator KERR. Be careful about that. If you are going to make those statements, I might ask you——

Secretary HUMPHREY. The strike was about 2 months of complete shutdown.

Senator KERR. Then it was not 2½ months?

Secretary HUMPHREY. About 2 months of complete shutdown, and with that it was 90 percent.

Senator KERR. Ninety percent last year?

Secretary HUMPHREY. And nearly 93 percent this year.

Senator KERR. Nearly 93 percent this year.

Secretary HUMPHREY. Yes.

Senator KERR. Well, that was not quite 95, was it?

Secretary HUMPHREY. Well, you take the strike out, and it would be 95.

Senator KERR. Well, it was not quite 95, was it? Let's look at the indicator there, giving us the price index. Where is that in that book you have there?

Secretary HUMPHREY. It is page 23, consumer prices. Page 23; is that the page we are looking at?

Senator KERR. Yes, sir. That shows the items, as I understand it, that make up this index that we have been talking about, is that correct, of consumer prices?

Secretary HUMPHREY. I think that is right.

Senator KERR. Now show me the column which shows line pipe.

Secretary HUMPHREY. Well, that is not a consumer item. You did not ask me about consumer items. You asked me what things were in short supply.

Senator KERR. Yes, I did; that is correct; which brought about this inflation we are talking about.

Secretary HUMPHREY. Yes. Well, don't you think there are a lot of things besides consumer prices that bring about this inflation?

Senator KERR. I think there are.

Secretary HUMPHREY. I think the most important thing, Mr. Senator, are——

Senator KERR. I think there are.

Secretary HUMPHREY. The most important thing of all hasn't a thing to do with consumer prices. It is industrial building.

Senator KERR. Consumers do not agree with that.

Secretary HUMPHREY. Well, it is industrial building that is one of the most important things. That is one of the things that is the highest on the whole increase.

Senator KERR. I will ask it of you this way: What percentage of the increase in the overall price index was caused by the price of line pipe?

Secretary HUMPHREY. I cannot tell you.

Senator KERR. Would you say it was material?

Secretary HUMPHREY. I would say it was small.

Senator KERR. Very small.

All right, then, what is the next item of goods that was in short supply these past 12 months?

Secretary HUMPHREY. I will have to get a list for you.

Senator KERR. You told me a while ago they were responsible for this——

Secretary HUMPHREY. This great demand we are operating at, a very——

Senator KERR. Now——

Secretary HUMPHREY. You do not contend for a minute, do you, that we are not in a period of high prosperity, that we are not operating at a great demand, or that we no not have a very heavy and high employment in America?

Senator KERR. We are——

Secretary HUMPHREY. If that is in question——

Senator KERR. We are in a period of very considerable prosperity in many fields of our economy.

Secretary HUMPHREY. That is right.

Senator KERR. There are other fields of our economy that are in a tailspin and depression, as evidenced by the fact we will have more bankruptcies in this 12 months than during any 12 months in the history of the nation.

Secretary HUMPHREY. But you will have less bankruptcy in proportion to the number of businesses available.

Senator KERR. Now, Mr. Secretary——

Secretary HUMPHREY. New businesses.

Senator KERR. You had better ask your staff about that.

Secretary HUMPHREY. Well, new businesses; let's go right to it.

Senator KERR. That is not what you said.

Secretary HUMPHREY. New businesses available.

Senator KERR. That is not what you said.

Secretary HUMPHREY. That is what I meant; new businesses available.

Senator KERR. You are a man capable of saying what you think.

Secretary HUMPHREY. It is right over here on this page.

Senator KERR. I know what you said in your statement, and you picked out the element that would give a favorable impression, but I am talking about the number of bankruptcies, and you said that there were less bankruptcies in relation to those.

Secretary HUMPHREY. No; new starts.

Senator KERR. No; you did not say that.

Secretary HUMPHREY. Well, that is what I say now. New starts.

Senator KERR. That was not what you said.

Senator HUMPHREY. That is what I said before.

Senator KERR. I told you that there were weak points in this prosperity——

Secretary HUMPHREY. That is right.

Senator KERR. As evidenced, first, by a horrible farm depression; as evidenced, second, by the fact that there are more bankruptcies in these 12 months than in any other 12 months in the history of the Nation. Is that correct?

Secretary HUMPHREY. Well, that is what you said.

Senator KERR. Do you dispute it?

Secretary HUMPHREY. I do not dispute it. I do not know what the figures are.

Senator KERR. If you do, I will put into the record the figures of the Federal agency which made the statement.

Secretary HUMPHREY. I will have to check everything you say.

Senator KERR. That is all right, because I am going to check everything you say.

Secretary HUMPHREY. Over what period are you talking that there were more failures?

Senator KERR. This fiscal year, this fiscal year that ends June 30, this month.

Secretary HUMPHREY. You say there are more failures this year than there ever have been before?

Senator KERR. Yes, sir.

Secretary HUMPHREY. You better get your book out and look at this.

Senator KERR. All right, I will be glad to do that.

Secretary HUMPHREY. Let's look at page 186 of the economic report, and when you find that, tell me how many, just to make it good, tell me how many failures there were in 1932 as compared with the failures this year.

Senator KERR. Well, I will read it to you from the fellow who has charge of it.

Secretary Humphrey. I will save you ——

Senator KERR. From the hearings before the subcommittee of the Committee on Appropriations, House of Representatives, 85th Congress.

Secretary HUMPHREY. Let's take the table, and I will read it for you. My book shows 31,822 in 1932, as against 12,656 this year.

Senator KERR. All right.

Now, here is what Mr. Covey says, who is in charge of that program for the Government.

Secretary HUMPHREY. Which program is this? [Laughter]

Senator KERR. He is charged with the responsibility of keeping statistics on what we are talking about.

Secretary HUMPHREY. Senator, you find this page, because it is quite interesting, page 186. This is the President's Economic Report, January 1957. If you will glance at that page, you will see, just to dispose of this, that there were in 1932—and I admit that 1932 was a terrible year for comparison. I am simply doing it to challenge the question, that is all.

Senator KERR. I want you to do that. That is what I hope you will do.

Secretary HUMPHREY. To challenge the question, there were 2,828,000 businesses, and there were 30,000 plus failures.

Now there are over 4 million businesses, and there were 12,000 failures. So there is just no comparison between the two.

Senator KERR. I am reading here from the "Hearings Before the Subcommittee of the Committee on Appropriations, House of Representatives, 85th Congress, Judiciary Subcommittee," and I am giving you the evidence of Mr. Edwin L. Covey, Chief of the Bankruptcy Division of the Administrative Office of the United States Courts. The following is quoted from page 119 of the hearings:

> Mr. ROONEY. As it is now, you estimate in the current fiscal year, the year into which we have already run 7 months, that it will be 72,000 cases filed instead of the 66,000 which you estimated a year ago?
>
> Mr. COVEY. Yes, sir.
>
> Mr. ROONEY. In what year in the history of our Government has the number of bankruptcy cases filed reached that alarming number?
>
> Mr. COVEY. It has never been that high.

On the basis of the estimate he gave the subcommittee of the House Appropriations Committee, it would be in the neighborhood of 72,000 this year, and his estimate is for 74,000 in the next fiscal year. He was getting an appropriation from the Congress in connection with the responsibility of his office for bankruptcy proceedings in the Federal courts. And that is his evidence before the subcommittee of the House Appropriations Committee, in January of this year.

Secretary HUMPHREY. Well, these are the figures that I am reading to you on total failures in this country in business.

Senator KERR. What do you have there, the President's Economic Report?

Secretary HUMPHREY. Yes, sir.

Senator KERR. What page were you reading from?

Secretary HUMPHREY. Page 186, Senator.

Senator KERR. Page 186, Mr. Secretary?

Secretary HUMPHREY. 186.

Senator KERR. What line were you reading from?

Secretary HUMPHREY. Well, if you will take the first column to the left, that shows you the number of operating businesses in the country.

Senator KERR. Well now, are they the only ones that take bankruptcy?

Secretary HUMPHREY. Well, you have got to have an operating business or you cannot very well get into bankruptcy.

Senator KERR. I thought an individual could go into bankruptcy.

Secretary HUMPHREY. I do not know. We are talking about businesses.

Senator KERR. I was talking about bankruptcy cases. Are you taking the position that they are limited to businesses, Mr. Secretary?

Secretary HUMPHREY. No, no. We were talking about business failures.

Senator KERR. No, I was talking about bankruptcies.

Secretary HUMPHREY. I want to see if we can find individual bankruptcies. This is business failures.

Senator KERR. You know, we will get along better if you would just be willing to talk about the things I am asking you about.

Secretary HUMPHREY. I thought we were talking about prosperity in this country, and you said——

Senator KERR. Is there any relationship to the number of bankruptcies and prosperity?

Secretary HUMPHREY. There is some, but there is a lot more relationship to business failures and prosperity then there is just to bankruptcies.

Senator KERR. Would you acknowledge that the number of bankruptcies is an element to be considered?

Secretary HUMPHREY. I would.

Senator KERR. If we had more bankruptcies in the current fiscal year than in any year of the depression, then that would be some indication that there were elements of weakness in the economy?

Secretary HUMPHREY. It would, certainly.

Senator KERR. Well, that is what I said. All I said was—you asked me if I would acknowledge that this was a year of——

Secretary HUMPHREY. Of very high prosperity.

Senator KERR. Yes.

Secretary HUMPHREY. That is what we are talking about.

Senator KERR. This evidence was supplied by Mr. Covey who is Chief of the Division of Bankruptcy of the Court of Appeals, district courts, and other judicial services. That is the identity of the gentleman I was quoting here.

Secretary HUMPHREY. Are these bankruptcies filed in the District, or where else are they filed?

Senator KERR. No, sir, he was before the Appropriations Subcommittee for money to operate his department, and he was explaining to them the traffic that had to be handled, and what he gave the committee was the number of bankruptcies in the United States. And he told the committee that they were greater in this fiscal year than they were in 1932.

So I asked you if you could give us a year in the history of our country when there were more bankruptcies, and you said you sure could. Now, if you can, I want you to do it.

Secretary HUMPHREY. I have given you the business failures.

Senator KERR. That is not what I asked you.

Secretary HUMPHREY. And there were three times as many business failures.

Senator KERR. I say that is not what I asked you.

Secretary HUMPHREY. And about two times as many businesses.

Senator KERR. I say that is not what I asked you. I was pointing to some weaknesses in the economy, and No. 1, I said, was the depression among the farmers.

Secretary HUMPHREY. There are weaknesses in the economy, there is no question about it.

Senator KERR. And No. 2 was the number of bankruptcies.

Senator HUMPHREY. Yes.

Senator KERR. There is just one item I see here in connection with your—is this—you have got page 186?

Secretary HUMPHREY. Yes, I have it.

Senator KERR. Now, the heading is "Operating business and business turnover, thousands of firms."

Secretary HUMPHREY. That is right.

Senator KERR. Do you notice that there is a footnote there?

Secretary HUMPHREY. Let's see, I do not get the number of it. Is that No. 1?

Senator KERR. Would you read that footnote to the committee?

Secretary HUMPHREY. Yes. "Excludes firms in the fields of agriculture and professional services."

Senator KERR. Go ahead.

Secretary HUMPHREY. "Includes self-employed person only if he has either an established place of business or at least one paid employee."

Senator KERR. Well now, in view of the fact that it starts off by excluding firms in the field of agriculture, would you acknowledge that that was not a complete list, even of businesses?

Secretary HUMPHREY. I think that is right. This has the great majority of them, but it excludes those particular items.

Senator KERR. The figure that I gave you from Mr. Covey is for the whole Nation, that is for all of the Federal courts in the Nation that handle bankruptcy.

Now then, we will see if we can go forward in the question that I was asking you when you detoured on me here a minute ago.

To go back now, you said that this inflation was caused by a bigger demand than productive capacity could supply.

Secretary HUMPHREY. That is right.

Senator KERR. And the only one you told me so far was line pipe.

Secretary HUMPHREY. That is right.

Senator KERR. What others?

Secretary HUMPHREY. I will get you a list.

Senator KERR. Do you know of any other, Mr. Secretary?

Secretary HUMPHREY. I will get you a list.

Senator KERR. Do you know of any other?

Secretary HUMPHREY. I will get you a list.

Senator KERR. Do you know of any other at this moment?

Secretary HUMPHREY. I will bring a list which will have the statistics to back it up.

Senator KERR. Well, that is very fine, but just as an accommodation——

Secretary HUMPHREY. I have no statistics at hand right now.

Senator KERR. Do you have any independent knowledge of any other area of productive capacity in which this country is short?

Secretary HUMPHREY. I will bring you a list.

Senator KERR. Do you know of any other at this time?

Secretary HUMPHREY. No; I will bring you a list with the statistics. I have told you that I haven't the statistics here.

Senator KERR. All right. Let's go back to the page in the Economic Indicators that gives us consumer prices. That is on page 23.

Secretary HUMPHREY. I have it here.

Senator KERR. The first item is food. And the statement I read you a while ago said that was 30 percent of consumer purchases.

Is there any shortage in the production of food or supply of food?

Secretary HUMPHREY. Well, it is right almost at the peak, not quite.

Senator KERR. No, that is the price.

Secretary HUMPHREY. That is right.

Senator KERR. I am talking about the supply.

Secretary HUMPHREY. I am talking about——

Senator KERR. I am telling you one of the great accomplishments of this administration is to keep food at the peak in price to consumers, at a time when there was such a tremendous and burdensome surplus.

I am asking you now about the supply. Is there any shortage in food?

Secretary HUMPHREY. Well, I have just told you, I do not have the figures here to show.

Senator KERR. Do you think there is?

Secretary HUMPHREY. And they are not here.

Senator KERR. Do you think there is?

Secretary HUMPHREY. I do not know——

Senator KERR. You do not know of any?

Secretary HUMPHREY. Until I get the figures.

Senator KERR. You would not take the position that any of the current inflationary pressures by reason of the greater demand than supply is in the field of food, would you?

Secretary HUMPHREY. I will tell you when I get the figures.

Senator KERR. Would you take that position now?

Secretary HUMPHREY. I will tell you when I get the figures.

Senator KERR. Well, the next is housing, which is the second largest item. Do you take the position that there is a shortage in houses?

Secretary HUMPHREY. A great many people claim so; and I will tell you, again, when I get the figures.

Senator KERR. What did you say in your statement?

Secretary HUMPHREY. When I get the figures, I will tell you.

Senator KERR. You made a statement about it.

Secretary HUMPHREY. I certainly did. We have had more houses built in the last 4 years than we have ever had built.

Senator KERR. There is some place in here in which you discuss the number of houses built in relation to the new household units.

Secretary HUMPHREY. The new family units.

Senator KERR. Family units.

Secretary HUMPHREY. That is right.

Senator KERR. Some kindly soul in the audience supplied that both to you and me. Either one of us should have found it before they did. You say:

> Almost 5 million new dwelling units have been built in the past 4 years. Less than 3½ million new households have been formed in that period, so that 1½ million units have gone to satisfy prior shortages and to cover houses abandoned or razed to make way for new construction.

Would you say there is any scarcity or any shortage in the productive capacity of the housing industry to meet any pent-up or growing demand in the last 12 months for more houses than the industry can build or the supplies available to build them?

Secretary HUMPHREY. There have been a great many people down here making those claims.

Senator KERR. Do you make it?

Secretary HUMPHREY. And I will get the figures and tell you——

Senator KERR. Do you make it?

Secretary HUMPHREY. I will tell you when I get the figures.

Senator KERR. But you do not know of any today?

Secretary HUMPHREY. I know that there are a great many people down here making claims that there are.

Senator KERR. Do you make a claim——

Secretary HUMPHREY. Whether the claims are good or not, I will tell you when I get the figures.

Senator KERR. When will we have that?

Secretary HUMPHREY. I cannot tell you.

Senator KERR. Can we have it at the next session you and I can get together?

Secretary HUMPHREY. I hope so.

Senator KERR. Will you make an effort to?

Secretary HUMPHREY. I surely will.

Senator KERR. Now, on apparel, that is the next item on the Consumer Price Index. What items of apparel are in short supply?

Secretary HUMPHREY. Well, Senator, I will just make the same answer to all these things and save you quite a lot of time, and myself.

Senator KERR. Have you been around the last 12 months?

Secretary HUMPHREY. When I get the figures on these—I have not the statistics on the production of these items, and if you have them, I will be glad to hear what they are. I do not have them.

Senator KERR. I do not have them.

Secretary HUMPHREY. And I will get them as soon as I can.

Senator KERR. But I seem to recall—back to housing, your own statement showed that there had been a very heavy decline in nonfarm housing starts, did it not?

Secretary HUMPHREY. That is right.

Senator KERR. So that would indicate that the productive capacity was not strained, would it not?

Secretary HUMPHREY. Well, I do not know. I do not know what the reason would be. We can check it.

Senator KERR. You do not know whether that would be an indication that the productive capacity was not strained?

Secretary HUMPHREY. No, not necessarily.

Senator KERR. Have you been aware of the number of arguments and efforts made in Congress and before the Tariff Commission and before the State Department in behalf of the textile industry in the past 2 or 3 years?

Secretary HUMPHREY. Yes.

Senator KERR. On account of their having to close down because——

Secretary HUMPHREY. That is right.

Senator KERR (continuing). Of——

Secretary HUMPHREY. Difficulties with importations.

Senator KERR. Well, that was because the importations were allegedly flooding the country and driving the price down, was it not?

Secretary HUMPHREY. For certain classes of goods.

Senator KERR. So that——

Secretary HUMPHREY. I think the biggest objection was to velvets and velveteens.

Senator KERR. And fur-lined underwear. [Laughter.]

Secretary HUMPHREY. Well, there has been quite a shortage of that.

Senator KERR. Well, yes, there has. [Laughter.]

Now, in transportation facilities, do you think there is a shortage in the productive capacity of the automotive industry?

Secretary HUMPHREY. Not in automobiles.

Senator KERR. Trucks?

Secretary HUMPHREY. No, not in the automotive field; no.

Senator KERR. We have covered pretty well everything there, except medical care and personal care.

Secretary HUMPHREY. Senator, just sticking to transportation there for a minute, we have had the railroads down here for weeks and weeks and weeks talking about more cars, and we have now pending before us a great program, showing that the railroads cannot possibly supply the country unless a program is adopted. I will refer you to that.

Senator KERR. Would you say there is a shortage of transportation facilities?

Secretary HUMPHREY. That is just one I happen to have the figures on.

Senator KERR. I am going to tabulate every one you have given me, and then I am going to let you tell this committee how much those pressures have contributed to this inflationary spiral.

Secretary HUMPHREY. That is what I would be very glad to do.

Senator KERR. Yes.

But as of this moment, now, there is no other field, other than railroad transportation and line pipe, that you can——

Secretary HUMPHREY. I do not happen to have the figures on them, and I will get the figures and bring them in.

Senator KERR. At our next meeting, if possible.

Secretary HUMPHREY. That is not this afternoon? The next day you meet.

Senator KERR. It probably will be Monday, or Tuesday, I believe the chairman said.

Secretary HUMPHREY. Whatever the day is.

Senator KERR. I think that is helpful now, Mr. Secretary.

(When the following was subsequently submitted by the Secretary it was discussed further. See p. 183.)

THE INCREASE IN PRICE LEVEL, 1955–57

In response to a request from Senator Kerr on Friday, I promised to provide the committee today with a more extended statement describing the pressures which initiated the recent rise in the general price level.

This rise began to show up at the wholesale level in mid-1955, and by early 1956, prices of consumer goods and services began moving upward. While the wholesale price index has been relatively stable since January, the consumer price index has continued to move upward. Now, what has caused this rise in our price level particularly during the last year? This is the question with which we are all understandably concerned, and to which I want to respond here.

WHOLESALE PRICES

During late 1955 and 1956, price increases stemmed basically from a massive increase in capital expenditures. During this same period there was a substantial accumulation of inventories, which accentuated these price pressures.

As the accompanying tables indicate, the capital goods boom which emerged in 1955 was of enormous proportions. Industrial construction contract awards had increased 55 percent during 1955. The volume of new orders for durable goods jumped 34 percent

Percentage change in new orders for durable goods

	Change during [1]—		
	1955	1956	1955 and 1956
Durable-goods industries, total	+34	0	+34
Primary metals	+32	−1	+31
Fabricated metal products	+29	0	+29
Machinery [2]	+37	+7	+47
Transportation equipment	+55	−6	+46
Other durable goods [3]	+12	−1	+11

[1] Change between fourth quarters 1954, 1955, and 1956.
[2] Includes electrical machinery.
[3] Includes professional and scientific instruments, lumber, furniture, stone, clay and glass, and miscellaneous.

Source: Office of Business Economics, Department of Commerce.

Though shipments increased very sharply, the backlog of unfilled orders mounted rapidly for the hard-goods lines generally during 1955, and continued to move upward through most of 1956. Indeed, by the end of last year the backlog of unfilled orders was equal to more than 4 months of shipments at the December rate, and was 34 percent above early 1955 levels. The magnitude of these rapidly mounting demands, concentrated in such a short-time span, led to a sharp rise in the price of producers' equipment and in the prices of materials, components and supplies used in durable goods manufacturing. These price advances, you will note, were much greater than those for products less directly related to this capital goods boom.

Percentage changes in unfilled orders—Selected dates, major durable goods industries

[Percent]

	From January 1955 to January 1956	From January 1956 to January 1957	From January 1955 to January 1957	From January 1957 to April 1957 [1]
Durable-goods industries, total	+20	+11	+34	−3
Primary metals	+73	+6	+82	−2
Fabricated metal products	+26	+9	+37	−1
Machinery [2]	+23	+16	+43	−2
Transportation equipment	+10	+12	+23	−5
Other durable-goods industries [3]	−3	−3	0	−5
Selected commodities:				
Railroad passenger cars	+5	+5	+10	−2
Railroad freight cars	+673	−23	+499	−5
Railroad diesel and diesel electric locomotives	+76	−6	+67	−5

[1] Preliminary.
[2] Includes electrical machinery.
[3] Includes professional and scientific instruments, lumber, furniture, stone, clay and glass, and miscellaneous.

Source: Office of Business Economics, Department of Commerce.

The course of this rapidly accelerating capital goods boom during 1955 can be traced in the various lists of shortages published from time to time by the Association of Purchasing Agents. At the beginning of 1955, only nine items of basic materials were reported in short supply. This list built up persistently through subsequent months until by March 1956, 17 items were listed in short supply: aluminum, cellophane, cement, copper, nickel, paper, selenium, steel products, titanium dioxide, steel pipe, steel plates, structural steel, steel shapes, stainless steel, synthetic rubber, methanol, and newsprint.

This list is, of course, illustrative only. The basic pressure on resources was being exerted by the rapid increase in capital outlays generally, and the even more rapid increase in new orders, unfilled orders, and industrial construction contract awards beginning in 1955.

The increased prices of materials, components and supplies led to cost increases for producers of other goods, such as consumer durables. Consequently, even in lines of industry where demand was not rising so rapidly, some price increases occurred, as producers passed along at least some of the increased cost of materials.[1]

[1] In two major areas of the economy, automobiles and home-building, production was actually declining. This offset some of the pressure built up by the demands for plant, equipment and inventory; crude material prices never climbed much above their late 1955 peaks although semifabricated materials and components continued to rise.

Wholesale Price Index

[1947–49=100]

Price group	Points change in the index	
	From January 1955 to January 1957	From January 1957 to April 1957
Wholesale prices:		
All items	+6.8	+0.3
Farm products	−3.2	+1.3
Processed foods	+0.5	0
All other (industrial)	+10.0	+0.2
Selected groups of industrial prices:		
Rubber and rubber products	+8.2	−0.5
Pulp, paper, and allied products	+12.3	−0.1
Metals and metal products	+22.1	−2.1
Machinery and motive products	+18.1	+2.1
Nonmetallic minerals, structural	+10.0	+2.5

Not only did prices of materials and supplies increase, but labor costs rose substantially in 1956. Wage increases were sizable and output per employee man-hour failed to rise appreciably in 1956, so that the higher wage costs per hour were more fully translated into increasing costs of production.

CONSUMER PRICES

Consumer prices generally did not begin to rise until early 1956, and consumer commodity prices (aside from food) did not increase until mid-1956. The rise in consumer incomes and in the demand for consumer goods was substantially less than the increase in demand for capital goods. In general, the supply and capacity situation was also easier in the case of consumer goods. However, rising employment and wage rates led to an increase in disposable income of about 6 percent per year between mid-1955 and early 1957. And this was large enough to permit the pass-through to consumers of increases in the wholesale prices of many consumer goods.

Consumer Price Index

Price group	Percent change	
	June 1955–December 1956	December 1956–April 1957
Consumer prices:		
All items	3.3	0.9
Commodities	2.7	.9
Food	1.3	.9
All commodities, except food	3.8	.8
Consumer durables	3.4	[1] .5
Consumer nondurables	4.3	[1] .8
Services and rent	3.7	1.6

[1] December 1955 to March 1956 used.

Source: Based on data from the Department of Labor.

Consumer commodity prices, particularly those of durable goods and food, had been declining for a number of years prior to 1955. Retail margins on durable goods commodities had apparently been falling for some time, making absorption of further cost increases difficult.

Services prices, on the other hand, had been steadily rising throughout the postwar period; many services prices are directly affected by changes in wage rates without any offsetting effect of productivity gains.

The recovery of farm prices from the low point reached in late 1955, and the continued rise in food marketing margins led to increases in food prices early in 1956. After June, other consumer commodity prices joined in the rise, responding to a number of influences—the earlier increases in wholesale prices, rising labor costs, scattered increases in State and local sales and excise taxes, and in some cases price increases (made possible by the rising level of consumer incomes). In 1955, and again in 1956, the introduction of the new automobile models at higher prices also provided additional consumer price increases, although the actual amount of the increase to the consumer varied from place to place, and from time to time, depending on the degree of dealer discounting.

With food and other commodities beginning to rise, and prices of services continuing their rise, the whole Consumer Price Index moved up in 1956. Despite the stability in wholesale prices during 1957 to date, consumer prices have continued to increase, reflecting earlier rises in wholesale prices, a further increase in food prices, and the steady climb of service prices and rents, evidencing the normal lag in the effective timing of this pattern.

THE PRICE SITUATION IN 1957

The major factors which led to the rise in industrial prices, beginning in mid-1955, and to the rise in consumer prices, beginning in early 1956, were substantially modified during the first half of 1957.

The most significant features of the first half of 1957 have been:

1. The slowing up of the rapid increases in plant and equipment expenditures which took place in 1955 and 1956.

2. The decline in inventory investment, from an annual rate of $4.1 billion in the last quarter of 1956 to a −$1.2 billion rate in the first quarter of 1957.

3. An apparent resumption of gains in output per man-hour, after a year in which only small increases were forthcoming. Although wage rates have continued to rise fairly sharply, the higher output per man-hour has lessened their impact on costs of production.

4. Growing production and stocks of many raw materials, among which the most important are the nonferrous metals—copper, lead, and zinc.

As a consequence, wholesale prices stabilized during the first 6 months of the year. Consumer prices, however, continued to increase, reflecting the normal lag to earlier increases in wholesale prices, a seasonal upturn in food prices, and a continued upward movement of service prices and rent.

The backlog of unfilled orders in some lines is decreasing and the pressure on deliveries and shortages is declining and, in many cases, has almost entirely disappeared.

Whether this is evidence of the effective restraint on inflationary pressures by the policies we have pursued, it is, as yet, too early to tell, but it may be that the natural correction is just beginning to emerge. If this proves to be the case, our flexible policies will take it into account as soon as the evidence is definite.

Senator KERR. Let us go now to your statement, Mr. Secretary: "We have reduced Federal expenditures," is what you say. Do you have the figures there for 1953, which you referred to as one of the bad examples of Federal expenditures due to the obligations left by the preceding administration?

Secretary HUMPHREY. The actual expenditures were $74,274 million.

Senator KERR. How much?

Secretary HUMPHREY. $74,274 million.

Senator KERR. Generally $74.3 billion.

Secretary HUMPHREY. That is right.

Senator KERR. How much of that was for defense? You have it in your statement there. Do you recall your statement?

Secretary HUMPHREY. Let's see if I can find it. Yes, here it is, right here.

There were $50.4 billion.

Senator KERR. Leaving an expenditure for all other items of how much?

Secretary HUMPHREY. Well, what was it?

Senator KERR. $74.3 billion and $50.4 billion.

Secretary HUMPHREY. $23.9 billion.

Senator KERR. $23.9 billion, approximately, was it not?

Secretary HUMPHREY. Yes, sir; in round figures, $24 billion.

Senator KERR. What was the total in 1954?

Secretary HUMPHREY. Well, what is your total——

Senator KERR. You had that at the bottom of page 10. It was $67.8 billion total. And at the top of page——

Secretary HUMPHREY. It is $46.9 billion. What was the total?

Senator KERR. Your defense expenditures were $46.9 billion.

Secretary HUMPHREY. What was the total for the year?

Senator KERR. $67.8 billion, according to this statement, leaving a net of how much, leaving expenditures for other——

Secretary HUMPHREY. About 21.

Senator KERR. $20.9 billion.

In 1955, the total was what?

Secretary HUMPHREY. 64.6.

Senator KERR. Defense expenditures are how much?

Secretary HUMPHREY. Let's see, this is for what year?

Senator KERR. 1955.

Secretary HUMPHREY. I do not have the 1955 figure there.
Senator KERR. He has it there.
Secretary HUMPHREY. 40.6. $24 billion.
Senator KERR. How much?
Secretary HUMPHREY. $24 billion.
Senator KERR. Leaving $24 billion for others.
Secretary HUMPHREY. That is right.
Senator KERR. Well then, in 1955, your expenditures——
Secretary HUMPHREY. That is 1955, I believe.
Senator KERR. In 1955, your expenditures for other than defense requirements went ahead of the horrible example of 1953, did it not?
Secretary HUMPHREY. No, they were just about the same.
Senator KERR. I thought it was 23.9 and 24.
Secretary HUMPHREY. I dropped the tenths. It is 24, I just rounded them 24 each.
Senator KERR. Well, it is $100 million, according to what you gave me, and I do not want——
Secretary HUMPHREY. I just dropped the tenths off in mine. If you put the tenths on, it is 23.9 and 24.
Senator KERR. It would be $100 million more.
Secretary HUMPHREY. That is right.
Senator KERR. In 1956, your total was what?
Secretary HUMPHREY. 66.5.
Senator KERR. And defense was what?
Secretary HUMPHREY. 40.6.
Senator KERR. Leaving a net of how much?
Secretary HUMPHREY. 25.9.
Senator KERR. Now, that was $2 billion above the horrible example of 1953, was it not?
Secretary HUMPHREY. It is $2 billion above 1953, yes.
Senator KERR. Now, in 1957, the total was how much?
Secretary HUMPHREY. 68.9.
Senator KERR. Let's add to that 68.9 the amount we spent for roads.
Secretary HUMPHREY. I do not know what that is.
Senator KERR. Well, he has got it there for you. It is in that document you have referred to, the President's Economic Report.
Secretary HUMPHREY. The actual expenditure.
Senator KERR. It is either the actual or the estimate of the Budget Bureau.
Secretary HUMPHREY. This is for 1956 you are talking about?
Senator KERR. 1957.
Secretary HUMPHREY. 1957. Well, you see, you have gotten an extra expenditure for 1957.
Senator KERR. He has got the figure there.
Secretary HUMPHREY. The defense for 1957 was 41. It is 27.9 without the roads, and we will have to see what the roads——
Senator KERR. How much?
Secretary HUMPHREY. 27.9 without the roads, and we will have to add the roads, whatever the right figure is.
Senator KERR. Well now, do you not have the Treasury Bulletin there? Does that not give it?
It is $1.15 billion, is it not, plus 68.9, is $70.05 billion.
Secretary HUMPHREY. That is 29——

Senator KERR. $29.05 billion?

Secretary HUMPHREY. That is right.

Senator KERR. In other words, in 1957, your expenditures, other than roads, was how much more than 1953?

Secretary HUMPHREY. In 1953, it was 24.

Senator KERR. 23.9. Let's keep it the way it is.

Secretary HUMPHREY. 23.9 and 29 billion.

Senator KERR. That was $5.15 billion more, was it not?

Secretary HUMPHREY. I put that——

Senator KERR. That was the excess of expenditures of 1957 above 1953, was it not?

Secretary HUMPHREY. 1953 is 23.9.

Senator KERR. 23.9.

Secretary HUMPHREY. And you want to drop off that zero?

Senator KERR. No, a hundred million dollars is not an inconsequential item.

Secretary HUMPHREY. If you want to put it all on, $5.050 billion.

Senator KERR. $5.150 billion is the way I get it.

Secretary HUMPHREY. $5.150 billion.

Senator KERR. Yes.

Now, in 1958, the estimate is what?

Secretary HUMPHREY. 71.8.

Senator KERR. Plus roads.

Secretary HUMPHREY. 1.8.

Senator KERR. Total?

Secretary HUMPHREY. $73.6 billion.

Senator KERR. Your estimate there, I believe, in your statement, for defense was $43.3 billion.

Secretary HUMPHREY. I think that is right.

Senator KERR. Leaving a difference of 30——

Secretary HUMPHREY. 30.3.

Senator KERR. 30.3, or how much more than the 1953 nondefense expenditure?

Secretary HUMPHREY. 6.4.

Senator KERR. That is right.

Now, you told the chairman here the other day a number of times that your defense requirements were as great in 1957 and 1958 as they had been in 1952 and 1953, did you not?

Secretary HUMPHREY. Expenditures?

Senator KERR. No, requirements, the problem of defense.

Secretary HUMPHREY. Well, I do not know quite what you mean, the problem of defense.

Senator KERR. Well, then, we will skip that because I do not want to get into something that you do not know anything about.

Do you think, in view of the fact that this current fiscal year you are spending $5.150 billion more for nondefense items than were spent in 1953, and that in the 1958 budget you have estimated $6.400 billion more, that you can accurately say that you have reduced Federal expenditures?

Secretary HUMPHREY. Well, the figures are accurate, Senator Kerr. You deduct the figures, and they are less total expenditures, Government expenditures are less. They have gone up in some directions and down in others.

Senator KERR. Then you want to stand on the exact Government expenditures?

Secretary HUMPHREY. I will stand on the figures we have.

Senator KERR. I say, you want to stand on the exact Government expenditures?

Secretary HUMPHREY. I say more money was spent in 1953 than is estimated to be spent in 1958.

Senator KERR. Well, do you have somebody there——

Secretary HUMPHREY. And more than was spent in 1957 or in 1956, for which we have actual figures.

Senator KERR. Have you got a man there who can give us, then, the actual Federal cash expenditures, year by year?

Secretary HUMPHREY. I have got it the way they are published.

Senator KERR. I say——

Secretary HUMPHREY. Sure.

Senator KERR. Have you got a man who can give us—you want to be technical.

Secretary HUMPHREY. No, I do not want to be technical. I just want to take the figures as they are published. That is the only thing I know of.

Senator KERR. Do you want to take them as they are published, or as they are?

Secretary HUMPHREY. We publish them as nearly as they are as we can.

Senator KERR. You really want to take them as they actually are?

Secretary HUMPHREY. I do.

Senator KERR. Well then, suppose you ask him to give us the cash income of the Treasury and the cash outgo for each one of these fiscal years.

Secretary HUMPHREY. We can get the cash figures for the past years. Now, you cannot get them, of course, for the future years.

Senator KERR. You see, these figures, Mr. Secretary——

Secretary HUMPHREY. We can give them for the past years.

Senator KERR. These figures, Mr. Secretary, you give us are not the actual cash figures.

Secretary HUMPHREY. They are published figures.

Senator KERR. I say, but they are not the actual cash figures.

Secretary HUMPHREY. They are the budget we give you, and what I have purported to give you are the budget figures.

Senator KERR. But they are not the actual cash figures.

Secretary HUMPHREY. Well, you want to add in—what would you like to have added in or subtracted?

Senator KERR. I was just trying to give you the benefit of the best interpretation there is.

Secretary HUMPHREY. Well, the best interpretation I know of is to take the budgets as they are prepared, which is what I was talking about. If you want to talk about something else——

Senator KERR. You made the statement that you paid out $7.1 billion in interest this year.

Secretary HUMPHREY. That is the budget estimate.

Senator KERR. That is the statement you made.

Secretary HUMPHREY. I say it is the budget estimate. It has not—the year is not completed, and I do not know exactly, to the penny, what it is yet, and you do not know, either.

Senator KERR. I know what your Treasury has estimated.

Secretary HUMPHREY. Well, all right. I know what I estimate.

Senator KERR. Your Treasury has estimated——

Secretary HUMPHREY. I do not know what has actually been paid, because we have not finished the year.

Senator KERR. How much will the Treasury, in your judgment, actually pay out in interest?

Secretary HUMPHREY. $7.2 billion is the budget——

Senator KERR. I am not talking about the budget estimate. I am talking about your estimate of the actual cash interest you will pay.

Secretary HUMPHREY. Well, how are we going to know until we get to the end of the year? We can guess.

Senator KERR. Then we will take last year. Where is your statement of what you paid last year. What page of the statement is that?

Secretary HUMPHREY. That figure is not in the statement.

Senator KERR. Oh, yes, it is.

Secretary HUMPHREY. If you will turn to page 3 of the book——

Senator KERR. I am talking about your statement now

Secretary HUMPHREY. Do we have a figure in the statement of interest payment?

Senator KERR. Total computed interest cost at that time was $6.2 billion.

Secretary HUMPHREY. All right, what page is that?

Senator KERR. That is page 13.

Secretary HUMPHREY. There it is, $6.2 billion; that is right.

Senator KERR. Did the Treasury pay out $6.2 billion interest?

Secretary HUMPHREY. This is 1956?

Senator KERR. Yes, sir.

Secretary HUMPHREY. The net computed interest rate—you see, that is 1953, if you read the sentence, Senator.

Senator KERR. Then 1956, $7.3 billion.

Secretary HUMPHREY. Yes; $7.3 billion.

Senator KERR. You have got the record on that, have you not? We will take that. That is behind you, is it not? That was last year.

Secretary HUMPHREY. That is an end of calendar year figure——

Senator KERR. Is that $7.3 billion——

Secretary HUMPHREY. That is a calculated rate.

Senator KERR. All right.

I want to ask you, is that $7.3 billion—is that in this figure that you gave us for what you spent that fiscal year, where is that now?

Secretary HUMPHREY. You see, this is an end of calendar year figure, and the other figures are fiscal year figures, so you just have to adjust for them, that is all. They will come out the same when you get through, but this is the end of a calendar year and the other is a fiscal year.

Senator KERR. In the total expenditures which you gave us here for these years which are at the bottom of page 10, is that $7.3 represented by a like amount in the figures at the bottom of page 10?

Secretary HUMPHREY. Let me see. What is it you want to know, now? Is the $7.3 billion that was the calculated interest, is that included in the figure on page 10?

Senator KERR. The $74.3 billion for 1953.

Secretary HUMPHREY. That part of it, I think the proper answer to that is that that part of it which falls within the fiscal year—you are transposing, you see, from an end of calendar year rate to a fiscal year—is part of it.

Senator KERR. I understand, but aside from that, at the top of page 11 you are talking about what happened in 1956.

Secretary HUMPHREY. It would fit into 2 years, but the total would be in——

Senator KERR. The total would be in either the $66.5 billion——

Secretary HUMPHREY. That is right.

Senator KERR (continuing). Or the $68.9 billion?

Secretary HUMPHREY. That is right.

Senator KERR. Now then, I asked you if you actually paid that $7.3 billion out.

Secretary HUMPHREY. We paid actually, the fiscal year that is finished is 1956, we paid $6.8 billion in that year. The estimate for the——

Senator KERR. Calendar year 1956?

Secretary HUMPHREY. It goes into 2 years.

Senator KERR. I know it does, Mr. Secretary.

Secretary HUMPHREY. And one is $6.8 billion, and the other is $6.2 billion. And $7.3 billion is what we were estimating.

Senator KERR. You mean you changed your estimate of what you paid last year since you were here the other day?

Secretary HUMPHREY. No. What we are estimating here is that we will pay out this year $7.2 billion.

Senator KERR. I am talking about what you paid out in 1956.

Secretary HUMPHREY. Well, you have got it in two 6 months.

Senator KERR. I am not trying to argue with you about it. What I am trying to find out is, you said the $7.3 billion referred to here on page 13 was reflected in full in the statement in the figures on page 11.

Secretary HUMPHREY. It is reflected in two sets of figures, yes, sir.

Senator KERR. Now then, I am asking you if that $7.3 billion is paid out by the Treasury in cash.

Secretary HUMPHREY. Well, the $7.3 billion is a calculated rate for the end of an annual period.

Senator KERR. Yes, sir.

Secretary HUMPHREY. The other figures are actual or estimated for a fiscal year period.

Senator KERR. But they are expenditures, you said.

Secretary HUMPHREY. That is right.

Senator KERR. The point I am making is that you did not spend $7.3 billion interest last year.

Secretary HUMPHREY. Here in the calendar year, they have gone back and figured it here into a calendar year, of actual expenditures in a calendar year, which is part——

Senator KERR. How much is it?

Secretary HUMPHREY. In the calendar year 1956, it is $7.022 billion. And that is what was actually paid in a calendar year which is a part of 2 adjoining fiscal years.

Senator KERR. Now, Mr. Secretary, is it not a fact that you do not pay cash to the trust funds?

Secretary HUMPHREY. We do not pay cash to the trust funds. We sell bonds to the trust funds.

Senator KERR. You do not pay them interest in cash, do you?

Secretary HUMPHREY. It is a credited account.

Senator KERR. Well, you do not pay cash, do you?

Secretary HUMPHREY. No. It is a credited account.

Senator KERR. So that seven point——

Secretary HUMPHREY. But it has to be charged against it.

Senator KERR. So actually, the interest on the Federal bonds in the trust accounts is figured on an accrual basis?

Secretary HUMPHREY. It is a credited account.

Senator KERR. So you did not spend that money, did you?

Secretary HUMPHREY. Well, we owe it.

Senator KERR. I understand. But you told me here that these figures you gave me were cash outlays.

Secretary HUMPHREY. That is right. This is the total amount of interest that we are obligated to pay during those 12 months.

Senator KERR. I understand that. But you told me those figures you gave this committee here of $66 billion and $68 billion were cash outlays.

Secretary HUMPHREY. Well, they are cash obligations.

Senator KERR. Well, that is not the same thing, is it? Did you not tell the chairman here yesterday that that $10 billion worth of gold down yonder, although it belonged to somebody else if they wanted it, was ours until they wanted it?

Secretary HUMPHREY. No; I did not tell him that, any more than I told the things you are saying.

Senator KERR. What did you say to him?

Secretary HUMPHREY. I have a statement for the chairman on the gold. I said that we had the gold, that there were some claims against the gold just like there are claims against deposits in a bank. And I explained it exactly that same way.

Senator KERR. I am just trying to get into the record what the actuality is. You said that those figures were actual cash expenditures.

Secretary HUMPHREY. Cash obligations.

Senator KERR. Well, then I asked you what the actual cash expenditures were.

Secretary HUMPHREY. Well, you are asking it—you see, the trouble, Senator, is, what you are getting all mixed up about is——

Senator KERR. I am not getting mixed up. You are right about the situation but wrong about the identity of the fellow who is in the fix. [Laughter.]

Secretary HUMPHREY. No, I am sorry, you are the one who is mixed up, because you are trying to ask it in two——

Senator KERR. You said: "We have reduced Federal expenditures."

Secretary HUMPHREY. That is right.

Senator KERR. And then when I pressed you on it, you said you were talking about cash expenditures.

Secretary HUMPHREY. That is right, cash obligation expenditures.

Senator KERR. No. Cash expenditures.

Secretary HUMPHREY. Well, cash expenditures are all the same.

Senator KERR. No, they are not.

Secretary HUMPHREY. It is a budgeted expenditure.

Senator KERR. It is not. I do not know much, but I know there is a lot of difference between making a note and giving a check. [Laughter.]

Secretary HUMPHREY. We are not making notes or giving checks in this particular case.

Senator KERR. Oh, yes, you are.

Secretary HUMPHREY. No.

Senator KERR. How can you have an expenditure without putting out the cash?

I say, how can you make an expenditure without putting out the cash?

Secretary HUMPHREY. If you have an obligation, you have an obligation to pay it.

Senator KERR. That is right. And when you pay it, it becomes an expenditure.

Secretary HUMPHREY. If you make a note and pay the cash and take the cash out, you have covered it the same way.

Senator KERR. You remind me of a fellow who had 4 sons, and the old man died, and they wanted to help him some so he could get along into the next world. So they decided to give him $125 apiece. And the 3 oldest ones came up and laid $125 each in the casket, and the fourth one came along and put in his check for $500 and took out the $375 cash. [Laughter.]

Secretary HUMPHREY. Now, I do not know whether that qualifies him to be a Senator or the Secretary of the Treasury. [Laughter.]

Senator KERR. It will make him eligible to get on the staff. [Laughter.]

Secretary HUMPHREY. He sure should be one place or the other.

Senator KERR. That is right.

Now, I think your Treasury has a record of your actual cash income for 1956.

Secretary HUMPHREY. Oh, yes, we have it.

Senator KERR. To the extent of $77 billion.

Secretary HUMPHREY. We have all the records, and if you will just tell us exactly what you want in new sets of combinations, we will figure out any combination you propose and give you the figures.

Senator KERR. I am trying to get it on the basis of cash expenditures.

Secretary HUMPHREY. You just give us what you want, and we will get it.

Senator KERR. I would like to have you bring here a tabulation of Federal cash expenditures, by program, and cash receipts, for the fiscal years 1950, 1951, 1952, 1953, 1954, 1955, 1956, and your Treasury estimates for 1957 and 1958, showing these items.

Secretary HUMPHREY. How can we have a cash expenditure for a year that has not yet come? All we can do is make an estimate.

Senator KERR. I said your estimates.

Secretary HUMPHREY. If you want estimates——

Senator KERR. I said your estimates for 1957 and 1958.

Secretary HUMPHREY. I did not hear you say that.

Senator KERR. I will tell you, you make a mistake when you try to figure out what I am going to say and then answer it on that basis.

Secretary HUMPHREY. No, I am trying to hear what it is you want exactly; and when you say it exactly, we will get it.

Senator KERR. What years did I give you?

Secretary HUMPHREY. You want it from 1951 to what?

Senator KERR. No; 1950, 1951, 1952, 1953, 1954, 1955, 1956, and the estimate for 1957 and 1958.

Secretary HUMPHREY. All right.

Senator KERR. Including these items: Major national security, international affairs and finance, retirement and insurance trust funds, agriculture and agricultural resources, interest, highways, public assistance, natural resources, housing and community development, public education, public health, veterans' services——

Secretary HUMPHREY. Not quite so fast.

Senator KERR. Veterans' services and benefits, and others.

Secretary HUMPHREY. What do you mean, "others"?

Senator KERR. That is the way it is tabulated in the chart I have here, which would mean all others.

Secretary HUMPHREY. Which are the same thing, comparable to "others."

Senator KERR. Which would mean all cash expenditures not included in these separate classifications.

Secretary HUMPHREY. Yes.

Senator KERR. Giving the total cash expenditures and the total cash receipts.

Secretary HUMPHREY. Then what you want are the things that checks were actually written for or deposits that were actually made in a bank, regardless of what was owed either way; is that correct?

Senator KERR. What I want is the total of cash expenditures and the total of cash receipts.

Secretary HUMPHREY. Actual cash transactions, regardless of obligation during the period.

Senator KERR. Yes, sir.

Secretary HUMPHREY. All right.

(When the following was subsequently submitted by the Secretary, it was discussed further. See p. 200.)

Federal cash payments to the public, by program, fiscal years 1950–58

[In millions of dollars]

Program	1950	1951	1952	1953	1954	1955	1956	1957 [1]	1958 [1]
Major national security	13,118	22,639	44,181	50,507	47,054	40,781	40,771	41,156	43,570
International affairs and finance	4,579	3,406	3,098	2,177	1,595	2,008	1,650	3,307	2,923
Veterans services and benefits	9,278	5,993	5,756	4,863	4,963	5,057	5,288	5,446	5,648
Agriculture and agricultural resources	2,848	629	1,133	2,953	2,601	4,435	5,029	4,691	4,890
Interest	4,326	4,141	4,136	4,715	4,688	4,564	5,115	5,609	5,498
Social insurance trust funds	3,368	3,077	3,815	4,580	6,063	7,467	8,062	9,250	10,550
Public assistance	1,125	1,187	1,180	1,332	1,439	1,428	1,457	1,584	1,694
Health	244	306	330	318	290	275	351	501	606
Education	73	91	175	288	271	321	275	283	538
Highways	498	455	470	572	586	647	783	1,194	1,732
Housing and community development	221	861	259	381	−1,014	249	311	858	911
Natural resources	1,216	1,276	1,375	1,485	1,330	1,217	1,123	1,401	1,575
Other [2]	2,258	1,756	2,056	2,582	1,994	1.989	2.401	3,030	2,850
Total payments to the public	43,147	45,797	67,964	76,773	71,860	70,538	72,611	78,265	82,970
Total case receipts from the public	40,940	53,390	68,013	71,499	71,627	67,836	77,084	81,720	85,923
Excess of receipts or payments (−)	−2,207	7,593	49	−5,274	−232	−2,702	4,473	3,455	2,953

[1] January 1957 budget.

[2] Beginning in 1958, Government payments to the Federal employees' retirement funds are allocated to the individual agencies and the correction to the cash basis is made in one lump sum as a deduction in arriving at the total for "other" expenditures. In prior years, both the payments to the funds and the correction to the cash basis were included in "other" expenditures. Accordingly, the figure for 1958 is understated in comparison with 2 prior years.

Source: Budget documents.

Senator KERR. I know you want us to have the accurate data.

Secretary HUMPHREY. Sure I want you to have it.

Senator KERR. I want to tell you a secret. I want you to have it.

Secretary HUMPHREY. I would be very glad to have it.

Senator KERR. When you get it, why, we will both have it.

Secretary HUMPHREY. It would be very interesting to have it any way you want to have it.

Senator KERR. Now, you talk about interest costs. And since, as I understand it, according to the Treasury Bulletin, you figure it on an accrual basis rather than on a basis of cash expenditures, for the purposes of our discussion we will keep it on the basis that you figure it.

That is right, is it not, the accrual basis?

Secretary HUMPHREY. Yes, sir.

Senator KERR. But before we get to that, I believe I will take your statement "We have reduced the floating debt."

If you will, I would like for you to identify for me what the floating debt is.

Secretary HUMPHREY. If you will look at my statement you will read:

> The amount of marketable public debt maturing within a year, plus demand obligations (other than E and H savings bonds) in the hands of the public—securities which in many ways are close to cash—

That is what it is.

Senator KERR. Well now, I have a compilation of the total debt here, the interest-bearing public debt, by the Congressional Library Reference Service, and it has these tabulations, and I think they are identical with what is in the Treasury Bulletin.

And, so that we may understand each other, let us together explore them and see if they are accurate.

Total public issues, total marketable issues——

Secretary HUMPHREY. What is it you are reading from, so that I can follow it.

Senator KERR. I tell you it is all in this Treasury Bulletin. That is one of the most illuminating and comprehensive compilations I have ever seen. But I am trying to identify specifically what you referred to when you said, "We have reduced the floating debt."

Secretary HUMPHREY. All right. I just want to be able to follow your figures, that is all.

Senator KERR. Well now, you can give it to me; if you would rather just outline them to me, that would suit me. That is the way I asked you.

Secretary HUMPHREY. You go ahead and see what it is, but I just want to be able to follow, that is all.

Senator KERR. Well, you have what you call marketable issues, do you not?

Secretary HUMPHREY. That is right.

Senator KERR. What do they include?

Secretary HUMPHREY. They include bills——

Senator KERR. All right. Now, we are going—are bills part of the floating debt?

Secretary HUMPHREY. Yes.

Senator KERR. What else do they include, marketable issues?

Secretary HUMPHREY. Certificates.

Senator KERR. Are they part of the floating debt?

Secretary HUMPHREY. Yes.

Senator KERR. What else? Marketable issues, what else is in marketable issues?

Secretary HUMPHREY. Notes that come due within 1 year.

Senator KERR. Do you call them notes?

Secretary HUMPHREY. That is right.

Senator KERR. All right. Then that is part of the floating debt?

Secretary HUMPHREY. That is right. That part of the notes that comes due within a year. If they come due after a year, then they are not floating debt.

Senator KERR. What else is in marketable issues? What is meant by the term "bank eligibles"?

Secretary HUMPHREY. Well, those are bonds that are eligible for banks to purchase.

Senator KERR. But that is not part of the floating debt?

Secretary HUMPHREY. The maturities that occur within 12 months, of those, are part of the floating debt for the period within which they are due within 12 months.

Senator KERR. Then the notes within 12 months——

Secretary HUMPHREY. And the bonds within 12 months, the maturities within 12 months.

Senator KERR. Of the notes and of the bank-eligible Treasury bonds?

Secretary Humphrey. That is right.

Senator KERR. And of the bank-restricted Treasury bonds?

Secretary HUMPHREY. Well, we haven't any of those.

Senator KERR. But then the bank-eligible Treasury bonds, it is within 12 months?

Secretary HUMPHREY. That is right.

Senator KERR. That is part of the floating debt?

Secretary HUMPHREY. You have to deduct from that such of these securities as are held by the Federal Reserve System.

Senator KERR. You do not owe that?

Secretary HUMPHREY. You owe it, but it is not included in what is known as floating debt. This is floating debt in the hands of the public.

Senator KERR. Is that what your statement said?

Secretary HUMPHREY. That is right. We talk——

Senator KERR. I believe the words are "in the hands of the public."

Secretary HUMPHREY. That is what a floating debt is, in the hands of the public.

You see, it is right in the statement, expressed just that way, Mr. Senator. It is the amount of marketable public debt maturing within a year.

Senator KERR. I have that, but for my own benefit, in order that we may understand each other, I am trying to identify it.

Secretary HUMPHREY. Well, I have just given it to you, and I have told you just what to add in and just what to deduct out, and I am pointing out that it corresponds exactly with what I said.

Senator KERR. Tell me what it was on December 31, 1952.

Secretary HUMPHREY. You want the floating debt as defined in my statement.

Senator KERR. I want to know what it was on December 31, 1952.

Secretary HUMPHREY. 1952, 74.6.

Senator KERR. $74.6 billion?

Secretary HUMPHREY. That is correct.

Senator KERR. We can sure break that down, can we not?

Secretary HUMPHREY. I think so.

Senator KERR. All right.

Now tell me what that $74.6 billion consisted of.

Secretary HUMPHREY. Just a second until I read across the right line. This is 1952.

Senator KERR. Is that December 31, 1952?

Secretary HUMPHREY. That is right.

This is the end—this is December 31.

And the under 1 year——

Senator KERR. The $74.6 billion total is what I want to break down.

Secretary HUMPHREY. That is what I am going to give you.

Senator KERR. All right, give it to me.

Secretary HUMPHREY. It breaks down into marketable debt——

Senator KERR. Marketable debt. Now, wait a minute. How much?

Secretary HUMPHREY. 42.9.

Senator KERR. 42.9. What does that consist of?

Secretary HUMPHREY. That is everything that is due within a year.

Senator KERR. What is it? What are they?

Secretary HUMPHREY. It is whatever they may be.

Senator KERR. You have got the tabulation.

Secretary HUMPHREY. I do not have it tabulated as to specific items. I do not have the 42.9 broken down.

Senator KERR. What would they consist of?

Secretary HUMPHREY. It consists of bills, notes and bonds that come due within 12 months.

Senator KERR. Bills, notes, bonds.

Secretary HUMPHREY. That come due within 12 months.

Senator KERR. What is that?

Secretary HUMPHREY. I do not have it broken down between those items.

Senator KERR. Is that what it consists of?

Secretary HUMPHREY. That is correct.

Senator KERR. What is the rest of it?

Secretary HUMPHREY. Savings notes, $5.8 billion.

Senator KERR. What is that again?

Secretary HUMPHREY. It is 5 billion 800 million.

Senator KERR. 5,800 million.

Secretary HUMPHREY. That is correct.

Senator KERR. Those notes were due when?

Secretary HUMPHREY. Within a year.

Senator KERR. Within a year.

All right, what else is in the $74 billion?

Secretary HUMPHREY. 22.6 of F and G savings bonds.

Senator KERR. F and G savings bonds, 22.6.

Secretary HUMPHREY. There might be some J's and K's in there, too. They were——

Senator KERR. F, G, J, and K.

Secretary HUMPHREY. F, G, J, and K.

Senator KERR. What else?

Secretary HUMPHREY. Miscellaneous debt, 3.4.

Senator KERR. What does that "miscellaneous" mean? What would that be?

Secretary HUMPHREY. That includes some investment bonds and depository bonds, and Armed Forces leave bonds, and CCC demand obligations, and matured debt, and debt bearing no interest.

Senator KERR. All right, then.

Now, on May 31, of 1957, what was the total?

Secretary HUMPHREY. Well, I have 1956, the year 1956, here.

Senator KERR. You do not have May 31, 1957? Let's take it on December 31, 1956.

Secretary HUMPHREY. Here it is, right here, I have got it.

Senator KERR. All right. What is the total?

Secretary HUMPHREY. This is May 1957. The total is 62.9.

Senator KERR. 62.9. What does that consist of?

Secretary HUMPHREY. The first category is 46.1.

Senator KERR. Marketable——

Secretary HUMPHREY. That is right.

Senator KERR. That is how much?

Secretary HUMPHREY. 46.1.

Senator KERR. All right.

How much of savings notes?

Secretary HUMPHREY. None.

Senator KERR. None.

What were they replaced with?

Secretary HUMPHREY. Well, they went into the first category, under the bills and notes or some of those things.

Senator KERR. Into bills and notes.

F and G savings?

Secretary HUMPHREY. 13.7.

Senator KERR. What became of the rest of those?

Secretary HUMPHREY. Well, they were paid off.

Senator KERR. Paid off?

Secretary HUMPHREY. Yes.

Senator KERR. Have other savings bonds been issued?

Secretary HUMPHREY. Well, we keep selling bonds, but not of these classes.

Senator KERR. Not of these classes.

Secretary HUMPHREY. That is right.

Senator KERR. What was it that distinguished F- and G- from E-bonds?

Secretary HUMPHREY. Well, these were the bonds designed for the larger investors, and we discontinued selling them.

Senator KERR. Discontinued.

What about the miscellaneous debt?

Secretary HUMPHREY. $3.1 billion.

Senator KERR. Mr. Burgess here a few weeks ago told the committee that there was something like 75 or 76 billion, as I recall, of the Treasury indebtedness that was being currently refinanced over short-term periods.

Secretary HUMPHREY. Well, we are currently financing all the time, Senator.

Senator KERR. I am just trying to get the total.

Secretary HUMPHREY. I cannot tell you what the total is. It keeps changing all the time. You would have to ask me for a period. I can find out for any particular period. But we keep financing right along.

Senator KERR. I asked him what it was as of that date.

Secretary HUMPHREY. I do not know what you asked him. What did he say?

Senator KERR. He was testifying here in connection with the raising of the rate on the E bonds.

Secretary HUMPHREY. Did he say there would be approximately $75 billion coming due within a year?

Senator KERR. That is the way I understood it.

Secretary HUMPHREY. Well, that is about right for all the marketables.

Senator KERR. Well, according to this, you said on May 31 it was 62.9.

Secretary HUMPHREY. Well, the amounts keep changing all the time, and you have got to deduct what is in the Federal Reserve, you see, which I told you in the first place.

Senator KERR. Well, how much is in the Federal Reserve?

Secretary HUMPHREY. I do not have that.

Senator KERR. How much was in the Federal Reserve on December 31, 1952?

Secretary HUMPHREY. This is on which date?

Senator KERR. On December 31, 1952.

Secretary HUMPHREY. 1952. We will have to get that.

Senator KERR. How much have they got now?

Secretary HUMPHREY. At the end of 1956, it was 24.9 for their total Governments.

Senator KERR. I am talking about May 31.

Secretary HUMPHREY. I think, Senator, we had better get these——

Senator KERR. What?

Secretary HUMPHREY. I think we had better get these things for you, because we do not have broken down here what it is as between maturity within a year and after a year, you see, so I think we will have to get these Federal Reserve figures for you and present them to you.

Senator KERR. That is fine, because we want to be talking about the same thing.

Secretary HUMPHREY. That is right. We do not have the breakdown between the two here.

Senator KERR. I would like for you to have them when we meet again.

Secretary HUMPHREY. We will.

Senator KERR. As to the Federal Reserve notes.

Secretary HUMPHREY. We will.

(Secretary Humphrey subsequently submitted the following:)

U. S. Government floating debt, 1952–56

[In billions of dollars]

	Dec. 31		May 31, 1957
	1952	1956	
Marketable debt maturing within 1 year:[1]			
Total outstanding	57.8	68.7	67.2
Less: Held by Federal Reserve[2]	14.9	23.1	21.1
Amount held by public	42.9	45.6	46.1
Nonmarketable demand debt held by public:			
Savings notes[3]	5.8		
F, G, J, and K savings bonds	22.6	14.9	13.7
Miscellaneous debt[4]	3.4	3.5	3.1
Total	31.8	18.4	16.8
Total floating debt	74.6	63.9	62.9

[1] Marketable debt maturing within 1 year (including called bonds paid off or refunded within year); partly estimated for December 1956 and May 1957.
[2] Including Government investment accounts.
[3] Nonmarketable 2–3 year notes sold mostly to corporate investors to cover tax liabilities.
[4] Includes investment bonds (series A), depositary bonds, armed forces leave bonds, CCC demand obligations, matured debt, and debt bearing no interest.

Senator KERR. Let us go back to May for just a minute.

I have a Treasury Department release of Monday, June 7, 1957, and I ask you if it is authentic. Is that an official release?

Secretary HUMPHREY. I think it is, yes.

Senator KERR. It says:

> During May 1957, market transactions in direct and guaranteed securities of the Government for Treasury investment and other accounts resulted in net purchases by the Treasury Department of $313,420,000.

Would you tell me what guaranteed securities of the Government those were?

Secretary HUMPHREY. I do not think I can, in detail. We can, again, get that for you. It is securities bought in the market for trust funds. But I can get you the details as to what the issues were.

(When the following was subsequently submitted by the Secretary, it was discussed further. See p. 194.)

Net purchases in market during May 1957, for Treasury investment and other accounts

	Net purchases, or sales (−)
Treasury bonds:	
2¼ percent of 1956–59	−$9,500
2¾ percent of 1958–63	−72,750
2¼ percent of June 15, 1959–62	−6,000
2¼ percent of Dec. 15, 1959–62	−5,000
2¾ percent of 1960–65	−81,300
2½ percent of 1961	7,051,000
2½ percent of 1962–67	−12,500
2½ percent of 1963–68	−9,500
2½ percent of Dec. 15, 1964–69	−31,000
2½ percent of June 15, 1964–69	−19,000
2½ percent of 1965–70	−1,000
2½ percent of June 15, 1967–72	−2,000
2½ percent of Sept. 15, 1967–72	−1,000
Treasury notes:	
1⅝ percent due May 15, 1957	363,150,000
2⅞ percent due June 15, 1958	893,000
1½ percent due Feb. 15, 1959	−4,000
3½ percent due May 15, 1960	4,300,000
3⅝ percent due Feb. 15, 1962	60,000

Net purchases in market during May 1957, for Treasury investment and other accounts—Continued

	Net purchases, or sales (−)
Certificates of indebtedness:	
3¼ percent due Oct. 1, 1957	−$83,900,000
3⅝ percent due Feb. 14, 1958	6,000,000
Treasury bills:	
Issue maturing Aug. 15, 1957	800,000
Issue maturing Aug. 29, 1957	15,324,000
Panama Canal bonds: 3 percent of 1961	−3,000
Total	313,420,450

Senator KERR. Does not your Treasury Bulletin there disclose that?

Secretary HUMPHREY. No, not for this month.

Senator KERR. Is there any member of your staff here who has any recollection of it?

Secretary HUMPHREY. We will get the exact figures. We will not guess.

Senator KERR. We will leave it that way, and you will get the exact amount of Government securities.

You told us in your statement that the average rate on all Government issues outstanding was 2.67 percent.

Secretary HUMPHREY. That is what it says.

Senator KERR. What part of the Government issues outstanding have been refinanced by your or by your Department since you have been in?

Secretary HUMPHREY. I also will have to get that for you. Of course, there is a good deal of it, but I cannot tell you exactly. A good deal of it.

Senator KERR. Do you have an estimate?

Secretary Humphrey. No; I have not.

Senator KERR. Do your assistants here have it?

Secretary HUMPHREY. No. We will get the figures. Let's get the right figures.

I think we might do this, Senator: If you wanted things of this sort, if you would furnish us with a list of this sort, we will try to get it ahead of time, or do it this way if you would prefer.

(The information referred to was subsequently submitted at p. 173.)

Senator KERR. You get it Monday or Tuesday. That is all right.

I noticed in yesterday's paper, the New York Herald Tribune, that Governments had again reached a new low. And in this morning's paper, it showed they went down again yesterday. The headline says—

> Bond yields slide to 3.90 percent as prices fall. Yields on United States Government bonds yesterday went up to the 3.90 percent level and bond prices slumped again to a new record low.

Can you tell us, Mr. Secretary, how long prior to that date it was that Government securities were selling low enough to yield 3.90 percent?

Secretary HUMPHREY. No; I cannot.

Senator KERR. Could your aide there tell us?

Secretary HUMPHREY. Well, I do not know. What would you be talking about, long bonds?

Senator KERR. I am talking about the yields on bonds that sell in the market.

Secretary HUMPHREY. Well, of course, they are not exactly the same although the arbitrage on them is not too much different.

Senator KERR. I am talking about what this paper is talking about.

Secretary HUMPHREY. I do not know what the paper is talking about.

Senator KERR. Does your staff man know what I am talking about?

Secretary HUMPHREY. What does it say?

Senator KERR. The New York Herald Tribune.

Secretary HUMPHREY. I do not know how they compute this. This is some kind of an average computation. You see, they quote different issues. I do not know exactly how they get what they call a "yield" here.

But generally——

Senator KERR. I have here from the financial pages of the Washington Post this morning the market on Government bonds, and giving the yields for different bonds.

Secretary HUMPHREY. For different bonds?

Senator KERR. That is right.

It shows Treasury 2⅜s, 59–57, yield 3.84; Treasury 2⅜s, 62–59, 3.85; 2½s, 61, 3.89; 2½s, 67–62, 3.89; Treasury 2½s, 69–64, 3.90.

What is the date of that paper you have there?

Secretary HUMPHREY. This paper is Thursday, June 20.

Senator KERR. I notice in the Washington Post this morning—that which I was reading to you was yesterday morning's—the Treasury 2½s, 69–64, were bought at a yield of 3.91.

What I asked you was how long it had been prior to this present time that comparable Government securities were selling to yield as much as 3.90 or 3.91 or 3.84 or 3.85?

Secretary HUMPHREY. It would be a relatively—comparable bonds, I think, would probably be in the twenties.

Senator KERR. In the twenties?

Secretary HUMPHREY. I think so.

Senator KERR. Well, is it not a fact that it was in the 20's, from 1924 to 1929?

Secretary HUMPHREY. Yes, somewhere in there, in that period up through 1925.

Senator KERR. Just before the crash of 1929.

Secretary HUMPHREY. Well, I do not know just what it was then, but that is, of course, when the short term interest rates were at their highest. Bonds were high in 1932 and 1933 too.

Senator KERR. Well, if I read the financial pages of the newspapers correctly ——

Secretary HUMPHREY. That would be likely ——

Senator KERR (continuing). Government bonds are now selling, for the first time since that period, at a basis to provide a comparable yield.

Secretary HUMPHREY. I think that is right.

Senator KERR. Well now, does that mean that if you were to sell long-term bonds now, in order to sell them you would have to sell them to yield that?

Secretary HUMPHREY. You would certainly have to yield that if you sold them, and I do not know whether just the rate would sell a long-term bond today, or not.

Senator KERR. You could not sell them for less than that?

Secretary HUMPHREY. You could not sell them for less than our current markets.

Senator KERR. Now, if we had refinanced our $275 billion debt on the basis to yield the return which Governments that are now selling in the open market provide, how much additional interest would it have cost us?

Secretary HUMPHREY. I do not know, but it would be substantial.

Senator KERR. Well, your figure here on page 13 said that at 2.67 it was $1.1 billion more than it was on December 31, 1952.

If you refinanced it at 3.90, how much additional interest would that cost as compared to 2.67?

Secretary HUMPHREY. I have never figured it out, because of course we are not going to do that. But we can do it.

Senator KERR. You have somebody there who can do it. Let's get it.

Secretary HUMPHREY. We are not going to refinance them all at that. If we did it, and we are not going to, it would be something over $3 billion.

Senator KERR. Would it be about $3.4 billion?

Secretary HUMPHREY. That is right.

Senator KERR. And that, plus the $1.1 billion more we were paying December 31, 1956, in comparison to December 31, 1952, would make a total of about $4½ billion a year more interest that the public debt would cost us then it was costing us in December of 1952.

Secretary HUMPHREY. If you were going to do it all.

Senator KERR. And if you did it.

Secretary HUMPHREY. That is right.

Senator KERR. Well, you are eventually going to have to refund this debt.

Secretary HUMPHREY. Well, but I do not know just when. It is not going to all be done now, and the rates may be lower by the time you come to refund it, I do not know.

Senator KERR. Is there any indication that they are going to be lower?

Secretary HUMPHREY. I do not know. I would not be surprised that the rates would be lower.

Senator KERR. I have a couple of charts here, Mr. Secretary, that I would like to show you, the 3 percent and 3¼ percent. These are the 3-percent bonds that your Department issued, I believe, in 1955. Somebody has inconsiderately called them the "Humphrey-Dumphreys." I do not want to call them that.

Secretary HUMPHREY. No, you have got the wrong issue. There is an issue of that kind, but not on your chart there.

That is more like it.

Senator KERR. We will get to both of them before we are through. I believe these are the two long-term bonds you have issued since you came in.

Secretary HUMPHREY. I think that is right. They are the longest.

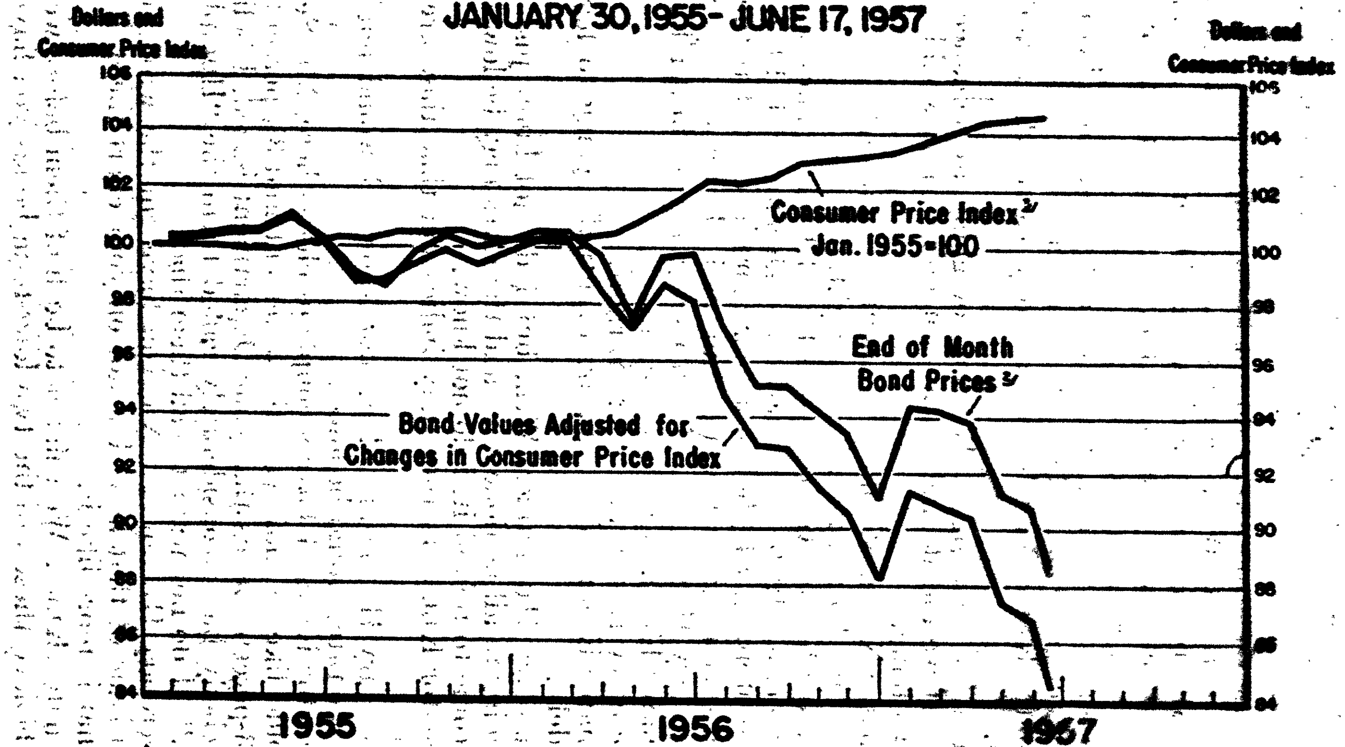
Senator KERR. Have you issued any other long-terms?

Secretary HUMPHREY. Well, it all depends on what—these are the real long ones.

Senator KERR. What others have you issued that could be designated as long-term?

3% U.S. BOND[1] PRICES DECLINE —AND INFLATION TAKES FURTHER TOLL

JANUARY 30, 1955 - JUNE 17, 1957



1/ BONDS OF 1995, ISSUED FEBRUARY 15, 1955

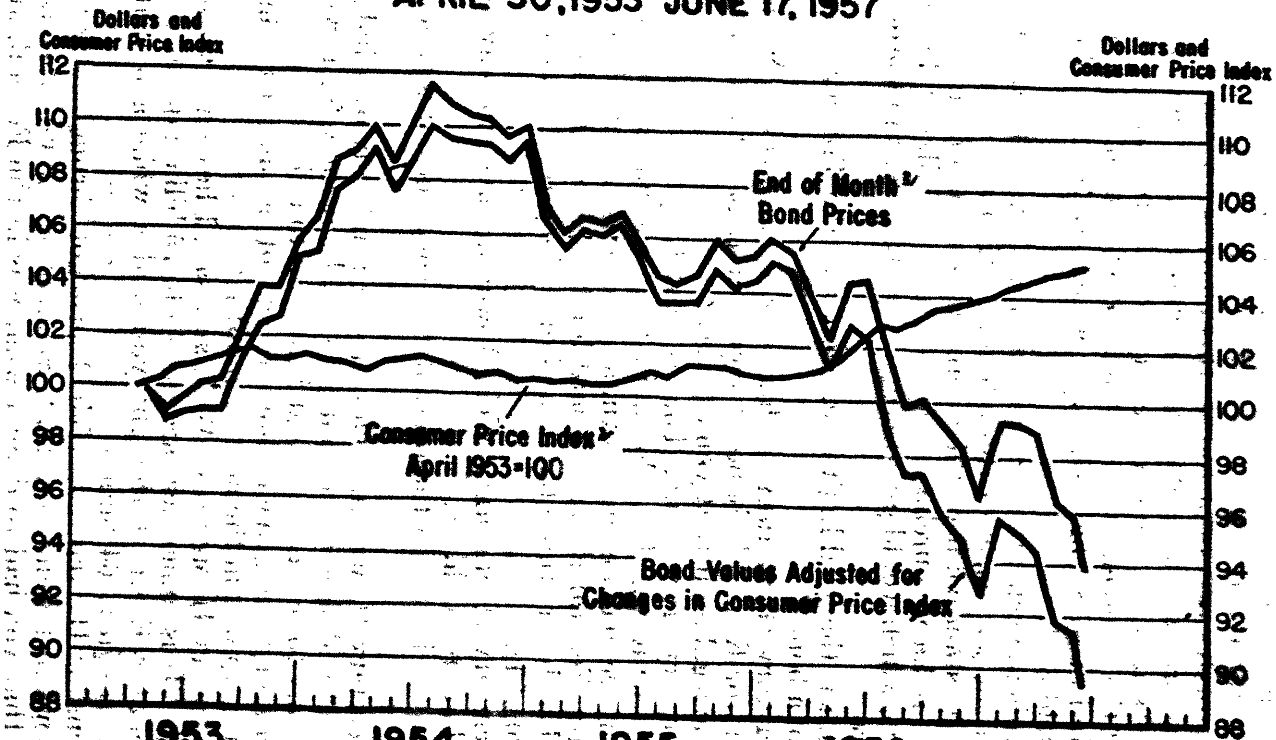
2/ BOND PRICES AT END OF MONTH EXCEPT JUNE 1957, AS OF JUNE 17

3/ MAY AND JUNE, 1957, ESTIMATED.

SOURCE: UNITED STATES TREASURY AND LABOR DEPARTMENTS.

3¼% U.S. BOND 1/ PRICES DECLINE — AND INFLATION TAKES FURTHER TOLL

APRIL 30, 1953 – JUNE 17, 1957



1/ Bonds of 1978-83, issued May 1, 1953.
2/ Bond prices at end of month, except June 1957, as of June 17.
3/ May and June 1957, estimated.

Source: United States Treasury and Labor Departments

Secretary HUMPHREY. Well, there are 5 years and 8 years, and——

Senator KERR. How much?

Secretary HUMPHREY. Various amounts of—they are not large amounts, but there have been quite a number of them.

Senator KERR. These are the substantial items?

Secretary HUMPHREY. These are the real long bonds.

Senator KERR. As of today, this chart is not up to date because it was prepared a couple of days ago, here are the bond prices: The 3¼s low 94, and they sold yesterday at—the bid was 93.8.

And the 3 percent were a little above 88 on this; and yesterday they were bid at 87.8—bid, 87.8; and asked, 87.16, to yield 3.62, and the 3¼s yield 3.64.

This is the consumer price index line, Mr. Secretary, that shows the fate of the purchaser of those bonds. He has taken a whipping, both from the standpoint of the depreciated value of what he bought, and of the reduced purchasing power of the dollar if he sold what he bought, which would put this one down to here, and the other one down to here.

What is the legal limit of interest that the Treasury can pay on this kind of a bond?

Secretary HUMPHREY. I think our top rate is 4¼ percent.

Senator KERR. Is it not a fact that that is the legal rate—is that not the legal limit that you can pay?

Secretary HUMPHREY. That is what I say.

Senator KERR. How long, in your judgment, will it take if the present trend of decline continues, and present policies of the Treasury, and the Federal Reserve Board hold the line, how long do you think it will be before those bonds and other long-term bonds are selling at a return of 4¼?

Secretary HUMPHREY. Well, I would have no way of estimating how long it would be.

Senator KERR. If the present rate continues, it will not be long, will it?

Secretary HUMPHREY. Of course, I think, my own judgment is, that the rate will slow down, but I do not know how far it will go. There is no way to tell, no way that I know of to tell.

Senator KERR. Well—how much of a maturity have you got coming up within the next 12 months?

Secretary HUMPHREY. Well, as I say, I have not the exact figure in mind. It is somewhere around 70 to 75 billion dollars.

Senator KERR. I thought you said a while ago that the floating debt was just $64 billion.

Senator HUMPHREY. Well, I just got through telling you on that, and we just went over that, Senator, a few minutes ago, and I told you that you had to deduct what was in the Federal, and we did not have the exact amount of less than 1 year, that is in the Federal.

Senator KERR. You have to refinance that; do you not?

Secretary HUMPHREY. Well, it is refinanced, but it goes into the Federal. It is a turnover in the Federal.

Senator KERR. Yes.

Now, the last issue of short terms you sold, sold to yield 3.40.

Secretary HUMPHREY. That is right.

Senator KERR. What were the short-terms selling to yield December 31, 1952, or June 30, 1952, let us take that figure, and I take that figure for the sole and only reason that that was before the effect of what I regard as a change in Federal Reserve policy after November 1952.

Secretary HUMPHREY. I see.

Well, the average for the year, why not take that?

Senator KERR. What is the average?

Secretary HUMPHREY. 1.766.

Senator KERR. 1.766 was the average for 1952.

And in 5 years, then, it has doubled, has it not?

Secretary HUMPHREY. That is about it.

Senator KERR. 3.40.

Secretary HUMPHREY. 1.766.

Senator KERR. When things are going in the same direction, things keep going the same way; do they not?

Secretary HUMPHREY. Not necessarily. These things fluctuate, and I do not know whether the same forces will keep operative continuously or not. I think it is believed that the pressures will be somewhat less. I believe that they will be. I believe that some of these excessive demands will, first, be satisfied; and that they will slow down to some extent.

Senator KERR. I saw in the paper just the day before yesterday where some great utility in Michigan paid 6 percent.

Secretary HUMPHREY. Well, I would not be surprised. It all depends on the terms of the bond and they way they are tailored, and how much—what the call rates are, and when they can be called, and all sorts of conditions are involved in what your interest rate is.

Senator KERR. If it does continue, and if it got to where you could not sell your bonds at 4¼, what would you do?

Secretary HUMPHREY. I think, if I were here, I would come back to Congress, and very much on the same basis that I came back on the debt limit. I would regret it, just as I regretted coming back on the debt limit.

But you are confronted with a condition and not a theory in these matters, and you finally reach a point where you just have to decide whether the Government will pay its bills or whether it won't. And when that is the decision to be made, I think you do what is the practical thing, and then try to get back into proper shape, into better shape, just as rapidly as possible.

Senator KERR. At present market rates, Mr. Secretary, how much under par are the total outstanding marketable securities of the Government?

Secretary HUMPHREY. I have not figured it up. I would have to——

Senator KERR. Would you have that prepared for us, when we meet again——

Secretary HUMPHREY. I can add it up.

Senator KERR. A tabulation of the losses or of the reduced value——

Secretary HUMPHREY. Yes.

Senator KERR. Of outstanding Government bonds from June 30, 1952, down to whatever the market is when you come back?

(When the following was subsequently submitted by the Secretary, it was discussed further. See p. 198.)

Market value of outstanding Government securities Dec. 31, 1952, June 21, 1957, and June 30, 1953

[Money amounts in millions]

	Dec. 31, 1952			June 21, 1957			June 30, 1953 [1]		
	Amount outstanding	Market value [2]	Average market price [2]	Amount outstanding [3]	Market value [2]	Average market price [2]	Amount outstanding	Market value [2]	Average market price [2]
Marketable:									
Bills	$21,718	$21,644	$99.82	$26,777	$26,678	$99.80	$17,219	$17,189	$99.25
Certificates	16,712	16,712	100.00	21,785	21,756	99.28	28,423	28,432	100.01
Notes	30,266	29,963	99.02	30,924	30,601	96.31	18,963	18,785	99.00
Bonds:									
Taxable	72,363	70,938	98.01	78,391	71,652	91.18	68,258	67,750	99.08
Partially tax exempt	7,402	7,674	103.22	2,404	2,398	99.24	7,402	7,808	105.15
Wholly tax exempt	50	57	115.08	50	51	103.00	50	58	116.08
Total	148,497	147,009	99.00	160,331	153,132	95.16	140,315	139,965	99.24
Nonmarketable: [4]									
Savings bonds	57,940	57,940	100.00	55,193	55,193	100.00	57,685	57,685	100.00
Investment bonds	13,450	13,450	100.00	11,203	11,203	100.00	14,046	14,046	100.00
All other	6,172	6,172	100.00	210	210	100.00	6,965	6,965	100.00
Special issues	39,150	39,150	100.00	46,137	46,137	100.00	37,739	37,739	100.00
Miscellaneous	[5] 2,257	[5] 2,257	100.00	2,263	2,263	100.00	[5] 2,380	[5] 2,380	100.00
Total	267,445	265,958	99.14	275,337	268,138	97.12	259,151	258,821	99.28
			Percent			*Percent*			*Percent*
Market depreciation	....	1,487	0.56	....	7,199	2.62	....	330	0.125

[1] June 30, 1953, figures subsequently furnished.
[2] Averages on marketable (decimals in thirty-seconds) based on closing market bid quotations.
[3] As of May 31, 1957.
[4] Stated in terms of current redemption value both as a public debt liability and as an available asset of the investor.
[5] Includes marketable postal savings bonds, amounting to $84 million.

Secretary HUMPHREY. You see, we went—we had lower interest rates after June 30, 1952. We sold some bills——

Senator KERR. I am not talking about the interest rate now.

Secretary HUMPHREY. Down as low as——

Senator KERR. I am now talking about the loss to holders of bonds, that they would take.

Secretary HUMPHREY. If they sold them?

Senator KERR. If they sold them.

Secretary HUMPHREY. Yes, we can figure that. But just to show you the fluctuations, Senator, and see how they run, the bill rates for the average of 1952 were 1,766, which I read a minute ago.

In 1953, they were 1.931.

1954, when there was slightly less pressure, they were down to 0.953.

Senator KERR. Was there less pressure, or had the Reserve and Treasury done some——

Secretary HUMPHREY. No, there was less business. There was less demand——

Senator KERR. I see.

Secretary HUMPHREY. And it went down to 0.953.

Then in 1955, it went back up again about to the same as 1952. It was 1.753 instead of 1.766, and then it went on up.

Senator KERR. We are talking about the last year of your predecessor, and this year.

Secretary HUMPHREY. Yes, sir. Those were the two figures, but I am just showing you the fluctuations that occurred in between. There were wide fluctuations in between, and they reflect very largely, or to some extent, the pressures and the demand for money.

On this market appraisal, market estimate, what is the date of that, June 30 or—last June 30, or December 31, that you want?

Senator KERR. June 30 of 1952.

Secretary HUMPHREY. You want June 30 of 1952.

Senator KERR. And whatever the last date is.

Secretary HUMPHREY. The last date for which quotations are available.

(The Secretary subsequently submitted the following:)

The market value of Treasury marketable securities, on June 30, 1952, was $139.985 billion, $0.330 billion below their par value of $140.315 billion.

Senator KERR. In your prepared statement, Mr. Secretary, you say:

The Treasury cannot determine the level of interest rates but must pay the rates determined by market forces.

Secretary HUMPHREY. That is right.

Senator KERR. Would you say that the Treasury and the Federal Reserve Board together could not determine interest rates?

Secretary HUMPHREY. No, sir.

Senator KERR. They cannot?

Secretary HUMPHREY. I would say that the Federal Reserve Board can have a very substantial effect on interest rates. The Treasury has to take what the market provides.

Senator KERR. Well, the Treasury can sure put a floor under them, can it not?

Secretary HUMPHREY. No, I do not believe so. I do not think the Treasury could. The Federal Reserve Board might.

Senator KERR. When you sold the 3¼s in 1953, did that not put a pretty substantial floor under interest rates?

Secretary HUMPHREY. No, I do not think so. They fluctuated a good deal after that.

Senator KERR. Yes, I know they did.

Secretary HUMPHREY. I do not think the Treasury—there is not any way, Senator, that I know of, that the Treasury can peg bonds.

Senator KERR. I am not talking about them pegging the top.

Secretary HUMPHREY. Or peg the bottom.

Senator KERR. Is it not a fact that when the Treasury makes an offer of a long-term bond, if interest rates prior to that time had been lower then that would be the minimum, would it not?

Secretary HUMPHREY. Not for long. Well, it might be for that day. It could change——

Senator KERR. And maybe the next?

Secretary HUMPHREY. It could change within a week or within a few days.

Senator KERR. I understand that.

Secretary HUMPHREY. There is no way the Treasury can peg the price of its interest or the price of its bonds.

Senator KERR. I understand they cannot peg the limit.

Secretary HUMPHREY. Either way.

Senator KERR. But when they issue them, they establish the floor.

Secretary HUMPHREY. I do not think so. They establish the price of that issue, and another issue may come out—you see it every day, it changes every day, and pressures change.

Senator KERR. The ones you see changing every day——

Secretary HUMPHREY. What is that?

Senator KERR. The short-terms are the ones you put up for bid.

Secretary HUMPHREY. You see the long-term, and the same thing is true for municipal debt. When you come to put out an issue, Senator, you have got to sell it at a price that somebody will buy it for.

Senator KERR. That is right.

Secretary HUMPHREY. And they are not going to buy it for less than they can buy other issues currently.

Senator KERR. That is correct.

Secretary HUMPHREY. Now, that may change the next day.

Senator KERR. And they are not——

Secretary HUMPHREY. And another issue may come out and be priced lower, and then you have got a new floor.

Senator KERR. Well, that sounds——

Secretary HUMPHREY. In pegging, there is no way I know of that the Treasury can peg markets or peg interest rates. Now, monetary controls and the limitations on credit are the functions of the Federal Reserve Board, not of the Treasury.

Senator KERR. That is what you do on these short-terms.

Secretary HUMPHREY. We do that on short-terms; yes.

Senator KERR. But you do not do it on long-terms?

Secretary HUMPHREY. Look at your own chart. You see how rapidly your own chart changes.

Senator KERR. I am talking about what it was the next day.

Secretary HUMPHREY. We do not peg any floors. All it does is for the day, that is about all.

Senator KERR. But it does it for the day.

Secretary HUMPHREY. I think so.

Senator KERR. Well, that is all I asked you.

In other words, the Treasury can push the interest rates up, though they cannot push them down.

Secretary HUMPHREY. I think that is about right.

Senator KERR. All right.

Secretary HUMPHREY. We cannot hold them up, but we can push them up on an issue.

Senator KERR. That is right.

> There is a strong demand for short maturities. Our bill auctions each week are always well oversubscribed. The Treasury faces no crisis. Our securities are the most highly regarded in the world.

Do you believe that, Mr. Secretary?

Secretary HUMPHREY. Yes, I do.

Senator KERR. Is that the reason they are selling roughly at 14 percent off of par?

Secretary HUMPHREY. I do not think that has a thing to do with it. That simply reflects the interest. You see, you fix interest in two ways: You fix interest by the rate, and by the price. And in an interest-bearing security the only way the interest can be adjusted to meet the market price of interest is to adjust the principal.

Senator KERR. Mr. Secretary——

Secretary HUMPHREY. Market value.

Senator KERR. I am among those who have a great respect for your business ability, I want to say to you frankly; I have said it before and I say it again, I do not think there is an abler businessman in the country.

And do you believe that when a man comes into Government position that he should operate his responsibility with the same degree of care and concern that he does his private business?

Secretary HUMPHREY. I certainly do.

Senator KERR. What do you think would happen to a private business that had to expand by issuing bonds or notes or debentures or other media of credit where everything it issues except demand notes sell materially below the issuing price?

Secretary HUMPHREY. I think you see that happen every day. You see industrial concerns every day who have some securities out at a fixed rate of interest that were sold on a different market, that are selling at a different price than the issue price, and they put out another issue today, on this market of interest, with higher interest or a lower interest, depending on which way the market is going, and their securities sell.

Senator KERR. Let us say every issue it put out sold under par.

Secretary HUMPHREY. That is——

Senator KERR. How do you think the average investors——

Secretary HUMPHREY. They will sell both ways.

Senator KERR. Now, suppose you show me a Government long-term security in the market yesterday for which a prospective buyer bid par.

Secretary HUMPHREY. Suppose I do what?

Senator KERR. Name one long-term security of this Government which in yesterday's market had a bid of as much as par from any purchaser.

Secretary HUMPHREY. Well, there were not.

Senator KERR. There was not a one?

Secretary HUMPHREY. When the long-terms were sold, we were on a lower level, so the way to adjust to the higher level of interest is to reduce the market price for the bond.

Senator KERR. But what I am asking you is, how do you think investors would feel about the issues of a private concern which, without a single exception, sold in the market at below par?

Secretary HUMPHREY. You will find many.

Senator KERR. What do you think the average investor would think about it?

Secretary HUMPHREY. You will find, if you take, Senator—I have not done this, but I believe you will find it so—if you will take corporate securities or municipal bonds that were sold at the same time that these long-terms of ours were sold, that they are selling below the issue price, too.

Senator KERR. I think that is true.

Secretary HUMPHREY. I think they are. And our securities, I will call your attention to the fact that our securities, the "Humphrey-Dumphreys" that you speak of, sold above par. They were put out at par, and they sold above par. They sold below par, and then they went back above par again.

Senator KERR. I think that is pretty strong evidence that somebody made a mistake when they said that they hit the market right on the nose.

Secretary HUMPHREY. Well, you only hit a market for a day. You know, if anybody could figure out where these markets were, he would be alone in the world and we would all be working for him.

Senator KERR. Do you think the Government securities in today's market could be regarded as speculative securities?

Secretary HUMPHREY. Our Government securities?

Senator KERR. Yes.

Secretary HUMPHREY. They are speculative to a certain extent: I think less speculative than almost anything else you could think of, but nevertheless anything; anything that you have to sell for cash; the market can change, and what you can get for it can change, whether it is a piece of real estate, whether it is a piece of machinery, whether it is an old automobile, or a horse or buggy, it all changes, and the market price as of any day, what you can actually sell it for on any day, may be different than any other day.

Senator KERR. You recall when you took office as Secretary of the Treasury

Secretary HUMPHREY. Yes.

Senator KERR. Do you remember your pronouncement as to a certain very unhappy situation that had been permitted to develop in the matter of the term of Government issues?

Secretary HUMPHREY. I do not know just what you are talking about.

Senator KERR. Well, for instance, on November 23, at Chicago, before a Republican—well, I guess you can be excused for what you said there [laughter]—you said that—

> the public debt is now practically at the limit of $275 billion. In addition to inheriting a debt of enormous size, we also inherited a debt that had been badly managed.

Secretary HUMPHREY. That is right.

Senator KERR (reading):

> Nearly three-quarters of which matures within less than 5 years or is redeemable at the holder's option.

Before the Union League Club of Philadelpha—there is a place where a man would expect you to really do your best, is it not? [Laughter.]

You said:

> Nearly three-quarters of this debt matures within less than 5 years or is redeemable at the holder's option. Too large a proportion is in the hands of banks. We are trying to work our way out of this inherited problem by doing two things which will make this public debt less dangerous to the value of money and to the Nation's economy: We are trying to extend the maturity of the debt by placing longer term issues, we are trying to move more of the debt away from the banks and into the hands of private investors.

Now, according to the information we have from the press, there is a man going to succeed you one of these days.

Secretary HUMPHREY. That is right.

Senator KERR. He will inherit a situation, will he not?

Secretary HUMPHREY. Yes, he will.

Senator KERR. What part of the debt will mature within less than 5 years or is redeemable at the holder's option when he comes in?

Secretary HUMPHREY, I do not have the figure; we will get it for you, and it will not be good. We did not——

Senator KERR. Will it be in excess of three-quarters?

Secretary HUMPHREY. I do not know. I think it will be pretty close to the same. We did not make the progress that I hoped we would make.

Senator KERR. Suppose I told you that it would be about five-sixths.

Secretary HUMPHREY. That it would be about what?

Senator KERR. That it would be about five-sixths.

Secretary HUMPHREY. Well, it might be. I haven't the exact figure, but we will get it. But it is not a good figure.

(Secretary Humphrey subsequently submitted the following:)

In 1953, I made the statement that "Nearly three-fourths of this debt matures within less than 5 years or is redeemable at the holders' option." This statement was based on an analysis of the Federal debt outstanding on December 31, 1952, which showed that 68.8 percent of the Federal debt outstanding was in this category. By December 31, 1956, the percentage computed on the same basis was 68.4 percent.

That part of the public debt includes:

1. All marketable securities maturing in less than 5 years, regardless of the type of holder;

2. All demand debt, such as savings notes, savings bonds (including E and H bonds as well as F, G, J, and K bonds), depositary bonds, matured debt, and noninterest-bearing debt;

3. Investment series bonds—both series A, which is redeemable on demand, and series B, which is exchangeable on demand into 5-year marketable notes; and

4. Special issues to Government investment accounts, such as Unemployment Trust Account, Federal Deposit Insurance Corporation, Federal Housing Administration Funds, and Federal Savings and Loan Insurance Corporation, which accounts involve demand-type obligations.

Senator KERR. It is substantially more of it.

Secretary HUMPHREY. It is not a good figure.

Senator KERR. As I recall, Mr. Secretary, the other thing that you made quite a point of when you came in was that interest rates had been held at an artificially low level.

Secretary HUMPHREY. That is correct.

Senator KERR. Another one of the addresses you made before the American Bankers Association here in Washington, September 22—I remember you got more cheers there that day than any Republican speaker did that fall before any audience. You said:

It is our firm intention to offer more intermediate and long-term issues at opportune times in the future.

I have the quotations here which we will get around to, maybe, in which you said that the interest rates had been held at fictitiously low levels, and that you were going to free the interest rates.

Secretary HUMPHREY. That is right.

Senator KERR. And let them find their own levels.

Secretary HUMPHREY. That is right.

Senator KERR. I want to ask you this question: When you did that, and when you implemented that policy, did you not make it impossible to accomplish your first objective?

Secretary HUMPHREY. No. I think the thing that made it impossible, or difficult, perhaps it was not impossible, perhaps we should have done better, but the thing that made it difficult was because we developed in this country, and no matter how, but we did actually in fact develop this long period of sustained prosperity.

Now, when you have a period of prosperity, where people are wanting to spend more money than they have and where more and more people are wanting to borrow, it means you have more competition in the borrowing market for the money that is available to be borrowed.

With these periods of prosperity, it is much more difficult to sell these longer term bonds than it is in a period where there is not the amount of demand, the same demand, that there is in those high-prosperity periods.

Senator KERR. Do we have anything, Mr. Secretary, any agency in our Government, that has the power to increase the amount of credit available?

Secretary HUMPHREY. Yes, we have.

Senator KERR. What is it?

Secretary HUMPHREY. The Federal Reserve Board.

Senator KERR. Was it organized by the Congress with the responsibility to provide the amount of credit reasonably needed by an expanding economy?

Secretary HUMPHREY. I think that is probably correct.

Senator KERR. Does it have the power to do that?

Secretary HUMPHREY. I think that is probably correct.

Senator KERR. And the resources?

Secretary HUMPHREY. I believe so.

Senator KERR. What was the total public and private debt on December 31, 1952?

Secretary HUMPHREY. I believe I have got that figure right here. The total of all, $637 billion.

Senator KERR. $637 billion. Can you break that down for me?

Secretary HUMPHREY. Yes, sir.

Senator KERR. Will you do that?

Secretary HUMPHREY. I think if you look at page 35, it is broken down.

Senator KERR. I think it is, too, but I want to get it broken down.

(When the following was subsequently submitted by the Secretary, it was discussed further. See p. 209.)

Estimated changes in gross public and private debt December 1956 to May 1957

[Billions of dollars]

	1956 December	1957 May [1]	Change
Individual:			
Mortgage	131½	136	+4½
Consumer	42	41½	−½
Other	34	34	
Total	207½	211½	+4
Corporate	249½	255	+5½
State and local government	50	52½	+2½
Total (other than Federal)	507	519	+12
Federal Government	276½	275	−1½
Total	783½	794	+10½

[1] Preliminary estimates by Treasury Department.

Senator KERR. The Federal was $267 billion, was it not?

Secretary HUMPHREY. The Federal was $267.4 billion.

Senator KERR. State and local?

Secretary HUMPHREY. State and local was $31.2 billion.

Senator KERR. And private?

Secretary HUMPHREY. Corporate is $202.9 billion.

Senator KERR. $202.9 billion.

Secretary HUMPHREY. And individual, $135.5 billion.

Senator KERR. And that adds up to $637 billion?

Secretary HUMPHREY. That is right.

Senator KERR. What is it now?

Secretary HUMPHREY. $783.5 billion.

Senator KERR. That figure is as of December 31, 1956?

Secretary HUMPHREY. 1956.

Senator KERR. Yes.

Secretary HUMPHREY. That is right. I think that is the last comparable figure I have. I have that right here.

Senator KERR. Give it to me. This is 12——

Secretary HUMPHREY. This is 4 months ago.

Senator KERR. It is 5½ months.

Secretary HUMPHREY. Five and a half. Time flies.

Senator KERR. 1956, State and Federal—I mean Federal?

Secretary HUMPHREY. Federal is $276.7 billion.

Senator KERR. $276.7 billion Federal.

State and local?

Secretary HUMPHREY. $50 billion.

Senator KERR. Corporate?

Secretary HUMPHREY. $249.3 billion.

Senator KERR. Private or individual?

Secretary HUMPHREY. $207.5 billion.

Senator KERR. Now, you can get those figures—and that adds up to?

Secretary HUMPHREY. $783.5 billion.

Senator KERR. $783.5 billion.

You can get that by next Tuesday on at least a responsible estimate of the Federal Reserve Board and the Treasury as of May 31, can you not?

Secretary HUMPHREY. I think so.

Now, wait a minute. He says it is a hard job. They are published within a week, he says.

Senator KERR. Now, Mr. Burgess put them into the record 3 months ago.

Secretary HUMPHREY. We made some guesses.

Senator KERR. They were not far wrong.

Secretary HUMPHREY. They were not far wrong. We will make a guess for you, and it will not be too far off.

Senator KERR. This was an expansion of $146 billion in 4 years, was it not?

Secretary HUMPHREY. That is right.

Senator KERR. You have a statement in here as to how that was provided.

Secretary HUMPHREY. Yes, sir.

Senator KERR. I have a little difficulty in understanding it. I believe it is on page 35.

Secretary HUMPHREY. Yes, sir.

Senator KERR. Tell me now, or explain to me, just where that $146 billion came from.

Secretary HUMPHREY. Well, if you will just follow the same pattern that you did before, the total is $146.5 billion. The Federal Govern-Government increase is $9.3 billion. The private increase total, other than Federal, is $137.2 billion.

The State and local government is $18.8 billion; the corporate is $46.4 billion; and the individual is $72 billion.

Senator KERR. Now, the thing I am trying to get at, over on the next page, Mr. Secretary, you say that the sources of that credit are: Savings, $135.8 billion.

Secretary HUMPHREY. Yes.

Senator KERR. And yet, 2 or 3 pages before that, you said that the total savings was $75 billion, on page 32.

Secretary HUMPHREY. I think that is a different figure.

Senator KERR. That was in personal savings.

Secretary HUMPHREY. This is just people.

Senator KERR. What I am trying to find out is where the rest of it is.

Secretary HUMPHREY. Well, it is in all of the things except the banks. It is corporate increases and all other increases.

Senator KERR. Well now, corporate increases could not be over $10 or $11 billion a year, because that is all they had after taxes and dividends

Secretary HUMPHREY. It is corporate savings and loans and funds, and all sorts of things, pension funds, everything except bank expansion.

Senator KERR. Was that $146 billion in the form of currency?

Secretary HUMPHREY. What?

Senator KERR. Was it in the form of currency?

Secretary HUMPHREY. You mean the dollars added up here?

Senator KERR. Yes.

Secretary HUMPHREY. Oh, no.

Senator KERR. In what form was it?

Secretary HUMPHREY. It is in the form of credits.

Senator KERR. In credits?

Secretary HUMPHREY. Yes.

Senator KERR. Well, is it not a fact that, one way or another, it represents the degree of expansion of credit that had been made possible by the Federal Reserve Board?

Secretary HUMPHREY. Well, I would not think so. It includes, this includes real gains, and the savings that are made of real earnings and additional production, additonal creation of wealth during that period.

Senator KERR. You say the people do not have the money, they do not have currency.

Secretary HUMPHREY. They have got the credit.

Senator KERR. They have got credit in a bank or savings bank, have they not?

Secretary HUMPHREY. It is the production added, whatever expansion of credit is here is in this, but the large factor here is the creation of wealth.

Senator KERR. I understand, but I am trying to find out what form it is in. It is not in land.

Secretary HUMPHREY. It is in the form of credits.

Senator KERR. It is in the form of credits in financial institutions, is it not?

Secretary HUMPHREY. Well, it is largely financial institutions, or it is available to individuals in financial institutions, including pension funds and various other things.

Senator KERR. Who has it?

Secretary HUMPHREY. Insurance companies and pension funds.

Senator KERR. In what form?

Secretary HUMPHREY. They have it in the form of credits or securities.

Senator KERR. But securities are just credit, are they not, if a security is a debenture or a bond?

Secretary HUMPHREY. Well, it is not necessarily a Federal bond. It can be any kind.

Senator KERR. Not at all.

Secretary HUMPHREY. It is not just expansion of credit within the realm of the Federal Reserve. This is representative of any increased wealth.

Senator KERR. Well, but in what form?

Secretary HUMPHREY. It can be a dozen different forms, it is a dozen different forms.

Senator KERR. But they are all credit.

Secretary HUMPHREY. All credit. It does not mean immediate credit. It may be property account or various other things.

Senator KERR. No, this is not property account.

Secretary HUMPHREY. Well, it may be represented by property account, it may be obligations of municipalities or obligations of corporations, or anything of that kind.

Senator KERR. That is credit.

Secretary HUMPHREY. That is credit, that is right.

Senator KERR. And in the final analysis, that credit is implemented through the operation of the Federal Reserve bank or banks.

Secretary HUMPHREY. Well, I do not follow that, Senator; no. I do not see what the Federal Reserve has to do with that.

As to the bank credit, you are right. As to the increase in other credits——

Senator KERR. Do they not all go back to banks in some way?

Secretary HUMPHREY. No; I do not think so. They may go through a bank if you want to use them. But as they stand, I do not think the Federal Reserve Board has a thing to do with them, except the bank credits.

Senator KERR. If a man has a checkbook in his pocket, that he can go down there and write a check on and get a suit of clothes or an automobile——

Secretary HUMPHREY. That is in a bank.

Senator KERR. It has to be by reason of the fact that he has got credit in that bank, either through depositing somebody else's check or currency or something.

Secretary HUMPHREY. That is right. But if he owns a mortgage on your oil well, he still has increased his credit, but he cannot write a check against it.

Senator KERR. I can, or I do not give him the mortgage. [Laughter.]

Secretary HUMPHREY. You may have written your check.

Senator KERR. I have, and that is the way to write it, and somebody furnishes that credit, and I am asking you if it is not a fact that the fountainhead of it is the Federal Reserve System.

Secretary HUMPHREY. Well, I think you will have to ask Mr. Martin about that. I do not believe so.

Senator KERR. Let me tell you something, Mr. Martin may be harder to get along with than you, but he does not know any more than you know.

Secretary HUMPHREY. I am afraid he knows more about the Federal Reserve than I do.

Senator KERR. Oh, no.

Secretary HUMPHREY. I am afraid he does.

Senator KERR. Well, you told me a little while ago that the Federal Reserve had the responsibility to provide the expanding credit for the reasonable requirements of an expanding economy.

Secretary HUMPHREY. That is right.

Senator KERR. And the banks cannot do it unless they either have deposits or go to the Fed, can they?

Secretary HUMPHREY. That is right.

Senator KERR. In speaking of this debt that we have and the interest rate that we have, they (the Federal Reserve) can determine, in conjunction with the Treasury, whether or not these bonds issued are going to sell at par or above par or below par, can they not?

Secretary HUMPHREY. Well, I think this is true: I think the Federal Reserve, by stepping into the market to purchase all of the bonds that sell below par, can peg the bond prices at par.

Senator KERR. Well now, you said——

Secretary HUMPHREY. The way they do that, and of course the only way they can do that, is by printing money.

Senator KERR. You said the Federal Reserve did not have any more bonds December 31, 1952, then they had December 31, 1956.

Secretary HUMPHREY. I think that is about right.

Senator KERR. That is what you told me a while ago.

Secretary HUMPHREY. I think that is right.

Senator KERR. Well, they did not have to print any money to do it in 1952, did they?

Secretary HUMPHREY. They did. Lord in heaven, they printed a lot of money. That is what happened to our dollar. It went to 50 cents.

Senator KERR. I thought you said they had just as much in 1952 as they had in 1956.

Secretary HUMPHREY. They maintained it, and that is very largely why the dollar maintained its value, very little difference.

Senator KERR. Well, bonds have not retained their value.

Secretary HUMPHREY. They have not gone in and bought bonds, no. They stopped pegging bonds about a year and a half before we came in.

Senator KERR. How much did they have December 31, 1951?

Secretary HUMPHREY. $23.8 billion.

You see here, let me just read you about the way this went, and just to make it short and not long, I will start with 1939.

Senator KERR. No.

Secretary HUMPHREY. Let me just start it, and it will illustrate it.

Senator KERR. I do not want you to detour me here. I have a hard enough time keeping my mind on the track asking you what I want to ask.

Secretary HUMPHREY. It will illustrate to you what you want to know.

Senator KERR. How much was it in December 1950?

Secretary HUMPHREY. About 21.

Senator KERR. $21 billion?

Secretary HUMPHREY. That is the nearest round figure.

Senator KERR. And December 31, 1951?

Secretary HUMPHREY. 24.

Senator KERR. $24 billion.

Now, in 1950, you say they were pegging the market.

Secretary HUMPHREY. That is when they began to let go.

Senator KERR. Not in 1950.

Secretary HUMPHREY. Wait a minute.

It was March of 1951.

Senator KERR. That is what you told me. That was after December 31 of 1950.

Secretary HUMPHREY. That is right.

Senator KERR. You mean to tell me that they were able to peg the market and keep the bonds above par by owning $20 billion worth, and that they cannot do it now by owning $54 billion worth?

Secretary HUMPHREY. Owning how much?

Senator KERR. What did you say they had December 31, 1956?

Secretary HUMPHREY. They had $24.7 billion in 1952; and they had $24.9 billion in December of 1956.

Senator KERR. How much did they have in December of 1950?

Secretary HUMPHREY. 1950, it was $21 billion.

Let me read you down the list: 19, 23, 23, 23, 24, 19, 11, 6, 2, 2, 2, and out. It just went right up.

Senator KERR. And they could——

Secretary HUMPHREY. As they bought bonds, it went right up.

Senator KERR. Since they have quit pegging the market, it has gone up.

Secretary HUMPHREY. No. When they quit pegging the market, it stayed even, it did not change.

Senator KERR. What I cannot figure is——

Secretary HUMPHREY. After they quit pegging the market, here they sit.

Senator KERR. If they could hold the bond market at par for the benefit of the purchasers——

Secretary HUMPHREY. By buying a lot of bonds, and they went from $2 billion up to $22 billion.

Senator KERR. When did they have $2 billion?

Secretary HUMPHREY. They had $2 billion in 1941, and it goes $2 billion, $2 billion, $6 billion, $7 billion, $11 billion, $15 billion, $19 billion, $22 billion, $24 billion, $23 billion, $24 billion, $23 billion, and then it just flattens out pretty well and it runs along at about $24 billion from then on.

Senator KERR. How much was it in December——

Secretary HUMPHREY. $24 billion.

Senator KERR. How much was it December 31, 1956?

Secretary HUMPHREY. $24.9 billion, just the same.

Senator KERR. Let's see.

Secretary HUMPHREY. It was $24.7 billion in 1952.

Senator KERR. $24.9 billion?

Secretary HUMPHREY. $24.7 billion.

Senator KERR. The last year they pegged the price was 1950, according to what you told me; is that correct?

Secretary HUMPHREY. That is when they began to let go. They still bought some.

Senator KERR. But the last year, you said they stopped pegging it in early 1951.

Secretary HUMPHREY. That is when they began to stop.

Senator KERR. All right. Then in December of 1950——

Secretary HUMPHREY. 1951; in June of 1951 it was 23, and in December it was 24.

Senator KERR. In December of 1950, it was how much?

Secretary HUMPHREY. It has been there ever since.

Senator KERR. December of 1950, it was how much?

Secretary HUMPHREY. December of 1950, it was 21.

Senator KERR. $21 billion?

Secretary HUMPHREY. Yes.

Senator KERR. So they were able to peg it at par or better with $21 billion; but they are not able to do it with $24.9 billion.

Secretary HUMPHREY. It is just standing still, you see—if you are going to keep pegging, you have to increase.

Senator KERR. The bonds in their portfolio have not stood still, the value of the bonds has not stood still, nor has the expense of the Government in the matter of interest been standing still.

Secretary HUMPHREY. That is because they did not keep increasing the bonds. As long as you stand still, you have no effect. It is when you increase or decrease it you have an effect.

Senator KERR. But they increased from 1950 to 1956.

Secretary HUMPHREY. Almost the same.

Senator KERR. It was $21 billion the one time, and $24 billion the next.

Secretary HUMPHREY. No. The next time it became effective was the following year. It has been 23, 24, 23, and 24.

Senator KERR. 1950 was the last year they pegged the market, you said.

Secretary HUMPHREY. No; it was not effective—it begins, your actual beginning of not pegging the market was 1952.

Senator KERR. That is not what you said.

Secretary HUMPHREY. Well, they stopped it in 1952——

Senator KERR. You looked at Mr. Douglas here the other day and read the report of his committee where the point was reached in 1951.

Secretary HUMPHREY. That is right, and it began to be effective, and in December of 1951, it was 23.8.

Senator KERR. So the longer they have had it effective, the more they have acquired.

Secretary HUMPHREY. No, sir; they stopped acquiring it.

Senator KERR. If it was $23.8 billion——

Secretary HUMPHREY. It was $23.8 billion, and it is now $24.9 billion.

Senator KERR. Is that not more?

Secretary HUMPHREY. In all those years.

Senator KERR. Is that not more?

Secretary HUMPHREY. Just a fraction as compared with going from $2 billion—the difference, Senator, is this: They went from $2 billion to $24 billion, and now they have gone from $24 billion to $25 billion, and there is a lot of difference.

Senator KERR. Yes, there is, and you know what it looks like to me? It looks to me like they do not have to buy any more bonds to peg the market, but what they did was to arrange it so that both they and other borrowers would get more interest——

Secretary HUMPHREY. Well——

Senator KERR (continuing). At the expense of Uncle Sam and of every interest payer in the Nation.

Secretary HUMPHREY. What they were trying to do, Senator, and what they have been quite successful at—now, whether it is exactly right or not, I am not prepared to say—I do not know what would have happened, quite, if they had continued. But if they had gone from \$24 billion up, in their purchases of bonds, at the same rate they went from \$2 billion to \$24 billion, I think our dollar would have greatly depreciated, I think our cost of living would have soared right through the roof, and I think you could have pegged your bond prices at par. We would have saved a billion or \$2 or \$3 billion in interest, and the American people would have spent billions and billions more for the cost of living.

Senator KERR. You know, Mr. Secretary, there are two things about that.

In the first place, you are speculating now.

Secretary HUMPHREY. I am speculating based on history.

Senator KERR. You are speculating now.

Secretary HUMPHREY. I know what happened during two periods. In one we had a terrific loss in the dollar, we cut it in half, almost, and we increased these bond purchases.

In the subsequent period, we held the bond purchases practically level, and we held the cost of living practically level at the same time.

Senator KERR. I will tell you something else——

Secretary HUMPHREY. And the dollar level.

Senator KERR. I will tell you something else about cutting the price of the dollar. We had a World War.

Secretary HUMPHREY. Yes. You had a lot of things.

Senator KERR. Yes.

Secretary HUMPHREY. The thing that affected it——

Senator KERR. You do not think it affected the value of the dollar?

Secretary HUMPHREY. It affected the amount of money you borrowed.

Senator KERR. I say, you do not think it affected the value of the dollar?

Secretary HUMPHREY. Not as much as the purchases of the Federal Reserve as pegging the prices.

Senator KERR. You think the war cost how much? How much did World War II cost us? How many hundreds of billions?

Secretary HUMPHREY. I do not know, but I think it cost us a lot more, probably, than it should have.

Senator KERR. I asked you about that the other day. You should not make those statements unless you are able to be specific about them, Mr. Secretary.

Secretary HUMPHREY. Well, I think you are right.

Senator KERR. You should not make those statements.

Secretary HUMPHREY. I think that is correct. I do not think anybody can say what would have happened under other circumstances.

Senator KERR. I do not think they can, either. I do not think even you or I could, smart as we are.

Secretary HUMPHREY. I think you are right about it. I might come a little nearer than you. [Laughter.]

Senator KERR. You know what I think about that? I think that is speculative. [Laughter.]

Mr. Chairman, in view of the fact that you indicated you were going to quit here at 1 o'clock, and there are so many things I have asked the Secretary for in the way of information, if you think it appropriate——

The CHAIRMAN. We will adjourn at this time until Tuesday morning at 10 o'clock.

(Whereupon, at 1:05 p. m., the committee adjourned, to reconvene at 10 a. m., Tuesday, June 25, 1957.)

INVESTIGATION OF THE FINANCIAL CONDITION OF THE UNITED STATES

TUESDAY, JUNE 25, 1957

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

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

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

Also present: Senator Goldwater; Robert P. Mayo, Chief, Analysis Staff, Debt Division, Office of the Secretary of the Treasury; Elizabeth B. Springer, chief clerk; and Samuel D. McIlwain, special counsel.

The CHAIRMAN. The Chair would like to announce that this morning's session will continue from now on until 12:30, and that there will be an afternoon session from 2 to approximately 4:30.

Senator Kerr is recognized.

STATEMENT OF HON. GEORGE M. HUMPHREY SECRETARY OF THE TREASURY—Resumed

Secretary HUMPHREY. Mr. Chairman.

The CHAIRMAN. Secretary Humphrey?

Secretary HUMPHREY. Mr. Chairman, I have available now a number of the things that were asked for to be presented at previous times, and the first thing, Mr. Chairman, is an item you asked for, which is a comparison of budget expenditures for the years 1955 and 1958, which showed approximately an $8 billion increase that you called attention to, and I have the details of that.

I will present that statement to you, and just refer to it very briefly. You will see, for the benefit of all of the others——

Senator KERR. Do you have copies of that?

Secretary HUMPHREY. I haven't copies, Senator, but we will put it in the record, and if you want copies we will have them reproduced later. I just have these. But I will refer to it so it will be perfectly plain to everyone.

This is a statement that the chairman asked for, showing the increase in expenditures from the year 1955 to the proposed budget for the year 1958.

The military expenditures went up during that period $2.776 billion; Agriculture, the Commodity Credit and the soil bank just about offset each other, being $1.21 billion, a credit, and the other a minus, the rest of Agriculture went up about $653 million.

93633—57——11

Atomic Energy went up $483 million.
The Commerce Department, $277 million.
The Mutual Security went down $172 million.
The Export-Import Bank went up $344 million.
Health, Education, and Welfare went up $838 million.
General Services went down $319 million.
Federal National Mortgage Association went down $97 million.
The postal deficiency went down $298 million.
Veterans' Administration went up $663 million.
The interest on the public debt went up $930 million.
And all other went up $1.714 billion.

Now, that last includes items on the sale of assets and a large number of items, some of the detail of which is included in the No. 3 footnote, some of the larger items, but mostly it is a mass of relatively small items.

The CHAIRMAN. Under the committee rule, I may not interrogate at this time. The material will be inserted in the record, at the place where it was requested. I shall take it up in turn.

Secretary HUMPHREY. Fine.

(See p. 51.)

The CHAIRMAN. Senator Kerr has the floor now, and I will ask questions later on, but at this point as on page 51 it should be noted that $595 million in highway expenditures has been deducted from the 1955 total. With the figure included the 1955 total was, as recorded by the budget, $64.6 billion. When the $1.8 billion highway expenditure estimate is added to the 1958 estimate, the total is $73.6 billion, an increase of $9 billion, instead of $7.8 billion.

Secretary HUMPHREY. I have here a long statement, and I think the chairman asked for this, a statement on the long-range commitments and contingencies, the contingent items. It is a long statement. It covers a large number of items. It runs into very substantial sums of money.

The net of it—there is no practical way to add up totals because the items are so confusing as to the degree of responsibility and what would bring them into play.

It shows, generally speaking, that out of about $250 billion or $275 billion of gross contingencies, there are about $100 billion of our present Government bonds deposited as collateral, so that a lot of this is security by our own debt or debt held by various agencies, like trust funds and things of that kind.

It is extremely difficult to list all of the possible contingent liabilities. These are the legal contingencies. There might be, and I believe perhaps could well be, other contingencies which would develop practically that may not be included in this list.

And, again, we will have that list mimeographed so that everybody will have that.

The CHAIRMAN. It will be inserted in the record at the place where it was requested, and I shall take it up later.

(See p. 80.)

Secretary HUMPHREY. Now, Senator Kerr asked about floating debt.

This statement I am submitting shows the marketable debt, maturing within 1 year, the total outstanding in December 1952, 1956, and at the present time, that is, May 31, the last date, less that held by the Federal Reserve and Government accounts.

The CHAIRMAN. The statement will be made a part of the record at the place it was requested.

(See page 132.)

Secretary HUMPHREY. This shows a net held by the public, of debt maturing in less than 1 year, of $42.9 billion in 1953, $45.6 billion in 1956, and $46.1 billion at the present time.

It also shows the nonmarketable demand notes held by the public in savings notes in 1952, now all paid off; the F, G, K, and J savings bonds, and the miscellaneous debt which has a demand prerogative, and shows that those amount to $31.8 billion in 1952, $18.4 billion in 1956, and $16.8 billion at the present time.

This makes the total floating debt and demand obligations outstanding $74.6 billion in 1952, $63.9 billion in 1956, and $62.9 billion at the present time.

Again, as I say——

Senator KERR. I would like, if it is all right, Mr. Secretary, to discuss these with you as we come to them.

Secretary HUMPHREY. Fine.

Senator KERR. That means, as I read it, an $11.7 billion differential; is that right?

Secretary HUMPHREY. That is right; less today than there was in 1952.

Senator KERR. How much of that is in long-term bonds?

Secretary HUMPHREY. You mean——

Senator KERR. How much of that differential that is not now in the floating debt is in long-term bonds?

Secretary HUMPHREY. In the 1 year——

Senator KERR. Well, this is a tabulation——

Secretary HUMPHREY. Actually maturing——

Senator KERR. As I understand, this is a tabulation of the floating debt as of these dates.

Secretary HUMPHREY. That is, this is the debt that we may be called upon to pay within less than a year.

Senator KERR. Well, it is what you referred to as the floating debt?

Secretary HUMPHREY. That is correct, that demand can be made for payment within less than a year. Some of it automatically matures; and some of it is payable on demand.

Senator KERR. We still owe that $11.7 billion?

Secretary HUMPHREY. No. That has been reduced.

Senator KERR. Well, we owe more now than we did——

Secretary HUMPHREY. No; we owe less.

Senator KERR (continuing). Than we did in December 1952, total debt.

Secretary HUMPHREY. Oh, you mean the total of all debt?

Senator KERR. Yes.

Secretary HUMPHREY. Oh, yes; yes, sir. The total of all debt is higher than it was in 1952.

Senator KERR. This is——

Secretary HUMPHREY. This is simply the debt——

Senator KERR. I understand.

Secretary HUMPHREY (continuing). On which the demand for payment can be made within 1 year.

Senator KERR. What I am trying to find out is where it is now.

Secretary HUMPHREY. It is right here, May 31.

Senator KERR. I have not made myself clear. You still owe this money——

Secretary HUMPHREY. Yes, sir.

Senator KERR (continuing). In one form or another.

Secretary HUMPHREY. That is correct.

Senator KERR. In what form is it now?

Secretary HUMPHREY. It is in longer term than 1 year or demand.

Senator KERR. In how much longer term than 1 year?

Secretary HUMPHREY. Well, you did not ask that.

Senator KERR. I know I did not.

Secretary HUMPHREY. I will have to try to find out. It will be more than a year and up to 40 years.

Senator KERR. Well, now——

Secretary HUMPHREY. Most of it, I would guess, would be in 5, 6, 7 years, something like that, in 3 to 7 years.

Senator KERR. In 3 to 7 years?

Secretary HUMPHREY. Something like that. Of course, I am just guessing at this, now.

Senator KERR. But it is——

Secretary HUMPHREY. But it is more than 1 year, and we have some that go to 40 years, and the others lie somewhere in between. The longest term is very small.

Senator KERR. We have some that go 40 years?

Secretary HUMPHREY. I believe it is about 40 years; 1995.

Senator KERR. That is 38 years.

Secretary HUMPHREY. That is what?

Senator KERR. That is 38 years.

Secretary HUMPHREY. That is right.

Senator KERR. How much of that?

Secretary HUMPHREY. It is relatively small, $2¾ billion.

Senator KERR. Those and the 3¼s are the only long-terms that have been issued, are they not?

Secretary HUMPHREY. Those are the only two long terms.

Senator KERR. How much are the 3¼'s?

Secretary HUMPHREY. $1½ billion, a little over $1.5 billion.

Senator KERR. So the 2 of them together total $4¼ billion.

Secretary HUMPHREY. That is right.

Senator KERR. The overall increase in the debt is how much since December 31, 1952?

Secretary HUMPHREY. To $276.7 billion from $267.4 billion—$9.3 billion.

Senator KERR. So that $9.3 billion less $4.1 billion is $5.2 billion.

Secretary HUMPHREY. Deducting the long term; yes.

Senator KERR. So that, if we contemplate that the increase in the debt is in part represented by the long terms, and for bookkeeping purposes we may just as well assume that some other of the refinancing has been put into it, that leaves $5.5 billion of the increase, plus $11.7 of the decrease in the floating debt, for a total of $17.2 billion which has to be in the form of something more than 1 year and less than long term.

Secretary HUMPHREY. I think that is about right.

Senator KERR. Is that right?

Mr. MAYO. That isn't far off, sir.

Secretary HUMPHREY. The total increase is $9 billion, but there is a $17 billion increase outside the floating debt and long-term bonds, somewhere in there.

Senator KERR. It is now in a different form.

Secretary HUMPHREY. It is in a different form, that is correct, different maturity.

Senator KERR. What issues have you made of longer than 5 years since you came in?

Secretary HUMPHREY. Mr. Burgess is really the person to answer these questions, because he has all the data.

Senator KERR. I know, but I am just seeking information.

Secretary HUMPHREY. Roughly, there is a $6 billion increase in the E and H bonds.

Senator KERR. E and H is $6 billion?

Secretary HUMPHREY. That is right. And special issues are up $6.5 billion. And, wait, there is one other item.

Senator KERR. $6.5 billion——

Secretary HUMPHREY. Special issues.

Senator KERR. When do they mature?

Secretary HUMPHREY. Well, those are varying maturities. That goes into the trust funds.

Senator KERR. I know, but are they due or callable in a year?

Secretary HUMPHREY. No. These are fund deposits. They are bonds deposited in funds.

Senator KERR. What I am trying to find out is their term.

Secretary HUMPHREY. Their term is mostly a year, or over.

Senator KERR. Well now——

Secretary HUMPHREY. They turn over.

Senator KERR. If their term is a year, would that affect this table?

Secretary HUMPHREY. No; they are not floating debt. They are longer term credit. They are fund deposits where the obligation is for a much longer time.

Senator KERR. In order that I may understand this now, and let us see if my understanding is correct, you are referring to the trust funds?

Secretary HUMPHREY. That is correct.

Senator KERR. Of which you have control, and with reference to which, as they accrue or as they——

Secretary HUMPHREY. Mature.

Senator KERR (continuing). As they come in, you invest them in Government securities of one kind or another?

Secretary HUMPHREY. That is correct. They are special issues for that purpose.

Senator KERR. Special issues for that purpose. Of what duration are they?

Secretary HUMPHREY. Well, they are mostly for a year, because we have annual interest adjustments, and they turn over with the revisions in interest yearly.

Senator KERR. What I am trying to find out—what is your name, sir?

Mr. MAYO. Mayo.

Secretary HUMPHREY. M-a-y-o, Mayo.

Senator KERR. What I am trying to find out, Mr. Mayo, is this: You say that you put $6 billion more in the special issues.

Mr. MAYO. Yes.

Secretary HUMPHREY. Six and a half.

Senator KERR. Of 1-year duration when you turn them over.

Mr. MAYO. That is about right.

Senator KERR. Now, is that $6.5 billion included in this $62.9 billion?

Mr. MAYO. No, sir.

Secretary HUMPHREY. No; that is not part of the floating debt.

Senator KERR. But it is due within a year.

Secretary HUMPHREY. Well, it can be for whatever is proper. We make it that because you have these adjustments that you make annually. But it can be made just as well for 5 years or some other period.

Senator KERR. Well, the reason you do not do that is——

Secretary HUMPHREY. There is no obligation——

Senator KERR (continuing). That the law requires you to adjust that interest?

Secretary HUMPHREY. It is a convenient way to do it.

Senator KERR. Yes.

Now, this $6 billion, this first $6 billion, that you said was in E and H bonds——

Secretary HUMPHREY. That is right.

Senator KERR (continuing). They are callable at the will of the lender.

Secretary HUMPHREY. That is correct.

Senator KERR. And the $6.5 billion of special issues you turn them over every year.

Secretary HUMPHREY. E and H, they keep turning over, that is correct.

Senator KERR. And the special issues, you keep turning them over?

Secretary HUMPHREY. That is correct.

Senator KERR. Now, the other $5.7 billion, Mr. Mayo, which is that——

Secretary HUMPHREY. Here it is. In 1954——

Senator KERR. All right.

Secretary HUMPHREY. In 1954, we issued 5- to 10-year bonds, of various issues, totaling $21.7 billion.

Senator KERR. $21.7 billion.

Secretary HUMPHREY. Some of those have come down in term, and some are still over 5, and you would have to sort out each issue to see just where you were.

Senator KERR. How much of the $21.7 billion was longer than 5 years?

Secretary HUMPHREY. Well, the $4.6 billion we spoke of before, you already have that.

Senator KERR. No.

Secretary HUMPHREY. This is in the 5- to 10-year range. That was in 1953.

Senator KERR. What did you issue?

Secretary HUMPHREY. $4.6 billion.

Senator KERR. For how long?

Secretary HUMPHREY. Somewhere between 5 and 10.

Senator KERR. You do not know—they are not bonds which are payable at the end of 10, but callable at the end of 5 years?

Secretary HUMPHREY. No; they are different maturities. We would have to get each issue.

Senator KERR. I think he has it there in the Treasury Bulletin.

Secretary HUMPHREY. We have all of them here, if you want to read them off.

Senator KERR. I just want to know what you issued of 5 years or longer, since you came in.

Secretary HUMPHREY. Well, let's start right at the top of the sheet here and pick them out.

Senator KERR. I tell you, that fellow Mayo can beat either you or me. I have the Treasury Bulletin here, but I have to have someone guide me through it.

Secretary HUMPHREY. So do I. We are equal. [Laughter.]

Senator KERR. Maybe this fellow can guide us both.

Secretary HUMPHREY. Here you go right up——

Senator KERR. Tell me, Mr. Mayo, so we can put it in the record.

Secretary HUMPHREY. You pick out the ones that are over 5 years.

Mr. MAYO. In February of 1953, the Treasury issued a 5-year, 10-month bond of $600 million.

Senator KERR. How much?

Mr. MAYO. $600 million.

Senator KERR. All right.

Mr. MAYO. And then, of course, in May of 1953——

Senator KERR. That is May of 1953?

Mr. MAYO. Yes. The Treasury issued this $1.6 billion of these 30-year 3¼s.

Senator KERR. We have that in a separate category.

Mr. MAYO. All right, we will keep that separate. In November of 1953, a 7-year 10-month bond, $2.2 billion.

Senator KERR. All right.

Mr. MAYO. In November of 1953, 5-year 10-month bond, $1.7 billion.

That is all for 1953.

Senator KERR. All right.

Mr. MAYO. In 1954, February, 7-year 9-month bond, $11.2 billion.

Senator KERR. $11.2 billion?

Mr. MAYO. Yes, sir.

Senator KERR. All right.

Mr. MAYO. August, 1954, 6-year 3-month bond, $3.8 billion.

Senator KERR. All right.

Mr. MAYO. December, 1954, 8-year 8-month, $6.8 billion.

Senator KERR. All right.

Mr. MAYO. We have given you the 40-year bond. We will skip that.

Senator KERR. All right.

Mr. MAYO. That is all, over 5 years, I believe, Senator.

Senator KERR. That had been issued?

Mr. MAYO. That is correct.

Senator KERR. Well now, all of these except the December of 1954, $6.8 billion, mature in 1961 or before; do they not?

Mr. MAYO. That is correct.

Senator KERR. And the December of 1954 mature——

Mr. MAYO. In August of 1963.

Senator KERR. August of 1963.

Then to the degree that the floating debt as you have defined it is less than it was on December 31 of 1952, there is actually a substantially larger amount that will be due within 5 years from this date.

Mr. MAYO. Yes; close to 5 years. Some of it is closer; that is right.

Senator KERR. All right.

Mr. Secretary, what is the next item, now, that you have there?

Secretary HUMPHREY. All right.

Senator KERR. I wonder if we might do this: You know, we were discussing when we left here, as I recall it, the amount that was due within 5 years, and you were going to make a tabulation, I believe, of the amount and classifications due in less than 5 years or callable by the owner, as of December 31, 1952, and as of May 31, 1957.

Secretary HUMPHREY. Here it is; yes. We have that statement right here.

Shall I read this for the record?

Senator KERR. Yes, sir.

Secretary HUMPHREY. In 1953, I made the statement that nearly three-fourths of this debt matures within less than 5 years or is redeemable at the holder's option.

This statement was based on an analysis of Federal debt outstanding on December 31, 1952, which showed that 68.8 percent of the Federal debt outstanding was in this category.

By December 31, 1956, the percentage computed on the same basis was 68.4 percent. That part of the public debt includes:

(1) All marketable securities maturing in less than 5 years, regardless of the type of the holder.

(2) All demand debt, such as savings notes, savings bonds, including E and H bonds as well as F and G, J, and K bonds, depositary bonds, matured debt, and noninterest bearing debt.

(3) Investment series bonds, both series A, which is redeemable on demand, and series B, which is exchangeable on demand into 5-year marketable notes.

(4) Special issues to Government investment accounts, such as unemployment trust account, Federal Deposit Insurance Corporation, Federal Housing Administration funds, and Federal Savings and Loan Insurance Corporation, which accounts may involve demand-type obligations.

Senator KERR. Now, you were going to bring it as of May 31 of this year.

Secretary HUMPHREY. I do not think we were, Senator. I do not believe we can get it up that close, but we might.

I think we can. We have not got it, but we can try to revise it to bring it to May 31, if that is possible.

Senator KERR. It is a little hard——

Secretary HUMPHREY. We might bring it up to April.

Senator KERR. It is a little hard for me to reconcile this with what seems to me to be the situation, because, on the basis of what you have just told me here, everything that was due within 5 years at that time, plus an increase of how much in the debt?

Mr. MAYO. $9.3 billion.

Senator KERR. $9.3 billion—is now due within 5 years or less, except the $6.8 billion which would be due in 1963, according to this, Mr. Mayo.

Mr. MAYO. That is right.
Secretary HUMPHREY. That is right.
Senator KERR. And the 4⅛——
Secretary HUMPHREY. The 4⅛——
Senator KERR. Which is how much, Mr. Mayo? Is that right, 4⅛?
Secretary HUMPHREY. Of the two longs.
Senator KERR. Which is $11.3 billion, plus anything that was due in more than 5 years but less than 10 years; is that not right?
Mr. MAYO. That is right.
Senator KERR. Was there no outstanding debt at that time due within 5 and 10 years?
Mr. MAYO. Yes, there was. These are on different concepts, if I may answer, Mr. Secretary.
Secretary HUMPHREY. You tell him just exactly what that is.
Mr. MAYO. This was done to illustrate the total of demand debt, including the E- and H-bonds, this statement you have here, Senator, in 1952. This is a classification that we no longer use. We have preferred to use this floating-debt concept in more recent years.
We have, for your purpose, however, brought this up to date to illustrate what it would be on December 31, 1956. It includes Series E and H bonds, which the floating debt concept does not inculde because that is a self-sustaining program. The sales and redemptions are just about equal all the way along.
This includes certain types of Government investment account special issues, which we have not included in the floating debt now.
Senator KERR. Nor in the amount due within 5 years?
Mr. MAYO. They are in this amount due within 5 years, this old concept that we are referring to here, because, technically speaking, like unemployment trust account, you could have a wave of unemployment which would make you pay much of that money out immediately. So it is in a different——
Senator KERR. Here is what I am trying to do: When the Secretary came in, on innumerable occasions he was critical of his predecessor and of the situation which he said he inherited, because, he said—sometimes he said two-thirds and sometimes he said three-fourths of the outstanding debt is either due within 5 years or redeemable at the will of the owner.
Now he is about to leave this post, and he is going to have a successor who will inherit a situation.
Secretary HUMPHREY. Perhaps I can clear this up for you.
Senator KERR. And I was——
Secretary HUMPHREY. My successor can be critical of me, because, using this measuring stick, we have not made the improvement that I would like to have made.
In these times of great demand for money, we have not been able to extend our debt and to put out as much long-term paper as we had hoped we might do, and as I think it is very desirable to do whenever the opportunity will permit its being done.
Now, you can do it sometimes. Sometimes the market will take the long-term securities, and sometimes the market will not.
We have had markets during a substantial part of the time—because of the large demand for money and the high rate of prosperity—where the long-term obligations could not be put out, and where it was not desirable to put them out.

We have made progress, Senator Kerr, but not as much as I hoped we would be able to make. On this measuring stick we have about held our own. On the floating debt we have done better and we have put out some long issues.

Senator KERR. Well, you see——

Secretary HUMPHREY (continuing). And we have about——

Senator KERR. Well, actually we have not held our own, on the basis of your statement.

Secretary HUMPHREY. Well, we have come pretty close to it.

Senator KERR. Because on December 31, 1952, according to this statement, it was 68.8 percent of how much, Mr. Mayo?

Mr. MAYO. Well, that is approximately——

Senator KERR. It is 68.8 percent of how much?

Mr. MAYO. Of $267 billion.

Senator KERR. Of $267 billion.

Mr. MAYO. That is correct.

Senator KERR. According to this statement of December 31, 1956, it is 68.4 percent of how much?

Secretary HUMPHREY. Of a larger amount.

Mr. MAYO. $276.7 billion.

Senator KERR. Of $276.7 billion, which means we had a greater amount——

Mr. MAYO. That is correct, by this way of measuring.

Secretary HUMPHREY. A slight difference.

Senator KERR (continuing). A greater amount outstanding on the basis of this.

Secretary Humphrey. A very small amount.

Senator KERR. I am not certain of this but it would seem to me that as of May 31, 1957, there would not only be a substantially larger volume, but perhaps a larger percentage of the total, Mr. Mayo?

Mr. MAYO. We can figure that for you, Senator. The debt as a total has gone down a little since December, and the shorter-term debt has—

Senator KERR. Gone up.

Mr. MAYO (continuing). Has perhaps gone up slightly according to this definition.

Senator KERR. Yes. At least as much as the debt has gone down.

Secretary HUMPHREY. Why don't we see if we can get the exact figures as of May 31?

Senator KERR. I think it would be very instructive.

Secretary HUMPHREY. I think we can get them, certainly as of May 1, if not May 31.

(The material referred to was later submitted as follows:)

By May 31, 1957, the percentage computed on the same basis was 68.3 percent.

Senator KERR. You see, Mr. Secretary, what many would believe, and I happen to be one of them, is that the policy which you helped to implement and which has been accentuated by the Federal Reserve Board, and in which you tell us that you completely support them, has made it impossible to achieve the objective of switching the national debt to long-term bonds.

Secretary HUMPHREY. Well, I cannot agree that it is that policy that caused it.

Senator KERR. I see in yesterday's Wall Street Journal—and I must say that I find myself in a rather peculiar situation here of quoting from that publication in an argument with you. [Laughter.]

Secretary HUMPHREY. Well, I do not know why you would not. It is——

Senator KERR. You and it have not been very far apart, usually. I see this article headed as follows:

MORE FIRMS POSTPONE, KILL EXPANSION PLANS AS INTEREST COSTS SOAR

One delays bond sale, calls market disorganized, new rate hikes forecast. Uncle Sam is squeezed, too.

Tight money is twisting the plans of a growing number of American businessmen. Some are postponing or canceling carefully laid expansion plans. Many are keeping a closer eye on inventories so as to limit costly borrowing. Others are reshaping financing plans in the hope of minimizing higher interest costs.

Mr. Chairman, I want this entire article put into the record at this point, but I only want to read about two more paragraphs.

There's no question that interest rates are high by any recent standards, no matter where a businessman may turn. The banks' rate for their biggest borrowers, with the best credit ratings—the prime rate—is 4 percent, the highest it has been since 1933. And that is only part of the story.

Up above is the statement:

Bankers generally look for interest rates to go higher still.

As money has tightened, more and more borrowers have found that, in the banks' eyes they no longer qualify for the minimum rate. Banks also have become more insistent that borrowers keep close to 20 percent of any money they borrow on deposit with the banks a step that increases the actual cost of the loans.

Then there was this very illuminating comment, Mr. Secretary:

Higher interest rates, of course, are pinching governments as well as businesses. The Treasury last week had to pay 3.404 percent to raise $1.6 billion on its regular offering of 91-day bills—the highest rate it had paid on such securities in 24 years. State and local governments also are being forced to pay higher and higher interest rates to raise funds for schools, highways and other facilities. * * *

Tighter money is helping to defeat one of the prime aims of the Eisenhower administration—to stretch out the average maturity of the Federal debt. One purpose of the proposed stretchout was to cut down the size of the Government's future debt refunding chore. In addition, by offering longer term securities, the administration hoped to place more of the debt in the hands of nonbank investors. * * *

The current interest rate upsurge, with only minor interruptions, dates from early 1955. As business began to pull out of the inventory recession of late 1953 and 1954, demand for credit grew—for rebuilding depleted inventories and building new facilities. The Federal Reserve System, which during the recession period had supplied the banks with all the funds they needed, and more, began to limit the funds the banks had available to lend. Interest rates rose steadily.

In late 1956, the Federal Reserve hesitated, somewhat uncertain as to the business future. But as business plowed ahead with tremendous rapid expansion programs, (spending on new plant and equipment this year forecast at $37.4 billion, an increase of over 6 percent in 1956 high), the Reserve System took heart and again grabbed the credit reins tightly.

Now, this writer says that—

Tighter money is helping to defeat one of the prime aims of the Eisenhower administration. * * *

I would like to ask you, Mr. Secretary, if it is not a fact that there is no way for you to know what you would have to pay to issue long-term bonds today?

Secretary HUMPHREY. I think that is right. I do not think the market is available to sell long-term bonds, and I do not believe you would want to try.

(The article referred to is as follows:)

Tighter Money—More Firms Postpone, Kill Expansion Plans as Interest Costs Soar

ONE DELAYS BOND SALE, CALLS MARKET DISORGANIZED; NEW RATE HIKES FORECAST—UNCLE SAM IS SQUEEZED, TOO

A Wall Street Journal News Roundup

Tight money is twisting the plans of a growing number of American businessmen.

Some are postponing or canceling carefully laid expansion plans. Many are keeping a closer eye on inventories so as to limit costly borrowing. Others are reshaping financing plans in the hope of minimizing higher interest costs.

Those are the major facts turned up by a Wall Street Journal survey of businessmen and bankers in 13 major cities around the United States, as both bank borrowing and bond financing costs continue to mount. Other findings:

Bankers generally look for interest rates to go higher still.

High interest rates—and the scarcity of loanable funds—chiefly deter marginal projects; many companies are pushing ahead with expansion plans, convinced that the resulting profits will more than offset the higher cost of money.

> American businessmen and Federal, State and local governments are finding it increasingly difficult and expensive to borrow money. This is the first of two articles examining the impact of the steadily tightening credit squeeze.

WIDE RANGE OF BUSINESSES

Reports of stymied expansion plans come from a wide range of businesses, however.

"The recent rise in interest rates killed a $1 million expansion program we had planned," says Gilbert Schnitzer, president of Industrial Air Products Co., Portland, Oreg., supplier of oxygen for industrial and medical uses. "We had intended to open plants in other Northwest cities, but we simply can't afford to pay current bank rates."

"We're not bidding on some jobs we'd like to bid on, because if we get them we would have to have new facilities," says an official of a southern California aircraft company. "We think we'd have to pay too much for the money to finance the new facilities."

And the senior credit officer of a major Chicago bank reports, "Several of our customers have reduced or postponed expansion plans because of high interest rates. They hope to borrow later when rates are more favorable." A number of these companies he says, were utilities; one was a railroad.

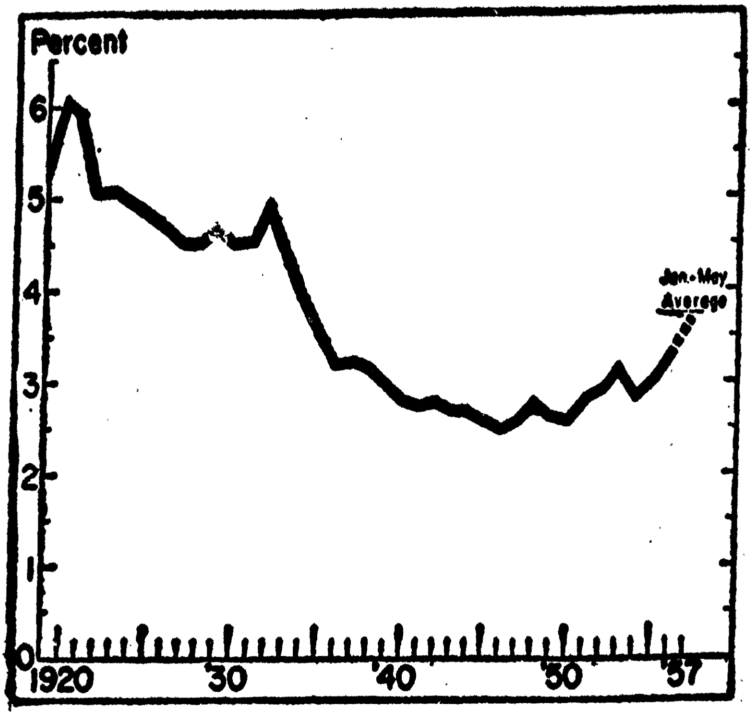
There's no question that interest rates are high by any recent standards, no matter where a businessman may turn. The banks' rate for their biggest borrowers with the best credit ratings—the "prime" rate—is 4 percent, the highest it has been since 1933. And that's only part of the story. As money has tightened, more and more borrowers have found that, in the banks' eyes, they no longer qualify for the minimum rate. Banks also have become more insistent that borrowers keep close to 20 percent of any money they borrow on deposit with the banks—a step that increases the actual cost of the loans.

A Prime Rate Boost?

More bad news for businessmen: Many bankers maintain that an increase in the prime rate itself is overdue. Any such increase sooner or later would affect all borrowers, since all bank rates are scaled upward from the prime rate.

When a businessman turns to the bond market for long-term loans to finance expansion programs the picture, if anything, is even more bleak. The yields on top-grade corporate bonds outstanding, as measured by Moody's Investors Service, have averaged 3.7 percent so far this year. As shown by the chart below, that's higher than the annual average for any year since 1934. And the average is sure to go higher, since the yields on new bond issues for several weeks have been running well above 3.7 percent.

Only last week, Southern Bell Telephone Co. had to pay 4.91 percent when it sold $70 million of 29-year debentures. That's the highest rate paid by any Bell System unit since 1930.



Michigan Consolidated Gas Co. last week paid 6.145 percent to borrow $30 million on 25-year first mortgage bonds. That's in sharp contract to the 3.39-percent rate the Michigan utility paid on a $30 million 25-year bond issue less than 2 years ago—in November 1955.

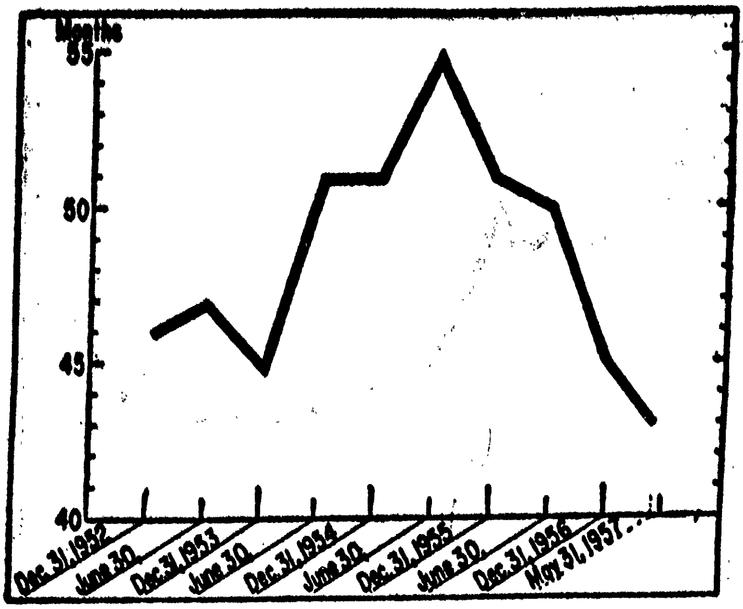
Kerr-McGee Oil Industries, Inc., this week will offer $20 million of debentures. To make its securities more attractive in the current bond market, Kerr-McGee has coupled to each $1,000 debenture a warrant entitling the purchaser to buy 5 shares of the company's common stock at $80 a share during the period from April 1, 1958, to June 1, 1964.

The rise of bond market interest costs has been so swift that some companies have simply thrown up their hands. Associates Investment Co. last Tuesday postponed a $20 million debenture issue. The reason, according to E. Douglas Campbell, treasurer: "The disorganized condition of the market."

Higher interest rates, of course, are pinching governments as well as businesses. The Treasury last week had to pay 3.404 percent to raise $1.6 billion on its regular offering of 91-day bills—the highest rate it had paid on such securities in 24 years. State and local governments also are being forced to pay higher and higher interest rates to raise funds for schools, highways and other facilities. The Dow-Jones municipal bond yield index last week rose to 3.48 percent, the highest level since October 1935.

Tighter money is helping to defeat one of the prime aims of the Eisenhower administration—to stretch out the average maturity of the Federal debt. One purpose of the proposed stretchout was to cut down the size of the Government's future debt refunding chore. In addition, by offering longer term securities, the administration hoped to place more of the debt in the hands of nonbank investors. Banks prefer short-term securities; such purchases set the stage for further inflation.

At the end of 1952, just before Ike took office, the average maturity of the Federal debt was 46 months. By mid-1955, the average had reached 55 months. But, as money tightened, the Treasury decided it could not sell additional longer term securities at any interest rate that it cared to pay. So it has relied more and more on short-term issues. Result: The average maturity, as shown by the chart below, had dropped 43 months by the end of last month:



The current interest-rate upsurge, with only minor interruptions, dates from early 1955. As business began to pull out of the inventory recession of late 1953 and 1954, demand for credit grew—for rebuilding depleted inventories and building new facilities. The Federal Reserve System, which during the recession period had supplied the banks with all the funds they needed and more, began to limit the funds the banks had available to lend. Interest rates rose steadily.

In late 1956, the Federal Reserve hesitated, somewhat uncertain as to the business future. But as business plowed ahead with record expansion programs (spending on new plant and equipment this year is forecast at $37.4 billion, an increase of 6 percent over the 1956 high), the Reserve System took heart and again grabbed the credit reins tightly.

BORROWED RESERVES

Just how strapped the banks are for funds showed up last week in the weekly statement issued by the Reserve System. The banks are required to keep on deposit with the Reserve System funds equal to a specified percentage of the deposits on their own books; for the major New York City banks, for example, this percentage is 20 percent. To meet these requirements, the banks this past week had to borrow from the Reserve System a daily average of $1.1 billion.

When money began to tighten early in 1955, many businessmen decided to finance expansion programs "temporarily"—sometimes for several years—with bank loans. When money became more plentiful and interest rates eased, they expected to raise long-term funds in the bond market.

Despite the fact that more than 2 years have passed with no drop in interest rates, some companies persist on that course.

"There has been considerably more borrowing from banks lately by companies that do not want to commit themselves on long-term loans," reports E. E. Adams, president of San Francisco's Bank of California.

Under its normal financing pattern, Pittsburgh's Equitable Gas Co. this year could have sold debentures to provide the funds needed for a new $8.7 million petrochemical plant in Kentucky. But because of high interest rates, says C. J. Mulholland, vice president and treasurer, the company early last month arranged instead for an 11-month bank loan.

SHUN LONG COMMITMENTS

But a growing number of banks are turning away borrowers who want to arrange new loans for expansion purposes or to renew old ones. Several factors underlie this trend. For one thing, with the prospect of still higher interest rates, banks aren't eager to commit their funds for long periods at current interest rates.

"The money market still is uncertain," says John Hay, president of the Michigan Bank in Detroit. "Rates might go even higher, and we don't want to get locked in."

Another factor is that the Reserve System for some time has been gently pressuring the banks to avoid even temporary loans for capital purposes. The System argues, with considerable conviction, that such loans feed inflation. And, with the demand for bank credit still outrunning the supply, more and more banks are finding it desriable to go along with the Reserve System.

Bankers, trying tactifully to shove customers into the bond market, emphasize that businessmen may have to wait a long time for rates to come down. Wentworth P. Johnson, a senior vice president of Fidelity-Philadelphia Trust Co., goes farther than most in that direction.

DROP IN 1961?

"Once interest rates begin rising," says Mr. Johnson, "they rise for a period of about 15 years before falling off again." He figures the most recent low point was 1946 (the downturn of 1953-54, he figures, was not sharp enough to interrupt the overall uptrend). He concludes: "It seems likely that rates should begin to drop by 1961, according to all historical data available."

Borrowers pushed out of banks have been largely responsible for the bond-market squeeze. The squeeze has done more than send interest rates soaring. Many bond dealers have found it impossible to sell their securities without marking down prices—an action that in some cases has meant losses for the dealers.

To protect themselves to some extent, dealers are insisting that new bond issues be made more attractive—both with higher interest rates and in other ways. An example of the latter: When interest rates are high, some companies sell bonds, fully expecting to refinance later when interest rates decline. Dealers now, however, are stipulating in some cases that new bonds cannot be called in and refunded for at least 5 years.

Unlike expansion loans, bankers find there's no strong upward pressure under inventory loans. Businessmen generally have been trying to hold their stocks in check. The high cost of money is only one reason for this. Most products and materials now are plentiful, so businessmen find it unnecessary to stockpile. But interest rates still are influencing a number of inventory planners.

FOWLER PLANS CUT

"We plan to cut inventories 15 percent in the next 6 months to reduce operating costs," says Paul Fowler, president of Fowler Manufacturing Co., Portland, Oreg., manufacturer of water heaters. "We use a great deal of steel, and if we can cut down the size of our orders and order at more frequent intervals, we won't have to obtain so many of these expensive loans."

Aluminum Company of America, while it says it is not directly affected by tight money, believes many of its customers are cutting inventories because of high interest rates.

Many companies concede they're concerned by tight money—but not enough to alter any plans or programs.

"High money rates won't affect our major expansion plans," says Laurence F. Whittemore, president of Brown Co., Berlin, N. H., paper and pulp maker. "Marginal projects wouldn't be started, but we have none in that category now."

Other companies unworried by tight money include those who finance operations largely by retaining earnings. "We generate enough cash within the company to take care of all our needs," says an official of a big Chicago-based manufacturing concern.

RATE INCREASES ASKED

A number of public utilities, while worried by higher interest costs, expect to offset them through higher charges for their services; a number of rate increase requests already are pending before State regulatory agencies.

Many businessmen are philosophical about tight money. With the present top corporate tax rate of 52 percent, Uncle Sam pays about half of the higher interest costs, figures W. A. Parish, president of Houston Lighting & Power Co. Interest costs are deductible from income when a corporation figures its taxes.

Whatever the impact of high interest rates on business, one thing is sure: Tight money feeds on itself. As businessmen begin to fret about the availability and cost of credit, they rush to line up loans—sometimes months in advance of actual need.

"Even on the same interest rate, credit tends to get tighter on its own * * * tends to accumulate more pressure," says David M. Kennedy, president of Continental Illinois National Bank & Trust Co., of Chicago. "We're seeing no letup in the demand for borrowings."

Senator KERR. Do you think you could sell them at a rate within the legal limit?

Secretary HUMPHREY. I would not recommend trying to sell any at all.

Senator KERR. Now——

Secretary HUMPHREY. I do not think it is a proper time.

Senator KERR. Well, is that not because of the tightness of the money market?

Secretary HUMPHREY. Well, partly that, and partly because of the great use of money that is being made, the great demand for money.

Senator KERR. Regardless of what causes the tight-money market, it is because of that situation that you would not try to sell long-terms?

Secretary HUMPHREY. There is no complication about this, Senator. The reason there is not a market for long-term Government bonds at the kind of interest rates we would like to pay, or that we should pay for that kind of a security, is because there are so many other people wanting to borrow money.

Now, when you have lots of people in the market wanting to borrow money and a lot of industrial concerns wanting to borrow money, they bid for the money. And the only way we can take it away from them would be to go in and bid and take it away from them.

Now, I do not think the Government would be wise to go in and try to take money away from business and industry.

Senator KERR. That adds up to a tight-money market.

Secretary HUMPHREY. There is a tight-money market, there is no question about it, and the reason it is a tight-money market is because it is better to have the cost of interest rising than to have the cost of living going out of sight.

Senator KERR. Well now, we are going to get to that in a little while.

Secretary HUMPHREY. I think that those are the things you have to keep in mind.

Senator KERR. Do not try to detour me, Mr. Secretary.

Secretary HUMPHREY. I am not trying to detour you.

Senator KERR. Yes; you are. We are talking about a situation in which you tell the committee that you would not try to sell long-term bonds.

Secretary HUMPHREY. That is right.

Senator KERR. And, for the moment, regardless of what causes this tight-money market, it is the tight-money market which causes you to reach that conclusion?

Secretary HUMPHREY. That is right. I do not want to go out and bid for this long-term money.

Senator KERR. This same article says:

In 1956, the Federal Reserve hesitated, somewhat uncertain as to the business future; but as business plowed ahead, the Reserve System took heart and again grabbed the credit reins tightly.

Now, that indicates that the Federal Reserve had something to do with the tightness of the money market.

Secretary HUMPHREY. The Federal Reserve has a lot to do with it. The Federal Reserve, by law, is the functioning body that influences the amount of available credit and the amount of available money, and it is their job, the Federal Reserve's job, to do that thing.

Senator KERR. That is what I was trying to get you——

Secretary HUMPHREY. And the Treasury either agrees with them or does not.

Senator KERR. You agree with them?

Secretary HUMPHREY. At this time we agree with them pretty well on what they are doing.

Senator KERR. You agree with them and have agreed with them?

Secretary HUMPHREY. Pretty well. We have had some variations in agreeing with them; but by and large, we think their policies have been about right.

Senator KERR. Regardless of the merits or demerits of the tight-money situation, then, the Federal Reserve Board is responsible for it?

Secretary HUMPHREY. Primarily responsible, yes; plus, of course, the heavy demand for money. That is their legal function.

Senator KERR. And that has brought about a situation where there is more demand for the available credit than there is credit to meet available demand?

Secretary HUMPHREY. Well, you have to take into account both demand and supply.

Senator KERR. Well, I say——

Secretary HUMPHREY. And the demand has been exceeding the supply.

Senator KERR. And, as you said a while ago, compels the Government to compete with itself.

Secretary HUMPHREY. Well, or not to compete.

Senator KERR. When its maturities come due, it has to borrow.

Secretary HUMPHREY. Then we compete.

Senator KERR. You have to borrow.

Secretary HUMPHREY. That is correct.

Senator KERR. And you do that every Monday morning.

Secretary HUMPHREY. We do it every Monday.

Senator KERR. Every Monday morning. And State and local governments have to compete.

Secretary HUMPHREY. That is correct.

Senator KERR. And when State and local governments and the Federal Government, which together had over half of the total debt in the Nation December 31, 1952, are in the posture of competing with each other, and with both competing with industry for credit, and the Federal Reserve holding the reins tight so that there is an inadequate amount to meet the demand, it has to force the interest rates up, does it not?

Secretary HUMPHREY. Of course——

Senator KERR. Is that not the situation?

Secretary HUMPHREY. Just a moment——

Senator KERR. Let me ask you just this question——

Secretary HUMPHREY. Please——

Senator KERR. That is what makes it impossible, in this environment, to sell long-term bonds?

Secretary HUMPHREY. It makes it undesirable, and I do not want to try.

Senator KERR. I say therefore, Mr. Secretary, that the policy which the Federal Reserve has implemented and now follows, and in which you have supported them and do now support them——

Secretary HUMPHREY. That is right.

Senator KERR (continuing). Is what makes it impossible for you to achieve the objective of putting this Government debt into long-term issues?

Secretary HUMPHREY. That is right, because I think we gain much more in other ways. It's the heavy demand for money again.

Senator KERR. But regardless of what you think it does for us——

Secretary HUMPHREY. We are not doing one thing because I think we are getting a lot better off the other way.

Senator KERR. In other words, we are getting a lot better off, then, to——

Secretary HUMPHREY. With this high prosperity that is going on, I think the way we are working, it is more desirable to have that than it is to have no use for money, to have nobody wanting money, and to have money a drug on the market so that we can get all we want for any period of time we do want it.

Senator KERR. When you came into office, Mr. Secretary, you said the worst thing about the fiscal policies in the preceding administration was that they had resulted in two-thirds or three-fourths of the debt maturing or being callable in 5 years.

Secretary HUMPHREY. No; I did not say it was the worst thing. I said that was a thing that was desirable to correct as soon as it could be done.

Senator KERR. You said that was the mess you inherited.

Secretary HUMPHREY. That was one of the things. There was a lot more to the mess than that. [Laughter.]

Senator KERR. And your successor, if that is a mess, and to the extent that it is a mess——

Secretary HUMPHREY. It is just a part of the mess.

Senator KERR (continuing). And to the extent that is a mess——

Secretary HUMPHREY. Using your measurement, my successor is going to find no improvement in that little part of it.

Senator KERR. He is going to inherit a worse one than you did.

Secretary HUMPHREY. No, it will be just about the same, but we have cut the floating debt and put out some long bonds.

Senator KERR. Now then, Mr. Secretary, do you have a statement there of the goods that are in short supply?

Secretary HUMPHREY. Yes, I have a substantial statement with respect to that, but first, let me submit a short one for the record. This is a statement of what issues are still outstanding that we have not refinanced. You asked, you know, if there were some that had not been refinanced, and here is a statement of the issues that have not been refinanced. (Requested on p. 133.)

Senator KERR. Yes. That is of the total debt in existence when you came in?

Secretary HUMPHREY. That is right.

Senator KERR. Yes.

(The table referred to is as follows:)

United States Government public marketable and nonmarketable issues outstanding May 31, 1957, which were issued prior to Jan. 1, 1953

	Amount outstanding (billions of dollars)
Marketable issues:	
Bills	----
Certificates	----
Notes	1.4
Bonds	50.2
Total	51.6
Nonmarketable issues:	
Savings bonds:	
Series E and H	27.8
Series F, G, J, K	12.1
Total	39.9
Investment bonds:	
Series A	.9
Series B	10.8
Total	11.6
Depositary bonds	.2
Total	51.7
Total, public issues [1]	103.3

[1] Excludes special issues, matured debt bearing no interest, and non-interest-bearing debt.

Secretary HUMPHREY. And it shows that there are here a total of $103 billion of those issues that are still outstanding. They are just certain issues.

Senator KERR. I would think that there were more than that, because we have all of the 2½s. Are they included in this?

Secretary HUMPHREY. They are included; yes, sir. They are up there in that $50 billion item.

Senator KERR. That is the bonds?

Secretary HUMPHREY. That is right.

Senator KERR. In the "Marketable issues" item.

Secretary HUMPHREY. That is right.

Senator KERR. The series E and H that have not been refinanced are redeemable on demand.

Secretary HUMPHREY. At demand.

Senator KERR. Series F, G, J, and K, tell us what they are.

Secretary HUMPHREY. Those are savings bonds. We have stopped issuing them now. They were bonds that were issued to large investors.

Senator KERR. Are they redeemable at the will of the holders?

Secretary HUMPHREY. They are redeemable on demand. They are like savings bonds; we stopped issuing the big ones and only issue bonds to smaller savers.

Senator KERR. Investment bonds, series A. Is that what you put into the special issues?

Secretary HUMPHREY. No.

Senator KERR. What are those?

Secretary HUMPHREY. Well, these are——

Senator KERR. When are they due? They have been outstanding here——

Secretary HUMPHREY. Series A is due in 1965.

Senator KERR. And series B?

Secretary HUMPHREY. Callable in 1975 and due in 1980.

Senator KERR. 1975 to 1980.

Secretary HUMPHREY. Yes.

Senator KERR. Then the only part of this which is not going to be subject to refinancing pretty soon, or which could be redeemed at the will of the holder, is the $11.6 billion total of series A and B and the $50 billion of bonds?

Secretary HUMPHREY. Well, these demand savings bonds are, of course—theoretically, they can be, but probably will not.

Senator KERR. They were what you referred to back in 1953 when you said they are redeemable at the will of the owner?

Secretary HUMPHREY. That is right.

Senator KERR. And they still are?

Secretary HUMPHREY. Still are, but the chances are they will not be. They are extended.

Senator KERR. Sure.

Do you know what chance you will have on that if you let this interest rate get away from you? If you let that interest rate get further away from you, those holders of 3 percent will say, "I will come and get my money and put it over in 6 percent investments."

Secretary HUMPHREY. There are lots of reasons why you would not make those changes.

Senator KERR. You say if it gets to 6 percent?

Secretary Humphrey. Yes. I thought you said if it got to 6 percent.

Senator KERR. Well, this article I just put into the record said that Michigan Consolidated Gas Co. last week paid 6.145 percent to borrow $30 million on 25-year first mortgage bonds. That is in sharp contrast with the 3.39 percent rate the Michigan utility paid on a $30 million 25-year issue less than 2 years ago, November 1955.

So when I talk about the 6 percent high-grade, class A bonds, I am not talking about a possibility; I am talking about a reality here.

Secretary HUMPHREY. Well, I told you once before in a meeting that these Government bonds, I believe, are the highest class security in the world.

Senator KERR. We have been talking about that.

Secretary HUMPHREY. And I am not anticipating they will pay 6 percent in the near future.

Senator KERR. I am not, either, because the law says you cannot pay over 4¼.

I will tell you what I think, Mr. Secretary. I think that before we hit that ceiling, both the Treasury and Federal Reserve are going to be doing what they should have been doing before this, and you do, too, do you not?

Secretary HUMPHREY. I think what we have been doing is what we should have been doing.

Senator KERR. But before they——

Secretary HUMPHREY. Whether we will change or not, Senator, will be just, as I said in my original statement—the policy is a flexible policy. It must be a flexible policy to meet conditions as they exist from time to time.

Senator KERR. You know that is a nasty word to the farmer, that word "flexible."

Secretary HUMPHREY. I do not know whether it is nasty to farmers. It fits here.

Senator KERR. Before you do that, will you answer my question?

Secretary HUMPHREY. I will just answer this one first.

Senator KERR. You are going to go back and read me some more of that campaign speech. [Laughter.]

While your staff is looking for it, I will tell you what let's you and I do——

Secretary HUMPHREY. I will find it in just a minute.

Senator KERR. I wonder if you would not answer this question: Do you not think that the Treasury and the Federal Reserve will advocate a change in policy at or before the time the required rate hits that 4¼ legal ceiling?

Secretary HUMPHREY. I do not know. It will depend on conditions, and I hope they will have the courage and the ability to do what they ought to do all the while, and not be pressured into doing something wrong.

Senator KERR. They will either have to do something or come to Congress and ask Congress to raise——

Secretary HUMPHREY. Only if conditions justify the change.

Senator KERR. I say, they will have to come to Congress and get Congress to change the legal limit.

Secretary HUMPHREY. The legal limit is a good deal like the debt limit, you know. You do what you have to do. I believe in these limits, because I believe they are appropriate to work with.

But no limit is going to stop the Government from financing itself if it has to, under whatever the conditions may be.

The Congress, when the pressures are such and the conditions are such that the only financing the Government can do is at something different than the limit, then the limit will be changed. That is only commonsense. But I believe in limits now.

Senator KERR. You believe in limits?

Secretary HUMPHREY. I do. And the chairman will tell you that nobody has worked harder to stick to the debt limit, and I believe in it, and I do not want it abandoned. And we did not abandon it, and we have held to it, and I hope we are going to live within it, and I hope for all the future time they will live within it.

Senator KERR. Would you do this——

Secretary HUMPHREY. But if the time should come when they could not, you would have to do something about it.

Senator KERR. Would you do this: Would you agree that it would be appropriate for the Treasury and the Federal Reserve Board to reappraise its policy so as to make credit less tight in preference to coming to Congress to ask for a raise in that legal limit of 4¼ percent?

Secretary HUMPHREY. They reappraise their policy daily, Senator. These are the few words that I think cover the situation better than anything else, and they are taken from the Douglas report which was made about 7 years ago, and I will just read what they said in that report.

Senator KERR. Who was it who said, "Oh, liberty, what crimes are committed in thy name"? [Laughter.]

I want to tell you, if Paul Douglas had known——

Secretary HUMPHREY. Let me read it.

Senator KERR. The kind of a mantle that he was going to provide for you boys to wrap yourselves in, I believe he would have let his tongue cleave to the roof of his mouth before he would ever have issued those comforting words. [Laughter.]

Secretary HUMPHREY. I am sorry he is not here to hear me read it, but I am sure it will do you good to listen.

Senator KERR. I will tell you right now, errors, sir, do not attain any dignity even when repeated by one of such eminent prominence as yourself. [Laughter.]

Secretary HUMPHREY (reading):

> Timely flexibility toward easy credit at some times and credit restriction at other times is an essential characteristic of a monetary policy that will promote economic stability rather than instability.

That is the base upon which the Federal Reserve Board operates, and I think it is the proper base.

Senator KERR. Now that you have injected that at this point, I want to show you a chart, Mr. Secretary.

I want to show you a chart because it is going to disclose to you that a greater increase in the money supply in the years previous to your time brought less increase in the Consumer Price Index than a lesser percentage of increase in the money supply during the last 12 months has brought under your administration.

Now, in 1949 through 1953, which includes the years of the Korean war, the Consumer Price Index went up 2.2 percent per year. The wholesale prices went up 1.2 percent per year. Industrial prices went up 2 percent per year. The privately held money supply went up 3.5 percent a year. The gross national product, according to the President's Economic Report of 1957, on the basis of the dollars adjusted to the 1956 price level, went up 4.8 percent a year. Unemployment averaged 3.5 percent a year.

Now, for 1956 plus 5 months of 1957 on an adjusted basis gives it the posture of another year so as to make it a 2-year average.

Secretary HUMPHREY. I do not quite understand that. How do you do this?

Senator KERR. Well, this 2.6 per year average is on the basis of 1956, plus 5 months of 1957, to give it the posture of a year.

What did you tell us the price index had gone up in 12 months?

Mr. MAYO. Four points or 3.8 percent.

Senator KERR. 4.4.

Secretary HUMPHREY. Points?

Senator KERR. Yes.

Secretary HUMPHREY. 3.8 percent.

Senator KERR. But take all of 1956 and that part of 1957 and give it a 2-year average, and it is 2.6. If you just take the 12 months and divide it by 2, it is 1.9 percent.

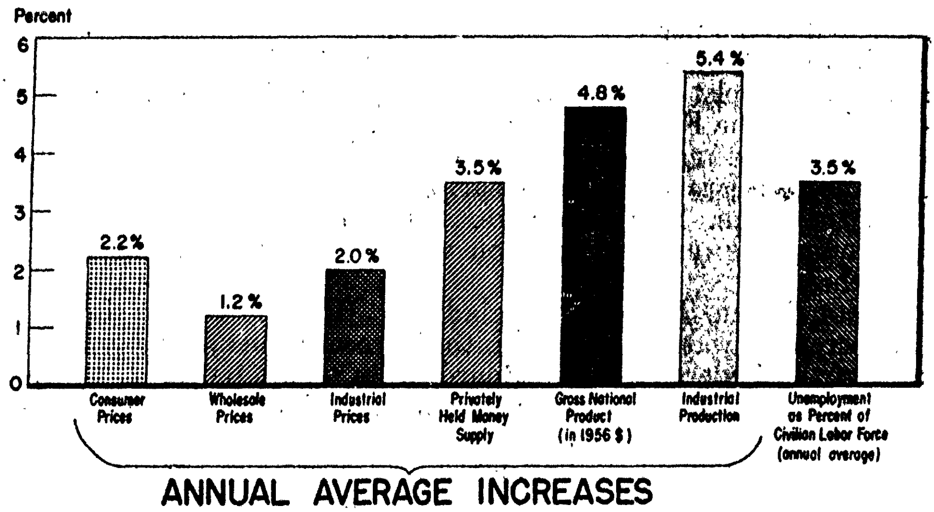
Secretary HUMPHREY. I see.

Senator KERR. But if you take the additional period this year that we have the record on and the 3 months of last year that was not in the 12 months, it gives an average of 2.6 percent, as compared to 2.2 percent for 1949–53. In other words, the Consumer Price Index has risen more rapidly in 1956 and 1957 than it did on the average from 1949 through 1953.

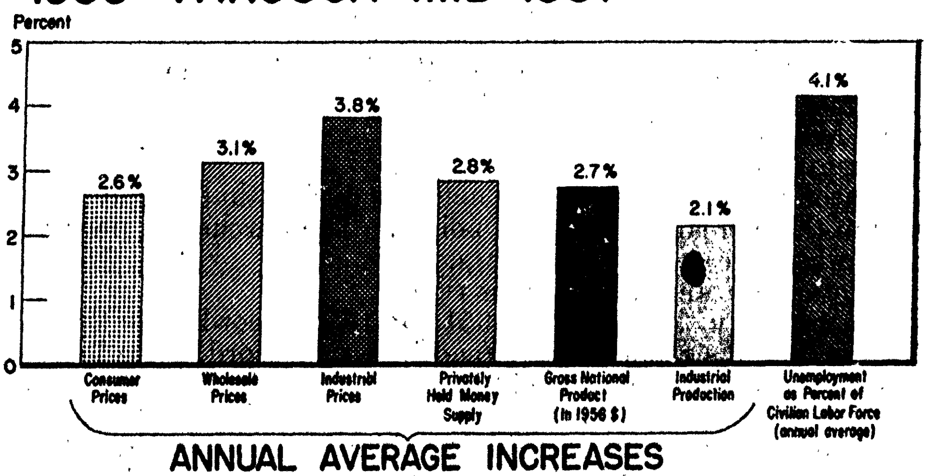
RELATIVE ECONOMIC TRENDS

1949 THROUGH 1953 AND 1956 THROUGH MID 1957

I 1949 THROUGH 1953 (INCLUDING 3 YEARS OF KOREAN WAR)



II 1956 THROUGH MID 1957*



* 1956 through latest date, 1957, for which data available; consumer price index through April 1957; wholesale price index through June 11, 1957; industrial production index through May 1957, Gross National Product through first quarter, 1957; money supply through April 1957; unemployment as percent of civilian labor force through May 1957

Data: Departments of Commerce and Labor, and Board of Governors of the Federal Reserve System.

(See p. 226.)

The wholesale prices have gone up 3.1 percent as compared to 1.2 percent. Industrial prices have gone up 3.8 percent as compared to 2 percent. Privately held money supply has gone up 2.8 percent per year in 1956–57 as contrasted to 3.5 percent per year during 1949–53, proving that a larger percentage increase of the available supply of credit was not as inflationary as a much smaller increase in the supply of credit has been in 1956–57.

The gross national product has only gone up 2.7 percent as compared to 4.8, and you yourself have said that that is one of the primary tests of the growth of the economy. Industrial production has gone up only 2.1 percent as compared to 5.4 percent, and unemployment has been an average of 4.1 percent of the total civilian labor force, as contrasted to 3.5 percent.

So it seems to me, Mr. Secretary, there should be a reappraisal of the money supply considerations which you told us should determine the action of the Federal Reserve Board.

Secretary HUMPHREY. Senator, have you the 4-year period average figures to compare with the 4-year previous period average figures?

Senator KERR. Yes; I do have. But you see——

Secretary HUMPHREY. Are you willing to put them up there and show them?

Senator KERR. I would be glad to. But the reason I use this, Mr. Secretary, was this: I read into the record the other day the statement of the Federal Reserve Board in its report for 1952, which you agree with, which said that economic stability or stability of prices had been attained in 1952.

Now, the fact about the business is, Mr. Secretary, that in September of 1948—and if Mr. Mayo will get his Consumers Price Index I want him to check me on what I am saying—in September 1948, the Consumers Price Index stood at 104.8. Twenty-one months later, in June of 1950—have you got those figures, Mr. Mayo?

Mr. MAYO. One second and I will have that. Yes, sir.

Senator KERR. Twenty-one months later, in June of 1950, the Consumer Price Index was 101.8.

Mr. MAYO. That is right.

Secretary HUMPHREY. That is right.

Senator KERR. Or a decrease actually during that 21-month period prior to the Korean conflict of 3 points. The purchasing power of the dollar was increased by 2.56 cents.

Secretary HUMPHREY. That is right.

Senator KERR. And then in 1951 and 1952, according to the Federal Reserve Board's report that I read into the record, price levels were constant, and you yourself said in June of 1953 in that interview that I read here to the committee the other day and put into the record, when you were asked when did you think you could achieve a stable dollar and you said, "We have got a stable dollar now."

Secretary HUMPHREY. That is right.

Senator KERR. In 1953?

Secretary HUMPHREY. That is right.

Senator KERR. Now, the reason that I have used 1956 and thus far in 1957 is that that stability has been jarred. After achieving almost 2 years of stability, and proclaiming you were in a stable situation in 1953 and that you maintained it in 1954 and 1955, you certainly had a foundation for continued stability. But we do not have it, and the figures for the current period are the ones I have used here, and I have used them because I think it is fair to compare them with the 5 years—1949 through 1953—which includes the Korean war years.

Secretary HUMPHREY. Well, you see, Senator, I think that it is the same figures, just put up again in a little different way, that you used the other day, where you compare an average period, a pre-1953 average period, with a worst year in a later period and make a favorable comparison with that, as compared with the average in the later period which is much better.

Senator KERR. Well, it has this advantage, Mr. Secretary, it has the advantage of being accurate, and the statement that you make on your stability was not accurate.

Secretary HUMPHREY. Well, I will challenge that.

Senator KERR. All right. Then we will look at it together, and I will let you determine whether it is accurate. In your prepared statement you say:

> We have accomplished a tempering of inflationary pressures during these years, with a decline in the purchasing power of the dollar of only eight-tenths of a cent in 4 years.

Is that your statement?

Secretary HUMPHREY. That is right.

Senator KERR. I want you and Mr. Mayo to examine it and see if it, according to the exhibit you gave us, represents 4 years or 3 years?

Secretary HUMPHREY. Well, it is the average——

Senator KERR. It does not say the average. It says, "with a decline in the purchasing power."

Secretary HUMPHREY. Now, wait a minute.

Senator KERR. Is this what it says?

Secretary HUMPHREY. Calendar year average; Do you read those letters?

Senator KERR. Why, sure.

Secretary HUMPHREY. All right. We will accept that.

Senator KERR. Well, you cannot take the average of 1953 as representing——

Secretary HUMPHREY. Why not?

Senator KERR. As representing the increase in 1953. It is the base.

Secretary HUMPHREY. I am showing the changes in the calendar. This speaks exactly, if you will read the words.

Senator KERR. Yes, sir; you are showing the changes in the calendar year.

Secretary HUMPHREY. I am showing the calendar year average for each of 4 years.

Senator KERR. Yes.

Secretary HUMPHREY. And the difference in the calendar year, your difference is eight-tenths of a cent.

Senator KERR. That is correct. That is not what your statement says.

Secretary HUMPHREY. Well, I do not know how you can say it any plainer. It is all written out just as plain as it can be.

Senator KERR. It depends on whether you want to state it accurately or inaccurately.

Secretary HUMPHREY. It is just stated as plain as it can be, a calendar year average.

Senator KERR. It does not say that.

Secretary HUMPHREY. Calendar year average, and it states it.

Senator KERR. I am talking about the statement. The calendar year average is in the table that was put in there to substantiate the statement. The statement says—

with a decline in the purchasing power of the dollar of only eight-tenths of a cent in 4 years.

Secretary HUMPHREY. That is right.

Senator KERR. Now, actually the decline represented the difference between 1956 and 1953, did it not?

Secretary HUMPHREY. Between what?

Senator KERR. 1956 and 1953.

Secretary HUMPHREY. Just what it says, the difference between the averages of those 2 years.

Senator KERR. Is that correct that it was the difference between 1956 and 1953?

Secretary HUMPHREY. It is exactly what it purports to say, Senator. It gives you the average for——

Senator KERR. Answer the question.

Secretary HUMPHREY. It gives you the average for 1953, 1954, 1955, and 1956.

Senator KERR. How did you get the eight-tenths of a cent?

Secretary HUMPHREY. You deduct the average from 1953 to 1956 and you find——

Senator KERR. I think you deduct the average of 1956 from 1953.

Secretary HUMPHREY. That is right, and it is eight-tenths.

Senator KERR. It is only three years in which it, of course——

Secretary HUMPHREY. Four years.

Senator KERR. Oh, no, it is the difference between the first and the fourth, is that correct?

Secretary HUMPHREY. No, it is not correct.

Senator KERR. Ask Mr. Mayo.

Secretary HUMPHREY. We have taken the average for 4 years and deducted——

Senator KERR. And deducted the fourth from the first.

Secretary HUMPHREY. That right.

Senator KERR. All right. That represents a 3-year gain.

Secretary HUMPHREY. Well, but it is not from the end of the year. It is the average of the whole year.

Senator KERR. All right. And you averaged of the whole year?

Secretary HUMPHREY. That is right.

Senator KERR. How long is it from January 1, 1953, to January 1, 1956?

Secretary HUMPHREY. You want to put in another year, is that what you are seeking to do?

Senator KERR. No, I am taking your figure.

Secretary HUMPHREY. Because if you want to put in another year, it is perfectly easy to do it.

Senator KERR. Yes, sir.

Secretary HUMPHREY. We have got 4 years.

Senator KERR. Yes, sir.

Secretary HUMPHREY. And the average of each of the 4 years and the difference——

Senator KERR. And the decline in the purchasing power as you give it here is the difference between 1953 and 1956?

Secretary HUMPHREY. Yes.

Senator KERR. Is that right, Mr. Mayo?

Mr. MAYO. That is correct.

Secretary HUMPHREY. That is correct.

Senator KERR. How long is it from any given date in 1953 to that same date in 1956?

Secretary HUMPHREY. It is a difference of 3 years of interim, but it is 4 years, four calendar years.

Senator KERR. Oh, yes. But your decline there has to be a 3-year decline. Just ask any member of your staff if that is not correct.

Secretary HUMPHREY. But if we take the figures on 4 years——

Senator KERR. I just say ask anyone.

Secretary HUMPHREY. But during the 4 years that is the decline that has taken place during the 4 calendar years.

Senator KERR. It is the decline when the average of 1953——

Secretary HUMPHREY. It is the decline of the average of 4 years.

Senator KERR. It is the decline in the average of 1953 to the average of 1956, is that not correct, Mr. Mayo?

Mr. MAYO. Yes, that is correct.

Senator KERR. Is that not a 3-year period?

Secretary HUMPHREY. It is a 3-year period of 4 years. [Laughter.] It is a difference of three.

Senator KERR. Mr. Secretary, that is the only way that it can be made accurate. [Laughter.]

Secretary HUMPHREY. That is a perfectly accurate statement.

Senator KERR. I want to tell you right now that is a rationalization I had not contemplated even you would be capable of.

Secretary HUMPHREY. Well, it is very good for you to find that out.

Senator KERR. All right. Now, let us go to the shortage. Do you have that statement?

Secretary HUMPHREY. I have a statement, a very full statement on exactly what occurred which I will read, Mr. Chairman. It shows exactly how this change took place.

Senator KERR. Now, that is not what I wanted. I did not ask you for another speech.

Secretary HUMPHREY. Well, you are going to get one. [Laughter.]

Senator KERR. We are eventually going to get down to that point of the tabulation of the shortages. The other day you gave me two, line pipe and railroad passenger cars.

Secretary HUMPHREY. Yes.

Senator KERR. All right. You make any speech you want to, but we are going to get down to those shortages.

Secretary HUMPHREY. All right.

In response to a request from Senator Kerr on Friday, I promised to provide the committee today with a more extended statement describing the pressures which initiated the recent rise in the general price level.

This rise began to show up at the wholesale level in mid-1955.

Senator KERR. May we interrupt there?

Secretary HUMPHREY. What is that?

Senator KERR. May I interrupt right there?

Secretary HUMPHREY. Yes, sir.

Senator KERR. Where is the report of the proceedings on Friday, the transcript?

Now you say:

In response to a request from Senator Kerr on Friday, I promised to provide the committee with a more extended statement describing the pressures which initiated the recent rise in the general price level.

What you promised to get me, Mr. Secretary, was a tabulation of the consumer items in short supply.

Secretary HUMPHREY. Well, what we are seeking to do, Senator, I think you and I both, what we are seeking to do is to bring out the facts for the benefit of the committee to see what the pressures are and how they operate, trying to develop the problem.

Senator KERR. I think the committee is entitled to participate in deciding what facts we want.

Secretary HUMPHREY. That is right, and so am I.

Senator KERR. That is right, and you gave us a tabulation.

Secretary HUMPHREY. And I will present it to you, you wanted to know about this difference in price level, and now I am prepared to present it to you.

Senator KERR. Well, to go back now, you said that this inflation was caused by a bigger demand than—I want to tell you, you put on a promising act here the other day that was as good as I ever saw.

Secretary HUMPHREY. Well, I am doing the best I can to help you.

Senator KERR. I will read it and then you may see it. [Reading.]

To go back now, you said that this inflation was caused by a bigger demand than productive capacity could supply.

Secretary HUMPHREY. That is right.

Senator KERR (reading):

Secretary HUMPHREY. That is right.
Senator KERR. And the only one you have told me so far was line pipe.
Secretary HUMPHREY. That is right.
Senator KERR. What others?
Secretary HUMPHREY. I will get you a list.

Secretary HUMPHREY. That is right.

Senator KERR (reading):

Senator KERR. Do you know of any other, Mr. Secretary?
Secretary HUMPHREY. I will get you a list.
Senator KERR. Do you know of any other?
Secretary HUMPHREY. I will get you a list.

Secretary HUMPHREY. I have a list. [Laughter.]

Senator KERR (reading):

Senator KERR. Do you know of any other at this moment?
Secretary HUMPHREY. I will bring a list which will have the statistics to back it up.

Then we had a little colloquy there.

Senator KERR. Do you have any independent knowledge of any other avenue of productive capacity in which this country is short of productive capacity?
Secretary HUMPHREY. I will bring you a list.

Secretary HUMPHREY. I have a list.

Senator KERR. Well, do you remember what it was to be a list of?

Secretary HUMPHREY. Yes, sir.

Senator KERR. What?

Secretary HUMPHREY. It was to be a list of things that were in short supply.

Senator KERR. That is fine. And you have that there?

The CHAIRMAN. The entire statement will be made a part of the record where it was requested. (See p. 115.)

Secretary HUMPHREY. I will just go ahead. I do not think you would know how to use the list, so I am going to tell you how to use it. [Laughter.]

Senator KERR. I want to tell you that is a degree of candor to be commended. It is an attitude of helpfulness that I had not anticipated. [Laughter.] And it is a situation which we will let further discussion itself verify or cast some doubt upon.

Secretary HUMPHREY. I am sure, Senator, you are seeking the truth, as I am, and I want to show you just how I think this applies.

Senator KERR. Fine.

Secretary HUMPHREY. This rise began to show up at the wholesale level in mid-1955, and by early 1956, prices of consumer goods and services began moving upward.

While the Wholesale Price Index has been relatively stable since January, the Consumer Price Index has continued to move upward.

Now, what has caused this rise in our price level particularly during the last year? This is the question with which we are all understandably concerned, and to which I want to respond here.

During late 1955 and 1956, price increases stemmed basically from a massive increase in capital expenditures. During this same period there was a substantial accumulation of inventories, which accentuated these price pressures.

As the accompanying tables indicate, the capital goods boom which emerged in 1955 was of enormous proportions. Industrial construction contract awards had increased 55 percent during 1955. The volume of new orders for durable goods jumped 34 percent.

Percentage changes in unfilled orders; selected dates, major durable goods industries

	From January 1955 to January 1956	From January 1956 to January 1957	From January 1955 to January 1957	From January 1957 to April 1957 [1]
Durable-goods industries, total	+20	+11	+34	−3
Primary metals	+73	+6	+82	−2
Fabricated metal products	+26	+9	+37	−1
Machinery [2]	+23	+16	+43	−2
Transportation equipment	+10	+12	+23	−5
Other durable-goods industries [3]	−3	−3	0	−5
Selected commodities:				
Railroad passenger cars	+5	+5	+10	−2
Railroad freight cars	+673	−23	+499	−5
Railroad diesel and diesel electric locomotives	+76	−6	+67	−5

[1] Preliminary.
[2] Includes electrical machinery.
[3] Includes professional and scientific instruments, lumber, furniture, stone, clay, and glass, and miscellaneous.

Source: Office of Business Economics, Department of Commerce.

The percentage change in new orders for durable goods was as follows: Durable goods, primary metals went up 31 percent; fabricated metal products, 29 percent; machinery, 47 percent; transportation equipment, 46 percent.

Senator KERR. How much in the 2 years?

Secretary HUMPHREY. In the 2 years, durable goods total went up 34 percent; primary metals went up 31 percent; fabricated metal products, 29 percent; machinery, 47 percent; transportation equipment, 46 percent; and other durable goods, 11 percent.

Though shipments increased very sharply, the backlog of unfilled orders mounted rapidly for the hard-goods lines generally during 1955, and continued to move upward through most of 1956. Indeed, by the end of last year the backlog of unfilled orders was equal to more than 4 months of shipments at the December rate, and was 34 percent above early 1955 levels.

Senator KERR. May I ask you a question right there?

Secretary HUMPHREY. Yes, sir.

Senator KERR. Now, is it not a fact that the so-called backlog of unfilled orders is a tabulation or a compilation of orders, the delivery dates of which are specifically set for sometime in the future?

Secretary HUMPHREY. That is right, and the general reason for that is because they cannot get prompt shipment. That is the best evidence I know of, inability to get prompt shipment.

Senator KERR. Well, you say the backlog is the best evidence?

Secretary HUMPHREY. That is the best evidence of shortage.

Senator KERR. You and I know that when industry gets ready to expand, it may not have all the money on December 31 to pay for all it is expecting to get within the next 2 years, and if it got it all, the construction organization would take maybe a year and a half or 2 years to do it.

Secretary HUMPHREY. Now, Senator, when you——

Senator KERR. Now, this backlog is not of materials the delivery of which is past due, is it, Mr. Secretary?

Secretary HUMPHREY. You have to find some index of what is a shortage, and the best evidence of a shortage is an increase in the backlog of unfilled orders, because that means that deliveries are having to be postponed and people are getting their orders in so that they will get delivery dates that they can meet.

Senator KERR. All right.

Secretary HUMPHREY. The magnitude of these rapidly mounting demands, concentrated in such a short time span, led to a sharp rise in the price of producers' equipment and in the prices of materials, components and supplies used in durable goods manufacturing. These price advances, you will note, were much greater than those for products less directly related to this capital goods boom.

Now, the durable prices, there is a tabulation showing the durable goods prices that went up during these periods, and during the period from January 1955 to January 1957, durable goods total went up 34 percent; primary metals, 82; fabricated metal products, 37; machinery, 43; transportation, 23; and so forth.

Percentage change in new orders for durable goods

	Change during [1]—		
	1955	1956	1955 and 1956
Durable-goods industries, total	+34	0	+34
Primary metals	+32	−1	+31
Fabricated metal products	+29	0	+29
Machinery [2]	+37	+7	+47
Transportation equipment	+55	−6	+46
Other durable goods [3]	+12	−1	+11

[1] Change between fourth quarters 1954, 1955, and 1956.
[2] Includes electrical machinery.
[3] Includes professional and scientific instruments, lumber, furniture, stone, clay and glass, and miscellaneous.

Source: Office of Business Economics, Department of Commerce.

The course of this rapidly accelerating capital goods boom during 1955 can be traced in the various lists of shortages published from time to time by the Association of Purchasing Agents, and that is the list I have that I will give you in a minute.

At the beginning of 1955, only nine items of basic materials were reported in short supply. This list built up persistently through subsequent months until by March 1956, 17 items were listed in short supply: aluminum, cellophane, cement, copper, nickel, paper, selenium, steel products, titanium dioxide, steel pipe, steel plates, structural steel, steel shapes, stainless steel, synthetic rubber, methanol, and newsprint.

This list is, of course, illustrative only. The basic pressure on resources was being exerted by the rapid increase in capital outlays generally, and the even more rapid increase in new orders, unfilled orders, and industrial construction contract awards beginning in 1955. The increased prices of materials, components and supplies led to cost increases for producers of other goods, such as consumer durables. Consequently, even in lines of industry where demand was not rising so rapidly, some price increases occurred, as producers passed along at least some of the increased cost of materials.

Then it shows that wholesale prices increased very much less. Wholesale prices of all items at that time were plus 6.8 points; farm products, minus 3.28 points.

Senator KERR. How much?

Secretary HUMPHREY. Minus 3.28 points.

Senator KERR. Corn products?

Secretary HUMPHREY. Farm products.

Senator KERR. This says minus 3.2.

Secretary HUMPHREY. Yes.

Senator KERR. Which is the correct figure?

Secretary HUMPHREY. 3.2 is correct.

Senator KERR. All right.

Secretary HUMPHREY. All other products, plus 10.

Senator KERR. What about food?

Secretary HUMPHREY. Processed foods is 0.5.

Senator KERR. Half a point.

Secretary HUMPHREY. That is right.

Now then, the selected groups of industrial prices, just for comparison, was:

Rubber and rubber products, plus 8.2.

Pulp, paper, and allied products, 12.3.

Metals and metal products, 22.1.

Machinery, 18.1.

Nonmetallic minerals, 10.

Wholesale Price Index

[1947-49=100]

Price group	Points change in the index	
	From January 1955 to January 1957	From January 1957 to April 1957
Wholesale prices:		
All items	+6.8	+0.3
Farm products	-3.2	+1.3
Processed foods	+.5	0
All other (industrial)	+10.0	+.2
Selected groups of industrial prices:		
Rubber and rubber products	+8.2	-.5
Pulp, paper, and allied products	+12.3	-.1
Metals and metal products	+22.1	-2.1
Machinery and motive products	+18.1	+1.1
Nonmetallic minerals, structural	+10.0	+2.5

Not only did prices of materials and supplies increase, but labor costs rose substantially in 1956. Wage increases were sizable, and output per employee man-hour failed to rise appreciably in 1956, so that the higher wage costs per hour were more fully translated into increasing costs of production.

Consumer prices generally did not begin to rise until early 1956, and consumer commodity prices (aside from food) did not increase until mid-1956. The rise in consumer incomes and in the demand for consumer goods was substantially less than the increase in demand for capital goods.

And I will just interpolate this: That the increase in employment and the great expansion of capital goods was gradually supplying the funds, the wages, to later press on consumer goods.

In general, the supply and capacity situation was also easier in the case of consumer goods. However, rising employment and wage rates led to an increase in disposable income of about 6 percent per year between mid-1955 and early 1957. And this was large enough to permit the pass-through to consumers of increases in the wholesale prices of many consumer goods.

Then consumer goods, consumer prices:

All items moved, from June 1955 to December 1956, 3.3 percent, and December 1956 to April 1957, 0.9 percent.

Consumer Price Index

Price group	Percent change	
	June 1955-December 1956	December 1956-April 1957
Consumer prices:		
All items	3.8	0.9
Commodities	2.7	.9
Food	1.3	.9
All commodities, except food	3.8	.8
Consumer durables	3.4	[1] .5
Consumer nondurables	4.3	[1] .8
Services and rent	3.7	1.6

[1] December 1955 to March 1956 used.

Source: Based on data from the Department of Labor.

Consumer commodity prices, particularly those of durable goods and of food, had been declining for a number of years prior to 1955. Retail margins on durable-goods commodities had apparently been falling for some time, making absorption of further cost increases difficult.

Services prices, on the other hand, had been steadily rising throughout the postwar period. Many service prices are directly affected by changes in wage rates without any offsetting effect of productivity gains.

The recovery of farm prices from the low point reached in late 1955, and the continued rise in food-marketing margins, led to increases in food prices early in 1956. After June, other consumer commodity prices joined in the rise, responding to a number of influences—the earlier increases in wholesale prices, rising labor costs, scattered increases in State and local sales and excise taxes, and in some cases price increases (made possible by rising level of consumer incomes).

In 1955, and again in 1956, the introduction of the new automobile models at higher prices also provided additional consumer price increases, although the actual amount of the increase to the consumer varied from place to place, and from time to time, depending on the degree of dealer discounting.

With food and other commodities beginning to rise, and prices of services continuing their rise, the whole Consumer Price Index moved up in 1956. Despite the stability in wholesale prices during 1957 to date, consumer prices have continued to increase——

Senator KERR. Do you happen to know what the increase was for May?

Secretary HUMPHREY. The last figure which came out, I think it was 0.3.

Senator KERR. Three-tenths of a point?

Secretary HUMPHREY. That is right, 0.3, I believe.

Senator KERR. It just came out this morning.

Secretary HUMPHREY. That is right. I think it is 0.3. Consumer prices have continued to increase, reflecting earlier rises in wholesale prices, a further increase in food prices, and the steady climb of service prices and rents, evidencing the normal lag in the effective timing of this pattern.

And that is the real meat in the coconut, the normal lag in the effective timing of the pattern.

The major factors which led to the rise in industrial prices, beginning in mid-1955, and to the rise in consumer prices, beginning in early 1956, were substantially modified during the first half of 1957.

The most significant features of the first half of 1957 have been:

1. The slowing up of the rapid increases in plant and equipment expenditures which took place in 1955 and 1956.

2. The decline in inventory investment, from an annual rate of $4.1 billion in the last quarter of 1956, to —$1.2 billion in the first quarter of 1957.

3. An apparent resumption of gains in output per man-hour, after a year in which only small increases were forthcoming. Although wage rates have continued to rise sharply, the higher output per man-hour has lessened their impact on costs of production.

4. Growing production and stocks of many raw materials, among which the most important are the nonferrous metals—copper, lead, and zinc.

As a consequence, wholesale prices stabilized during the first 6 months of the year. Consumer prices, however, continued to increase, reflecting the normal lag to earlier increases in wholesale prices, a seasonal upturn in food prices, and a continued upward movement of service prices and rent.

The backlog of unfilled orders in some lines is decreasing, and the pressure on deliveries and shortages is declining and, in many cases, has almost entirely disappeared.

Whether this is evidence of the effective restraint on inflationary pressures by the policies we have pursued, it is as yet too early to tell, but it may be that the natural correction is just beginning to emerge. If this proves to be the case, our flexible policies will take it into account as soon as the evidence is definite.

The tabulation shows—these are items reported in short supply by members of the National Association of Purchasing Agents for those months during 1955, 1956, and 1957 for which we have records and it starts with relatively few. It increases to a large number, and then it declines until now there are only four items that are in short supply today.

Senator KERR. What are those four items?

Secretary HUMPHREY. This month it is nickel——.

Senator KERR. Wait a minute. Nickel.

Secretary HUMPHREY. Steel plates.

Senator KERR. Steel plates.

Secretary HUMPHREY. Structural steel.

Senator KERR. Wait a minute. Steel plates.

Secretary HUMPHREY. Stainless.

Senator KERR. Stainless?

Secretary HUMPHREY. That is right.

Senator KERR. Stainless steel?

Secretary HUMPHREY. That is correct.

Senator KERR. What else?

Secretary HUMPHREY. Those are the four.

Senator KERR. Well, I only got nickel, steel plates, and stainless steel.

Secretary HUMPHREY. Structural.

Senator KERR. Structural.

Senator HUMPHREY. Now, it has included at one time or another during this period, it has included these items——

Senator KERR. All right.

Secretary HUMPHREY (continuing). Which were in short supply: Aluminum, electric equipment items——

Senator KERR. Wait a minute. Have you a copy of that?

Secretary HUMPHREY. It is being mimeographed so you will have it.

Senator KERR. Go slowly.

Secretary HUMPHREY. Aluminum; electric equipment items——

Senator KERR. What does that mean?

Secretary HUMPHREY. It is various items of electrical equipment. [Laughter.]

Senator KERR. Does that mean items like electric shavers or electric ice boxes?

Secretary HUMPHREY. No. This is motors, generators, and electrical machinery of one kind and another.

Senator KERR. Electrical machinery.

Secretary HUMPHREY. Yes.

Senator KERR. Electrical machinery.

Secretary HUMPHREY. These are primary items. These are not consumer items. These are all primary items.

Lumber——

Senator KERR. Lumber. When was that short?

Secretary HUMPHREY. Lumber was short in April of 1956.

Senator KERR. April of 1956?

Secretary HUMPHREY. That is right.

Senator KERR. In that 1 month?

Secretary HUMPHREY. That is right.

Senator KERR. Any other month?

Secretary HUMPHREY. No.

Senator KERR. All right. What else?

Secretary HUMPHREY. Bearings.

Senator KERR. Bearings?

Secretary HUMPHREY. Bearings, machinery bearings.

Senator KERR. When were they in short supply?

Secretary HUMPHREY. It is an important item. They have been short 5 months.

Senator KERR. Five months; all right.

Secretary HUMPHREY. Aluminum; if you want the number of months, aluminum was short almost all the way through.

Senator KERR. Yes.

Secretary HUMPHREY. Practically every month.

Senator KERR. But not now?

Secretary HUMPHREY. But not today.

Senator KERR. Yes.

Secretary HUMPHREY. Brass, short in 3 months.

Senator KERR. All right.

Secretary HUMPHREY. Cellophane, short in 9 months.

Senator KERR. All right.

Secretary HUMPHREY. Copper products—that is products—short in 3 months; and copper was short in 10 months.

Cement, short 10 months.

Carbon——

Senator KERR. Sir? What was that last?

Secretary HUMPHREY. Carbon tetrachloride; just 1 month.

Senator KERR. What is that?

Secretary HUMPHREY. Glass.

Senator KERR. Carbon tetrachloride is a glass?

Secretary HUMPHREY. No; glass is the next item.

Senator KERR. What is that?

Secretary HUMPHREY. It is a chemical, basic chemical, used in industry.

Senator KERR. How do you spell it?

Secretary HUMPHREY. T-e-t-r-a-c-h-l-o-r-i-d-e.

Senator KERR. How long has that been short?

Secretary HUMPHREY. Three months—wait a minute—I am on the wrong line: 1 month.

Senator KERR. What else?

Secretary HUMPHREY. Glass, 5 months.

Senator KERR. All right.

Secretary HUMPHREY. Nickel, 21 months.

Paper——

Senator KERR. Is that newsprint, now, or what?

Secretary HUMPHREY. This is paper—industrial paper.

Senator KERR. Industrial paper.

Secretary HUMPHREY. 9 months.

Senator KERR. All right.

Secretary HUMPHREY. Steel products.

Senator KERR. Consisting of what you outlined there, plate——

Secretary HUMPHREY. 6 months.

Senator KERR. Structural?

Secretary HUMPHREY. No; these are steel products, 6 months.

Steel alloys, 3 months.

Titanium dioxide——

Senator KERR. What?

Secretary HUMPHREY. Titanium dioxide, that is a thing they use a lot of——

Senator KERR. That is a consumer item?

Secretary HUMPHREY. None of these are consumer items. These are basic materials.

Senator KERR. I knew most of them were not, but I thought this one was.

Secretary HUMPHREY. No; these are primary items.

Senator KERR. Titanium dioxide?

Secretary HUMPHREY. Titanium dioxide—it is the base of paint, among other things—7 months.

Senator KERR. All right.

Secretary HUMPHREY. Steel tubing, 2 months.

Steel pipe, 8 months.

Steel bars, 1 month.

Steel plate, 13 months.

Structural steel, 14 months.

Steel castings, 2 months.

Steel shapes, 6 months.

Stainless steel, 10 months.

Then there is scrap and wide flange beams, 1 month each.

Synthetic rubber, a month.

Fuel oil, a month.
Newsprint, a month.
Monel metal, that is a type of stainless, 5 months.

Senator KERR. What was that fuel oil?

Secretary HUMPHREY. Fuel oil was only 1 month.

Senator KERR. What was after that?

Secretary HUMPHREY. Newsprint, only 1 month.

Senator KERR. All right.

Secretary HUMPHREY. And zinc.

That is a list of items that we sought where we could find lists that have some accuracy, and this is the best we could find with the National Association of Purchasing Agents.

Senator KERR. Which one of those items is a consumer item?

Secretary HUMPHREY. Not any of them. They are all basic goods to production and hence necessary to produce consumer goods.

Senator KERR. Let me ask you this: There had been another item in short supply all during these months, had there not?

Secretary HUMPHREY. What?

Senator KERR. Credit.

Secretary HUMPHREY. Yes, sir.

Senator KERR. That really has been a short item, has it not?

Secretary HUMPHREY. Well, it has not been as available as the demand, but it has been more available than ever before.

Senator KERR. Now, Mr. Secretary, seriously, I would like to have you tell me to what degree this compilation of short items is reflected in the Consumer Price Index.

Secretary HUMPHREY. I think, Senator, just as I have said in the paper that I read to you, that the Consumer Price Index reflects these shortages and this big development that we have gone through, and I think that, as in all these cases, there is a lag. One of the most difficult problems we have, any of us have, in trying to estimate future trends is the application of lags that take place in the economy, and I think if we do not recognize these lags, we will be—we can be very well led astray.

On the other hand——

Senator KERR. Let's look at the Consumer Price Index.

Secretary HUMPHREY. I think changes are so great that it is very difficult——

Senator KERR. Let's look at it. It is on page 23 there of your Economic Indicators.

(The table referred to follows on next page.)

Secretary HUMPHREY. Yes.

Senator KERR. As I read that Consumer Price Index, it is made up, No. 1, of foods, which I understand constitutes at least 30 percent of what the consumer buys.

Secretary HUMPHREY. And food has been very level during the past year after a short rise of about 2 months.

Now, Senator, you will notice that food prices took a sharp rise just about 2 months in 1956, and then it has been practically level ever since.

Senator KERR. All right.

Now, housing.

Secretary HUMPHREY. Housing.

Senator KERR. Rent.

Items reported in short supply by members of the National Association of Purchasing Agents

	1955							1956												1957					
	June	July [1]	August	September	October	Nover	December	January	February	March	April	May [1]	June	July [1]	August	September	October [1]	November	December	January	February	March	April	May	June
Aluminum	X		X	X	X	X	X	X	X	X	X		X		X	X		X		X					
Electrical equipment items																				X				X	
Lumber											X														
Bearings							X	X	X						X	X									
Brass	X		X					X																	
Cellophane								X		X	X				X	X		X	X	X	X				
Copper products			X			X							X												
Copper	X		X	X	X	X	X	X	X	X	X														
Cement	X		X	X	X	X		X	X	X	X				X										
Carbon tetrachloride				X																					
Glass					X	X	X	X	X																
Nickel	X		X	X	X	X	X	X	X	X	X		X		X	X		X	X	X	X	X	X	X	X
Paper	X			X	X	X			X	X	X				X	X									
Phthalic anhydride	X																								
Selenium			X			X	X	X	X	X	X														
Steel products			X			X	X			X					X	X									
Steel alloys			X								X		X												
Titanium dioxide	X		X		X	X			X	X	X														
Titanium						X	X																		
Steel tubing																		X	X						
Steel pipe						X			X	X	X		X					X	X			X			
Steel bars						X																			
Steel plates						X	X	X	X	X	X		X					X	X			X	X	X	X
Steel, structural						X	X	X	X	X	X		X					X	X	X		X	X	X	X
Steel castings						X			X																
Steel shapes							X			X	X		X					X	X						
Steel, stainless								X	X	X	X		X		X					X	X	X			X
Steel scrap								X																	
Steel, wide flange beams									X																
Rubber synthetics										X															
Methanol										X															
Fuel oil									X																
Newsprint										X															
Monel metal											X		X		X			X		X					
Zinc	X																								

[1] Not available.

Secretary HUMPHREY. Wait a minute.

Senator KERR. Rent has gone up substantially all the way through.

Secretary HUMPHREY. Yes.

Senator KERR. But there is no shortage in housing, is there, Mr. Secretary?

Secretary HUMPHREY. Rents have been going up gradually for quite awhile.

Senator KERR. Has not the construction of housing been going down each year for 3 years?

Secretary HUMPHREY. That is right.

Senator KERR. So there cannot be any shortage.

Secretary HUMPHREY. Not generally.

Senator KERR. The only item that you mentioned here that goes into housing was lumber, and you say that was short 1 month.

Secretary HUMPHREY. Well, housing starts are down, of course; you know that.

Senator KERR. Well, that is right.

Secretary HUMPHREY. That is right.

Senator KERR. Now, apparel—

Secretary HUMPHREY. So that rents, I think, have risen.

Senator KERR. Apparel. That comes under textiles, does it not?

Secretary HUMPHREY. Textiles, apparel. And you will notice—

Senator KERR. They are in a very heavy surplus supply, are they not?

Secretary HUMPHREY. They have been relatively stable.

Senator KERR. There is a heavy supply, is there not?

Secretary HUMPHREY. Well, what we are talking about, what you are trying to talk about, is an increase in the cost of these items. That is what you are really talking about.

Senator KERR. What did you say—

Secretary HUMPHREY. Now, the increase in cost of these items has been brought about, as I tried to explain, by this great surge of prosperity and by this great surge of activity that has taken place, and the lag is just beginning to be effective in the spending for the consumer items, and you can see it began about the middle of 1956; up to the middle of 1956 it had been fairly level.

Senator KERR. Mr. Secretary, you say here in a number of places that insofar as any pressure in the supply of consumer goods is concerned, consumer price of food, services prices, and rent, and actually now, Mr. Secretary, you just must admit there is not any shortage in any of those fields.

Secretary HUMPHREY. There are increasing demands in all of those fields.

Senator KERR. But there is increasing surplus in most of them.

Secretary HUMPHREY. Well now, wait a minute. I do not know that I can go along with that.

Senator KERR. Well, there is an increase in food and clothing.

Secretary HUMPHREY. There is increasing volume, let's put it that way.

Senator KERR. There is an increasing surplus in automobiles.

Secretary HUMPHREY. Well, automobiles are not on here.

Senator KERR. Well, it is a very substantial part of the consumer price level, is it not?

Secretary HUMPHREY. No, I'm not sure they are in the Consumer Price Index at all. Are they not in the semi——

Senator KERR. Ask Mr. Mayo about that.

Secretary HUMPHREY. Where are they?

Mr. MAYO. They are in the transportation item.

Senator KERR. Then they are in it, are they not?

Secretary HUMPHREY. They are in it.

Senator KERR. But there is no shortage in them, is there?

Secretary HUMPHREY. No, sir.

Senator KERR. I heard you talking about the great increase in durable goods, that is, home appliances, freezers, iceboxes, TV's. There is no shortage in any of those?

Secretary HUMPHREY. There is not. There was, but there is not now.

Senator KERR. I know there is no shortage, in plywood, because there is one member of this committee who is tremendously interested in it, and he has called our attention to the fact that it is another item in surplus supply.

The point I am making, Mr. Secretary, is that it seems to me that you have confused the effect of a boom in capital expenditures and plant expansion, with pressures reflected in the Consumer Price Index.

Secretary HUMPHREY. That is what gave the impetus to it, that is what supplied the money, put the money in circulation to put the pressure on these other prices.

Senator KERR. Fine.

Another thing you were going to get for us was the itemization of the $313 million of purchases of direct public and guaranteed securities covered in the Treasury release on its operations for the month of May.

Secretary HUMPHREY. Yes, sir.

Senator KERR. Do you have that?

Secretary HUMPHREY. I have that right here.

The CHAIRMAN. Without objection it will be placed in the record at the place it was requested. (See p. 132.)

Secretary HUMPHREY. There are pluses and minuses, as you will see, in the list, and I will put that in the record.

Senator KERR. As I understand, that was the net.

Secretary HUMPHREY. That nets out at $313 million. The big item is the purchase of the 1⅝-percent notes of $363 million. Most of the rest are minuses.

Senator KERR. May I see that tabulation?

Secretary HUMPHREY. Yes, sir.

Senator KERR. The 1⅝'s due May 15, 1957, was that the issue that you refunded, Mr. Secretary?

Secretary HUMPHREY. Yes; that is the last one refunded.

Senator KERR. Was that the $4 billion refunding?

Secretary HUMPHREY. That is right.

Senator KERR. Now, is this——

Secretary HUMPHREY. These were in connection with that refunding.

Senator KERR. The Treasury bought from the holders of those 1⅝-percent securities $363 million worth of them; is that right?

Secretary HUMPHREY. That is right. That is correct.

Senator KERR. Is that amount included in the $1.150 billion?

Secretary HUMPHREY. No; it is not.

Senator KERR. The other day when I said that there was about $1.2 billion of them that were not converted, you kind of got on me, because you said it was not but a billion, one hundred fifty-some-million.

Secretary HUMPHREY. No; I do not think——

Senator KERR. Well, you corrected me.

Secretary HUMPHREY. Well——

Senator KERR. Was that not it, Mr. Mayo?

Secretary HUMPHREY. I do not recall it.

I think what I said was that the total outstanding, not converted, was the $1,156 million, but there is this additional amount which was purchased by the Treasury.

Senator KERR. They could not have been converted, could they?

Secretary HUMPHREY. Oh, yes. These are converted and still outstanding.

Senator KERR. How could they be converted by the holders if you bought them from them?

Secretary HUMPHREY. Well, these are now in funds.

Senator KERR. But I say, in that refunding how could they have been converted, if you wanted them, if you bought them?

Secretary HUMPHREY. No; because the trust funds that own them converted them.

Senator KERR. But the private holders of them could not convert them after they had sold them to you?

Secretary HUMPHREY. No; they could not.

Senator KERR. So that in reality, the Treasury supported its program there by its becoming the purchaser of $363 million of that refundable item; did it not?

Secretary HUMPHREY. That is correct.

Senator KERR. And that, plus the billion, 100 how much, Mr. Mayo?

Mr. MAYO. $1,156 million.

Senator KERR. That was the $1.156 billion?

Secretary HUMPHREY. That is right.

Senator KERR. And $363 million. Actually, then, there was more than a billion and a half——

Secretary HUMPHREY. That is right.

Senator KERR (continuing). That were not converted——

Secretary HUMPHREY. Not by the original holders.

Senator KERR (continuing). By the original holders.

Secretary HUMPHREY. That is right.

Senator KERR. Now, would not that operation, Mr. Secretary, be in the nature of the Treasury supporting its own issues?

Secretary HUMPHREY. It did.

Senator KERR. Well, then, what is there sinful or evil about the Federal Reserve supporting the issues?

Secretary HUMPHREY. I do not think there is anything sinful about it.

Senator KERR. Well, did you talk with them about that issue before the date for the refunding?

Secretary HUMPHREY. Well, we talk to them all the time about how it will be done and what will be done about it, and how much credit will be available, and it is a thing that we discuss every time before any financing. It has to be. You cannot put these——

Senator KERR. Did they buy any of these?

Secretary HUMPHREY. No.

Senator KERR. They did not buy any?

Secretary HUMPHREY. No. You cannot put these tremendous amounts of money out without knowing the kind of market you are going to be in and what the demands are.

Senator KERR. That is the point of the argument.

Secretary HUMPHREY. These are big transactions.

Senator KERR. They are, and they are going to get bigger.

Secretary HUMPHREY. Well, I do not know.

Senator KERR. I saw in the paper the other day, and I would like to have you tell me, it said the Treasury had reappraised the situation. It had intended to offer about 4 to 6 billion in the last of June and during July——

Secretary HUMPHREY. No.

Senator KERR (continuing). But they were going to just offer about half that.

Secretary HUMPHREY. No. We never——

Senator KERR. The New York Herald Tribune was in error?

Secretary HUMPHREY. They were.

Senator KERR. You saw the story?

Secretary HUMPHREY. No; I did not see it.

Senator KERR. Did you see it, Mr. Mayo?

Mr. MAYO. I did not see the story.

Secretary HUMPHREY. I did not see it. I am just taking what you say. You know, the newspapers often know more about our business than we do.

Senator KERR. Well, I want to say this: I read more about it in them than I can get from you, and it seems to be more available.

Secretary HUMPHREY. I think that is right.

Senator KERR. But my experience has proved to me that they make errors.

How much are we going to have to refinance in the next 12 weeks?

Secretary HUMPHREY. Well, it is just the August issue, the $16 billion.

Senator KERR. What is that $16 billion?

Secretary HUMPHREY. It is two issues. It is a 2¾ percent note——

Senator KERR. I mean, what was the term there? What was the term of those issues being refunded?

Secretary HUMPHREY. The first one, issued in July 1956, $12 billion, and $56 million was a 2¾ percent 1-year note. That is to be refinanced now.

Senator KERR. What interest did it draw?

Secretary HUMPHREY. 2¾.

Senator KERR. What is the other to be refunded?

Secretary HUMPHREY. The other is a 2 percent note——

Senator KERR. How much?

Secretary HUMPHREY (continuing). Issued in February 1955. It is $3.792 billion; call it $3.8 billion.

Senator KERR. $3.8 billion.

Secretary HUMPHREY. Issued in February of 1955.

Senator KERR. That, then, is about a 2-year and 4-month issue.

Secretary HUMPHREY. Something like that; 2 years and 6 months.
Senator KERR. What rate of interest did it draw?
Secretary HUMPHREY. Two percent.
Senator KERR. What are you going to offer to replace it?
Secretary HUMPHREY. I do not know. We are selling $3 billion tomorrow for cash, and——
Senator KERR. What are you selling tomorrow?
Secretary HUMPHREY. We are selling tax anticipation Treasury bills running 264 days.
Senator KERR. Have you ever sold any of them before?
Secretary HUMPHREY. Oh, yes.
Senator KERR. Of that duration?
Secretary HUMPHREY. Yes, sir. Well, I do not remember the exact number of days.
Senator KERR. Is it not a fact that that is the longest term tax anticipation bill that has ever been offered by the Treasury in its history?
Secretary HUMPHREY. Well, it might be by a short time. We try to fit them into tax dates, you see.
Senator KERR. What rate of interest are they going to draw?
Secretary HUMPHREY. I do not know. We are going to let the market settle that. It is to be an auction.
Senator KERR. You are out there just bare, bold, and alone, and just going to pay them what they make you?
Secretary HUMPHREY. That is right.
Now, yesterday we sold $1.6 billion regular weekly bills, and the rate was down a little. The rate yesterday was 3.231.
Senator KERR. 3.231.
Secretary HUMPHREY. And it was down from the week before.
Senator KERR. 3.40?
Secretary HUMPHREY. Yes, 3.40.
Senator KERR. The $16 billion that are coming due in August, how much was the annual interest cost on them? Can Mr. Mayo figure that for me?
Secretary HUMPHREY. We can figure that out.
Mr. MAYO. 2¾ percent on $12 billion is $330 million and 2 percent on $3.8 billion is $76 million.
Senator KERR. What do you think, Mr. Secretary, you will have to pay on when you do that?
Secretary HUMPHREY. Well, if we sold these at the same rate as we did yesterday, on that assumption it would be an increase of less than 1 percent, I think, on the average.
You see, you have got to figure a weighted average.
Senator KERR. Let's see, you sold them yesterday at 3.23, and last Monday 3.40. Are you going to sell 1-year notes on this; is that what you are going to sell?
Secretary HUMPHREY. That is right—tax anticipation bills.
Senator KERR. On the $16 billion? And if, let us say, that it is just between the two, Mr. Mayo, 3.30, what will the interest be?
Secretary HUMPHREY. Wait a minute. You are talking now about something different. I thought you were talking about what we were selling tomorrow.
Senator KERR. I am talking about this $16 billion.

Secretary HUMPHREY. I do not know what we are going to do with that. That is still in the offing.

Senator KERR. What is that?

Secretary HUMPHREY. You can make any estimate you want to on that.

Senator KERR. I want to make the one that you think is the most nearly accurate.

Secretary HUMPHREY. I am not prepared to make any estimate on what we are going to do when we come to that. We are not ready to make a decision with respect to that, and I am certainly not going to guess ahead of the market, and you do not want me to guess ahead of the market.

Senator KERR. I do not want you to guess.

Secretary HUMPHREY. You do not want me to.

Senator KERR. But I thought after 4½ years here, that you would—when is that due; when are you going to have to do that?

Secretary HUMPHREY. It will be between now and the 1st of August.

Senator KERR. It is going to be within the next 30 days?

Secretary HUMPHREY. Yes.

Senator KERR. I want to tell you right now, I am always in the posture of owing a little money, but I and the bankers go ahead to figuring out between now and maturity what they are going to do to me, and they do you, too.

Secretary HUMPHREY. Yes.

Senator KERR. I bet you know right now just within three-tenths of a percent what you are going to have to pay.

Secretary HUMPHREY. If I do know, Senator, I am not going to advertise it before I sell some securities, and you do not want me to.

Senator KERR. Is the Federal Reserve going to assist in that?

Secretary HUMPHREY. Well, I hope they will be considerate.

Senator KERR. Let us assume you have to pay 3.30, Mr. Mayo, how much will the increased interest on that $16 billion be?

Mr. MAYO. 3.30 times the $15.8 billion coming due gives $521 million.

Senator KERR. That will be, then, a little over 25 percent higher or an annual increase in cost on that one item alone of $125 million a year; is that correct?

Mr. MAYO. $115 million.

Senator KERR. $115 million a year.

Mr. MAYO. Yes, on that assumption.

Secretary HUMPHREY. You had one other——

Senator KERR. I had a request for a tabulation of the reduced market value of Government bonds outstanding as between June 30, 1952, and the latest figures available.

Secretary HUMPHREY. Here is the statement.

The CHAIRMAN. Without objection it will be made a part of the record where it was requested. (See p. 140.)

Senator KERR. Is that $1.487 billion?

Secretary HUMPHREY. That is right.

Senator KERR. To what amount of outstanding does that apply, Mr. Mayo?

Secretary HUMPHREY. $267 billion.

Senator KERR. Well, there has not been any depreciation in E bonds, has there?

Secretary HUMPHREY. No. The marketable bonds are $148 billion.

Mr. MAYO. That was as of December 1952.

Senator KERR. I asked for the figure as of June 30.

Mr. MAYO. You have it both ways.

Senator KERR. Where is that?

Mr. MAYO. The other, just to the right.

Secretary HUMPHREY. The final column over there, June 21, 1957.

Mr. MAYO. $7.199 billion.

Secretary HUMPHREY. Look to the next to the last column on the right.

Senator KERR. You mean the market value is down $7 billion?

Secretary HUMPHREY. That is right, $7.2 billion.

Senator KERR. And that applies to what part of this debt, Mr. Mayo?

Secretary HUMPHREY. $160 billion.

Senator KERR. What?

Secretary HUMPHREY. $160.331 billion.

Senator KERR. In other words, since June 30, 1952, or in a period of 5 years, the holders of the long-term Government bonds have sustained a loss in the market value of their holdings of $7.2 billion?

Secretary HUMPHREY. Well, no, that is not quite right. There is a billion and a half of that which was in the preceding period.

Mr. MAYO. A billion and a half was before December 1952.

Senator KERR. How is that?

Mr. MAYO. A billion and a half of that loss was prior to December 31, 1952.

Senator KERR. I am talking about June 30, 1952.

Secretary HUMPHREY. Of the total loss in market value as of today, or as of June 21, that total was $7.2 billion.

Senator KERR. Yes.

Secretary HUMPHREY. Now, of that, $1.5 billion—I am using round figures——

Senator KERR. Occurred between June 30, 1952, and December 31, 1952?

Secretary HUMPHREY. Occurred prior to December 1952.

Senator KERR. No, during the last half of 1952.

Secretary HUMPHREY. No. Since the Federal Reserve-Treasury accord, between the accord and December of 1952. That was in 1951. From the middle of 1951 to December 31, 1952. It occurred prior to January 1, 1953.

Senator KERR. Where is the figure that shows the decrease since June 30, 1952?

Secretary HUMPHREY. Well, all you have got to do, is it not, is just deduct a billion and a half——

Senator KERR. Not if the billion and a half occurred prior to June 30, 1952.

Secretary HUMPHREY. Well, this is a December 31 figure instead of a June figure, that is the difference here. It is not split in the middle of the year.

Senator KERR. The reason I put it on that basis, Mr. Secretary, is that the fight was on in the last half of 1952, and after the result of the election, the advocates of the policy of supporting the bonds and cooperation in connection with the Government issues really put into effect the policies which have been followed since that time.

Secretary HUMPHREY. I did not think the elections had anything to do with this at all.

Senator KERR. Didn't you really? [Laughter.]

I am glad you smiled when you said that. [Laughter.]

Secretary HUMPHREY. We will split that year for you, but we weren't even in Washington during that 6 months.

Senator KERR. All right.

Secretary HUMPHREY. I do not know just how we can do it, but we will find a way to split it.

(The information requested is as follows:)

The market value of Treasury marketable securities, on June 30, 1952, was $139.985 billion, or $0.330 billion below their par value of $140.315 billion.

Senator KERR. I take it it would be quite simple.

Secretary HUMPHREY. According to my list, Senator, you have just one more paper here, I believe.

Senator KERR. All right; what is that?

Secretary HUMPHREY. That is the paper on the Federal cash payments to the public, which you gave us in the list of things you wanted.

Senator KERR. No; receipts and expenditures.

Secretary HUMPHREY. That is right.

Senator KERR. Yes.

Secretary HUMPHREY. It was cash payments.

Senator KERR. You made the statement that you had reduced Federal expenditures.

Secretary HUMPHREY. That is right.

Senator KERR. And I have been trying to find out how much.

Secretary HUMPHREY. That is right. And I have got it for you right here. I checked the items so that you can try to help find them here.

The CHAIRMAN. Without objection it will be inserted in the record at the place it was requested.

(See p. 126.)

Secretary HUMPHREY. This total shows the total cash receipts and expenditures according to a list of items which you gave me which includes not only the expenditures of current operation but it also includes expenditures by some of the trust funds from their income or assets, as they have to pay money out.

Senator KERR. No; I did not ask you for that.

Secretary HUMPHREY. Well, that is the total cash out.

Senator KERR. What I asked you for was total cash and receipts by the Treasury.

Secretary HUMPHREY. Well, the Treasury has to write the checks for them all, so we have put them all in.

Senator KERR. All right. Now, major national security in 1953, $50,507 million?

Secretary HUMPHREY. That is right.

Senator KERR. In 1958 it is estimated at $43,570 million?

Secretary HUMPHREY. That is right.

Senator KERR. International affairs was $2,177 million?

Secretary HUMPHREY. 1958, $2.9 billion.

Senator KERR. $2,923 million?

Secretary HUMPHREY. That is right.

Senator KERR. Veterans' services and benefits, $4,883 million, and $5,648 million?

Secretary HUMPHREY. That is right. That is one of the funds that includes some expenditures from the trust fund.

Senator KERR. The veterans' benefits?

Secretary HUMPHREY. That is right.

Senator KERR. You mean that this is not a statement of what the Treasury itself received and disbursed?

Secretary HUMPHREY. No. Some of this was taken out of trust funds. Some of these disbursements were taken out of trust funds.

Senator KERR. Well, how much in 1953?

Secretary HUMPHREY. Well, we have not got that. We will get that exact figure for you.

Senator KERR. I would like to get it for 1953 and 1957.

Mr. MAYO. $600 million in 1957 and 1958.

Secretary HUMPHREY. We will have to get it exact.

Senator KERR. How much?

Mr. MAYO. $626 million in 1958.

Senator KERR. How much?

Mr. MAYO. $626 million.

Senator KERR. How much in 1953?

Mr. MAYO. I will have to look that up, sir.

Senator KERR. Has he got it there?

Secretary HUMPHREY. No.

(The information requested in as follows:)

In the fiscal year 1953 disbursements from the veterans' life insurance trust funds were $660 million.

Senator KERR. The agriculture and agricultural resources are $2,953 million and $4,890 million?

Secretary HUMPHREY. That is right.

Senator KERR. Interest, $4,715 million and $5,498 million?

Secretary HUMPHREY. That is right.

Senator KERR. I thought you told us the other day it was $7.3 billion.

Secretary HUMPHREY. You see, Senator, you talk about cash. You wanted cash disbursements.

Senator KERR. That is right. But now we have it and I want to see about this interest.

Secretary HUMPHREY. The difference is mostly interest accruals to trust funds.

Senator KERR. All right.

Secretary HUMPHREY. The difference is accruals to trust funds.

Senator KERR. Contemplating the accruals as having been added, what was the figure for 1953?

Mr. MAYO. It is the budget expenditure.

Senator KERR. You have it?

Mr. MAYO. The computed interest was $6.2 billion as of December 1952 and it went to $7.3 billion 4 years later.

Senator KERR. And over here instead of $5,498 million, it would be——

Secretary HUMPHREY. $7.3 billion, the budget expenditure figure. I think it is about $1 billion up. $7.2 billion is about the round figure, is it not? I think it is $6.5 billion and $7.3 billion.

Senator KERR. It is $7.3 billion.

Mr. MAYO. It is actually $6.504 billion to $7.3 billion.

Secretary HUMPHREY. $6.5 billion to $7.3 billion are the real figures.

Senator KERR. Here, interest on the public debt——.

Secretary HUMPHREY. Wait a minute.

Senator KERR. The estimate you gave was $7.3 billion.

Secretary HUMPHREY. That is the estimate for 1958.

Senator KERR. We are talking about 1953 and 1958.

Secretary HUMPHREY. That is $7.3 billion; $6.5 billion and $7.3 billion.

Senator KERR. You said $6.2 billion.

Secretary HUMPHREY. Well, $6.504 billion for actual expenditures, That is for 1953.

Senator KERR. $6.503 billion and $7.3 billion?

Secretary HUMPHREY. That is about right.

Senator KERR. Then the public assistance is $1.439 billion and $1.684 billion?

Secretary HUMPHREY. Wait a minute. You skipped the trust fund.

Senator KERR. Yes. The trust funds were $4.580 billion and $10.550 billion?

Secretary HUMPHREY. That is right.

Senator KERR. Is there any other item in there that should be different from the budget expenditures?

Secretary HUMPHREY. Well, highways, of course, is not in the budget.

Senator KERR. Well, are highways in this figure?

Secretary HUMPHREY. Yes, sir, highways are in here. If you will look down——

Senator KERR. Well, but highways are an item with reference to which you have income and outgo.

Secretary HUMPHREY. Well, that is correct. You asked for them and we put them in.

Senator KERR. If you will indulge me the courtesy of figuring these on the basis——

Secretary HUMPHREY. Sure.

Senator KERR. Of what the actual receipts and expenditures are.

Secretary HUMPHREY. I am trying to get exactly the way you want it.

Senator KERR. Now, then, the only difference that should exist here for bookkeeping purposes in differentiating 1953 from 1958 would have to do with veterans' services and benefits, social insurance trust funds, and the interest on the public debt?

Secretary HUMPHREY. Well, I think that is the big thing. There is a little in the housing, but those are the principal items.

Senator KERR. Now, this shows for 1953, $76.773 billion?

Secretary HUMPHREY. That is right.

Senator KERR. And for 1958, $82 billion——

Secretary HUMPHREY. $83 billion.

Senator KERR. $83 billion.

Secretary HUMPHREY. $76.8 billion and $83 billion.

Senator KERR. And on the veterans' benefits now, there is not going to be a substantial difference in the——

Secretary HUMPHREY. That might be, I would think——

Senator KERR. It would be substantially the same?

Secretary HUMPHREY. There will be some difference, but not a big item.

Senator KERR. So that actually we should reduce 1958 by $6 billion?

Secretary HUMPHREY. That is right.

Senator KERR. For the——

Secretary HUMPHREY. It is just about a standoff if you eliminate the interest which is a credit.

Senator KERR. If you take off the difference in the so-called insurance trust funds and add the difference in the interest——

Secretary HUMPHREY. Well, the interest, you see, is just a credit; it is a book item. You are talking about cash items.

Senator KERR. I understand. But if you are talking about cash items, Mr. Secretary, on the basis of your statement here——

Secretary HUMPHREY. Your difference——

Senator KERR. On the basis of your statement here, there is $6.2 billion more in 1958.

Secretary HUMPHREY. The cash items, you see, that you asked for here are $6.2 billion——

Senator KERR. That is the total cash income and outgo, is it not?

Secretary HUMPHREY. Right on this statement just as it is written.

Senator KERR. Right here.

Secretary HUMPHREY. Not as it is changed, just as it is written.

Senator KERR. On that basis, you are going to spend $6.2 billion more in 1958 than you spent in 1953?

Secretary HUMPHREY. Except that there is $6 billion of that and a little better than $6 billion that comes out of trust funds and not out of income.

Senator KERR. If we take that off, we are going to spend $267 million more plus the additonal amount that you owe for the interest.

Secretary HUMPHREY. Well, that is not a cash item. It is just about——

Senator KERR. That is like those boys that were burying their father the other day I told you about.

Secretary HUMPHREY. That is right.

Senator KERR. The only reason it is not cash is that you put your I O U in for that year?

Secretary HUMPHREY. That is correct. That is right. It is just about a standoff between the two.

Senator KERR. It is about a billion more, Mr. Secretary.

Secretary HUMPHREY. What is that?

Senator KERR. It is just about a billion more.

Secretary HUMPHREY. Not on cash transactions, which is what you asked for.

Senator KERR. Well, it is $6 billion more on cash transactions.

Secretary HUMPHREY. Of which $6 billion comes out of trust accounts.

Senator KERR. That is right.

Secretary HUMPHREY. Trust account.

Senator KERR. But added to it must be the difference in the interest you owe?

Secretary HUMPHREY. What we owe and what we pay are two different things. If what you are going to do is put it on an accrual on what we owe, then you have got an entirely different statement; then a number of these other things would be changed.

Senator KERR. You are departing from the actual cash receipts and disbursements because of the difference in the social insurance funds; and I am not objecting to it because I think it is a valid adjustment.

Secretary HUMPHREY. That is right. I think so in both cases.

Senator KERR. And I am sure you acknowledge that the extra sum we owe for interest is also a valid adjustment.

Secretary HUMPHREY. It is not a cash item.

Senator KERR. But it is a valid adjustment. We are adjusting off $6 billion which is an actual cash item, are we not?

Secretary HUMPHREY. Well, I think, Senator, that you have either got to go on your budget basis or you have got to go on a cash basis. We will go either way, but you can not do part one and part the other and know where you come out.

Senator KERR. If you go on a cash basis, Mr. Secretary, your disbursements are going to be $6 billion more in 1958 than they were in the Korean war, 1953?

Secretary HUMPHREY. That is correct.

Senator KERR. You said the other——

Secretary HUMPHREY. Of that $6 billion——

Senator KERR. Then the statement you made the other day that you had decreased Federal expenditures on the basis of 1953 and 1958 is not accurate.

Secretary HUMPHREY. I beg to differ with you. I think it is accurate because I do not think this is the way to figure it because I do not think these figures——

Senator KERR. These are the cash receipts and outgo?

Secretary HUMPHREY. No, you are talking about income and outgo. When you spend part of your outgo——

Senator KERR. I offered to do that; then you backed away from me on the interest.

Secretary HUMPHREY. When you spend part of our outlay in trust accounts, I do not think——

Senator KERR. It is a cash receipt, is it not?

Secretary HUMPHREY. No, it is not a cash receipt.

Senator KERR. You mean you do not get that $10.550 billion from the American people?

Secretary HUMPHREY. We got it years ago, and it is now being paid out. That is no part of this year's transaction on the income side. That is previously——

Senator KERR. You and I had better talk to our staff.

Secretary HUMPHREY. That is money that came in before and it is now being paid out.

Senator KERR. You mean these trust funds?

Secretary HUMPHREY. That is right. That is a checkout of trust funds.

Senator KERR. Well, is not that a checkout of the Treasury to the trust funds?

Secretary HUMPHREY. These are payments to people, not to a fund; and they are charged to the fund. They are not charged to income.

Senator KERR. Then they are paid out of the fund, are they not?

Secretary HUMPHREY. That is right. They are paid out of the fund. That is what I am saying.

Senator KERR. Well, this is Federal cash payments by the Treasury. I thought I asked for before——

Secretary HUMPHREY. That is correct. We write the check, but part of it is charged to the fund and part of it is charged to our income.

Senator KERR. All right. Then giving effect to that——

Secretary HUMPHREY. If you take that out, you take out——

Senator KERR. If you take out $6 billion there, you are still going to spend $267 million, on the basis of this statement, more in 1958 than was spent in the Korean war year of 1953.

Secretary HUMPHREY. You spent $200 million more, less what you take out of the veterans' accounts.

Senator KERR. Plus your accrual that you owe on interest.

Secretary HUMPHREY. Well, I do not know how——

Senator KERR. The difference between $6.5 billion and $7.3 billion, which is $800 million.

Secretary HUMPHREY. That is an accrual account, and it is not a cash account. I do not know how you can mix them up and come out with a story.

Senator KERR. The only way you do it is that you are the debtor and the trustee for the creditor; that is the way you do it. You are the trustee for the trust accounts?

Secretary HUMPHREY. That is right.

Senator KERR. And instead of paying them as Secretary of the Treasury, the interest you owe them, you give them an I O U.

Secretary HUMPHREY. Well——

Senator KERR. Is that not right?

Secretary HUMPHREY. That is right. I think what you have to do, Senator, I think you either have to go on a budget basis or have to go to a cash basis. If you go on a cash basis, what this statement shows is this: This statement shows that there is a difference, an increase of $200 million in the expenditures in 1958 over the expenditures of 1953, the cash expenditures of 1953 less the fund items, that are included in the other items.

Senator KERR. That was your administration in power during all of the year 1953, was it not?

Secretary HUMPHREY. That is right—calendar 1953.

Senator KERR. What is the last full Truman year?

Secretary HUMPHREY. 1952.

Senator KERR. 1952?

Secretary HUMPHREY. Yes.

Senator KERR. How much more will your 1958 be than the last full Truman year?

Secretary HUMPHREY. Well, let me see here. About $8.3 billion.

Senator KERR. About $8.3 billion, plus the differential in the interest?

Secretary HUMPHREY. Well, I cannot go for your differential in interest.

Senator KERR. Just indulge me, in view of the fact that you put your I O U in there it does mean by putting that in there, that would be $8.3 billion plus about a billion more interest or about $9.3 billion, is it not?

Secretary HUMPHREY. That is about the figure, less, there are a few other items here, varied items.

Senator KERR. So your statement——

Secretary HUMPHREY. I would say around $8 billion just as a round figure.

Senator KERR. So your statement, Mr. Secretary, that this administration has reduced expenditures is one that has to be explained and understood and applied rather technically in order for it to stand on its own.

Secretary HUMPHREY. No; I think not. I think that the budget figures just speak for themselves.

Senator KERR. If the budget figures speak for themselves, you spend——

Secretary HUMPHREY. What you are trying to do is to confuse the issue by taking out a lot and——

Senator KERR. If the budget figures speak for you, you spent $9 billion more in 1958 than in 1952. You spent a billion more in 1958 than was spent in 1953 during half of which time you were in charge and determining what was spent.

Secretary HUMPHREY. Of course, you are starting with a fiction right off the bat.

Senator KERR. What is it?

Secretary HUMPHREY. Because 1958 is an estimate. 1957, if you really want to get at the figures, what you ought to take, I believe, are the budget figures between 1953 and 1957.

Senator KERR. Then take the budget figures between 1952 and 1957.

Secretary HUMPHREY. Well, take the budget figures between 1952 and 1957.

Senator KERR. All right. How much more did you spend?

Secretary HUMPHREY. Let me see how much that was. You ought to take 1952, which was the last Truman year, and you ought to take ours.

There you are, splitting this into half years.

Senator KERR. Splitting what into half years?

Secretary HUMPHREY. Well, this budget year.

Senator KERR. No. Let us take 1952 and 1957. You have got it there. You did not want to take 1953 and 1958.

Secretary HUMPHREY. 1953 was half gone, you see, when we came, the 1953 budget.

Senator KERR. That is true. But you could have reduced the expenditures in 1953, had you wanted to.

Secretary HUMPHREY. Well, no——

Senator KERR. The Secretary of Defense the other day told the Defense Department to reduce expenditures by $4 billion between then and the last of the fiscal year, did he not? [Laughter.]

Secretary HUMPHREY. I would like to see that figure.

Senator KERR. Give us the difference between 1952 and 1957.

Secretary HUMPHREY. If you split the middle of the year——

Senator KERR. No. Let us take 1952 and 1957.

Secretary HUMPHREY. If you split the middle of the year.

Senator KERR. You have not got the amount there that was spent before December 31 and what was spent afterward. Take 1952 and 1957.

Secretary HUMPHREY. All right. We will split it.

Senator KERR. No. Take 1952 and 1957.

Secretary HUMPHREY. We will take the calendar year. We came in January. Let us be fair about this. We will take the calendar year, the expenditures for the calendar year of 1952, which brings us up to the day we got here. I will give you the days in January.

Senator KERR. Twenty days.

Secretary HUMPHREY. Twenty days, excuse me. I am not versed in that. I will give you the 20 days and we will not talk about that. We will just take the calendar year 1952, and the expenditures were $70.682 billion. The expenditures in 1956 calendar year were $67.216 billion. So that is $3.466 billion less.

Senator KERR. That you spent in calendar 1956?

Secretary HUMPHREY. You spent in the calendar year before we got here up to December 31, without counting the 20 days, you spent $70.682 billion.

Senator KERR. $70.682.

Secretary HUMPHREY. Now, we spent in the calendar year, the last calendar year, $67.216 billion.

Senator KERR. Which does not include what you spent on roads.

Secretary HUMPHREY. That is right.

Senator KERR. How much was that?

Secretary HUMPHREY. What were the roads? We will have to add that. I suppose they must have been $700 million or $800 million.

Senator KERR. I would suppose they would be a billion.

Secretary HUMPHREY. I do not believe they would be quite that, but they might, somewhere in there, $700 million or $800 million.

Senator KERR. You are not going to like these figures before we get through with them.

Secretary HUMPHREY. I am not? [Laughter]

If you split it in half, it is $575 million.

Senator KERR. That is 6 months' expenditure?

Secretary HUMPHREY. I am talking about the fiscal year, and you have got to split that to bring it back. It was $497 million.

Senator KERR. $500 million?

Secretary HUMPHREY. Yes; $500 million.

Senator KERR. How much more was the interest which is not reflected here?

Secretary HUMPHREY. What do you mean?

Senator KERR. I mean how much more was the interest on the public debt that you put your I O U in?

Secretary HUMPHREY. The full amount of interest is figured in the budget.

Senator KERR. Oh, no; it is not.

Secretary HUMPHREY. Oh, yes; it is.

Senator KERR. Is it?

Secretary HUMPHREY. Yes.

Senator KERR. That is figured on the accrual basis?

Secretary HUMPHREY. Yes. There are no tricks in that.

Senator KERR. That gives you $67.716 billion, compared to $70.682 billion?

Secretary HUMPHREY. That is right.

Senator KERR. That is practically $3 billion.

Secretary HUMPHREY. $3 billion.

Senator KERR. What was the difference of those 2 years in defense expenditures?

Secretary HUMPHREY. Well, you can get it pretty close here. Defense expenditures, of course, are down.

Senator KERR. Sure they are. That is the reason I said you are not going to like these figures when you get through with it.

Secretary HUMPHREY. We are talking about spending money and how you spend it——

Senator KERR. Well, in making a comparison, if you are talking about spending money, I am going to show in this record what part of it was for national defense.

Secretary HUMPHREY. All right.

Senator KERR. The average of 1952 and 1953 was $47 billion, and the average of 1956 and 1957 is $41 billion. So that would leave a differential of $6 billion more that the defense program cost in calendar 1952 than it did in calendar 1957.

Secretary HUMPHREY. You are just charging us with doing a better job in defense than we are doing. It is very complimentary.

Senator KERR. No, I am not, because whether you remember it or not, we were in the Korean war in 1952.

Secretary HUMPHREY. Policing action, as I recall it.

Senator KERR. Well, there was quite an argument, and, as I remember, you were on the other side of that argument in November of 1952. Were you one of the voices in the country saying it was a police action?

Secretary HUMPHREY. No; I was not.

Senator KERR. You were not?

Secretary HUMPHREY. No.

Senator KERR. And in November of 1956, as I remember, in November of 1956, as I remember, you ran a campaign on the basis that the country was at peace.

Secretary HUMPHREY. That is right.

Senator KERR. All right.

Secretary HUMPHREY. Now, Senator, let us be fair about this. What you started out to do was to prove my statement was wrong that I said we were spending less in our last year than you were spending in your last year.

Senator KERR. That is not what you said. You said, "We have reduced Federal expenditures."

Secretary HUMPHREY. That is what I said, we have reduced them, and, as compared with your last year and compared with our last year, we spent $3 billion less. And we all agree to that, so let us let it stay right there.

Senator KERR. But on the basis of nondefense expenditures, you spent $3 billion more.

Secretary HUMPHREY. Ifs, ands, and buts, but the fact is we spent $3 billion less in our year than you did in yours.

Senator KERR. But on the basis of 1958, you are going to spend substantially more.

Secretary HUMPHREY. I hope not, but we will see.

Senator KERR. On the basis of your own estimate.

Secretary HUMPHREY. Yes.

Senator KERR. So if we take into consideration the reality of the year in which we now are operating, you are going to have to——

Secretary HUMPHREY. We are not there yet.

Senator KERR. You are going to have to put a footnote on that statement, "P. S. As of December 31, 1957"——

Secretary HUMPHREY. We are not there yet.

Senator KERR. "This estimate will have to be amended."
The CHAIRMAN. The committee will recess until 2 o'clock.
(Whereupon, at 12:40 p. m., a luncheon recess was taken until 2 p. m.)

AFTERNOON SESSION

The CHAIRMAN. The committee will come to order.
Senator Kerr?
Senator KERR. I am sure the committee would be interested, and I am confident that the people here would be interested, in knowing that the leading slugger of the National League is in the room; Stan Musial, of St. Louis. Mr. Secretary, if either one of us could bat as well as that old boy does, we could come out in good shape.
Secretary HUMPHREY. Let's put him up here, and we will go back there.
Senator KERR. Let's see; there was one other item you were going to bring back.
Secretary HUMPHREY. That is right, and that item, the last one, is the estimated changes in the gross public and private debt since December 1956.
Senator KERR. Yes, sir.
Secretary HUMPHREY. Have we a copy of this for the Senator?
Senator KERR. I do not have them.
Secretary HUMPHREY. It seems as though they are getting them typed, but I will read it to you, Senator, and then I will hand it to you.
Senator KERR. All right.
The CHAIRMAN. Without objection it will be inserted in the record at the place it was requested. (See p. 146.)
Secretary HUMPHREY. The individual mortgage debt—now, this is from December, you asked for, from December of 1956 to May 1 of 1957.
Senator KERR. Yes. On December 31, 1956, we had $793 billion.
Secretary HUMPHREY. $783 billion.
Senator KERR. I believe he told me $793.
Secretary HUMPHREY. $783½ billion.
Senator KERR. I see.
Secretary HUMPHREY. That is made up as follows: $131½ billion mortgage debt, which increased $4½ billion to May 1; $42 billion consumer, which went down $0.5 billion to May 1; $34 billion in "Other," which is estimated to be the same.
So, the total of individual has gone up from $207½ billion to $211½ billion, or up $4 billion.
The corporate was $249½ billion; it has gone to $255 billion; it is up $5½ billion.
State and local government were $50 billion; they have gone to $52½ billion; they are up $2½ billion.
So that the total, other than Federal, is $507 billion; has gone to $519 billion; and is a plus $12 billion.
Now, the Federal has gone from $276½ billion to $275 billion, which is a minus $1½ billion.
So that the total has gone from $783½ billion to $794 billion, and it is up a total of $10½ billion.
Senator KERR. I want to thank you very much for providing this, which, as I understand it, is the best estimate that your staff could make.

Secretary HUMPHREY. That is right.

Senator KERR. And it is helpful. The other day, by process of applying the increased interest rate already in effect on that part of the public debt which has been refinanced, the public debt in its entirety, it was estimated that the increased cost of servicing the public debt, over and above what it was in 1952, would be about $4 billion a year.

Secretary HUMPHREY. If it was all refinanced at present rates.

Senator KERR. Yes, sir.

Secretary HUMPHREY. Yes, sir.

Senator KERR. Now, this indicates a total private debt of 519 less 52½; does it not?

Secretary HUMPHREY. That is right.

Senator KERR. $466½ billion.

Secretary HUMPHREY. That is right.

Senator KERR. The increased interest which individuals pay has actually gone up more than the interest which the Federal Government pays, has it not?

Secretary HUMPHREY. Well, it might be. I am not absolutely sure.

Senator KERR. I mean, when we find out what interest Uncle Sam is paying, everybody else, of course, pays more, and, as one goes up, the other one goes up a little bit more than that one does.

Secretary HUMPHREY. I believe it may have.

Senator KERR. I believe our estimate was, on the part you had refinanced, the increase had gone up about 1.75 percent.

Secretary HUMPHREY. If we took it all, yes.

Senator KERR. I mean on the part which has been. I believe what you paid last Monday was 3.40; and the average for 1952 was 1.76. Is that right on the nose?

Secretary HUMPHREY. That must be close.

Mr. MAYO. That is right on the nose for bills.

Senator KERR. Then the increase is 1.64.

Mr. MAYO. That is correct.

Senator KERR. How much would just that amount of increase, Mr. Mayo, be on the private debt, that is, if you did not go up any more than the interest rate on the public debt has? $7 billion, would it not?

Secretary HUMPHREY. It is $7 billion plus.

Mr. MAYO. That is right.

Senator KERR. A little over $7.5 billion, as I get it.

Secretary HUMPHREY. I was taking it at 1½.

Senator KERR. Now, you do not think that interest rates are going to be reduced much in the near future, do you?

Secretary HUMPHREY. I do not know just what you mean by the "near future," Senator.

Senator KERR. Well, in the next few years.

Secretary HUMPHREY. Not in the next few weeks. I do think that there is a chance for interest rates to come down over a period of months.

Senator KERR. You know you talked about——

Secretary HUMPHREY. Over a period of years.

Senator KERR. You talked about unpaid obligations that the Government had, c. o. d. items that had not been collected for when you boys came in.

Secretary HUMPHREY. Yes, sir; $80 billion.

Senator KERR. If you add the $4 billion on the public debt and about $750 million on State and local, which would be 1½ percent on $50 billion, and $7½ billion on the private debt, you know, it looks to me that this policy may leave the American people as individuals and stockholders and taxpayers, with a continuing obligation of about $13 billion a year for the foreseeable future over and above what they were paying in 1952, in excess interest.

Secretary HUMPHREY. Well, I suppose that would be possible, but I would not think that it would be likely.

Senator KERR. That is a pretty substantial continuing obligation, is it not, and that will have to be reflected in the price of everything the consumer buys, will it not, Mr. Secretary?

Secretary HUMPHREY. Just a minute, Senator. I have got to get this straightened out.

Mr. Mayo says the figure we used on interest rates is only the increase on Treasury bills. The total isn't up that much.

Senator KERR. What I asked you was the difference in the going rate of interest as you are now refunding, and the comparable rate in 1952 on the same class of debt.

Mr. MAYO. Well, that is just Treasury bills, you see, and there has been more fluctuation in the rates on Treasury bills than there has in the total debt.

Senator KERR. Well, sure. This $103 billion, that was out when you came in, the interest rate on that has not increased.

Mr. MAYO. What I mean is the change from 4 years ago on Treasury bills to their present rates is higher than the change on other parts of the debt. It is a greater change.

Senator KERR. There is not much difference, Mr. Secretary, and I will tell you how I arrived at that.

Now, your long-terms in 1952 were being financed, I believe, at 2½ percent, were they not?

Secretary HUMPHREY. That is about right, I think, 2.68. That is awfully close. You guessed 2½. It is 2.68.

Senator KERR. Now, last Friday, long-terms were selling to yield 3.90.

Secretary HUMPHREY. That would be 1¼ percent higher.

Senator KERR. That would be 1.30.

Secretary HUMPHREY. If you take 1½ as the total on that basis, it would not be far out of the way.

Let Mr. Mayo figure here a minute, and we will just see. I think it probably is not too far off.

That is just under 1 percent.

Senator KERR. I do not know what the 3¼s were selling for, but the longer terms were selling last Friday at 3.90. I put that in the record.

Secretary HUMPHREY. 3.67 was the figure.

Senator KERR. On one——

Secretary HUMPHREY. That was on——

Mr. MAYO. The Friday opening was 3.67 on the 3¼s; 3.64 on the 3's.

Senator KERR. Go right on down.

Mr. MAYO. Well, those are the two longest.

Senator KERR. Those are about $4.5 billion.

Mr. MAYO. That is right.

Then the Victories, which are the December 67–72's, 3.69; 3.75 for the September 67–72's; 3.71 for the June 67–72's; 3.80 for the March 66–71's.

Those are our longest term bonds.

Secretary HUMPHREY. Those are the long-terms.

Senator KERR. Was that on the opening Friday?

Mr. MAYO. This was the opening.

Senator KERR. I put into the record an article from the New York Herald Tribune, the headline of which was that—here is the Washington Post on June 21. What day was that?

Mr. MAYO. That was Friday.

Senator KERR. It says 2½'s 62–59, selling to yield 3.90.

Mr. MAYO. That is correct.

Senator KERR. The Treasury 2½'s due in 1969, callable in 1964, were selling at a yield of 3.91.

Mr. MAYO. That is right.

Secretary HUMPHREY. That is right.

Senator KERR. Well——

Mr. MAYO. The longer ones are the ones that we read off. The intermediate ones are the ones you just read.

Secretary HUMPHREY. The longer ones yielded less.

Senator KERR. If you are going to average them out, 3.80 is about what the long-terms are selling to yield.

Mr. MAYO. Yes.

Senator KERR. And in 1952, it was—sometime during the year they were selling at par, were they not?

Secretary HUMPHREY. You can say 1 percent to be sure. The difference is over 1 percent.

Senator KERR. $3.5 billion $4 billion a year, is what it is.

Secretary HUMPHREY. That is correct.

Senator KERR. And 1.64 percent on $466 billion of private debt is $7.5 billion; and 1½ percent on $50 billion of State and local is $750 million; and $7.5 billion and $750 million is $8.5 billion, plus about 3½ to 4, will get you up to $12 billion, is that right?

Secretary HUMPHREY. That is right.

Senator KERR. And it seems to me that that is the heritage that the taxpayers and stockholders and borrowers are going to receive from this policy as of today.

Secretary HUMPHREY. Of course, there are an awful lot of people receiving that, as well as paying it. You have always got to have that in mind, too.

Senator KERR. There are a lot more borrowers than lenders.

Secretary HUMPHREY. I do not know. By the time you get through the people who participate in the loans, there is an awful lot of interest paid on Government bonds. There are 40 million individual holders, and by the time you get through counting the people who are participating in pension funds and all sorts of funds of various kinds, you get up into many, many millions of people who get the benefit out of interest.

Senator KERR. You know what that reminds me of, Mr. Secretary?

Secretary HUMPHREY. Not the boy who put in the I O U's?

Senator KERR. What is that?

Secretary HUMPHREY. Not the boy who put in the I O U's?

Senator KERR. No. This is really worth something. That reminds me of what Mr. Roosevelt used to say: "Well, what of this national debt? All of it is owed to some of us."

Secretary HUMPHREY. Don't let me remind you of Mr. Roosevelt. Let's just stop right there. [Laughter].

Senator KERR. As I understand your testimony, the Government securities market can only be stabilized if the Federal Reserve increases its portfolio of Governments, which thus increases the money supply and causes prices to rise; is that one of the bases you laid down here with reference to the Federal Reserve supporting the Government securities market?

Secretary HUMPHREY. Well, I do not know that I expressed it just that way.

Senator KERR. If I did not——

Secretary HUMPHREY. What does that say?

Senator KERR. As I understand your testimony, the Government securities market can only be stabilized if the Federal Reserve supports the market.

Secretary HUMPHREY. I think that is right, or if the demand for money falls off.

Senator KERR. And if the Federal Reserve supports the market, then you said that that will increase the money supply and cause prices to rise.

Secretary HUMPHREY. Yes.

Senator KERR. Then I would like to have you explain——

Secretary HUMPHREY. Under existing conditions.

Senator KERR. Then explain to the committee why Governments sold at par or better from 1945 to 1949, although the Federal Reserve reduced its holding of Governments from $24.9 billion to $18.9 billion.

Secretary HUMPHREY. Because you have entirely different conditions. I said this would obtain under existing conditions. The existing conditions are that there are a great many citizens in one form or another who are seeking money, who are borrowers and are in the borrowing market.

You go back to days when the citizens are not seeking money, and the Government is the only borrower, and it takes the pressure off the market and the whole picture completely changes.

It is just how many buyers there are for money, how many borrowers there are for money. If you have a lot of borrowers, why, you will push it up. If you have a few borrowers, it will automatically go down or stabilize.

Senator KERR. We had a greater percentage of increase in the money supply, we had a greater annual increase, percentagewise, in the money supply in 1949 through 1953, then we have had in the last 18 months.

Secretary HUMPHREY. You did not have the same demand for borrowing.

Senator KERR. Well, you know why the tightness of demand was not there: Because they increased the available supply.

Secretary HUMPHREY. Well, there was not nearly so much borrowing going on there. The number of dollars borrowed was very much less.

Senator KERR. Let's see if there was not. The available money supply, I believe, for 1949 was $174 billion, and it went up to $180.6 billion in 1950, and $189.8 billion in 1951, and $200.4 billion in 1952.

Now, that is actually on the basis that you figure where you said that if you have 3 years, that makes 4.

Secretary HUMPHREY. That is right.

Senator KERR. You remember?

Secretary HUMPHREY. Yes.

Senator KERR. There was not only a greater amount of actual increase than there had been from 1956 to the first quarter of 1957, but the percentage was much larger.

Secretary HUMPHREY. Well, I have to get the years here.

Senator KERR. Mr. Mayo will correct me if I am wrong.

That is the total money supply, and surely not in the form of currency or gold.

Secretary HUMPHREY. But it is not the total borrowing, either. What I am talking about is the total borrowing.

Let us look, let us go back and look——

Senator KERR. According to your estimate here, the total borrowing, 5 months in 1957, has been $10.5 billion.

Secretary HUMPHREY. No. Let's look back here.

Senator KERR. Is that not right?

Secretary HUMPHREY. No. Look at page 36, and I think that may give you the picture.

In the 4 years——

Senator KERR. Wait a minute.

Secretary HUMPHREY. You have got 3 sets of 4 years on page 36.

Senator KERR. What page are we going to?

Secretary HUMPHREY. Page 36.

You have got 3 sets of 4 years. Now, your borrowings increased in the first 4 years.

Senator KERR. You have got 3 sets of 4 years; that will be 12 years.

Secretary HUMPHREY. That is right.

Senator KERR. On page 36.

Secretary HUMPHREY. That is right.

Senator KERR. The increase from 1944 to 1948——

Secretary HUMPHREY. If you take——

Senator KERR (continuing). Was how much?

Secretary HUMPHREY. Take the item "Total (other than Federal)," and it is the private borrowing in that case, plus the State and local, was $64 billion.

The next 4 years, it was $127 billion.

Senator KERR. All right. Let's take those 4 years.

Secretary HUMPHREY. Yes.

Senator KERR. 1948–52.

Secretary HUMPHREY. 1948–52, it was $127 billion.

Senator KERR. Let us see what the change was in the ownership of bonds by the Federal Reserve.

What years are we going——

Secretary HUMPHREY. 1948–52.

Senator KERR. In 1949, it was $18.9 billion. In 1950, it was $20.8 billion.

Secretary HUMPHREY. $24.7 billion. It went up a billion and a half dollars.

Senator KERR. All right.

Now, during that time, private debt went up here, debts other than Federal, $127 billion.

Secretary HUMPHREY. It was $127 billion.

Senator KERR. It went up from—that says the increase.

Secretary HUMPHREY. That is right.

Senator KERR. So that is how much it went up. It did not go up to that in the holdings of the Federal Reserve.

Secretary HUMPHREY. That is right.

Senator KERR. So it went up $127 billion, with only an increase of a billion dollars.

Secretary HUMPHREY. A billion and a half.

Senator KERR. $23.3 billion to $24.7 billion, $1.4 billion.

Now, to show you that they do not—that that is not the controlling factor, according to your own statement there, it went up $137 billion in the next 4 years, 1952–56.

Secretary HUMPHREY. That is right.

Senator KERR. During which time Federal Reserve holdings only went up $200 million.

Secretary HUMPHREY. That is right.

Senator KERR. So they do not have to greatly increase their portfolio in Governments.

Secretary HUMPHREY. Again, I say it depends entirely on what the demands are for money, and how rapidly they come.

Senator KERR. But the record is that from 1945 to 1949, Government holdings by the Federal Reserve went down from $24.9 billion to $18.9 billion.

Secretary HUMPHREY. That is right.

Senator KERR. That is the record, is it not?

Secretary HUMPHREY. That is the record.

Senator KERR. In your testimony here, you have developed a kind of puzzle in my mind, and I believe together maybe we can resolve it.

In your testimony you said:

> As the cost of money rises * * * there is more incentive to save that money and to put it out at rent * * *

You also said:

> Now, as you stimulate the savings, why, of course, that generates more money for use in the development of the country, in the building of equipment and machines, and increasing the productive power of the people.

In other words, you were outlining the principle, and defining it or establishing it, that one of the principal objectives or benefits of permitting interest rates to rise was to stimulate savings in order to increase investment and capacities.

Secretary HUMPHREY. That is right.

Senator KERR. Yet, you told the chairman:

> * * * there is a deterrent effect that rises from an increase in the cost of interest, in that people are deterred from taking on obligations that require that additional payment. They do not expand quite so rapidly or they do not expand inventories quite so rapidly, or they become more cautious.

Secretary HUMPHREY. That is right.

Senator KERR. As I understand it, you are saying that increasing interest rates discourages investment so as to not create inflation.

Secretary HUMPHREY. That is right.

Now, as between the two——

Senator KERR. I want you to tell us how, on the one side——

Secretary HUMPHREY. It is perfectly simple.

Senator KERR (continuing). Increasing interest rates encourages savings to make it possible for more expansion——

Secretary HUMPHREY. That is right.

Senator KERR (continuing). And at the same time, when you increase them, you discourage investment and deter expansion.

Secretary HUMPHREY. And between encouraging the savings and discouraging expenditures, you finally bring them to a balance. You operate from both ends, and you come to a balance. That is exactly where you want to be, and produce some stability.

Senator KERR. That is all right, Mr. Secretary. It may be that that just makes it perfectly clear.

Secretary HUMPHREY. Well, it makes it perfectly clear to me. The way you get a balance is to work from both ends, and finally you meet in the middle and balance it out.

Senator KERR. In other words, encouraging them in one way and say you can expand——

Secretary HUMPHREY. Encouraging one group to save, and another group not to expand too fast, and then between them you bring the savers and optimists together, and between them you have got a balanced position.

Senator KERR. I want to tell you, sir, that I am glad you do understand it. [Laughter.]

Secretary HUMPHREY. I do.

Senator KERR. And I will not worry about it, because there just is not any use of both of us worrying about it.

Secretary HUMPHREY. That is right.

Senator KERR. Now, is there special provision in the tax law treating with gains and losses resulting from bank transactions in Government securities?

For instance, if a bank sells a million dollars worth of long-term Government bonds for which it paid par, at say 85 cents on the dollar, is that a deductible loss against current income for tax purposes?

Secretary HUMPHREY. I do not remember, Senator, whether it is a deductible loss against current income or capital gains, but it is one or the other.

Senator KERR. Can you find that?

Secretary HUMPHREY. It is a deductible loss, but whether it is applicable to current income or capital gains, I am not sure.

Senator KERR. And there is nobody here to tell us?

Secretary HUMPHREY. No, we do not have any tax people here.

Senator KERR. Put me on your staff, because I can tell you.

Secretary HUMPHREY. Well, good. What is it?

Senator KERR. It is a deductible loss against current income.

Secretary HUMPHREY. All right.

Senator KERR. I will tell you what I would like, if it is possible: I know many banks who in December of 1956 sold substantial quantities of governments, early in December, at about 89 or 90, which was the price at which they were then selling, taking a loss against their current taxable income for 1956. A week or so later, they went into the open market and replaced in their portfolios the bonds they had sold with others of a similar maturity date. By these transactions, if they sold a million dollars' worth of bonds, they showed a loss of $100,000, saving themselves $52,000 in taxes for that year.

But when they made their financial statement for December 31 they put the bonds for which they had paid about 89 or 90 in at par. That is permissible for a bank, is it not, to carry Government bonds at par?

Secretary HUMPHREY. I think that is right, except that if they buy at 89 or 90 that is the way they go on the books. They don't go on at par in that case.

Senator KERR. So that, if there were billions of dollars of such transactions, it meant that the Government lost hundreds of millions of dollars in taxes last year, by reason of the fact that the banks were permitted to take what amounted to a paper loss, taking advantage of the depressed condition of the bond market.

Now, if I am correctly informed as to the law, if they keep those bonds until maturity, let us say, in 10 or 15 years, they pay a capital-gains tax of 25 percent on the difference between what they paid for them and the 100 cents on the dollar that they will receive from the Government at maturity.

Assuming that what I have told you about what they can do and did do is correct, do you not think that that is a penalty the Government bears by reason of the policy of management of the public debt now in effect?

Secretary HUMPHREY. I think it is the penalty of the failure of proper tax law, if that is the way it works. I doubt whether they ought to get the deduction of losses against current income and then pay capital gains on profits.

Senator KERR. Has there been any recommendation of the Treasury that you know of?

Secretary HUMPHREY. I do not know, but I will find out.

Senator KERR. You are going to issue next week, did you say about $3.6 billion of 283-day tax anticipation certificates?

Secretary HUMPHREY. Tomorrow.

Senator KERR. Tomorrow.

Secretary HUMPHREY. $3 billion.

Senator KERR. In the New York Times of May 17, 1957, there is a story about a Treasury offer of a billion-and-a-half-dollar issue. "119-day tax bills to be sold on bidding to meet drain on cash holdings."

Secretary HUMPHREY. When was this?

Senator KERR. This was announced May 16.

Secretary HUMPHREY. Well, May 16.

Senator KERR. Of this year.

Secretary HUMPHREY. Yes.

Senator KERR. (reading):

> Details of the new offering will be released Friday morning. Today's announcement said banks could pay for the new bills by establishing a credit for the Government in the Treasury tax and loan accounts they hold. This makes it unnecessary for them to pay for the bills until the Treasury calls for the cash. Meanwhile, they will collect interest as an added incentive.

Will that same privilege be available on this $3 billion issue?

Secretary HUMPHREY. Yes, sir.

Senator KERR. If I understand that correctly, Mr. Secretary, what that means is this: The Treasury's tax and loan funds are kept on deposit by the Government in the banks and the Treasury then pays the banks interest on that money.

Secretary HUMPHREY. We pay interest on the bonds, and then draw out the money out of their account as we need it.

Senator KERR. Do you write checks on private banks?

Secretary HUMPHREY. No, it goes through the Federal Reserve account.

Senator KERR. You do not do that without giving the bank notice?

Secretary HUMPHREY. No, we give the bank notice. I have forgotten exactly how much. It varies among banks.

Senator KERR. Of notice?

Secretary HUMPHREY. Yes, on withdrawals.

Senator KERR. What it amounts to——

Secretary HUMPHREY. What it amounts to is we get all the money in 1 day and we spend it over a period of time, whatever it may be.

Senator KERR. Mr. Secretary, have you got somebody here who can tell us how much notice you give that bank before you draw on it?

Secretary HUMPHREY. It's payable on demand. You will have to ask Mr. Burgess that. He can tell it to you exactly.

Senator KERR. Will you let me put my own estimate in the record?

Secretary HUMPHREY. Yes.

Senator KERR. Not less than 7 days.

Secretary HUMPHREY. I cannot tell you exactly what that average notice is, but it is a comparatively few days.

Senator KERR. But during those days, whatever it is——

Secretary HUMPHREY. During those days they have both the money and the bond.

Senator KERR. During those days the Government pays interest to the bank on the deposit which the Government has made in the bank?

Secretary HUMPHREY. It pays interest on the bond.

Senator KERR. Well, but they buy the bond by giving you deposit slips?

Secretary HUMPHREY. That is right.

Senator KERR. They do not part with any money?

Secretary HUMPHREY. That is right.

Senator KERR. Now, on the issue you put out in—what was the big tax anticipation issue you put out in the fall of 1953?

Secretary HUMPHREY. I would have to look it up. I cannot remember. Just before we leave this last question, that is taken into account, you know, in determining the rate which people bid for the bond, for the tax and loan deposit, so we get a little better rate because of that fact.

Senator KERR. Whatever the rate is, that bank gets interest on your deposit for the time they have it?

Secretary HUMPHREY. For the period the bond is there, but we pay a lesser rate over the whole period than we would pay if that privilege were not granted.

We think that it is a proper way to sell the security.

Senator KERR. Do you know of any other depositor in the United States that pays a bank interest on the money that he has deposited in the bank?

Secretary HUMPHREY. Everybody who sells a bond issue gets paid for their bonds on a certain day and they put the money in the bank and they do not draw it all out the same day.

Senator KERR. No——

Secretary HUMPHREY. And they are paying interest. Wait a minute. They pay interest on the bond just the way the Government does, and they have their own money laying in the bank.

Now, anybody who sells a bond issue, you yourself will have a lot of money in a bank tomorrow or the next day.

Senator KERR. But just for a day or two.

Secretary HUMPHREY. Not for a day or two.

Senator KERR. Not for 2 weeks?

Secretary HUMPHREY. It will be there for whatever it is, just for a day or two, and you will be paying interest on the bonds just the way the Government does.

Senator KERR. Do you know why I have got to keep 20 percent of what I borrow at a bank?

Secretary HUMPHREY. No, I do not; but it is a common practice.

Senator KERR. Because of your fiscal policies. [Laughter.]

Secretary HUMPHREY. I get blamed for an awful lot, but I did not know I was to blame for that.

Senator KERR. Whatever rate of interest I pay that bank, I have got to pay them 25 percent penalty because they only let me check on 80 percent of it, but I have to pay them interest on 100 percent of it, and I want to tell you that they can thank you and Mr. Burgess and the Federal Reserve Board for that subsidy that they get from every borrower in this Nation, including the Government.

Secretary HUMPHREY. No. The Government has no 80 percent limitation or no time limit. We can draw it and we do draw it exactly as we need it.

Senator KERR. But there is a difference between you and me. I can check her out when I get it, and you have got to give that bank 7 days notice before you even check on them. Did you know that?

Secretary HUMPHREY. Yes, I know that, except that I don't agree the average notice is 7 days.

Senator KERR. All right.

Now, this issue you put out in 1953 of tax anticipation certificates.

Secretary HUMPHREY. Yes.

Senator KERR. When was that and how much was it?

Secretary HUMPHREY. It was on the 15th of July, and it was $5,902 million.

Senator KERR. Was that handled the same way?

Secretary HUMPHREY. Well, I would not be surprised.

Senator KERR. My recollection is that it was.

Secretary HUMPHREY. It probably was, but I am not sure.

Senator KERR. Did that issue have a coupon on it, Mr. Secretary?

Secretary HUMPHREY. Yes.

Senator KERR. Whereby the Government continued to pay interest on that $5 billion how much.

Secretary HUMPHREY. $5.9 billion.

Senator KERR. For a period of time after the tax holder had surrendered it to the Government in lieu of taxes for its face value plus accrued interest?

Secretary HUMPHREY. I think it did. It went for a period of from the 15th to the 22d of March.

Senator KERR. In other words, the banks that handled that not only got interest on the money, part of which time they still had the money——

Secretary HUMPHREY. Whether it was a bank or a corporation or individual, whoever it was, they all got the same.

Senator KERR. Oh, no.

Secretary HUMPHREY. Oh, yes, they did, and those certificates——

Senator KERR. You do not deposit with individuals.

Secretary HUMPHREY. Well, the individual can buy it.

Senator KERR. I know, but then when he does, he gives you a check for it. He does not give you a deposit slip for it.

Secretary HUMPHREY. That is right.

Senator KERR. So there is that difference.

Secretary HUMPHREY. That is right.

Senator KERR. But the taxpayer who bought that and turned it in on the taxpaying date following——

Secretary HUMPHREY. That is right.

Senator KERR. Got credit for all he paid for it, that is for all the Government got for it, plus the interest on it until it was surrendered, and then, in addition to that, he got a coupon which, if he clipped and kept it for 7 days, he could get interest for 7 days after he surrendered the bond?

Secretary HUMPHREY. That is correct; that was a 7-day period.

Senator KERR. Is that on all these?

Secretary HUMPHREY. No. Those are different things that are done. It is on a good many of them.

Senator KERR. I think Mr. Mayo tells you they are on all of them.

Secretary HUMPHREY. It certainly is on most of them.

Senator KERR. Do you think it is good fiscal management?

Secretary HUMPHREY. Yes, I do. I think it all is in the rate. I think it all depends on what the rate is when you sell these securities. It is just a matter of the computation of interest.

Senator KERR. You know we private fellows have to sweeten up the kitty for these fellows.

Senator HUMPHREY. Yes.

Senator KERR. If I were you, I would look into it to see if they were not getting to you.

Secretary HUMPHREY. See what?

Senator KERR. If they were not getting to you.

Secretary HUMPHREY. I will be very glad to let you sell the bonds.

Senator KERR. If I had one institution that was the source of all credit and another one that used about a third of all credit, I would get them acquainted with each other so that the one who was determining what the other had to pay for interest would operate on the basis that they are some kin to each other, rather than blood enemies.

Secretary HUMPHREY. When we have to borrow money, as you well know, you have to meet what the market demands. And whatever the market happens to be, you have to meet that. You work it out about to that, or you do not sell your bonds.

Now, I am sure that your experience is no different than mine, and I am sure you would be an excellent Secretary of the Treasury, but I would not want to be a Senator. [Laughter.]

Senator KERR. Well, now, Mr. Secretary, there is not anybody in here today who could be any better Secretary of the Treasury than you. You see, the difference between you and a lot of these officials who have been down here is they did not know what the Federal Reserve was doing to them. [Laughter.] You do, and you are encouraging them in it. [Laughter.]

Now, you said that the purchasing power of the dollar had declined only eight-tenths of a cent in 4 years—and I found out 3 years and 4 years are synonymous there.

Secretary HUMPHREY. And figured it in three.

Senator KERR. Did you hear the statement read by the chairman the other day of what Mr. Wilson said, that it took $38.5 billion to buy in 1958 what $33.4 billion bought in 1954?

Secretary HUMPHREY. I did not happen to hear that statement, but I would not be surprised.

Senator KERR. Was that correct, Mr. Chairman? Was that the statement made by the Secretary of Defense?

The CHAIRMAN. Yes, sir. It was so quoted in the newspapers.

Senator KERR. That is a little more than eight-tenths of 1 percent; is it not?

Secretary HUMPHREY. Well, we went over those figures this morning, Senator.

Senator KERR. I know, but we did not have this application.

Secretary HUMPHREY. Well, but——

Senator KERR. What we did this morning was we were talking about whether it was 4 years or 3 years.

Secretary HUMPHREY. No. What we did this morning was to talk about the kind of things and when the prices in various kinds of things took effect. They didn't all at the same time. The purchasing power of the dollar was not affected equally in all sorts of things and the kinds of things that the Defense Department was buying, largely because of their very large purchases, there was a greater pressure on those prices than on anything else, and I think their prices——

Senator KERR. You mean the more volume they buy, the higher the unit price?

Secretary HUMPHREY. Well, the more you try to buy in a hurry, the more you are apt to pay for it.

Senator KERR. Well, now, I am not saying in a hurry. I notice the other day the Secretary of Defense told the Secretary of the Air Force, "Just slow down and just postpone $4 billion. We are not going to spend it this fiscal year."

Secretary HUMPHREY. I think he has slowed down a little, but we have been buying a lot of things in a hurry, and I think we should have bought them in a hurry.

Senator KERR. Have you got the President's Economic Report there for 1957?

Secretary HUMPHREY. Yes, sir.

Senator KERR. Let Mr. Mayo see what your statement discloses as to the prices of Government goods and services as between 1952 and 1956.

That was actually the 4 years, Mr. Secretary, that you were talking about when you showed $3 billion——

Secretary HUMPHREY. Nineteen what?

Senator KERR. 1952 to 1956; what the index——

Mr. MAYO. For the Federal Government.

Senator KERR. Prices of Government goods and services for 1952 is 119.

Secretary HUMPHREY. 119 looks like here.

Mr. MAYO. Federal.

Senator KERR. What was the 1956?

Secretary HUMPHREY. 127.8. It was up about 8.8. That is all Government purchases. That is all Federal buying. That is not just military.

Senator KERR. Well, that is right.

Secretary HUMPHREY. That is right. So that would not be up as much as the military, I do not think.

Senator KERR. But it was a good deal more than eight-tenths of 1 percent.

Secretary HUMPHREY. Oh, yes. That is the kind of things—you see, the great bulk of it is military, and those are the kind of things that had the first price rise.

Senator KERR. May I see that now, just a moment.

Secretary HUMPHREY. Yes, sir.

Senator KERR. What is this column, Mr. Mayo, that says "Government product"?

Mr. MAYO. That includes State and local, sir, as well as Federal.

Senator KERR. It shows 1952 to be 124.7 and 1956 to be 149.4.

Mr. MAYO. 149.4. That is gross Government product.

Senator KERR. What does that mean, "implicit price deflator"?

Secretary HUMPHREY. I do not know what that is.

Senator KERR. Well, all right.

Mr. MAYO. All I know is what it says here for Federal, State, and local.

Senator KERR. You gave us some figures on how you had increased savings percentagewise, on page 32.

Secretary HUMPHREY. Saved $75 billion in 1956.

Senator KERR. What I am looking for is that percentage.

Secretary HUMPHREY. That is the percentage of savings of disposable income. Let us get disposable income.

Senator KERR. Yes. I believe I said:

> During the 4 years of the Eisenhower administration, our people have saved more both in terms of dollars and in relation to disposable income, 7.1, as compared to 6.4.

Do you have the figures there percentagewise for 1951 and 1952?

Secretary HUMPHREY. Well, you start here in 1948. Wait a minute.

Senator KERR. Where do you get that, that you were quoting from?

Secretary HUMPHREY. From the economic report; it is page 136.

Senator KERR. I mean, is this the economic report?

Secretary HUMPHREY. Yes, sir. It is the economic report, page 136.

Senator KERR. What does it show for 1951?

Secretary HUMPHREY. For 1951, it shows 7.8.

Senator KERR. And 1952?

Secretary HUMPHREY. 1952 is 8.0.

Senator KERR. What years during the Eisenhower administration exceeded those?

Secretary HUMPHREY. 7.9 is the next year.

Senator KERR. That is 1953, 7.9?

Secretary HUMPHREY. Yes.

Senator KERR. 1954?

Secretary HUMPHREY. 1954 it is 7.0.
Senator KERR. 7.0. 1955?
Secretary HUMPHREY. 1955 it is 6.1.
Senator KERR. And 1956?
Secretary HUMPHREY. 1956 it is 7.3.

Senator KERR. If you compared the 4 years of the Eisenhower administration with 1951 and 1952, you would get an entirely different result; would you not?

Secretary HUMPHREY. Well, we averaged it for the two 4-year periods, and the two 4-year periods are the figures we gave you here.

Senator KERR. I understand. I am not disputing that you did.

Secretary HUMPHREY. If you will take the average of 4 years with the average of 2 years, you will get 7.1 as against 7.9.

Senator KERR. The fact is if you will take the situation as you found it when you came in, you found the people saving 8 percent of their disposable income, and as of this time, they are saving less than 7 percent of it, are they not?

Secretary HUMPHREY. Well, no, they were up over 7 for last year.

Senator KERR. I am talking about the first quarter of 1957 when it was only 6.9 percent.

Secretary HUMPHREY. It has been running along about 7 or 8 percent right along.

Senator KERR. But there has not been a year during the Eisenhower administration in which the people saved as high a percent of their disposable income as they did in 1952, has there?

Secretary HUMPHREY. Wait a minute. Not for a whole year; no. They have done it for quarters, but not for a whole year. They have been within one-tenth.

Senator KERR. That is right. One year.

Secretary HUMPHREY. Several quarters have been higher.

Senator KERR. Now, then, Mr. Secretary, I would like to go back to this chart up here because I think we have not paid enough attention to it. You gave me this morning a list of items that had been in short supply in recent years. In the years during which unemployment was 4.1 percent of the civilian labor force, and in the years or period during which consumer prices went up 2.6 percent, wholesale prices went up 3.1 percent, industrial prices went up 3.8 percent, and the privately held money supply went up 2.8 percent. Do you remember those items you read me this morning?

Secretary HUMPHREY. Yes, I do.

Senator KERR. I would like for you to tell me which one of those items was in as short supply in the 1956–57 period as in 1949–53?

Secretary HUMPHREY. Well, I do not know as I can go back that far. You see, you are going way back there into another period.

Senator KERR. Well, it is the period you were comparing it to.

Secretary HUMPHREY. My figures do not go back that far.

Senator KERR. Those are the years that included the Korean war.

Secretary HUMPHREY. I have not got any figures back that far. My figures just go for 2 years.

Senator KERR. Would you hazard a guess that a single one of the items that you said was in short supply in the last 18 months was not in shorter supply during that time?

Secretary HUMPHREY. Well, I do not know.

Senator KERR. What do you think?

Secretary HUMPHREY. I have not any idea. I do not know.

Senator KERR. What do you think?

Secretary HUMPHREY. I say I just have not any idea. I just do not know.

Senator KERR. What about aluminum? Do you not think it was as short in supply during the Korean war as it has been in the last 18 months?

Secretary HUMPHREY. I would think so, but it has been short right along.

Senator KERR. Bearings, brass, copper products, steel products, titanium dioxide, steel scrap, rubber—do you not imagine, if you checked into it, that every one of those items was scarcer during the Korean war than they have been in the last 18 months?

Secretary HUMPHREY. I do not know. You have got to check them, you know, to find out. I really do not know.

Senator KERR. Well, now, if you want to, if you think there is any chance that that tabulated list was in more abundant supply during the Korean war than during the last 18 months, I would appreciate your bringing back the record and reading it to us.

Secretary HUMPHREY. I will check it.

Senator KERR. Let us assume just for the sake of this discussion that they were in shorter supply, and that is not an unreasonable assumption, is it?

Secretary HUMPHREY. Well, certainly not as to some of them. I think as to others, perhaps it is.

Senator KERR. As to whichever ones it might be, you will tell me?

Secretary HUMPHREY. We will check up.

(The information requested is as follows:)

There were shortages during 1950 and 1951 but the interpretation of shortages in periods of direct controls will, of course, differ from the interpretation of shortages at other times of heavy demands, so no conclusive comparison seems possible.

Senator KERR. On the basis of this chart, it looks to me that the item that was in truly scarce supply during the last 2 years is right here, credit, privately held money and credit.

Secretary HUMPHREY. Credit?

Senator KERR. Because during the 1949–53 period the money supply went up 3.5 percent a year. During the 1956–57 period it has only gone up 2.8 percent a year.

Assuming that the basic commodities that you referred to this morning were in scarcer supply during the Korean war than during the last 18 months, it seems to me that it is going to be a little difficult to explain how it was that with industrial production increasing 5.4 percent, compared to 2.1 percent, with the gross national product going up 4.8 percent compared to 2.7 percent, with 3.5 percent unemployed as compared to 4.25 percent unemployed in the past 18 months—it seems to me that it is going to be very difficult to explain how it was that the consumer prices and wholesale prices and industrial prices went up substantially higher during this 18 months than it did during the 5 years, 1949–53.

Secretary HUMPHREY. What period during that time did you have price and wage controls on?

Senator KERR. During 1949, 1950, 1952, and 1953.

Secretary HUMPHREY. Yes, you had price and wage controls on, did you not?

Senator KERR. Let us see if we did.

Now, my recollection is that price controls terminated in 1946.

Secretary HUMPHREY. I do not remember exactly, but I think that's right.

Senator KERR. Is that correct? That is my recollection.

Secretary HUMPHREY. Yes. That's right for the period after World War II. But you're talking about the period during the Korean war?

Senator KERR. 1949, 1950, 1951, 1952, and 1953.

Secretary HUMPHREY. Well, we had price and wage controls on during the Korean war.

Senator KERR. Well, now, let us check that, Mr. Secretary.

Secretary HUMPHREY. Well, they were on when we came in. They went on in early 1951 and we took them off.

Senator KERR. Wage controls?

Secretary HUMPHREY. First thing we did was to release controls.

Senator KERR. Wage controls?

Secretary HUMPHREY. Yes, wage controls and price controls were on, and allocations were on, and you had a lot of things that were on at that time, a lot of physical control.

Senator KERR. They had regulation W?

Secretary HUMPHREY. Sure, and you had price controls.

Senator KERR. I will tell you what you do.

Secretary HUMPHREY. We had thousands of people administering them, as I remember it.

Senator KERR. Suppose you tell us in the morning what wages were controlled during those 5 years.

Secretary HUMPHREY. I will see exactly what controls there were, but there were a lot of controls on at that time.

Senator KERR. All right.

Secretary HUMPHREY. One of the first things we did was to take them off.

Senator KERR. I think that the real shortage, as of today, Mr. Secretary, as I said a while ago, is the shortage in credit, and the result of it, in my judgment, has been almost catastrophic, because during this time, according to the Department of Commerce and the Council of Economic Advisers, we have had some rather amazing, and I think very detrimental, results. For instance, during that time labor's share of the national income has gone up 3.7 percent, which is a very limited amount.

Unincorporated business' share of the national income has gone down 4.5 percent. The farmers' share of the national income has gone down 36.5 percent. Corporation profits after taxes, their share of the national income has gone up 16.4 percent. And the net interest share of the national income has gone up 40 percent during the administration of these policies. These results mean that the opportunity was made available and has been taken advantage of for big business to reinforce its position and greatly expand its percentage of the national income; for the farm industry as a whole to be almost bankrupted; for small business to be greatly impaired; and for those whose business it is to lend and collect interest to increase their share of the national income by 40 percent.

Secretary HUMPHREY. Do you not think you ought to add to that list the cost of living?

Senator KERR. Well, the cost of living in the last 18 months, according to Mr. Mayo there, has gone up 4 percent.

Secretary HUMPHREY. Let us take the same period you are taking. Just put it in for the same period.

Senator KERR. I am talking about the last 4 years.

Secretary HUMPHREY. Just add the——

Senator KERR. I am talking about the last 4 years.

Secretary HUMPHREY. So am I talking about the last 4 years. Let us put it in to the last 4 years, and I think it will fit very well into that tabulation.

Senator KERR. Well, that certainly is your opinion, and you are entitled to it, and that is just what you put down into this record, and I thought that it was well for me to put into the record a brief observation of what I thought the policies had done to the various elements of the economy.

Secretary HUMPHREY. I am sure you want to put in the whole picture, so you just add it all in—all 4 years, not just one.

Senator KERR. If we get in all of your viewpoint and all of mine, we will have nearly all of it.

Secretary HUMPHREY. I think that is right.

Senator KERR. Thank you very much, Mr. Secretary.

Secretary HUMPHREY. Thank you very much.

Senator BENNETT. Mr. Chairman, while we are at a break between witnesses, there have been three very interesting charts presented to us. Is it going to be possible for the rest of the committee to have a copy of that chart?

Senator KERR. They are going to stay right here, and my purpose was for them to go into the record.

Senator BENNETT. I was wondering how they were going to get into the record and when.

Senator KERR. I would like, then, Mr. Chairman, to ask permission that they be made a part of the record at that point in the record where they were first referred to and then later referred to. (See p. 177.)

Senator BENNETT. Will they be copied, photographed?

Senator KERR. They would have to be. They will have to be to get them into the record.

Senator BENNETT. I just wanted to be sure they were going to be in the record in chart form, and not simply in schedule form.

Senator KERR. Yes, sir.

The CHAIRMAN. Senator Martin has advised the Chair he would prefer to start in the morning. He thinks he can make better progress at that time.

Senator MARTIN. I think we can make time without breaking in.

The CHAIRMAN. The committee will now recess until 10 o'clock tomorrow morning.

Secretary HUMPHREY. That is very agreeable to me.

(Whereupon, at 3:20 p. m., a recess was taken until 10:30 a. m., Wednesday, June 26, 1957.)

INVESTIGATION OF THE FINANCIAL CONDITION OF THE UNITED STATES

WEDNESDAY, JUNE 26, 1957

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

The committee met, pursuant to recess, at 10:30 a. m., in room 312, Senate Office Building, Senator Harry Flood Byrd (chairman) presiding.

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

Also present: Robert P. Mayo, Chief, Analysis Staff, Debt Division, Office of the Secretary of the Treasury; Elizabeth B. Springer, chief clerk; and Samuel D. McIlwain, special counsel.

The CHAIRMAN. The committee will come to order.

Senator CARLSON. Mr. Chairman, before you start, I was interested this morning in an article in the sports section of the Washington Post, by Bob Addie. I do not know how many caught it. It reads this way:

> Harry Byrd stepped off the train just in time to pick up a victory for the Detroit Tigers last night as the visitors came up with 3 runs in the 10th to beat the Senators, 7 to 4.

Senator GORE. Mr. Chairman, may I also call attention to the fact that yesterday our distinguished chairman received a letter addressed to "Senator Aldrich." [Laughter.]

The CHAIRMAN. The Chair recognizes Senator Martin.

Senator MARTIN. Mr. Chairman.

STATEMENT OF HON. GEORGE M. HUMPHREY, SECRETARY OF THE TREASURY—Resumed

Senator MARTIN. I think you have a copy of the statement I am about to make.

Secretary HUMPHREY. Yes, sir.

Senator MARTIN. Mr. Chairman, this committee is fortunate to have a man of the courage, ability, and understanding of Hon. Harry F. Byrd to lead us in this most important investigation, which can mean so much for the well-being of our country. While we do not always agree on political philosophies, yet I have great admiration for the ability and objectives of the distinguished senior Senator from Oklahoma, Robert S. Kerr.

This committee, composed of men from all parts of the Nation and representing many political ideals, should bring forth recommendations which will improve the monetary and fiscal policies of the United States. That will be my objective, and I know that it will be the objective of my colleagues on this committee.

Mr. Chairman, we all greatly appreciate the time that the Secretary of the Treasury has given to this committee. I have been greatly impressed with his superior knowledge of the financial problems confronting the United States. America is most fortunate to have a man of his ability and patriotic inclination willing to head one of the most important departments of our Government.

Before questioning Mr. Humphrey, I want to make some brief comments.

One of the most difficult functions of a free government is to maintain a stable currency. At the same time, it is one of the most important objectives of government. Inflation has the power to crush any economy upon which it fastens its grip and, thus, it can destroy a nation.

In fact, more great nations have been overthrown by inflation than by invading armies or destructive bombs. A nation destroyed by a military force can rebuild itself, but a nation where incentive of the individual is destroyed has very little opportunity of recovery.

Let us look at the inflationary figure and the dollar purchasing power.

As shown by the Consumer Price Index, the inflationary figure rose from 59.4 in 1939 to 119.3 in 1957.

In 1939, the dollar was worth 100 cents in purchasing power. Inflationary pressure during World War II forced the value of the dollar down to the level of 78 cents.

The decline continued during the postwar years, and at the beginning of 1953 the dollar represented only 52 cents in purchasing power. For a time it appeared that the value of the dollar had been stabilized at that point, and for the next 3 years the index remained practically unchanged.

However, in 1956, the downward trend was resumed and the value of the dollar sank gradually, month after month, going down to 50.3 in March of this year.

Unfortunately, the spiral of inflation is still creeping upward, and in May of this year the value of the dollar dropped to 49.7.

Let us briefly look at the causes of inflation. They fall into several categories:

1. Excessive governmental expenditures, deficit financing, a staggering burden of debt, printing press money, and unsound fiscal policies. Inflation from these causes is one of the reasons for the high Federal budget that now confronts us.

2. Increase in labor costs with a corresponding increase in the cost of production. There is no danger when rising wages are accompanied by corresponding increased productivity. Inflation results when overall productivity does not keep pace with rising wage levels.

3. Too much expansion of business and purchases by Government, corporations, and individuals on borrowed money, particularly money borrowed from banks.

Mr. Chairman, the size of our Government and the debt of the United States are of deep concern to the people of our country. The increase of all kinds of debt was set forth in your statement at the opening of these hearings and totals $800 billion, which is an increase of $200 billion, or 33 percent, in 4 years.

This is so important that I feel it should be repeated.

According to an official Department of Commerce report issued on May 27, the American people, at the end of last year, owed a total of $803 billion in gross private and public debt. This total is an average of about $4,700 for every man, woman, and child in the Nation, or about $18,800 for the average American family of four persons.

Net corporate debt went up from $93½ billion in 1946 to $208 billion at the end of 1956.

People have been buying out of tomorrow's paycheck. At the end of 1945, they owed less than $6 billion; which in 1956 consumer debt had increased to $42 billion.

Net State and local government debt has increased from $13½ billion in 1945 to $42.7 billion at the end of 1956, and has greatly increased since that time.

4. The great expansion of Government. More than 7 million are now employed at the three levels of government. They are not producers. This payroll puts into circulation nearly $40 billion per annum.

Let us briefly look at the results of inflation:

1. The dollar loses its purchasing power. This damages all with fixed incomes and inflicts severe hardship on millions of our people. The person with a pension, social security, or interests on savings cannot escape the evils of inflation.

There are now in the United States more than 16½ million on social security, corporation and Government retirement, veterans' pensions, veterans' survivors benefits, and military retirement pay. Many are widows and orphans.

2. Values built over a lifetime, or even over generations, are reduced or wiped out by inflation. Continued inflation is a threat to the economy. It ultimately can lead to disaster and economic collapse.

Those damaged by inflation include the many millions of savers in the United States, the owners of bonds, owners of life-insurance policies and savings accounts. Men and women paying into social security make up another great list of savers. Ten million are now receiving social-security benefits.

3. Another danger brought on by inflation is the difficulty of industrial replacement. An individual or a company in the past, laid aside so much per annum for replacement of plant, machinery, and equipment. The dollars they have accumulated for that purpose are now deflated and do not have the value necessary to purchase the new equipment.

4. National debt and national expenditures are another great cause of inflation, particularly when financed by sales of securities to banks.

Experience has shown that there is no limit to human desire for goods and services, but there is a limit to the means by which these desires can be satisfied.

We must remember that even though we are the richest nation on earth, there is a limit to our resources. We are not rich enough for everyone to have everything he wants. Therefore, when Government attempts to carry out competitive political promises and undertakes to supply the wants of groups and individuals, the cost is certain to exceed available revenues.

In that event, increased debt is the natural consequence, and inflation is brought on unless a definite policy of debt management and retirement is adopted. This calls for fiscal and monetary discipline and a high level of official responsibility, but it is the only safe course.

Mr. Chairman, we all enjoy prosperous times, but we want that prosperity to be based on sound monetary and economic policies. Prosperous times have often caused the people to become overly confident and even reckless.

There have been many financial depressions, panics, recessions, or crises during the history of the United States. Let us briefly review some of them:

The panic of 1819 was caused by the policy of the Government fostering reckless purchases of public land on credit.

In 1837, we had a crisis which was also the result of speculation in frontier farmlands. Again, too much borrowing.

In 1857, the crisis was brought about by speculation in real estate and by the new railway lines opening up over the country. Again, too much borrowing.

The collapse of 1873 was the aftermath of speculation in railroad stocks and frontier lands. Again, too much borrowing.

The panic of 1893 was caused by the optimism in borrowing money and the apprehension that the Government would not be able to maintain the gold standard.

The 1907 crisis was caused by violent speculation making heavy demands on banks and discount rates rose to an abnormally high point. The $500 million borrowed in Europe added to our difficulties.

The crisis of 1929 was the result of excessive speculative activity in the stock market. Again, too much borrowing.

I have great confidence in the American people when they understand a problem. This hearing is not for the purpose of advancing any political party or individual, but it is to help build a better and stronger America.

Mr. Chairman, yesterday afternoon, we talked a little bit about controls. I want to state that controls for World War I were ended November 9, 1946, by President Truman.

Maybe I should remark that it was a few days after the election, and the election of 1946 was based mainly on two things: Communism in Government, and price controls.

We had controls put on January 26, 1951, for the Korean war; and on February 2, 1953, President Eisenhower announced his intention to let the price control authority die on April 20, 1953.

I felt, Mr. Chairman, that ought to be in the record.

Now, Mr. Secretary, is it not true that the inflation which has cut the purchasing power of the dollar in half since 1939, has hurt the holders of marketable United States Government bonds far more than the decline of the market price of the bonds below 100?

Secretary HUMPHREY. That is correct.

Senator MARTIN. Did not by far the greater part of this inflation occur while bond prices were pegged and interest rates were kept low?

Secretary HUMPHREY. That is correct, Mr. Senator.

Senator MARTIN. Mr. Secretary, how many billions of dollars of the United States Government bonds are in form which renders them immune from market fluctuation?

Secretary HUMPHREY. Just 1 minute, sir.

It is all of the savings bonds, special issues and nonmarketables. I will have the figure in just a minute. $114.9 billion.

Senator MARTIN. Now, Mr. Secretary, are these not the bonds that are held by the great mass of people?

Secretary HUMPHREY. That is correct. Savings bonds are held by about 40 million people.

Senator MARTIN. In the case of marketable United States Government bonds, will not most holders either hold them to maturity or until the market prices have recovered, with the result that they will not sustain any losses?

Secretary HUMPHREY. Anyone who does hold them to maturity, of course, sustains no loss.

Senator MARTIN. Well, are they not held by a group——

Secretary HUMPHREY. They are largely held by holders or institutions that do not sell them at losses except for special purposes, or where it is advantageous for them to do so.

Senator MARTIN. They usually buy them because they have a certain amount of money to invest, and they figure that the United States is about the safest investment that they can make, the bonds of the United States are about the safest investment they can make?

Secretary HUMPHREY. It is the best investment in the world, Mr. Senator.

Senator MARTIN. Mr. Secretary, have there not been wide fluctuations in the prices of marketable United States Government bonds in the past?

Secretary HUMPHREY. There have.

Senator MARTIN. And in every case, did not the holders of the bonds get 100 cents on the dollar at maturity?

Senator HUMPHREY. The Government has always paid a hundred cents on the dollar at maturity.

Senator MARTIN. Are not freely fluctuating interest rates, in effect, the safety valve of the monetary system?

Secretary HUMPHREY. That is correct; if you are going to operate in a free economy, you must have fluctuating interest rates.

Senator MARTIN. In other words, is it not likely that measures taken to keep interest rates low will create pressures within the system which will lead to an explosion of inflation?

Secretary HUMPHREY. That is one of its causes.

Senator MARTIN. Am I correct in understanding that the alternatives to the Federal Reserve type of control which let interest rates rise in response to demand for money, are more inflation, resulting from the unrestrained creation of additional money?

Secretary HUMPHREY. That is correct.

Senator MARTIN. And second, regimentation in the form of specific controls, including not only controls over specific commodity prices but also controls which would limit or prevent certain types of borrowing or compel additional savings?

Secretary HUMPHREY. Well, just as soon as you eliminate the natural controls, you have to substitute artificial controls or you will have a swing that will be so wide that it will be disastrous.

Senator MARTIN. And, Mr. Secretary, we also could have voluntary controls, but that is a very difficult thing to do.

Secretary HUMPHREY. It is extremely difficult.

Senator MARTIN. Of course, it is the thing that the President, in his message on the state of the Union, suggested that corporations and individuals would restrain borrowing as much as possible.

Secretary HUMPHREY. You can have, I think, Senator, voluntary restraint, but you cannot have real voluntary control.

Senator MARTIN. It would be impossible, almost, to have a control that would be sufficiently effective unless you had a large police power, something which the American people would resent——

Secretary HUMPHREY. That is exactly——

Senator MARTIN (continuing). Very greatly.

Secretary HUMPHREY. That is exactly right. You would have to go into rigid physical control, arbitrary controls, if you remove the present Federal Reserve monetary controls and eliminated their operation.

Senator MARTIN. For example, we tried here a few years ago what President Hoover termed a "noble experiment," the 18th amendment, and we had a large police force, very able attorneys in our Department of Justice, and very courageous judges. But, nevertheless, the people did not want to be controlled into their desires, in what they wanted.

Secretary HUMPHREY. Except during war periods which everyone recognizes are most unusual and requiring most unusual handling, arbitrary controls have never worked.

Senator MARTIN. Well, of course, the ideal thing would be if corporations and individuals would control their borrowing so we would not have high interest rates, and things of that kind. But that seems to be impossible.

It seems to be impossible to have regimentation and controls, and then about the only thing left is a plan which we now have, which was the result of a hearing of this committee about 50 years ago, and that is the Federal Reserve Board.

Secretary HUMPHREY. That is right.

Senator MARTIN. Mr. Secretary, I notice that in your statement, you say that you have conducted your affairs so as not to interfere with the Federal Reserve monetary policies.

Would you tell me just how you have worked with the Federal Reserve, and what the relationship between the two organizations is at the present time?

Secretary HUMPHREY. Well, as to the way we work, it is just the simple, ordinary way in which two groups of people with independent responsibilities would normally attempt to cooperate.

We have a system which has worked all the time we have been here in which Mr. Martin comes over to the Treasury and we have a visit every Monday at lunch; and then on Wednesday, as a rule, Mr. Burgess and 2 or 3 of our people go over and visit with the Federal Reserve Board and their staff.

So that we have a constant contact between the two organizations all up and down the line, so that each knows what the other is talking about and what the other is planning.

Now then, in our movements we discuss, each of us with the other, what we plan to do and how we plan to do it. We hear what the other has to say about it. Sometimes we can take into account criticisms; sometimes we get very worthwhile criticisms that lead us to alter our opinion somewhat.

Other times, we find that we stick to the opinions that we originally had, and proceed.

But we operate together, each with his own final responsibility, but each knowing what the other is doing and each hearing the position of the other before final determinations are made.

Senator MARTIN. Your association with the Federal Reserve has been considerable.

Now, the legislative and the executive and the judicial in Government are entirely separate, but at times they cooperate in order to strengthen and improve the things of our country.

Secretary HUMPHREY. I think it is the most satisfactory way, Senator Martin, to have two departments of the Government who have responsibilities, independent responsibilities, working with each other, and we have had a very satisfactory relationship in working with Mr. Martin.

Senator MARTIN. Mr. Secretary, in the questioning yesterday, the Senator from Oklahoma indicated that he felt that the Treasury faced extremely difficult problems, and I think introduced into the record a day or two ago an editorial from the Wall Street Journal.

I am sure that that paper reaches a good many men in business. But, with your permission, Mr. Chairman, I would like to read, or rather, place in the record an editorial from the New York Times of June 6, 1957. This editorial speaks relative to the work of the Secretary as it relates to financing of our Federal obligations, the difficulties he has had, and so forth, and I think it will be very helpful to the members of the committee to have it before them.

The CHAIRMAN. If there is no objection, it will be inserted in the record.

(The editorial referred to is as follows:)

[New York Times, June 6, 1957]

A PROBLEM IS NOT A "CRISIS"

When he takes over the reins as Secretary of the Treasury as successor to George M. Humphrey, Robert B. Anderson will take over at the same time a number of pieces of unfinished business that rate the designation of "problems." Generally speaking, these problems are to be found in the area of debt management. They are the sort of problems that might be expected to beset an administration that (1) inherited a huge public debt, consisting in the main of short term obligations, and (2) has been compelled to do its refinancing for 2 years now under conditions of uninterrupted prosperity and tightening money rates.

It would be unrealistic to deny that these represent very real practical difficulties, and certainly they have constituted a major setback to the Treasury in its plans to put the Federal debt on the sound permanent basis it wants to see it. But when political opponents and other critics of the administration employ the term "crisis" to describe this situation, publicly lament the danger of rising Government interest costs and speak darkly of the "threat to Government credit," they are being even more unrealistic.

Interest charges on the Federal debt amount at the present time to roughly $7 billion a year, and certainly this is a very substantial figure, judged by historic standards. But let us keep things in perspective. Only a very small fraction of that figure is attributable to the present and recent high cost of money. Lest we forget, the Federal debt, which is now in the neighborhood of $280 billion, was only $50 billion as recently as at the end of 1940. No nation can increase its public debt by nearly fivefold, even under artificially easy interest rates, and not expect a pretty spectacular rise in that part of the budget representing interest.

What is the answer, then? If you are to believe those critics who, one suspects, are less worried by the Government refinancing problem than the inconveniences to which they find themselves subject as a result of tight money it lies in a return to cheap money. There is no question that such a program would help simplify the immediate problems of the Treasury; but to stop there is to consider only one side of the balance sheet.

The purpose behind the current policies of our monetary authorities is the prevention of all-out inflation. As against the effect of a restrictive monetary policy in this $7 billion annual figure, it is necessary, therefore, to consider for a moment what a removal of the anti-inflation brakes could mean in terms of Government costs as a whole.

A glance at the most recent figures on the gross national product shows spending on goods and services by the Federal Government alone to be running currently at an annual rate of approximately $50 billion a year. A rise in prices and living costs, everything else being equal, therefore would mean an increase of $2.5 billion in this figure; a price inflation of 10 percent would mean an increase of $5 billion, and an increase of 14 percent would raise it by $7 billion, the amount of the total "burden" of carrying the public debt.

This is the simple basic arithmetic behind the fact that, while the Treasury may not be particularly happy with conditions as they are, it realizes that, though it may not be able to finance, for the time being, on as favorable terms as it would wish, it is not complaining about the Federal Reserve Board's monetary policies. And it is not complaining because it knows that despite the immediate cost of those policies they represent the best insurance man has yet devised against the infinitely more costly danger of inflation.

Senator MARTIN. Mr. Secretary, the Senator from Oklahoma in the course of his interrogation gave me the impression that he felt the recent rising trend of interest rates might go on into the future for an almost unlimited period.

It was my understanding that he made certain calculations or asked you to make certain calculations on the assumption that all of the outstanding debt be refunded at present rates or even higher rates.

Do you believe that it is reasonable to assume a continuation of the present interest rate level or a continuing increase in that level for the next few years or indefinitely into the future?

Secretary HUMPHREY. No; I think that it is apt to be very misleading and contrary to historical fact, to pick any particular trend line and say it is going to continue for any particular period.

The trend moves in a jagged line rather than in a straight line.

Senator MARTIN. And the Government moves along similar lines to business movements and individual movements?

Secretary HUMPHREY. That is exactly right. Pressures develop, and counteracting pressures develop with them, and after a while the counteracting pressures have an influence on the original pressures, and you move back in another direction.

So that I personally do not think there is any reason to expect that there will never be any change in the present direction. As a matter of fact, as I said yesterday, I think there is every reason to expect that we will fluctuate in the way in which we move forward.

Senator MARTIN. Mr. Secretary, have savings been low during the past 4 years?

Secretary HUMPHREY. No. I think savings have been high during the past 4 years.

Senator MARTIN. In your statement, you made a point which seemed very important to me. You say that the higher interest rates paid in the past few years have encouraged greater savings.

During the 4 years 1953 to 1956, inclusive, our people saved more, both in terms of dollars, $75 billion of personal savings, compared to $56½ billion in the preceding 4 years, and in relation to disposable income, 7.1 percent as compared to 6.4 percent, respectively, in the 2 periods.

I feel very strongly that the only way we can improve our living standards is through increased productivity, and the only way we can increase productivity is by increased savings, and the investment of those savings in new tools, machinery and equipment which enable the working man to produce more goods per hour.

Now, that was discussed yesterday. Would you go just a little further into that, Mr. Secretary, because I feel that it has a very important bearing on the possible conclusions of this committee.

Secretary HUMPHREY. Well, savings, Senator Martin, are stimulated, first, by earnings. When there are good earnings, and good employment, then savings are stimulated. Also stimulating savings are better rents for the money, which is interest, a better return on the money. And another necessary element is a feeling of security in the value of the principal.

If you do not have any earnings, why, you do not have anything to save. If you do not get any rent for your money, why, it is not worthwhile.

If you have saved money, even though you have it and you can get high interest, if you are fearful that your principal will not be returned to you, you will not continue to save. You spend the money and turn it into goods if you are afraid the value of the money will shrink away.

So that it takes a combination of those things to stimulate savings; and when you have such a condition of affairs, that is when savings move up.

Now the whole world is short of savings, and the whole world is short of capital. This is not just in this country alone, but everywhere in the world.

Senator MARTIN. Well, Mr. Secretary, we are having inflation all over the world, practically every nation.

Secretary HUMPHREY. Many countries have inflation that far exceeds our own.

Senator MARTIN. That is right.

Secretary HUMPHREY. And where inflationary pressures are far greater. There are many countries in rather serious condition.

They also are short of money. They are short of funds. They all want to buy more tools, more equipment. They all want to supplement their labor with physical aids of one kind or another—power, machinery, and transportation.

There is hardly a country in the world which has not been here seeking help from us, as well as in their own fields, to get more capital to invest in more tools to make more and better jobs.

Our job is to see that we have enough in this country. We have a million more people coming to work every year. There is no way in the world that anybody can make the kind of wages that we pay in this country unless he can earn them. You cannot get more than you can earn except over a limited period.

And if you are going to earn the high wages we pay here, you have to have tools. You have to have equipment to work with. You have to have all of the things that our modern inventions have provided to work with to give you the earning power to permit the kind of wages we want in this contry and the kind we ought to have, and to maintain and increase our standard of living.

Senator MARTIN. Thank you, Mr. Secretary.

In the discussion yesterday, there was some colloquy about the relative rates of savings in relation to disposable income during this administration and the preceding 4 years. Emphasis was placed, however, on only 2 preceding years.

I note that in 1947, savings as a percent of disposable income were only 2.4 percent; in 1948, only 5.3; in 1949, only 4 percent; and in 1950, only 5.9; as compared to an average of over 7 percent during the past 4 years.

I am particularly impressed with the rate of savings during the past 4 years, in view of the fact that savings are almost high in a period of war, and generally decline thereafter as they declined from 25 percent of disposable income in 1944 to 2.4 percent in 1947.

The fact that savings for the past 4 years are higher, represent a larger proportion of disposable personal income than in the preceding 4 years, is doubly remarkable.

Secretary HUMPHREY. Of course, Mr. Senator, when you have as we have had in previous times, periods when you have limited goods that you can buy, and controls on what you can spend, why, naturally those conditions tend to increase savings rather than spending.

Senator MARTIN. Mr. Secretary, has credit been unduly curtailed during the past 4 years?

Secretary HUMPHREY. I think not.

Senator MARTIN. I would like to read these figures, and you correct me if they are not right, if I am incorrect:

First, contrary to the impression that some people seem to have, the amount of credit has not been reduced in the last 4 years, but substantially increased. It increased $146.5 billion from December 31, 1952, to December 31, 1956.

As I would figure that, it would amount to an increase in 4 years of about 23 percent. Are those figures, which I have given you, correct?

Secretary HUMPHREY. I think that is correct. It is up about a quarter, I would say.

Senator MARTIN. About 25.

Now, I would like to make this statement: The fact is that approximately 93 percent of this additional credit came from savings, and that only 7 percent came from an expansion in the money supply, and on page 36 of your statement you point out that this compares with 88 percent from savings and 12 percent from the expansion in money supply in the period 1948–52, and only 75 percent from savings and 25 percent from increased money supply in the period 1944–48?

Secretary HUMPHREY. That is correct.

Senator MARTIN. Mr. Secretary, I have been impressed, while listening to these hearings, with two related items; namely, (1) the extent to which inflation robs almost all of our people; and (2) the importance of personal savings as an anti-inflationary force.

Most individuals endeavor in one way or another to provide for their later years. Millions have sought protection through life and other forms of insurance. Many persons are covered by private pension plans, social security, retirement systems, and so forth.

In addition, the Government has instituted a series of programs to aid the less fortunate, including aid to dependent children, to the blind, the disabled, and veterans.

Mr. Secretary, do you not think there is a strong national interest to protect these private and public programs of insurance and protection of the individual?

Secretary HUMPHREY. I certainly do.

Senator MARTIN. Do you think it is more important that those dependent on these various programs should be protected by a relatively stable price level, or that interest costs should be artificially kept down?

Secretary HUMPHREY. Well, I think that the movement of interest is one of the principal things which helps to protect them, and I think they are the people who are least able to look after themselves, and they are entitled to the maximum of protection that we can give.

Senator MARTIN. Mr. Secretary, I am not asking you to verify these figures, because these are figures that I have secured from the various bureaus downtown, and I feel they are accurate.

There are 106 million life-insurance policyholders as of December 31, 1956. Are these savers?

Secretary HUMPHREY. They certainly are.

Senator MARTIN. Mr. Secretary, there are 14 million persons covered by private pension plans in 1956, according to the Department of Health, Education, and Welfare. Do you consider these as savers?

Secretary HUMPHREY. They are.

Senator MARTIN. Mr. Secretary, there are 10 million persons receiving social-security benefits in June 1957.

Secretary HUMPHREY. They are.

Senator MARTIN. Mr. Secretary, there are 2½ million persons receiving old-age assistance.

Secretary HUMPHREY. They are interested, they are very interested, in the protection of the value of the dollar, but I do not know whether you would call them——

Senator MARTIN. They would be very greatly damaged by deflated dollars.

Secretary HUMPHREY. That is correct.

Senator MARTIN. There are over 600——

Secretary HUMPHREY. And I think that also is true of the preceding classifications.

Senator MARTIN. That is correct.

There are also over 600,000 families receiving aid for dependent children. They would also be adversely affected by deflated dollars?

Secretary HUMPHREY. That is correct.

Senator MARTIN. There are over a hundred thousand receiving aid to the blind, and they would be greatly damaged by a deflated dollar?

Secretary HUMPHREY. That is right.

Senator MARTIN. And there are almost 300,000 receiving aid for total and permanent disability. They would be adversely affected by a deflated dollar?

Secretary HUMPHREY. That is correct.

Senator MARTIN. There are 1,165,855 veterans drawing pensions as of March 31, 1957. They would be greatly affected by a deflated dollar?

Secretary HUMPHREY. They would.

Senator MARTIN. And there are over 2 million veterans receiving compensation for service-connected disabilities. They would be adversely affected by a deflated dollar?

Secretary HUMPHREY. They would.

Senator MARTIN. And their survivors, about 385,250—they would be affected by the deflated dollar?

Secretary HUMPHREY. Everyone who has a fixed dollar income is adversely affected by the shrinkage of the dollar.

Senator MARTIN. Well, you have in addition to that, those receiving railroad pensions, pretty nearly 700,000; civil-service retirement, 270,000; military retired status, almost 200,000. They would all be affected?

Secretary HUMPHREY. They are all affected.

Senator MARTIN. I am told that there are about 40 million holders of E-bonds.

Secretary HUMPHREY. That is correct.

Senator MARTIN. And of course they would be affected by a deflated dollar.

Secretary HUMPHREY. That is right.

Senator MARTIN. Now, that adds up to 180,755,592.

I realize that there are a great number of those that are in two categories.

Now then, we have in the United States 52,539,396 savings accounts, and they would be affected?

Secretary HUMPHREY. That is correct.

Senator MARTIN. And that should, of course, be added to the 180 million that I indicated a moment ago, with of course many duplications in that total figure.

Mr. Chairman, I would like to introduce into the record at this time an editorial from the Wall Street Journal which the Senator from Oklahoma and all of us read, sometimes very critically, and sometimes—it all depends on whether we approve of what it says.

But this editorial, the subject is "The Forgotten People," and they go into what I have just discussed. I would like to have it printed in the record.

The CHAIRMAN. If there is no objection, it is ordered.

(The editorial referred to is as follows:)

[Wall Street Journal]

REVIEW AND OUTLOOK

THE FORGOTTEN PEOPLE

Almost everybody is now familiar with the fact that when the monetary authorities take to the printing press the victims of this generosity are the citizens of modest means who depend on their insurance, their pension funds, and their personal savings to safeguard their future.

Almost everyone, that is, except some politicians. If, in President Roosevelt's solicitous phrase, there are any forgotten men, they are the ones who during his administration were beguiled by the dream of "How to Retire on $100 a Month" and, let us say, entrusted their savings to the bonds his Treasury was then selling in large number. Those people, at any rate, have learned the difference between money and a paper dollar.

Curiously, these are still the forgotten people. Today the villain of many a politician is something called hard money, meaning simply that of late the supply of it has been kept fairly stable while the demand for it has been growing. Result: Those who would borrow must pay a higher price.

To a great many politicians this is just a nefarious plot to enrich somebody called the bankers. It is supposed to be all the fault of the Government's monetary policy—why is it so stingy about printing dollar bills?—and it is supposed to be a terribly wicked thing to do to the little people.

That is one reason why we hope some attention will be paid to the remarks of Secretary Humphrey to the Senate Finance Committee. Among other things, Mr. Humphrey reminds the Senators that not all of their constituents find hard money a hardship.

Most people are savers as well as borrowers; unlike their Government, the generality of Americans still attach some virtue to thrift. Many people have savings in bonds of the Government of the United States. Many have their money in banks, in savings and loan associations, and in insurance annuities. Many are taking a part of today's pay in contributions to pension funds for the future.

As far as these citizens are concerned, the bankers, the insurance companies, and the managers of the pension funds are trustees. But the real trustees are the Government's managers of money, including the Secretary of the Treasury. The bankers, the insurance companies, and the pension managers will pay out dollar bills tomorrow, as scheduled. The value of those future dollars depends on the money managers.

Mr. Humphrey points out, as is true, that these citizens may profit directly from higher interest rates; the brokers of money will pay the citizen more to save his money. But that is only a small part of the point. The real gain is not in the higher interest rate itself, but in the reason for the higher interest rate—namely, the fact that so far the money managers have resisted the temptation to make money cheap by cheapening it.

Governments being what they are, we cannot say how long that resolution will be held. But at least the Senators have learned there is one Government official who remembers their forgotten constituents.

Senator MARTIN. Mr. Secretary, of course we have, on the other side, the number of borrowers. These others are pretty generally savers.

Of course, there is much duplication in this, but I feel it is only fair that it be inserted in the record.

There are 121,209,300 who we would term as borrowers in our country. Of course, they are interested in a low interest rate; but, on the other hand, Mr. Secretary, should they not also be interested in stability—that when they arrange a loan, they figure the future is stable?

Secretary HUMPHREY. I think that stability is a very great benefit to all of the people, with the possible exception of very agile speculators.

Senator MARTIN. I feel that is a very true statement.

Yesterday, Mr. Secretary, my good and distinguished friend from Oklahoma spoke about banks requiring the borrower to keep a certain percentage of the loan that he receives in the bank.

Is that not just a business practice which has gone on over the years? It is not just forced, but if a man expects to get accommodations from a bank, he is expected to do his business at that bank?

Secretary HUMPHREY. That is correct. It has been in vogue for a long time in varying degrees.

Senator MARTIN. Yes, that is correct; there is no question about that.

Now, Mr. Secretary, we will take up another line.

Is it not true that the total supply of goods and services did not increase as fast as the total supply of credit and money which entered the market for those goods?

Secretary HUMPHREY. I think that is right.

Senator MARTIN. In the current market, products and services generally are scarce only in the sense that they cannot be bought at lower prices or those of a year ago?

Secretary HUMPHREY. Well, wherever prices have advanced, of course they cannot be bought for the same prices they had a year ago, and that affects a lot of goods.

Senator MARTIN. The price of goods has gone up because of increased costs of wages, raw materials, transportation, and so forth; is that not correct?

Secretary HUMPHREY. I think cost is at the bottom of it, and cost and demand are the two things, I think, that most largely affect price.

Senator MARTIN. Inflation should not be applied to any particular product or products, but relates to the whole economy, all types of goods, and so forth?

Secretary HUMPHREY. That is what we are talking about; yes, sir.

Senator MARTIN. Mr. Secretary, I have some statistics taken from the June issue of Economic Indicators; and I would like at this time, Mr. Chairman, to read these and ask the Secretary to make whatever comment he may desire to make.

Gross national product increased from $390.9 billion in 1955 to $412.4 billion in 1956, and $427.1 billion rate in the first quarter of 1957, a 9.3 percent increase in the period from 1955 to the first quarter of 1957.

Personal consumption expenditures increased from $254 billion in 1955, $265.7 billion in 1956, and $275 billion rate in the first quarter of 1957, an 8.3 percent increase from 1955 to the first quarter of 1957.

Compensation of employees increased from $223.2 billion in 1955, to $239.1 billion in 1956, and $248.7 billion rate in the first quarter of 1957, an 11.4 percent increase, 1955 to first quarter 1957.

Disposable personal income increased from $270.6 billion in 1955, $286.7 billion in 1956, to $295.4 billion rate first quarter 1957, a 9.2 percentage increase, 1955 to first quarter 1957.

How do these rates of increase compare with actual production rates of goods and services covered by the Consumer Price Index?

Secretary HUMPHREY. Well, you mean how does the increase in wages and total income compare with the increased production?

Senator MARTIN. If you want to compile that and put it in the record——

Secretary HUMPHREY. I think that is what we had better do, because this will take a little computation, Senator, to figure it out.

Senator MARTIN. I think it is very important the committee have it when we go——

Secretary HUMPHREY. If we may do so, we will figure it out and I will bring it back and put it in the record.

(The information referred to is as follows:)

Increases in selected economic indicators, 1955–57

[In billions of dollars]

	Calendar year		1957, 1st quarter (annual rate)	Percent change, 1955–57, 1st quarter
	1955	1956		
Gross national product	390.9	412.4	427.1	+9.3
Consumer expenditures	254.0	265.7	275.0	+8.3
Disposable personal income	270.6	286.7	295.4	+9.2
Compensation of employees	223.2	239.1	248.7	+11.4

Senator MARTIN. While the means taken to check inflation have helped to cause rising interest rates and increase the total interest outlay of the Federal Government, is it not practically certain that the checking of inflation has saved the Government much more money in its other expenditures than it has had to pay out in additional interest?

Secretary HUMPHREY. Many times.

Senator MARTIN. Is this not true, also, of nearly all other borrowers, including State and local governments, business concerns, and individuals?

Secretary HUMPHREY. It is true for everyone.

Senator MARTIN. Should not special measures designed to sustain or stimulate particular parts of the economy be reserved largely for use in times of lessened business activity?

Secretary HUMPHREY. What is that?

Senator MARTIN. Should not special measures designed to sustain or stimulate particular parts of the economy be reserved largely for times of lessened business activity? For example, Mr. Secretary, many have advocated over the years that Government ought to do its work when things are down, and, when things are up, should leave that for individuals and private industry.

Secretary HUMPHREY. I think, of course, it is always helpful if Government expenditures, such as can be postponed, do not compete in times of high activity in the private economy, because it simply puts that additional pressure on the private economy.

That does not mean that you can suspend Government operations, but it does mean that anything the Government can do toward leveling out its own activities is a very helpful thing, because it removes part of the competition for men and materials and money.

Senator MARTIN. There was a school of thought in governors conferences several years ago, and you will note that the President, in speaking to the governors conference Monday evening, suggested that, if the States would assume some of these liabilities, it would decrease the cost to the Federal Government.

Of course, the unfortunate part is, the Federal Government has the choice of taxes, and then what is left goes back to the States and the local government. That is an unfortunate situation.

A few years ago—they are talking now about a conference—the chairman and myself and a few others met in conferences for 2 or 3 years, I think, Mr. Chairman, trying to work out something along that line, but it was most difficult to accomplish anything. I am not sure but that you, too, Senator Kerr, might have been on that conference at one time.

Mr. Secretary, is it not ture that interest rates have risen materially in other countries as well as in the United States?

Secretary HUMPHREY. It is true.

Senator MARTIN. Is it not true that higher interest rates benefit millions of savers, both as to interest returns and protection of savings from depreciation resulting from inflation? We discussed that a little in detail, but I wanted to——

Secretary HUMPHREY. That is true; yes, sir.

Senator MARTIN. It is helpful, really, as to both?

Secretary HUMPHREY. That is right.

Senator MARTIN. Do changes in interest rates in themselves have much effect in restraining or stimulating borrowing by business concerns?

Secretary HUMPHREY. Over a period of time, I think they do. None of these things are effective immediately. There is a lag in the effect that they have, and, over a period, they will become effective.

Senator MARTIN. Would a material increase in savings relieve tight-money conditions?

Secretary HUMPHREY. It would.

Senator MARTIN. Have the actions of the Federal Reserve and the Treasury encouraged or discouraged savings?

Secretary HUMPHREY. We are trying to do everything we can to encourage savings. We believe that our activities are encouraging to savings. We think we have the conditions under which the stimulation of savings is best promoted.

Senator MARTIN. Mr. Secretary, do you think a year-by-year inflation of 2 or 3 percent would discourage savings?

Secretary HUMPHREY. Well, Senator, I do not believe that there is any way you can have a creeping inflation. I just do not believe there is any power which will permit you to be just a little bit inflated all the time. I think, if you pursue that course, and unless you attempt to reverse that course, it will get beyond control.

It has been the history of every country in the world, so far, that it has been impossible to have just a little bit of controlled inflation.

Now, over a long period of time, prices may rise. But what usually happens is that the quality and kind of goods so change that it is almost impossible to get longtime price comparisons.

Senator MARTIN. Of course, Mr. Secretary, there are a lot of individuals, corporations, and so forth, that like easy money. For example, we talk about housing. Men who are building houses now are complaining of tight money because, of course, if we have easy money, their sales are easier. I am just using that as one example. There are many others.

Secretary HUMPHREY. If you could just have the benefits of easy money without the obligations and the detriments of easy money, why, of course, everybody would like it.

Senator MARTIN. Just like everybody now wants to curtail, they say, Federal expenditures. They want to reduce the budget. But, in my letters, I get a very good letter to reduce expenditures, and then in the last paragraph, "But we need——."

Secretary HUMPHREY. "But not for me."

Senator MARTIN. "We need to build a dam here for flood control on this," and I am talking about Pennsylvania people now; I am not referring to anybody else. Would not, if we had a little inflation every year, would that not make it harder and harder to finance the public debt?

Secretary HUMPHREY. It would. I think controlled, creeping inflation is just an idle dream. I do not think you can control it to have it come out that way. And I think it is a good deal like taking just a little dope.

Senator MARTIN. One highball may not be so bad, a lot of doctors prescribe that; but when a fellow takes several, he is in trouble.

Senator ANDERSON. What was the answer? I did not hear you. [Laughter.]

Secretary HUMPHREY. I think the answer should be, the witness is disqualified. [Laughter.]

Senator MARTIN. Mr. Secretary, do you believe the average saver is just as interested in maintaining the value of his savings as he is in the interest rate he will earn, or even more so?

Secretary HUMPHREY. He is even more so.

Senator MARTIN. Mr Secretary, has your Department ever figured the real net return to investors, say, on E-bonds or any other bonds, Government or private, taking into account also the effect of inflation?

Before you answer that, I would just like to use this illustration: A $750 investment in May 1942, was to mature in May 1952, with a value of $1,000, or an effective interest rate of 2.9 percent.

In 1952, what do we find? To get an equivalent value to the $750 of 1942, the investor would have to get about $1,400, but he got $400 less. Also, out of the $250 cheaper dollars earned as interest, the lowest income-tax payer would have had to pay about $50 in income tax. So he actually only got $950, compared to $1,400 necessary to equalize his $750 investment value in 1942.

The $950 repayment represents about a $450 loss in real purchasing power. It figures out that that investor, instead of making a real rate of return of 2.9 percent on his investment, that small investor has lost about 2.9 percent a year, instead of a gain.

Secretary HUMPHREY. Well, I think that again, if we might have the privilege of checking it out, it would be desirable.

Senator MARTIN. If that is agreeable with the chairman.

Mr. Chairman, I have been talking about the high cost of Government and of inflation, and a young farmer stopped me some time ago and said, "I would like to give you a good illustration."

He said, "Ten years ago, I bought a bond, paid $750 for it. The other day I cashed it, and got my $1,000. When I bought that bond in 1942, I could have bought a Ford car or Chevrolet. Now," he said, "it won't buy half of a Ford or Chevrolet."

And I thought it was a very, very good illustration of what inflation does to us.

But you will give us your calculation?

Secretary HUMPHREY. I will.

(The information referred to is as follows:)

The attached table illustrates the net effect of inflation between May 1942 and May 1952 on the purchase of a series E savings bond—or any other fixed dollar obligation, like a corporate bond, a municipal bond, or a savings account.

Restoration of confidence in the purchasing power of the dollar is an added incentive to save in all of these forms of investment.

Effect of inflation on a $750 investment at 2.9 percent made in May 1942 and maturing in May 1952

	Without price adjustment	Consumer prices (May 1942=100)	Adjusted for price changes
		Percent	
Cost (May 1942)	$750	100.0	$750
Value at maturity (May 1952)	1,000	162.8	614
Gain or loss (−)	+250	+62.8	−136
Effective interest rate,[1] (percent)	2.9		−2.0

[1] Compounded semiannually.

Senator MARTIN. Mr. Secretary, I think we have this, but I think it is important to have it clearly:

How many holders of E bonds do we have?

Secretary HUMPHREY. I think it is about 40 million.

Senator MARTIN. I think that is right. I think that is what we have.

Mr. Secretary, do you not think these investors are far more interested in protection of the capital investment than in the cheap money, low interest rates, advocated by many?

Secretary HUMPHREY. Well, I believe it is far better for them.

Senator MARTIN. When they would understand the situation as to what it means, they would be much more interested in their investment than they would be in the interest rate?

Secretary HUMPHREY. In the stability of their investment.

Senator MARTIN. That is right.

Secretary HUMPHREY. Yes.

Senator MARTIN. Mr. Secretary, is it not the purpose of restrictive monetary and credit control to protect these savings as well as all other savings?

Secretary HUMPHREY. That is the purpose of it.

Senator MARTIN. Does not the experience after World War II teach us artificially induced low interest rates and swollen credits at any time, must be paid for by inflation?

Secretary HUMPHREY. I believe that is inevitable.

Senator MARTIN. Is this not, in effect, a kind of defrauding of all who make savings provisions of any kind?

Secretary HUMPHREY. Well, it is an injury. I do not know that you can say there is a fraud, but it certainly is an injury.

Senator MARTIN. I am using the word "fraud" because a very fine economic commentator made the statement, I just read it last night, that he considered it the greatest swindle that was ever imposed upon the American people.

Now, I would not want to go that far, but it shows how many people are beginning to think about these things.

Mr. Chairman, I am having a tabulation or an estimate made which will show the many billions, several hundred billions, perhaps, which have been lost by all who have saved since the inflation began in the early 1940's to date, and I hope I may present it to the committee and for the record. The effect of inflation upon millions of our citizens is appalling to contemplate.

I would like to submit it at a later date.

Mr. Secretary, have you any comments to make on the large numbers of bankruptcies which have been referred to in these hearings?

Secretary HUMPHREY. No; I think not. I think that the bankruptcy and failure figures were brought out. Most of these bankruptcies weren't business failures.

There are other failures than just business failures. And I think we had those figures all put in the record the other day.

Senator MARTIN. Mr. Chairman, I appreciate your courtesy in permitting me the opportunity of examining the Secretary of the Treasury.

And, Mr. Humphrey, I want to thank you for your help and, I think, the fine and intelligent manner in which you have answered these inquiries.

Mr. Chairman, in my opening statement I said that I hoped this committee, and I felt that we would because we represent so many different ideas of political philosophy and things of that kind, that we would get together and make some recommendations which would be helpful to our country.

Because the fact is, Mr. Chairman, the greatness of our country, the reason we have been able in less than 200 years to clear out a wilderness, to cut the timber and put it into useful purposes, to explore the mines, to build bridges across these great rivers, it has all been done because the people had an incentive to save their money and to put it into things that would be useful for all our people.

Mr. Chairman, there never has been anything like it in the world. And, personally, I feel that it is because of the free economic policy that we have enjoyed in our country.

Of course, we have had a hard-working, thrifty people, and again, I feel that we will be able to make some recommendations which may be helpful in stabilizing our economy.

Personally, I feel that the great danger in our Nation today is too much government. We have too much government at all three levels, the Federal, the State, and local. But it is largely because the people demand it.

In our country, it is we, the people, who are the Government. And if we can arouse, in this committee work, if we can arouse a greater interest in the financial condition of our country, and the individual responsibility, I think this hearing will be very well worth while.

Thank you very much.

The CHAIRMAN. Thank you, Senator Martin.

The Chair recognizes Senator Frear.

Senator FREAR. May I inquire of the chairman how long we will run or propose to run today?

The CHAIRMAN. We will run so long as the situation in the Senate permits. There will not be an afternoon session.

Senator FREAR. We will not have an afternoon session?

The CHAIRMAN. There will not be an afternoon session. I have not been advised as to whether there will be a calendar call.

If they call the calendar, I assume we can run until noon.

Senator FREAR. Mr. Chairman, I hate to delay this, but would you permit me a few minutes to take some figures over the telephone before testimony, with the permission of the Secretary?

Senator BENNETT. Mr. Chairman, I suggest we take a 10-minute, seventh-inning stretch.

(Short recess.)

The CHAIRMAN. The committee will come to order.

The Senator from Delaware, Senator Frear, is recognized.

Senator FREAR. Mr. Secretary, before starting to ask my few questions, I want to reiterate a statement I made on previous occasions, and that is that I have great respect for your ability in business, your devotion to America, and as Secretary of the Treasury.

In spite of our differences, I believe you have made an outstanding and enviable record as Secretary, and personally, I am sorry that you are resigning.

Last Wednesday, I believe, you stated in your testimony during Senator Byrd's questioning that, and I quote:

Pressures of inflation increased during the last 12 months due to higher income and greater desires for goods and services.

Is it not true that there is a surplus in most all goods, especially farm products, automobiles, most types of steel, household appliances, soft goods, and others?

Secretary HUMPHREY. They are beginning to be looser, in freer supply all along the line.

Senator FREAR. You did give to the Senator from Oklahoma yesterday, I believe, those goods that were not in surplus.

Secretary HUMPHREY. I gave him a list of various things that had not been in surplus, and various dates when they were not.

Over the past 3-year period, I think.

Senator FREAR. Yes, sir.

If I remember correctly, during the hearings on the Internal Revenue Code of 1954, when you appeared before this committee, you testified that it was your opinion, I believe, that in lieu of increasing personal income taxes as a reduction to taxpayers generally, you thought it better to give a reduction in taxes to corporations or to large businesses in order that that money might be used to increase the facilities of production of this country.

Secretary HUMPHREY. Well, Senator, the tax reduction at that time was largely to individuals. It also went clear across the board.

Now, I think perhaps the testimony you are referring to might be at the time we took off the excess-profits tax. You remember that was scheduled to come off first under existing legislation.

But you see, the corporation tax was not reduced. The taxes reduced were the individual taxes.

Senator FREAR. I am going to get into taxes a little bit later in your testimony.

Secretary HUMPHREY. I am talking about rates.

Senator FREAR. Later in your testimony.

What I am trying to gather now is this: Is it or is it not true that it was your opinion at that time that in lieu of greater tax reduction to the individual, we should take into cognizance that if we do give any tax reduction, it should go to the people who have facilities for increasing production?

Secretary HUMPHREY. Well, I do not know that I can recall the figures now, but just roughly, that was about $7 billion of tax reduction involved.

Senator FREAR. Let us not get into that, Mr. Secretary.

Secretary HUMPHREY. Now, you——

Senator FREAR. Really, I want to get down to questioning on that, and I am afraid this will not bring out the point I am leading up to right now.

Secretary HUMPHREY. I think perhaps what we had better do is to—if you want to get into the tax field—I might get Dan Smith to come in, who has all these figures. It is awfully hard for me to try to keep them in mind for 2 or 3 years. But, as I recall it——

Senator FREAR. I am going to ask you questions on the $7.5 billion.

Secretary HUMPHREY. I can only answer you by giving you, as nearly as I can——

Senator FREAR. This is your theory or opinion?

Secretary HUMPHREY. No.

Senator FREAR. If I am wrong in that, I want to be corrected.

Secretary HUMPHREY. You are wrong in that. I favored a tax reduction all across the board. I have favored an individual tax reduction.

We did not have a corporate tax reduction in rates. I favored individual tax reductions across the board.

Senator FREAR. Yes, sir.

Secretary HUMPHREY. I figured if we did have an excise tax reduction, then I figured we ought to have some readjustments in the code for particular hardships which affected both individuals and businesses.

Senator FREAR. Yes, sir.

Secretary HUMPHREY. Now, that was by far the smallest part of the total reduction. That was about, as I recall it, all of the reductions in the code revision—all of the readjustments benefiting both individuals and businesses—totaled about $1.4 billion out of the $7 billion.

Senator FREAR. Do you recall—I think it was between you and myself, Mr. Secretary—when we were debating the advantages and disadvantages of raising the personal exemption on income taxes? The Democrats were in the minority and I was sitting over on that side; the light was pretty hard on my eyes over there and I was not quite sure of the reflection of your face at the time.

Secretary HUMPHREY. Oh, yes.

Senator FREAR. And I thought it was your statement, or your opinion, at the time, rather than raising the personal exemption, that if and when we were going to give some tax easement it might first be applied to the producers of goods. That was general.

Secretary HUMPHREY. No, that was the last thing that was applied.

Now, I objected to the increase in the exemption, and I still object to that.

I think that the proper method of tax reduction relates to rates, and I think that rates are the first things to be investigated.

I think that any tax reduction, any proper tax reduction, should go all across the board. It ought to affect every single taxpayer, and every single taxpayer ought to have his share of whatever is done.

Senator FREAR. Yes, sir.

Well, in your refuting that piece of legislation or in your objections to that piece of legislation, did you in any way state that you thought some relief should be given to the producers of supplies and materials?

Secretary HUMPHREY. I think one of the things to be taken into account in balancing out an across-the-board reduction, is the things that will stimulate further activity.

That is one of the elements to consider.

Senator FREAR. Was it not your opinion at that time that we had quite a large reservoir of money in the hands of people that they wanted to spend, and without an ample supply of products and supplies and other manufactured goods in this country, that it would tend to inflate, because they would be bidding against each other for these materials and goods that were available, and rather than to have it that way, that is bidding against each other, it might be better to increase the production of this country to avoid it?

Secretary HUMPHREY. Well, of course, I think that we must look forward in this country to increasing our facilities. We must look forward to increasing jobs; to make more and better jobs is one of the principal objectives of this country, and by having more and better jobs, that is the best way to get more money in the hands of the people.

Senator FREAR. Also during that time, during those hearings, I believe we had the rapid amortization before us, or at least it was discussed at that time——

Secretary HUMPHREY. No. I think you are thinking the right line, but using the wrong words. It was not rapid amortization. That did not come up at that time. That was all done prior to that time, and I was objecting to it, not as part of the law, but in its application.

What we were talking about was a revision of the depreciation.

Senator FREAR. Yes. We did have——

Secretary HUMPHREY. We did revise the method of depreciation.

Senator FREAR. Yes, that was in that code. But during the debate on that, was not rapid amortization brought into the picture at that time?

Secretary HUMPHREY. No.

Senator FREAR. You do not recall it?

Secretary HUMPHREY. I do recall there was no change in rapid amortization at that time at all.

Senator FREAR. Mr. Secretary, I recognize that perhaps there was not any change in that, but during the hearings and during the debate, did we not discuss rapid amortization at that time?

Secretary HUMPHREY. Well, I really do not recall it. I doubt it, Senator, because it was not a subject that would be germane to the issue at all.

Senator FREAR. Sometimes we get off the track a little bit. [Laughter.]

Secretary HUMPHREY. I stand corrected to that extent.

Senator FREAR. But you do not recall any discussion on the rapid amortization?

Secretary HUMPHREY. No, I do not recall it.

As I recall, the situation with rapid amortization was this: That law was passed in connection with the war, and it was for the purpose of——

Senator FREAR. Which war?

Secretary HUMPHREY (continuing). Of providing war materials.

Senator FREAR. Which war?

Secretary HUMPHREY. It was during the Second World War, I believe, that it started.

Senator FREAR. Yes, sir.

Is it not true that we had a rapid amortization or something similar to that in depreciation in World War I, and the World War II situation was somewhat similar to what we had done in World War I?

Secretary HUMPHREY. As I recall it, in World War I, it was done in quite a different way. And then in World War II we had the rapid amortization, and then I took the position, I think, before this very committee, Mr. Chairman, with the chairman's backing, that that should be curtailed, that it had outlived its usefulness and we ought to curtail rapid amortization, and we went to work about 3 years ago to curtail it, and we have curtailed it very materially since then.

Senator FREAR. That was the theory of depreciation that we had in World War I and World War II, was it not?

Secretary HUMPHREY. No. This rapid amortization was a special provision that was outside——

Senator FREAR. When did that come into effect?

Secretary HUMPHREY. I will have to look up the date of that. It was a war measure, and I will find the date and give it to you. (The emergency amortization during World War II was authorized by the Second Revenue Act of 1940, approved October 8, 1940.)

Senator FREAR. Yes, sir.

Now, what did we do to that act in the Revenue Code of 1954?

Secretary HUMPHREY. We did not touch it, as I recall, Senator.

Senator FREAR. Did we do anything to it between World War II and the revenue code change to it?

Secretary HUMPHREY. It was reenacted in the Revenue Act of 1950 for the Korean conflict. Perhaps the chairman can help me. But I do not recall any change in that law at all except what we did, which I instigated, to reduce it, to reduce its application and its use because I thought it was no longer useful, and it had outlived its original purpose, and I recall no change proposed in that law in any way until the chairman introduced a bill here about 2 months ago to curtail it.

Senator FREAR. When did it get the name "rapid amortization"?

Secretary HUMPHREY. At the time enacted.

Senator FREAR. It is depreciation?

Secretary HUMPHREY. No, it is not depreciation; it is rapid amortization to stimulate increased productive capacity.

Senator FREAR. It was done for a specific purpose?

Secretary HUMPHREY. That is correct.

Senator FREAR. As I understood it, it was to stimulate the effort on the part of some of our people to produce war materials.

Secretary HUMPHREY. That is exactly right.

Senator FREAR. And it was mainly for erecting buildings or making machines or something that would be of no use to the domestic economy of the country and only for war purposes?

Secretary HUMPHREY. That was the original understanding.

Senator FREAR. That was the original understanding and that continued on during the Korean war?

Secretary HUMPHREY. Yes, it did.

Senator FREAR. And it has been practically the same except for the modifications, as you suggest and the chairman has suggested since that time?

Secretary HUMPHREY. That continued on until we started its curtailment about 3 years ago in practical application, and closed out one goal after another until it was reduced to say 15 goals or something of that kind from a great many, thus reducing its scope to very insignificant amounts, at the time the chairman introduced a bill of his in the Senate here about 2 months ago, 3 months ago.

Senator FREAR. Yes.

Secretary HUMPHREY. Restricting it to about its present application.

Senator FREAR. What is the difference between the rapid amortization which requires a certificate from the ODM and the changes in depreciation that were made in the Revenue Act of 1954?

Secretary HUMPHREY. Well, it is quite different. The depreciation changes were a method simply of computing the timing on when you got your money back on an investment you had made, that applied to everybody.

Senator FREAR. Yes.

Secretary HUMPHREY. Now, the rapid amortization applied only to special people who were awarded certificates that came within the terms of a narrow law. But the depreciation provisions applied to everybody.

Senator FREAR. And the rapid amortization can only be accomplished through certificates of the ODM?

Secretary HUMPHREY. That is correct.

Senator FREAR. But——

Secretary HUMPHREY. Under circumstances prescribed in that law.

Senator FREAR. Yes. I think they are circumscribed, maybe not too adequately.

Secretary HUMPHREY. That is what I thought.

Senator FREAR. Now, the depreciation schedule as it was passed in the Revenue Act of 1954, did you approve that?

Secretary HUMPHREY. Yes, I did.

Senator FREAR. Do you think either of these acts, because of the utilization at that time, is the cause now of any shortages or oversupplies?

Secretary HUMPHREY. You mean either shortages or oversupplies?

Senator FREAR. Yes, sir. In your opinion, which way did it react, if it had a reaction?

Secretary HUMPHREY. Well, I think the rapid amortization stimulated production of goods that were originally intended for war purposes.

You see the great difficulty of that law was when you get into a war there are a great many things that are applicable to or necessary for the conduct of a war which are not just shells and guns. There are many necessary things in a war economy. So that there were a number of things of that kind that were stimulated.

On the other hand, there were a great many other things that are desirable in the economy that could not participate in it at all and that got no benefit from it. So that you had a cleavage between the people who could get it and the people who could not get it.

Now, while you are fighting a war, you wanted to stimulate the people who were helping particularly with the war, but to carry that on after the war and to have a prejudice against a large number of people who could not get the benefit, and yet who were active in the economy, I thought was improper, and, therefore I fought for the curtailment of its application, which was accomplished.

Now, depreciation is entirely different. Depreciation applies to everybody all the time. That is a part of your regular accounting procedures, and the only change that was made in the depreciation was to permit it to be taken in the early stages over a somewhat shorter period by an alternate system. You could do it either way. You could take it in the regular way or you could speed it up and take it a little faster in the earlier periods than in the later periods.

Senator FREAR. That application is general, as you have stated, just like the proposed application for tax reduction by giving an increase in personal exemption; is it not?

Secretary HUMPHREY. That goes to everybody.

Senator FREAR. It is across the board?

Secretary HUMPHREY. That goes to everybody in business. It is across the board.

Senator FREAR. And you approve of the first but not the second?

Secretary HUMPHREY. When you are giving tax reduction, I think you should cover everybody as widely as you possibly can.

Senator FREAR. Mr. Chairman, if you will permit me, I have several more questions in my mind regarding this, but I want to be sure of a few facts before continuing in this vein. May I proceed with other questions I have and come back to these later if we run over?

Secretary HUMPHREY. Fine.

Senator FREAR. If that is agreeable to you.

The CHAIRMAN. You may ask questions in the order you choose, sir.

Secretary HUMPHREY. Fine.

Senator FREAR. I did not want to interrupt the train of thought of the Secretary.

Secretary HUMPHREY. Well, that is all right.

Senator FREAR. I shall try as best I can, Mr. Secretary, to follow my questions in the manner in which they were presented in your statement of June 18 before this committee. You have a copy, if you want to follow it, it might be better.

I am referring to your statement presented to the committee on June 18, 1957.

Secretary HUMPHREY. Yes.

Senator FREAR. And all questions, when I refer to the statement, will mean this one, sir.

Secretary HUMPHREY. That is right.

Senator FREAR. You have family income at $5,200 as of the average. That is the first line.

Secretary HUMPHREY. Yes.

Senator FREAR. Does that include farm families?

Secretary HUMPHREY. I believe it is all families.

Senator FREAR. That is all families?

Secretary HUMPHREY. Yes.

Senator FREAR. Now, you stated farm income per worker. That is in the second full paragraph, farm income per worker last year was $1,762.

Secretary HUMPHREY. Yes.

Senator FREAR. Why did you use "worker" in the paragraph referring to farmers when you did not in the overall?

Secretary HUMPHREY. Well, it is because it is that way in the tabulations, in the tables.

Senator FREAR. Which does it mean, sir?

Secretary HUMPHREY. Well, it is just what it says. It gives the farm income per worker.

Senator FREAR. Well, what was the farm income per family in 1952? Was it $1,862 or $5,200? That is what I am trying to determine.

Secretary HUMPHREY. Is what?

Senator FREAR. Which of those two figures was it?

Secretary HUMPHREY. $5,200 is every family. That is in the tabulation, that shows of all families in America.

Senator FREAR. Then there were more workers in the farm family than in the industrial family?

Secretary HUMPHREY. Well, not necessarily. You see, there is an average figure. This does not say that every family has it. So there are families below this and there are families above it.

Senator FREAR. Then the $5,200 applies to all families?

Secretary HUMPHREY. That is correct.

Senator FREAR. But when we get down to the other, the farm income per worker was $1,862. That is per worker?

Secretary HUMPHREY. That is per farm worker.

Senator FREAR. But the farm income per family averaged $5,200?

Secretary HUMPHREY. No, not the farm income. That is both city and farms, all the families.

Senator FREAR. Yes, sir. Well, that is what I meant to say, if I did not put the question properly.

Secretary HUMPHREY. Now, perhaps the farm income per family might have been the same as the farm income per worker and the average would still be this as it is offset by higher city family earnings.

Senator FREAR. That is what I want to find out.

Secretary HUMPHREY. Or maybe there are two workers in the family. The two figures are not comparable because the two tables are not comparable.

Senator FREAR. Yes, sir. I am trying to understand them.

Secretary HUMPHREY. I do not know how we can get them comparable because the figures in the tables are not comparable figures.

Senator FREAR. If it is within the realm of possibility, and not too much trouble, would you give me the average farm family income?

Secretary HUMPHREY. We might get that from the Department of Agriculture. I do not think you can get it out of these figures, but we might get it from them. We will see.

When the following was subsequently received for the record it was further discussed. (See p. 271.)

DEAR SENATOR ANDERSON: In answer to your question this morning as to estimates of farm income per worker and operators' net per farm income, the Economic Report of the President, transmitted to the Congress January 23, 1957, has a summary table on income of the farm population, 1929–56, which shows farm income per worker as $1,711 for 1955 and $1,862 for 1956. The 1956 figures especially were based on such preliminary materials as were available to us through December at the time, but such changes as we have made since or have in prospect indicate that these are still relatively good figures, with much of the increase in 1956 accounted for by the fact that the estimated average number of farmworkers fell from 8,237,000 in 1955 to 7,869,000 in 1956.

The economic report for January 1957 also carried a preliminary estimate of operators' net income per farm of $2,268 for 1955 and $2,422 for 1956. These figures relate to about 5 million farms in 1955 and to about 4,900,000 farms in 1956.

I have not been able to check the figure of some 7 million farm families which you indicated had been mentioned to you by someone recently. Our estimate as of March 1956 was 4,900,000 farm-operator families and 700,000 farm-laborer families, making a total of about 5,600,000 farm families.

Meanwhile, all of the above figures are of course necessarily tentative and will be subject to some slight changes when we issue our revised farm income estimates based on a complete summary of sales, inventory, and such other check data as we have been able to obtain over the last several months.

These revisions will be released on or about the 16th of July.

Yours very sincerely,

O. V. WELLS, *Administrator.*

Senator FREAR. Now, in your statement you say:

The record of the past 4 years is also one of increased leisure. There has been a 19 percent increase in the amount of time Americans took for their vacations.

My question is, Mr. Secretary, Does this include Members of Congress, the Cabinet, and the President? [Laughter.]

Secretary HUMPHREY. I think, Senator, it includes everybody but the Secretary of the Treasury.

Senator FREAR. That is a fair answer. [Laughter.]

Secretary HUMPHREY. I know it does not work for me, and I will even include the Senators in that too.

Senator FREAR. Well, I wanted you to, sir.

In the second paragraph on page 3 you mention substantial contraction in defense expenditures. It is the third line.

Secretary HUMPHREY. Yes, sir.

Senator FREAR. What were expenditures for defense in fiscal years 1956, 1957, and 1958 estimated?

Secretary HUMPHREY. Well, the contracting was done before that.

Senator FREAR. Yes, sir; but this is—I see.

Secretary HUMPHREY. You see, if you go to 1953, the expenditures were $50 billion. Then they came to $47 billion, then to $40 billion, then to $40 billion, and then to $41 billion, and now to $43 billion.

What this is referring to, Senator, is the fact that we dropped down from a level that we had been at during the Korean war.

Senator FREAR. That is acknowledged——

Secretary HUMPHREY. And the economy withstood that.

Senator FREAR. That is acknowledged, Mr. Secretary. My question: Is not 1958 higher than either 1956 or 1957?

Secretary HUMPHREY. Oh, yes.

Senator FREAR. That is your estimate?

Secretary HUMPHREY. That is correct.

Senator FREAR. And that is the alarming part of it, that it is on the increase, but that is a fact; is it not?

Secretary HUMPHREY. That is a fact; yes, sir.

Senator FREAR. In your statement you state:

> This great widespread confidence of the people in the preservation of the individual freedom of choice, in their jobs—

and so forth. Do you have that, sir?

Secretary HUMPHREY. Oh, yes.

Senator FREAR. Do you think the right to work is a preservation of individual freedom of choice?

Secretary HUMPHREY. Well, I do not know just what you mean. I think this: that in this country, you can work where you want to work. You pick the job, you pick the places where you want to go, the kind of work you want to do. That is the thing you cannot do in Russia, and it is the thing you cannot do in a lot of other countries.

Senator FREAR. Yes. But I would rather——

Secretary HUMPHREY. I would say generally an American has a freedom of choice. He may not get exactly the job he wants to get and perhaps not the pay he thinks he is entitled to, but he has freedom to choose.

Senator FREAR. Well, the right to work is one of the individual freedoms of choice.

Secretary HUMPHREY. To decide what you will engage in and where you will do it.

Senator FREAR. I think that answers the question.

Also:

> The average tax burden of each American citizen went up from $36 in 1939 to $413 in 1952—

what was the average tax burden for each American citizen in 1957?

Secretary HUMPHREY. Well, in 1957—we ought to be able to estimate that right quick. All you have to do is divide the total number of people into the total number of dollars. About $416. It is almost the same.

Senator FREAR. Well, the increase in the average tax burden after the individual tax reductions in 1954, are still about the same then?

Senator HUMPHREY. Well, I would think that would be correct.

Senator FREAR. In other words the individual taxpayers' burden was relieved somewhat in 1954 and now it is back up to where it was back in 1952; is that correct, approximately? You say $416?

Secretary HUMPHREY. Well, yes, I think that is right, because you have a higher income, and the higher the income, of course, as you well know, the more the tax.

Senator FREAR. Yes, sir. We referred to——

Secretary HUMPHREY. On the same amount of money. If you were to take, Senator, the tax paid this year per capita, per average taxpayer, as compared to the tax paid before the tax reduction on the same amount of earnings that he had before the tax reduction, you would find that it would be less, but because he is earning more money today than he was then, he is paying more dollars on the same amount of earnings.

Senator FREAR. Of course, I like those words "tax burden."

Secretary HUMPHREY. I like it, too. You could even say heavy burden.

Senator FREAR. In your statement you mention one of the goals set by the administration with regard to taxes in 1953 was, and I quote—

reducing Federal expenditures to the safe minimum.

That is the second line of the heavy print on page 9.

Secretary HUMPHREY. Yes, sir.

Senator FREAR. What is a safe minimum, in your opinion, as it was expressed by the President? I think they were the words expressed by the President.

Secretary HUMPHREY. Well, that is one of the most difficult things there is to determine in this Government. The expenditures required to give us military security in this world as compared with the threat of our enemies is one of the most difficult things in the world to decide. I myself think that the country is extremely fortunate to have a man like the President, who is so skilled and versed in military affairs and in the threat to security throughout the world, to try to reach this very intangible, indeterminate kind of a thing, to try to prepare, to make sure that we have what is an adequate and not an excessive military posture as compared with what we might have to meet.

Senator FREAR. Well, I agree with you in some respect, I think we are rather fortunate in having the present occupant of the White House as President. However, I agree with you that there is a range of debate in what the safe minimum may be.

Secretary HUMPHREY. There very definitely is.

Senator FREAR. That may differ between individuals.

Secretary HUMPHREY. That is right.

Senator FREAR. And it may differ between generals of the Army.

Secretary HUMPHREY. It does. The generals have all kinds of ideas [laughter], and you have to trust somebody. I think we are very fortunate in having that kind of advice and help in trying to reach a conclusion.

Senator FREAR. Yes, sir.

Is your opinion the same as that of the President? You quoted him here, and I assume that it is; is that true or not?

Secretary Humphrey. He is the best authority I know of.

Senator Frear. Well, you agree with it?

Secretary Humphrey. Well, when I do not know myself, I go to the very best authority there is.

Senator Frear. Your agreement is the same as the President? You agree with him on this?

Secretary Humphrey. I agree.

Senator Frear. You do not always agree with the President?

Secretary Humphrey. Not always.

Senator Frear. But you do on this one?

Secretary Humphrey. Yes, sir.

Senator Frear. I think that statement opens the door to a few other questions, but I am not going to pursue those at the moment, Mr. Secretary, because I know everyone is anxious to get through as rapidly as possible.

Next, in your statement, "Increase the supply of goods," Mr. Secretary, the farmers have increased the supply of goods despite the soil bank, and their—that is, the farmers'—prices are pretty low.

Do you think increased supply of farm products helps to check inflation?

Secretary Humphrey. I do not think you help check inflation by an increase of something that is already in excess supply. Where there is a shortage or a fear of shortage, then I think an increase in supply is helpful. But when you have an excess of supply, the fact that you increase the excess, I do not think is helpful. And that is the case in some of the farm products.

Senator Frear. I am glad to hear that clarified, because in this you do not make that exemption or exception, because it says, "to increase the supply of goods," but you would exempt it where there is an oversupply?

Secretary Humphrey. In general.

Senator Frear. I ask you to refer to your statement, "The debt is being reduced," do you include the amount owed by the Government to the civil service retirement fund?

Secretary Humphrey. I do not know just exactly—I do not think I understand exactly what it is you mean, Senator.

Senator Frear. I am not an authority, but I will do my best to give you the background that I have, Mr. Secretary.

Secretary Humphrey. All right.

Senator Frear. The civil service retirement fund is composed of resources from members of the civil service employees and the Government in some type of a matching fund or a matching program.

Now, the Government employees, that is, those who are in the civil service retirement fund, have deducted from their wages their pension or retirement funds each time they get a check.

Secretary Humphrey. That is right.

Senator Frear. Now, the Government at times pays its part as it has agreed to by statute. Now, then, my question to you is: Does that, when you say the debt is being reduced, does that include after or before the Government made its payment to the civil service retirement fund?

Secretary Humphrey. It is after it made its payment.

Senator FREAR. After it has made its payment?

Secretary HUMPHREY. Yes, sir.

Senator FREAR. Well, now, will you give me for the record the amount of appropriations requested by your administration year by year from 1954 to 1957, inclusive, that is, for the civil service retirement fund?

Secretary HUMPHREY. Yes, sir, we will supply those to you, I think, to save your time.

Senator FREAR. If I might, may I try to help you supply them now? Do you have the 1954 report of the Civil Service Commission?

Secretary HUMPHREY. Whatever figures you have, we will take.

Senator FREAR. I would like Mr. Mayo to look at these figures.

The only difference between the question I asked you, I think and that book, is, and you may not have them, is my statement; was the budget request for those figures and that is what the Government actually appropriated, sir.

Secretary HUMPHREY. I do not see the budget listed here.

Senator FREAR. The budget is not listed, as I say. That is the difference between my question and the book.

Secretary HUMPHREY. I think we would have to get figures outside the book here to answer your question. Would we not have to get the budget figures?

Senator FREAR. My question was on the budget figures, yes.

Secretary Humphrey. Yes. I think we would have to get that.

Let me ask you, Senator, if this is what you mean. Maybe we can answer it this way. Contributions, total contributions, on salary deductions is $570 million plus; Government appropriations is $237 million plus. You are thinking there was a difference?

Senator FREAR. That was for 1 year, but I asked you to go back to 1954. That was the year, I think—the fiscal year 1954, the first year that you claim a full year for a budget, your administration?

Secretary HUMPHREY. That is right.

Senator FREAR. 1954.

Secretary HUMPHREY. And it dropped down very low that year.

Senator FREAR. That is only about $33 million, if I remember, but I am not sure of the figures.

Secretary Humphrey. That is right.

Senator FREAR. But what I want to know is what the budget request was for that year and each of the following years?

Secretary HUMPHREY. We will have to get that. That is not here. We will supply that to you.

Senator FREAR. A great deal of my questioning does hinge on the answers that you are going to give to that, Mr. Secretary, and if we are not going to be able to——

Secretary HUMPHREY. Can I answer your question this way: That these total contributions over the whole life of the fund have been $5.6 billion, in round figures, and payment by the Government so far, all appropriations from 1920 on have been $3.6 billion. So there is a difference there of about $2 billion that is not included in the debt.

Senator FREAR. Yes, sir. But I am attempting to show, Mr. Secretary, that the claims that you have made about the debt is being reduced, when you add these figure in, I think we will get a little different picture.

Secretary HUMPHREY. In other words, if you added in the difference here of about $2 billion. But that is over a 37-year period. Of course, the difficulty in this, Senator, is that it is a great problem as to whether you should do it on an insurance computation.

Senator FREAR. Actuarial?

Secretary HUMPHREY. Actuarial computation as to whether you get a fund that is big enough to cover all your demands or to pay currently.

Now, there are two ways of doing these things. One is the strict actuarial computation. The other one is a sufficient fund to provide against a run of heavy current claims.

Senator FREAR. Yes, sir.

Secretary HUMPHREY. And then a current payment.

Senator FREAR. That is right. But is not this in the statute?

Secretary HUMPHREY. Well, I cannot tell you that. I think it is.

Senator FREAR. You will recall, Mr. Secretary, that last year we, I think, passed a bill, and the President signed it and made it into a public law, that each agency now must contribute its share and include it in its appropriation, rather than having the budget request for the total amount.

Secretary HUMPHREY. For the total, that is correct.

Senator FREAR. It has been in existence, I believe, for 1 year.

Secretary HUMPHREY. That is correct.

Senator FREAR. And I think the ills we had in the past will be corrected by that statute.

Secretary HUMPHREY. But you still have the basic problem, I think, as to whether that share is an actuarial computation or whether it is a share of current expenditures behind a sufficient backlog. You see, you still have that basic problem before you decide, and that is a very difficult problem.

Senator FREAR. Yes, sir. But I believe the statute says, and I may be in error in this, but I believe the statute says that the budget request should include the appropriation to this fund, each year.

Secretary HUMPHREY. On an actuarial basis?

Senator FREAR. It may not, the statute may not claim an actuarial basis.

Secretary HUMPHREY. I do not think it does.

Senator FREAR. But in addition to that, I think the statute also states that it must pay its interest to the fund annually.

Secretary HUMPHREY. Well, I see enough of what you are driving at so we will get the figures and present them to you. I see what you are trying to reach.

Senator FREAR. All right, sir. I think then we had better just hold this until you have your figures, Mr. Secretary.

Secretary HUMPHREY. We will and we can get that for you.

Senator FREAR. With the permission of the chairman and you, Mr. Secretary, we will pass over that, temporarily. I do not want to skip anything, so I want to be sure to mark these, and it will only take a moment.

Secretary HUMPHREY. All right.

Senator FREAR. Mr. Secretary, what is your opinion about a mandatory public debt ceiling reduction?

Secretary HUMPHREY. What is that, Senator?

Senator FREAR. What is your opinion about a mandatory public debt ceiling reduction?

Secretary HUMPHREY. Well, I do not believe, Senator, that a mandatory reduction in the debt ceiling each year would do much good.

Now, that is, perhaps a little inconsistent with my feeling that the present debt ceiling is a proper thing to have, and I have fought to hold to the present debt ceiling because I think that the restraint the present debt ceiling gives to the Executive, to the Congress, to everyone concerned is a very wholesome thing to have, and I think that it is like breaking through a sound barrier; there is an explosion when you go through it, and there ought to be one.

It has weight with public sentiment, and I think it is a deterrent to spending over and above that amount. So, I am in favor of it.

On the other hand, to say that that ceiling ought to be brought down by any specific amount every year, I think, is quite idle, because, after all, what you do each year is pin the hands of the Executive and the Congress, between them, at least, and, ultimately, the final responsibility rests with the Congress. And the Congress I do not believe would be particularly restrained in doing the things they felt were required of them to do by just having some arbitrary elimination going on every year in that ceiling.

Senator FREAR. Well, the President, or the Executive, can go up to the ceiling without authority from the Congress, can he not?

Secretary HUMPHREY. No. Nobody can spend a dollar of this Government's money without the authority of the Congress.

Senator FREAR. Through appropriations?

Secretary HUMPHREY. In any way.

Senator FREAR. But is it not the responsibility of the administration to submit a budget on which appropriations are based?

Secretary HUMPHREY. That is correct.

Senator FREAR. Then the initiative comes from the administration.

Secretary HUMPHREY. Well, the request comes from it, but you do not need to give it to them.

Senator FREAR. Well, they are trying awfully hard not to right now. I do not know how successful we are going to be.

Secretary HUMPHREY. I do not, either.

Senator FREAR. I think you agree with me, Mr. Secretary; I give you great credit for that.

Secretary HUMPHREY. I do agree.

Senator FREAR. And I believe it is something we should go at very sincerely.

Secretary HUMPHREY. I think it should be done with great restraint, and I am for it.

Senator FREAR. But, unless the debt ceiling is reduced in some form or another, we are not going to crack that sound barrier, because it is my opinion that the administration can have complete authority to go up to that, if the Congress approves the appropriations submitted or the requested appropriation submitted by the administration. Therefore, we are not going to get the public sentiment unless we crack the sound barrier, and, if we reduce our ceiling, we are going to call attention to the public more directly; so, therefore, I think they are going to insist we reduce the ceiling rather than leaving it up to the administration and Members of the Congress.

Secretary HUMPHREY. I think there is something in what you say. I have to go along with that, to a certain extent. My feeling about it at the present time is that we are having trouble enough to get within what we have got, and there is not much use lowering it until we get along further. Now, if we happen to get $5 billion below it someday, then maybe I think I would turn around and be on your side.

Senator FREAR. Then the reduction of the public debt is one of the best ways to fight inflation, and that is on page 23 that you say that.

Secretary HUMPHREY. It is a wholesome restriction that I believe in.

Senator FREAR. And you think this would fit into the picture?

Secretary HUMPHREY. On the other hand, I must say there, Senator, it really is not effective except as it affects the psychology of the situation.

Senator FREAR. I think that is pretty effective.

Secretary HUMPHREY. And I think that is pretty important.

Senator FREAR. You do not lay aside the psychology of the American taxpayer, Mr. Secretary.

Secretary HUMPHREY. I certainly do not. I think it is very important.

Senator FREAR. I think you do not, either. I think our opinions are practically the same. In your statement, you say:

> In 1954, in order that the people might benefit from the substantial reduction in Government expenditures, we brought about a tax cut that has provided them with annual savings of about $7.5 billion.

What do you mean by "we" in that statement, Mr. Secretary?

Secretary HUMPHREY. It is right in the preceding few words:

> The Eisenhower administration and the Congress, working together, have already made possible the greatest single tax cut in history. Then we did this.

That is, the administration and the Congress, working together.

Senator FREAR. Includes the Congress and the Executive?

Secretary HUMPHREY. That is what it says, Senator.

Senator FREAR. All right. Now, then, is it not true that over two-thirds of the $7.5 billion were reductions by law enacted during the previous administration?

Secretary HUMPHREY. Well, there were reductions by law, whether it is exactly two-thirds or not, but there were substantial reductions that had been voted previously that we had not yet been able to make good on. Some had been postponed until, as I say here, by the administration and the Congress working together, we made possible the taking effect of those things.

Senator FREAR. Let us analyze that just a minute. What were the reductions that made up the $7.5 billion, as you stated?

Secretary HUMPHREY. Well, what we want are the expenditures.

Senator FREAR. We are talking about tax reduction.

Secretary HUMPHREY. Yes. But the thing that made it possible was the reduction in expenditures, total expenditures. Here they are, Senator: 1953, and I will just read the first figures because that will make it easy, $74 billion; next year, $67 billion.

Senator FREAR. I do not think you understood my question, Mr. Secretary. My question was: What were the reductions, what made up the reductions of the $7.5 billion? That $7.5 billion included certain things. What were they?

Secretary HUMPHREY. You mean in the taxes themselves?

Senator FREAR. In the reduction in taxes.

Secretary HUMPHREY. In what the taxes were?

Senator FREAR. Yes, sir.

Secretary HUMPHREY. Oh, yes. First, there was the excess-profits tax.

Senator FREAR. How much was that?

Secretary HUMPHREY. As I recall it, that was about $1.8 billion.

Senator FREAR. The excess-profits tax?

Secretary HUMPHREY. Yes.

Senator FREAR. You stated that was about $1.8 billion?

Secretary HUMPHREY. That is my recollection.

Senator FREAR. Yes, sir.

Secretary HUMPHREY. I will have to check these, because I had not thought about them for 2 or 3 years. But as I recall it, it was $1.8 billion. Then we had $1 billion, as I recall it, of excises, $2 billion and $1 billion, of excises. We had about $3 billion of straight individual income tax reduction, and we had about $1.4, as I recall it, of adjustments. That is $7.4 billion, and that is close enough.

Senator FREAR. I think, as a matter of fact, your $1.8 billion actually is $2 billion.

Secretary HUMPHREY. What is that?

Senator FREAR. I think the first figure you gave me of $1.8 was $2 billion.

Secretary HUMPHREY. Well yes, it must have been.

Senator FREAR. Well, now, can you tell me when that was enacted, that from which the decrease was made possible, and when it expired?

Secretary HUMPHREY. It expired, I do not quite know what you mean by that. These tax laws were enacted at different times.

Senator FREAR. That is right, sir.

Secretary HUMPHREY. The excess profits tax was scheduled to go off first, and it was postponed. You see, it was supposed to go off in the middle of the year and we got Congress to postpone the reduction until the end of the year. That went off December 31 of 1953.

Senator FREAR. That is right. You postponed it for 6 months, from June 30, as you recall?

Secretary HUMPHREY. Yes.

Senator FREAR. When was the law, the excess profits tax law, enacted, and did it not have a termination date at the time of its enactment?

Secretary HUMPHREY. Yes; it did, and it would have terminated 6 months earlier, and we extended it.

Senator FREAR. So that the termination date was in the law that was enacted by the previous administration?

Secretary HUMPHREY. Yes; but it was carried on and then released.

Senator FREAR. I think "yes" was the right answer, Mr. Secretary.

Secretary HUMPHREY. That is right. Then the excises, there was $1 billion off on the excises, and that occurred on April 1, 1954.

Senator FREAR. Yes, sir. I can concur wholeheartedly in that, that I think that was the act of 1954 that gave the taxpayers the benefit of $1 billion.

Secretary HUMPHREY. And if you will recall, I protested against it. [Laughter.] I begged you not to do it, but you did it just the same.

Senator FREAR. I was not going to bring that out.

Secretary HUMPHREY. Well, I am glad to have that brought out.

Senator FREAR. All right, sir, that now accounts for——

Secretary HUMPHREY. Then there was $3.2 billion in the tax reduction bill on individuals' taxes, and then there was $1.4 billion on the tax revision bill. There were four different steps in the proceeding.

Senator FREAR. I think the only difference we have in our figures is that you have $1.8 billion instead of $2 billion, and I have $3 billion instead of $3.2 billion.

Secretary HUMPHREY. That is close enough.

Senator FREAR. May I ask a question or two on the individual income tax reduction?

Secretary HUMPHREY. Yes.

Senator FREAR. When did that expire? The reduction that was granted then expired on what date?

Secretary HUMPHREY. I think that must have been December 31. I cannot be sure.

Senator FREAR. Would that not be 1953?

Secretary HUMPHREY. I cannot be sure. It is 1953 or 1954. If you have got it there——

Senator FREAR. Well, I like to have you concur in my figures.

Secretary HUMPHREY. I am just trying to remember something from 3 years ago.

Senator FREAR. I believe it was on December 31, 1953.

Secretary HUMPHREY. All right.

Senator FREAR. Do you agree to that?

Secretary HUMPHREY. Yes.

Senator FREAR. And the same question, that was in the law enacted by the previous administration that gave the termination date—that was the law of 1951, if I remember correctly.

Secretary HUMPHREY. And we did not ask to have it extended.

Senator FREAR. You did not ask to have it extended. So that is $3 billion that expired by statute.

All right, sir. We have gotten $6 billion out of that $7.4 billion. You are still going to give me a little more, $1.4 billion.

Secretary HUMPHREY. That was the code.

Senator FREAR. Sir?

Secretary HUMPHREY. $1.4 was the code revision.

Senator FREAR. All right, sir.

Secretary HUMPHREY. But you know you could not have had any of it unless somebody saved it, and we finally between us got it saved, and that is what made it possible. Without that, you could not have had it at all.

Senator FREAR. I agree, but there are two pressures that might cause you to save it, too. It might have originated from the administration, and I will give you credit for that, which you tried to do, and I think also, that there might be some credit given to the taxpayers.

Secretary HUMPHREY. Well, I am not trying to point out just where in detail. I am simply stating a fact of what happened.

Senator FREAR. Yes, sir.

Secretary HUMPHREY. This is what happened.

Senator FREAR. Well, there are usually causes for those things that happen, and I know you want to give credit wherever it is due, you always have been that way, sir.

Now, in this $1.4 billion in the Revenue Code of 1954, what amount of that went to individuals?

Secretary HUMPHREY. I think I will have to get the figures on that. I do not dare trust my memory.

Senator FREAR. If I said $827 million—I believe that is correct because it is quoted from the report. As a matter of fact, I think we can give you that and let you refer to it.

Secretary HUMPHREY. No. I think I would rather get the figures. And I will do that. I will bring them back this afternoon as to just how it works.

Senator FREAR. All right.

And, also, when you bring those figures in——

Secretary HUMPHREY. Also on the $1.4 billion.

Senator FREAR. Well, this is part of the $1.4 billion I am referring to, Mr. Secretary.

Secretary HUMPHREY. I see.

Senator FREAR. The part of the $1.4 that went to individuals and that which went to corporations.

Secretary HUMPHREY. I see. You said there were $800 million something out of the $1.4 billion to individuals?

Senator FREAR. I believe it is $827 million.

Secretary HUMPHREY. Well, that might be correct. If it is not, it would not be far off.

Senator FREAR. And the corporations received $536?

Secretary HUMPHREY. That would not be far off.

Senator FREAR. You can see this is going back to some previous questions we had of which you are going to supply some information a little later, Mr. Secretary.

Secretary HUMPHREY. Yes.

(The Secretary subsequently advised: "The figures referred to by Senator Frear are correct.")

Senator FREAR. In your statement, you state:

> Many of us belong to a pension system and our benefit payments tend to increase as interest earnings rise.

My question, Mr. Secretary, is: Do you think this is fiscal responsibility when you increase Government interest rates in order to give greater benefit payments?

Secretary HUMPHREY. Well, we do not do it for that purpose, but this is part of the effect.

Senator FREAR. That is the effect?

Secretary HUMPHREY. That is right.

Senator FREAR. But that is included in the fiscal responsibility, is it not, sir?

Secretary HUMPHREY. That is part of the effect. Of course, the greatest effect is the stability of the money they get from the pension. It is highly important and can amount to much more than the interest.

Senator FREAR. Senator Byrd has already asked questions on your statement under this heading, "We Have Reduced the Government Debt."

Now, the little question I have can be answered "Yes" or "No," if you care to.

Secretary HUMPHREY. Yes.

Senator FREAR. Is not the present administration's proposed budget for fiscal year 1958 the largest peacetime budget in history?

Secretary HUMPHREY. Well, I think I will answer that, "Yes". You can beg the question on it as to the Korean war budget, but I think I will answer it "Yes".

Senator FREAR. Just to go back to that little word we had, "we," including the administration and the Congress, do you want to include Harry Truman in that "we"? [Laughter.]

Secretary HUMPHREY. In what connection?

Senator FREAR. I will leave that up to you. [Laughter.]

Secretary HUMPHREY. I might like to know the connection.

Senator FREAR. Maybe we had better drop that.

Next, you further state:

During the past 25 years, far from restricting credit to housing, the Government has greatly increased the volume of credit available to this industry.

I would just like to ask a few questions on this matter for the record, with your assistance, sir.

These I think you can do rather rapidly, Mr. Secretary.

It is true, is it not, that the statute creating the Federal Housing Administration to insure eligible home mortgages was enacted on June 27, 1934?

Secretary HUMPHREY. I think so.

Senator FREAR. Which, of course, is a previous administration?

Secretary HUMPHREY. That is correct.

Senator FREAR. It is also true, is it not, that the Servicemen's Readjustment Act of 1944 providing for the guaranty or insurance of veterans' home mortgages was also passed under previous administrations?

Secretary HUMPHREY. That is correct.

Senator FREAR. Is it not also true that the direct loan program for veterans' housing was enacted in 1950, previous to the present administration?

Secretary HUMPHREY. I think that is correct.

Senator FREAR. I also gather that the present administration is giving no support to proposals to increase the effectiveness of that direct loan program, is that true?

Secretary HUMPHREY. I think it is true.

Senator FREAR. At least, Mr. Stone of the Veterans' Administration so indicated in that respect.

Secretary HUMPHREY. He said so.

Senator FREAR. Is that not true? Is it not true that under these programs, all of which are still on the statute books, more housing starts were made in 1950 than in any other year from 1934 to the present?

Secretary HUMPHREY. I think that is correct.

Senator FREAR. Is it not true that in 1957 nonresidential housing starts had declined to a seasonally adjusted rate of 990,000 units?

Secretary HUMPHREY. That is right, for May.

Senator FREAR. Is it not also true that 665,500 units of the 1950, Korean war year, the 1950 starts, were financed without direct Government assistance, that is, neither FHA nor VA nor public housing?

Secretary HUMPHREY. Well, I am sure, if you say so, it was. I cannot verify that from my own knowledge.

Senator FREAR. If, Mr. Secretary, there is any mistake and you read over these, I would like to have them corrected.

Secretary HUMPHREY. I am sure if you say so, that is correct.

Senator FREAR. And, of course, the question is, then, is it not true that while 665,000 units in 1955 starts were financed without direct Government assistance, in 1956 only 634,200 units of the 1956, which was a peacetime year, starts were so financed?

Secretary HUMPHREY. Well, that sounds about right, too.

Senator FREAR. Does not this indicate that even apart from Government financial aids to housing, the amount of housing starts has declined?

Secretary HUMPHREY. Oh, yes, they have declined.

Senator FREAR. Therefore, will you agree that leaving the Government aids to housing aside, your present monetary and fiscal policies are not accompanied by an increase but rather show a decrease in residential housing starts?

Secretary HUMPHREY. Well, that is true, right, just in the last short period here, but I think that over the total average number—the total over a period of years, if you will take 3-year periods or 4-year periods, you will see they took effect in this 4-year period. And I think if you will look, Senator, at the last line in the last full paragraph, you will see that I say, everything I say here, I add this sentence: "That was true under the prior administration; it is true under this administration."

Senator FREAR. Yes, sir.

Secretary HUMPHREY. In other words, I am not trying to claim that this housing business all took effect under this administration.

Senator FREAR. No, sir.

Secretary HUMPHREY. It did not; it took effect under both.

Senator FREAR. I do not want to have that impression left either. I think what I am trying to bring out, Mr. Secretary, is that there was this, and the significant part is now the change in the opposite direction, and I think we are trying to level the point at May or June of this year.

Secretary HUMPHREY. That is right. And right now, or certainly a few months ago, there was a declining trend. Now, that has changed just within the last month or so. But it has only been up very recently.

Senator FREAR. Is it not also true that during the same period Government-aided houses declined from 730,500 units started in 1950 to only 486,000 units started in 1956?

Secretary HUMPHREY. The big decline was in the Government-aided houses. The regularly financed houses kept pretty much on an even keel.

Senator FREAR. I may state if you want to check these that the figures I have came from the economic report of January 1957.

Secretary HUMPHREY. They sound as though they fitted right in.

Senator FREAR. During the same period from 1951 to 1956, did not the number of farms in the United States decrease from 5,520 million to 4.9 million?

Secretary HUMPHREY. I think that is right.

Senator FREAR. But during the same period, did not farm real estate debt as a percentage of real estate value increase from 7 percent to 8.8 percent despite the fewer number of farms?

Secretary HUMPHREY. I would think that would be very logical.

Senator FREAR. As I said before, if you find any imperfections in this, you will correct them.

Secretary HUMPHREY. I will bring them to your attention.

Senator FREAR. This would indicate we have fewer farms but more farm debt and fewer additions to our nonfarm housing supply.

Secretary HUMPHREY. I think that is right. I think we have fewer farms. I think they are becoming more mechanized and with more equipment in order to be more productive, and that naturally involves additional money to equip them.

Senator FREAR. Do you also agree that significant factors in housing are the amount and quality of shelter rather than the absolute amount of housing financed expressed in dollars? In other words, if an increase in dollar volume of financing does not increase, that is, produce an increase in number and quality of housing, it seems of no great significance to concentrate on an increase in housing industry credit?

Secretary HUMPHREY. I do not quite know what you mean by that. I am sure of this, Senator——

Senator FREAR. We are talking about page 37.

Secretary HUMPHREY. I am sure that the quality of housing in the last couple of years is moving up rather than down. They are running into a little higher quality houses in the last couple of years, and they are more costly.

Senator FREAR. It is what the credit dollars will buy rather than their absolute amount which is important in the availability of housing goods and services?

Secretary HUMPHREY. They are buying a little less now because the cost of housing has gone up. On the other hand, the demand is for a little better houses.

Senator FREAR. Now, Mr. Secretary, if we use that yardstick, how do you claim your current monetary and fiscal policies are resulting in success in the field of housing?

Secretary HUMPHREY. I think that during this period housing was in very large volume, the largest volume that it has ever been.

Now, I think that our policies and during that same period the cost of housing was rising, the latter part of the period, the cost was rising very rapidly. I think our policies are tending to stabilize and will tend to stabilize the cost so the price of the house will not go up so much, and in that way it will again stimulate the development of additional housing.

Housing was getting to a place where it was beginning to price itself out of the market.

Senator FREAR. Has that condition changed materially?

Secretary HUMPHREY. Well, I do not know as you can say it has materially changed, but I believe it is beginning.

Senator FREAR. You think there is a trend in the other direction?

Secretary HUMPHREY. If you get over here on to page 46 where it is discussed in a good deal of detail.

We have been all over it before, but it shows quite a bit as to the relationship between the interest cost and the material and labor costs. The material and labor costs, just to put it in a word, have increased very much more rapidly than the interest costs have in the total cost of a house.

Senator FREAR. I think that opens up further questions, but for the sake of going through, and I guess we will be back again tomorrow, we will just finish these questions on housing, and then if there is anything you want to add to the record, you will have the opportunity during the recess to do it.

Secretary HUMPHREY. Fine.

Senator FREAR. You note the number of conventionally financed housing units in the first 5 months of 1957 were slightly higher than in the corresponding period for 1956, but let us look at the record to see how the 1956 and 1957 starts compare to earlier years far more productive in housing starts.

In the entire year of 1956, there were 634,200 nonfarm houses started under conventional financing.

In 1955, this number was 639,900.

In earlier years, back to 1950, the statistics are as follows, at least as I have them: 1954, 618,400; 1953, 659,700; 1952, 647,300; 1951, 607,900; 1950, 665,500.

In these same years, the component of housing financed with FHA or VA aid was obviously much higher than at present, as you have noted.

Secretary HUMPHREY. That is right.

Senator FREAR. To keep the levels of housing starts up to the million-plus per year level contemplated by the Congress as long ago as 1949, the component of conventionally financed housing starts should increase rather than remain constant or decrease.

Why has this not happened, since there is no restrictive statutory limit on the conventional home mortgage interest rates?

Secretary HUMPHREY. Well, it apparently is just about a level kind of demand here at certain prices, and just looking at it—I am not an expert on housing, but just looking at it—I would say that is about the normal demand for houses of this class and kind.

If you build them for that many years at about that rate, why, that is about where you are heading.

Senator FREAR. There are several reports which show that the need and demand in many respects call for about 1,300,000 per year.

Secretary HUMPHREY. Well——

Senator FREAR. Do you disagree with that?

Secretary HUMPHREY. Well, I do not know. I am no expert on housing.

Senator FREAR. Yes.

Secretary HUMPHREY. But I think that is pretty high.

Senator FREAR. Do you believe there are any significant shortages of building materials or building labor that would hamper home construction if adequate financing were to be channeled into that field?

Secretary HUMPHREY. I think it would depend upon the amount that you put in. If you built anything in the last few months, or the last year or so, you know that an awful lot of complications arise in trying to get deliveries and in getting the thing done.

As I said yesterday, that is getting better. You see, the labor, the materials, between the heavy construction and the lighter construction, the materials are quite different.

The labor does interchange to a greater extent than the materials interchange, and I would say that I have seen no evidence of any great excess of building labor.

Senator FREAR. I assume the administration adheres to the declaration of national housing policy embodied in the Housing Act of 1949, which sought to realize the goal of a decent home and suitable living environment for every American family.

At least, I have seen no requests from the Administration for a change in that declaration of policy.

Secretary HUMPHREY. I do not think there is any.

Senator FREAR. In the same policy, the Congress also declared the need of housing production toward this goal to enable the housing industry to make its full contribution to an economy of maximum employment, production and purchasing power.

I assume the administration adheres to that policy, also, since it has requested no change in that statutory declaration, either.

Secretary HUMPHREY. I think that is right.

Senator FREAR. In view of the admitted substantial drop in residential housing starts in 1956, and so far in 1957, compared with most years since 1949, how does the administration propose to achieve the goals of the congressionally declared national housing policy?

Secretary HUMPHREY. I think it is just simply that you cannot do everything at once, and you move ahead in varying degrees. You do not want to shift too much, but when we have this terrific building program in the heavier lines, why, you naturally expect that it would take something away from the other lines.

And it will not be long, in my opinion, before there is some shifting in that, and you will see the other beginning to move, largely dependent upon costs.

Senator FREAR. If, as you have said on page 40 of your statement, if the result of a free money market is to limit housing finance to those who can pay higher down payments and higher interest rates, what remedies do you suggest to move more financing selectivity into the field of housing construction in order to help meet the statutory goal of the current national housing policy?

Secretary HUMPHREY. I think that the whole thing will adjust itself over just a relatively short period.

Senator FREAR. In other words, you think that——

Secretary HUMPHREY. I do not think you can do everything at once, and I do not think it is wise to try.

Senator FREAR. No, sir. But the trend is in the opposite direction now.

Secretary HUMPHREY. Just temporarily.

Senator FREAR. You think that is only temporary?

Secretary HUMPHREY. I think so.

Senator FREAR. You do not think, from a really practical standpoint, that the administration is abandoning the national housing policy?

Secretary HUMPHREY. I do not; no, sir.

SENATOR FREAR. In your statement you claim Government has greatly increased the volume of credit available to the housing industry.

Yet, you later note there is only a relatively limited supply of mortgage credit available for VA-guaranteed loans, and insistence on higher down payments on FHA loans at the higher 5-percent interest rate.

We have already noted the VA and the FHA programs worked well at lower interest rates from 1949 until recent years.

You conclude your comments on housing on page 40 by claiming that prospective home buyers who are prevented from becoming actual home buyers under your present monetary and fiscal policies should be consoled, because they could not buy homes, anyway, under runaway inflation.

You seem to conclude with no attempt to help these potential buyers become actual buyers.

Have you no constructive solution to offer to these potential home-owners and the home-building industry, apart from your implied suggestion that statutory interest rates on VA mortgages should be raised, which would increase the cost of the home still more to the buyer?

Secretary HUMPHREY. Well, it would increase it only slightly, and the real answer, of course, as I said a minute ago, the real answer is the shifts in the economy that continually take place, and you shift from one thing to another which, as I have already said, I think will be developing if it has not already started.

Senator FREAR. Mr. Chairman, I think that concludes my questioning, except the questions that may be brought up when the Secretary brings in his answers.

The CHAIRMAN. Do you wish to continue tomorrow?

Senator FREAR. I do not believe it will take more than 5 or 10 minutes. It will just depend upon the information the Secretary brings in.

Secretary HUMPHREY. We will try to bring it in so you do not have to.

The CHAIRMAN. Senator Frear will have the floor tomorrow morning.

The Chair would like to announce that the committee will not meet this afternoon.

We shall meet tomorrow morning, and tomorrow afternoon if possible.

On Friday the committee must consider other legislation.

The committee will continue this hearing Monday and Tuesday of next week, and then adjourn until the first of the following week.

Secretary HUMPHREY. Fine.

The CHAIRMAN. Mr. Secretary, I asked you the other day to furnish a list of the contingent liabilities, and your opinion as to what part of these liabilities may become actual liabilities. In order to relieve you, I have a list tentatively compiled by the Comptroller General. I will send you the list.

Secretary HUMPHREY. I gave you a list yesterday which I compiled, and I would be very interested to see the Comptroller General's list to see how close we can check them.

The CHAIRMAN. If you wish to work on the basis of this list, I will send it to you.

Secretary HUMPHREY. Fine.

(The list was transmitted to the Treasury Department staff, June 27, 1957.) (See p. 269.)

Senator KERR. Mr. Chairman, as I understood your request in that regard, it included a tabulation of obligations or expenditures by the Government outside of those included in the official budget statements.

Secretary HUMPHREY. Official debt statement.

The CHAIRMAN. Yes.

Secretary HUMPHREY. These are things that, as I understand it, are outside of the official debt.

Senator KERR. I thought you asked also, Mr. Chairman, for expenditures outside of the budget.

The CHAIRMAN. That is right, expenditures under authority to spend directly out of the debt.

Secretary HUMPHREY. Expenditures as well as obligations.

The CHAIRMAN. Yes.

Senator KERR. Or by the Treasury, outside of the budget.

Secretary HUMPHREY. I did not understand that. So I am glad you brought that up, because I understood it was the liability you were talking about, not liability plus expenditures.

Senator KERR. The statement that the Comptroller General furnished may not have included what we have just mentioned.

Secretary HUMPHREY. I think what you asked me, I believe, Senator Kerr, what you asked were the—let's see, he said:

> I would like you to furnish to the committee the total amount of the contingent liabilities of the Government, and then give your opinion as to the possibility of these contingent liabilities becoming actual liabilities.

It did not relate to expenditures.

Senator KERR. If I had not thought it was included, I would have asked for it.

Secretary HUMPHREY. We will, then, if you want it, include it. But I do not think it was previously requested.

The CHAIRMAN. I would like for it to be in a separate statement.

Secretary HUMPHREY. We have given you material on contingent liabilities and we also will give you our comments on the Comptroller General's tabulation.

The CHAIRMAN. Will you work from the statement tentatively compiled by the Comptroller General?

Secretary HUMPHREY. We will take that as a basis and check.

The CHAIRMAN. Thank you, Mr. Secretary. When the statement on long-range commitments and contingencies is received it will be placed in the record where it was requested. (See pp. 80 and 156.)

(Secretary Humphrey subsequently submitted the following for the record:)

TREASURY COMMENTS ON CONTINGENT LIABILITY STATEMENT COMPILED BY COMPTROLLER GENERAL'S OFFICE

We have reviewed the material on contingent liabilities which we understand was prepared by the Comptroller General's office, including the following summary:

[In millions]

Item	Date	Gross amount	Public debt securities held
General contingent liabilities of the Government:			
Loans and mortgages guaranteed or insured by the Government	June 30, 1956	$38,107	$407
Government insurance in force	do	200,012	72,768
Postal savings deposits	do	1,771	1,748
Federal Reserve notes (face amount)	do	25,524	23,758
Obligations issued by Government agencies	do	2,680	
Commitments to make, guarantee, and insure loans, to purchase mortgages, etc.	do	6,942	
Unpaid subscriptions	do	2,575	
Other	do	1,331	
		278,942	98,681
Unused borrowing power of Government agencies	do	48,433	
Trust fund contingent liabilities	Various	271,254	32,346
Total		598,629	131,027

We have a number of comments to make about these figures and the explanatory notes which accompany them.

In response to the statement attached to these figures that "there is no requirement that all long-range commitments and contingent liabilities of the United

States Government be reported regularly to the Treasury Department or any other agency," let us point out that the Treasury Department has been compiling figures on long-range commitments and contingencies and reporting these from time to time to congressional committees since 1945. Such figures are secured from Government agencies by the Treasury through various reporting requirements of the Department which were codified in the form of Department Circular No. 966, dated January 1, 1956. The resultant data as of December 1956 have already been made a part of the record of these hearings in answer to a request by the chairman.

As will be noted in the Treasury's statement of long-range commitments and contingencies, we do not attempt to add up all of the various contingencies in the way that the Comptroller General's statement does, as we do not believe that such totals have any significance. The only conditions which would create the need for the Government to make good on any substantial part of these contingencies would be national financial disaster and world upheaval. If the Government should be required to pay any such obligation it would only be after allowance for offsetting assets, with many of the assets in the form of Government securities.

Government guaranteed or insured loans and mortgages (including commitments), Government insurance in force, Federal Reserve notes, postal savings deposits, and unpaid subscriptions, involving, as they do, a variety of degrees of responsibility, all have a place in any overall appraisal of the Government's financial condition. At the one extreme, the Government has specific statutory liability in respect to Federal Reserve notes. At the other extreme, the legal liability of the Government for the insurance undertakings of the FDIC or the FSLIC is limited to the insurance fund and Treasury loans. Nevertheless, in appraising the Government's financial condition, we have generally included a reference to the FDIC and FSLIC as a part of the Government's "long-range commitments and contingencies." Others of the listed items fall between these two extremes. In most cases, the possibility of the Government being required to make any substantial outlay is remote.

The following items in the statement have never been considered by the Treasury to be properly included in such a list:

	In millions
1. Obligations issued to the public by Government agencies	$2,680
2. Other	1,331
3. Unused borrowing power of Government agencies	48,433
4. Trust fund contingent liabilities	271,254
Total	323,698

The reasons for the exclusion of the above items from the Treasury statement on long-range commitments and contingencies are as follows:

1. Obligations issued to the public by Government agencies

These represent debt obligations of the banks for cooperatives, the Federal home loan banks, the Federal intermediate credit banks, and the Federal National Mortgage Association. These obligations are not guaranteed as to either principal or interest by the United States. They are direct liabilities of the issuing agencies, and are purchased and held on the basis of the financial strength of the issuing corporations. (Furthermore, if there were any liability on the Government, and there isn't, it would be limited to any excess of these agency debt liabilaities over the amount of Government securities and other assets owned by the issuing agencies. These assets are not listed as offsetting items in the Comptroller General's tabulation.)

2. Other

These items represent $1,179 million of undelivered orders and contracts, $138 million of grants, and $14 million of other items.

Undelivered orders represent future deliveries of goods and services for which the Government will presumably receive full value. They are a part of the whole financial picture of the Government, but the Treasury does not list them as contingent liabilities any more than do commercial or industrial firms list their obligations to pay for future deliveries of merchandise. Upon delivery, they will become not contingent liabilities but direct liabilities and payment for them will be made from the general fund of the Treasury, in effect, as taxes receivable actually materialize as budget receipts.

3. Unused borrowing power of Government agencies

This authority of Government agencies to borrow from the Treasury is not considered by the Treasury as being in the nature of a contingent liability although it—along with the carryover balances of appropriations from one year to another—may become the basis for a real liability some time in the future.

Even if it were proper to include such items as contingent liabilities, the amount of $48,433 million of unused borrowing power presented in the Comptroller General's statement is apparently overstated by $28,558 million, which represents the total of mortgages that could be insured by Federal Housing Administration. This latter item does not represent cash borrowing authority from the Treasury. Any mortgages insured by that agency which go into default are replaced by FHA debentures, which securities are guaranteed as to both principal and interest by the Government and which, at the time of their issuance, are included as part of the Federal debt. They are, therefore, a real rather than a contingent liability once they are issued. Also, there appears to be double counting involved because the first item in the Comptroller General's statement, "Loans and mortgages guaranteed or insured by the Government," already includes $19,152 million (out of the maximum possible $28,558 million) of outstanding insured FHA mortgages on June 30, 1956.

4. Trust fund contingent liabilities

The Comptroller General's statement includes $271,254 million as "Trust fund contingent liabilities," including $251,000 million for the Federal old-age and survivors insurance trust fund.

This represents the unfunded liability of the old-age fund, as computed actuarially, to be payable over a long period of years. It is not a present liability. An evaluation of future trust fund obligations should be coupled with an evaluation of future trust fund income to be meaningful.

Furthermore, the Congress intended that this program should be completely self-supporting and specifically provided that benefit payments were to be made only from the fund.

Secretary HUMPHREY. Thank you, Mr. Chairman.

(Whereupon, at 1 p. m., the committee adjourned, to reconvene at 10:30 a. m., Thursday, June 27, 1957.)

INVESTIGATION OF THE FINANCIAL CONDITION OF THE UNITED STATES

THURSDAY, JUNE 27, 1957

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

The committee met, pursuant to recess, at 10:30 a. m., in room 312, Senate Office Building, Senator Harry Flood Byrd (chairman) presiding.

Present: Senators Byrd (chairman), Kerr, Frear, Long, Anderson, Gore, Martin, Williams, Flanders, Carlson, Bennett, and Jenner.

Also present: Robert B. Mayo, Chief, Analysis Staff, Debt Division, Office of the Secretary of the Treasury; Elizabeth B. Springer, chief clerk; and Samuel D. McIlwain, special counsel.

The CHAIRMAN. The committee will come to order.

The Chair recognizes Senator Frear.

Senator FREAR. Thank you, Mr. Chairman.

STATEMENT OF HON. GEORGE M. HUMPHREY, SECRETARY OF THE TREASURY—Resumed

Senator FREAR. Good morning, Mr. Secretary. I trust you had a good night's rest, without interference.

Secretary HUMPHREY. Just worrying over your questions, Senator, that is all.

Senator FREAR. I am sure that was no worry to you. [Laughter.]

Mr. Secretary, yesterday, when we were discussing the farmworker income in 1956 in your report, I understand the Senator from New Mexico received a letter from the Department of Agriculture clarifying some of those figures.

Would you object if that were made a part of the record at the proper place in the testimony?

Secretary HUMPHREY. I believe that is very desirable.

The CHAIRMAN. If there is no objection, it will be inserted in the record at the place it was requested. (See p. 252.)

Secretary HUMPHREY. Do you have the copy?

Senator FREAR. No, sir; I do not.

Secretary HUMPHREY. Shall I read it, or hand it in?

Senator FREAR. Just as you like.

Secretary HUMPHREY. I might just as well read it.

DEAR SENATOR ANDERSON: In answer to your question this morning as to estimates of farm income per worker and operators' net per farm income, the Economic Report of the President, transmitted to the Congress January 23, 1957, has a summary table on income of the farm population, 1929–56, which shows farm income per worker as $1,711 for 1955 and $1,862 for 1956. The 1956 figures especially were based on such preliminary materials as were available to us through December at the time, but such changes as we have made since or have in prospect indicate that these are still relatively good figures, with much of the increase in 1956 accounted for by the fact that the estimated average number of farmworkers fell from 8,237,000 in 1955 to 7,869,000 in 1956.

The economic report for January 1957 also carried a preliminary estimate of operators' net income per farm of $2,268 for 1955 and $2,422 for 1956. These figures relate to about 5 million farms in 1955 and to about 4,900,000 farms in 1956.

I have not been able to check the figure of some 7 million farm families which you indicated had been mentioned to you by someone recently. Our estimate as of March 1956 was 4,900,000 farm-operator families and 700,000 farm-laborer families, making a total of about 5,600,000 farm families.

Meanwhile, all of the above figures are of course necessarily tentative and will be subject to some slight changes when we issue our revised farm income estimates based on a complete summary of sales, inventory, and such other check data as we have been able to obtain over the last several months.

These revisions will be released on or about the 16th of July.

Yours very sincerely,

O. V. WELLS, *Administrator.*

And, Senator, this checks out the figures we were talking about yesterday.

Senator FREAR. Mr. Secretary, does that not, according to the estimate, prove that the total income of all farmworkers was less in 1956 than in 1955?

Secretary HUMPHREY. Where are these two figures here?

Total farm income figures are not here, Mr. Senator.

Senator FREAR. No, sir, but if we estimated and multiplied the number of workers by the income, or divided, as the thing may be, I think we will find the total, overall amount would be less for all farmworkers' income.

Secretary HUMPHREY. You see, both the number of farms and workers went down, but whether total income went down, I just do not know.

This indicates, Senator, that the number of workers went down and the amount of income went up.

Senator FREAR. That is right. And if we multiply the number of workers in 1955 by the income as stated in your report, and the workers in 1956 by the income stated in your report, I think you will find that the total would be less in 1956.

Secretary HUMPHREY. Well, these figures indicate the opposite. These figures indicate that the workers' income was a little less in 1955 than it was in 1956.

Senator FREAR. In the Economic Indicators for June 1957——

Secretary HUMPHREY. The figures I was referring to were on page 187 of the Economic Report. And that is operator's farm income.

Senator FREAR. Yes, sir.

If you will have Mr. Mayo turn to page 7, I think that is next to the last right hand column, and you will see the 1955 dollars are $2,385 net income per farm; 1956 is $2,364; and for the first quarter of 1957——

Secretary HUMPHREY. $2,384; $2,364.

Senator FREAR. Yes, sir. You see those two figures?

Secretary HUMPHREY. Yes, sir.

Senator FREAR. And it is a small amount, but less.

Secretary HUMPHREY. Well, the total was a little less.

Senator FREAR. Yes, sir.

Secretary HUMPHREY. But, you see——

Senator FREAR. If you will refer——

Secretary HUMPHREY. But, you see, the number of people you divide into that also went down.

Senator FREAR. Yes, sir.

Secretary HUMPHREY. So the people might get more, even though the total was less, the lesser number of people.

Senator FREAR. That is right.

Secretary HUMPHREY. If the people went down a little faster than the money, then per person would go up.

Senator FREAR. I think that is actually what it did, per person went up, but the total workers' income was decreased.

Secretary HUMPHREY. That is right. But there were fewer workers, so that the individual worker got a little more.

Senator FREAR. That is true, as I see it.

Now, on that same page, 1957, the first quarter, gives the figure of $2,340. That is the last figure down there.

Secretary HUMPHREY. Yes.

Senator FREAR. Which is a little bit less than the $2,364 the previous year.

Secretary HUMPHREY. Again less, but also it might be more per worker.

Senator FREAR. Yes, sir.

That means that fewer farms got less per farm, however.

Secretary HUMPHREY. Well, no, because farms decreased, too, the number of farms went down.

Senator FREAR. I think if we multiplied that out, it may not be too much, but it will be a little less.

Secretary HUMPHREY. I see.

I think per farm and per worker is moving up a little, although the total is moving down.

But the other side of the coin is that the worker, farm worker, who previously was on the farm, is now working somewhere else, so that his income appears in some other place.

Senator FREAR. Well, I think there is probably some substance to that, sir. However, the figures that we have given——

Secretary HUMPHREY. It is a shift.

Senator FREAR. You agree that the figures you have just given are as accurate as you know how to get them?

Secretary HUMPHREY. I think that is right.

Senator FREAR. Yesterday, Mr. Secretary, I think we skipped over the questions that pertained to your testimony as given on page 22, and you were to supply some figures in response to my first question on that page.

Secretary HUMPHREY. Yes, Senator. I think that the first thing you asked for was the Government contribution to the civil service retirement fund.

Senator FREAR. May I just restate the question.

Secretary HUMPHREY. Yes, if you will.

Senator FREAR. I think I asked for the amount of appropriations requested by your administration, year by year, from 1954 to 1957, inclusive, for the civil service retirement fund.

Secretary HUMPHREY. I have that here.

In 1954, the figure as submitted in the budget document of January 9, 1953, which was never changed and which was carried through, was $427 million.

That figure, because of the Kaplan committee's investigation which was going on with the Congress, was reduced when it came to the matter of appropriation, because it was thought best by the Congress, and there was no objection from the administration, to await the determination of the Kaplan committee's findings, and that $427 million was reduced to $31 million.

In 1955, the request was made for $30 million, and the appropriation was $30 million, awaiting the Kaplan report.

By the 1956 budget, the Kaplan committee had made a report; the request was increased to $216 million, and the appropriation was $233 million.

In 1957, the request was for $295 million, and the appropriation was for $525 million.

And in 1958, the request was for $641 million; and that is, of course, pending.

Senator FREAR. Yes, sir.

What is the Kaplan report?

Secretary HUMPHREY. The Kaplan Committee was appointed to review the retirement policy for Federal personnel, and they were studying what these amounts should be and what the revisions should be, and so forth, and studying this subject.

Senator FREAR. I assume when you said the administration agreed that the appropriation not be made to the fund, that you concurred in that.

Secretary HUMPHREY. Well, you mean me, myself?

Senator FREAR. Yes, sir.

Secretary HUMPHREY. As Secretary of the Treasury?

Senator FREAR. Yes, sir, as Secretary of the Treasury.

Secretary HUMPHREY. I have no recollection of it. But I have no doubt I did. There was no objection from the administration.

Senator FREAR. During the time that appropriations were temporarily set aside, so to speak, did the Kaplan Committee or Congress suggest that this money be made up later on, that is, the Government contributions to the fund, since they were not going to contribute for a year or 2 years, as the case was here? Was there any statement, either from the administration or from Congress that these shortages in contributions would be made up in future years?

Secretary HUMPHREY. I do not know, Senator, whether it was or not.

Senator FREAR. You say in 1956 the budget request was $216 million.

Secretary HUMPHREY. That is right.

Senator FREAR. And the House raised it to $237 million, is that right?

Secretary HUMPHREY. $233 million was the amount appropriated.

Senator FREAR. $233 million. That is not too far off, but the Civil Service Commission's report of 1956 states $237 million. We will not quibble about that.

Secretary HUMPHREY. There might be an error somewhere.

Senator FREAR. But it is close enough.

Was it anticipated by the administration, the Budget Bureau, and/or the Secretary of the Treasury, that these deficits would be made up?

Secretary HUMPHREY. Well, I will say so far as I personally was concerned, it was not. But I cannot answer that. Mr. Folsom was in the Treasury during this particular time, and this was his particular field, and the basic subject they were considering was whether, and to what extent, it was practical to put money into these funds.

If you went to strict insurance calculations, you would accumulate these funds very rapidly, and the question was whether it was desirable to do that and build some great fund, on these theoretical basis of these calculations; or, having accumulated a sufficient backlog in the fund to meet any foreseeable emergency, the thing to do was to revise it down onto a more nearly pay-as-you-go basis.

And the result of the discussions was sort of a compromise.

Senator FREAR. Yes.

Was that not the intent of the statute, to make it on a pay-as-you-go basis, Mr. Secretary.

Secretary HUMPHREY. No. You see, this is all highly theoretical. It is all what sombody computes will occur years hence.

Senator FREAR. I recognize that. But there has to be a computation for the contributions by the civil-service employees; and at the same time, there should be and apparently has been a computation for the Government participation in the retirement fund.

Secretary HUMPHREY. Employee payments are about $2 billion more, cumulative over the period, than the Government payments.

Senator FREAR. Yes, sir. That is right.

Apparently the Kaplan report—which I am not familiar with——

Secretary HUMPHREY. I am not, either.

Senator FREAR. Apparently it did recommend that the Government make annual appropriations to the fund, since you or the Bureau of the Budget has requested them since that time.

Secretary HUMPHREY. Well, actually, I am sorry that I cannot answer the detail of what went on, because, as I say, Mr. Folsom had charge of this. I personally did not.

Senator FREAR. Yes.

Secretary HUMPHREY. And I have no definite recollection about it.

Senator FREAR. Yes, sir.

Has the request of the Budget Bureau been put into effect and Congress had made the appropriations for the year 1954, how much would that have increased the Federal deficit for that fiscal year?

Secretary HUMPHREY. About, a little less than $400 million, three hundred and ninety-odd-million dollars.

Senator FREAR. Then your deficit for that year was how much?

Secretary HUMPHREY. 1954, $3.1 billion.

Senator FREAR. Yes, sir.

Secretary HUMPHREY. This would have made it about $3.5 billion.

Senator FREAR. $3.5 billion; yes, sir.

Now, the same for 1955. You made a request for $30 million.

Secretary HUMPHREY. The request was for $30 million, and the appropriation was for $30 million. That was the agreed basis, apparently.

Senator FREAR. Yes, sir. So that had the same thing applied in 1955 as in 1954, how much would that have increased your deficit for 1955, if you can give it?

Secretary HUMPHREY. Well, the request and the amount appropriated were exactly the same in those years. There was no difference.

Senator FREAR. Yes; I recognize that, sir. But——

Secretary HUMPHREY. You mean if we had requested again in 1955, the same——

Senator FREAR. Had you followed the previous administration's plan of requesting it, and I assume the plan during the first year of your Administration, since you did request it but because of the Kaplan report you did not follow through, assuming that the initial request had prevailed how much would that have increased your deficit for 1955?

Secretary HUMPHREY. Well, if you had had the same amount—you see, this is all a very highly technical, theoretical computation that you are working with here, which gets into all kinds——

Senator FREAR. I agree, but it proves the point.

Secretary HUMPHREY. But if we had used, as you suggest, exactly the same request for 1955, of $427 million, that was made in 1954, you would have had another $400 million deficit.

Senator FREAR. Then what would that have made your deficit for the year 1955?

Secretary HUMPHREY. It would have gone from $4.2 billion to $4.6 billion.

Senator FREAR. In 1956, you requested and received, as I understand it——

Secretary HUMPHREY. We requested $216 million and got $233 million or $237 million, whichever it was.

Senator FREAR. You reported a surplus in 1956, did you not, in the budget?

Secretary HUMPHREY. Yes, sir, $1.6 billion.

Senator FREAR. $1.6 billion. Well, had the same figures applied as you had used for the 2 previous years——

Secretary HUMPHREY. It would have been $200 million less.

Senator FREAR. Or $1.4 billion.

Now then, in 1957, you requested $295 million.

Secretary HUMPHREY. That is right, and we got $525 million.

Senator FREAR. And you got $525 million.

The $525 million, I assume, will be included at the end of the fiscal year.

Now, how much of a deficit or surplus do you anticipate for 1957?

Secretary HUMPHREY. Well, we do not have our figures yet, Senator. But it is going to be around a billion dollars. I cannot tell within $200 million of $300 million——

Senator FREAR. That is a surplus, sir?

Secretary HUMPHREY. That is right.

Senator FREAR. You anticipate a billion-dollar surplus, or thereabouts?

Secretary HUMPHREY. One way or the other from a billion dollars.

Senator FREAR. Does that include your contribution to the civil-service retirement fund?

Secretary HUMPHREY. That will include whatever the appropriation was.

Senator FREAR. If we take those 4 years together, how much would that change the total of your surplus or deficit of the 4 years?

Secretary HUMPHREY. It would be about $800 million, I think, would it not? There is 4 and 4 is 8, and 2 is 10, less 2 here is 8. I should think about $800 million.

Senator FREAR. What does that make your budget for the 4 years?

Secretary HUMPHREY. Make what?

Senator FREAR. What does that make your plus and minuses for the 4 years, in the Federal budget?

Secretary HUMPHREY. We will have to add that up.

I do not know what to use for this year. Do you want to use the budget figure? I suppose that it——

Senator FREAR. If the billion dollars is close enough we can use that.

Secretary HUMPHREY. I do not know whether it will be a billion 200 or 300 or 400 or 800 or 900 million. I would think that probably—let's put a billion and a half in to figure it. That would be—actually, we have had deficits of $7.3 billion and credits of about $3 billion. We have a net deficit of about $4 billion.

Senator FREAR. I wish you could promise me that you will have credits, and I would be happier about it. It will only total about $2.6 billion?

Secretary HUMPHREY. Well, it will be somewhere between $2.6 billion and $3 billion.

Senator FREAR. So that even at your figure of $3 billion, the deficit for the 4 years is something over $4 billion.

Secretary HUMPHREY. That is right.

Senator FREAR. I think it would hardly be fair to assess the total deficit of the civil-service retirement fund to the past 4 years, so it should be only 25 percent or 20 percent, I do not know the exact figure; but the question is, Do you and the administration now, as requested in your 1958 budget of $641 million, believe that the Government should supply its part in cash to the retirement fund?

Secretary HUMPHREY. I believe there is—and again, now, I am speaking not of my personal knowledge, because somebody else has been handling it, but I think the Budget Bureau and the committee and Congress and other people have arranged that there will be higher amounts in order to offset this difference——

Senator FREAR. Yes.

Secretary HUMPHREY. Over a period.

Senator FREAR. In order at least to make up for the 2 years in which only $30 million was put in, therefore it is anticipated, that it will be brought up to date?

Secretary HUMPHREY. It will be brought forward over a period.

Senator FREAR. It will be brought forward over a period in the future.

Secretary HUMPHREY. That is correct.

Senator FREAR. Of course, it is by statute now that each agency has to include cash contributions in the respective budgets.

Secretary HUMPHREY. The present budget puts it all back to the agencies themselves. There is no lump figure, but each agency contributes its own.

Senator FREAR. So this $641 million is a contribution of all of the agencies.

Secretary HUMPHREY. That is correct. It is spread all through the budget.

Senator FREAR. Yes.

Who handles the investments for the civil service retirement fund?

Secretary HUMPHREY. Mr. Burgess.

Senator FREAR. It is in the Treasury Department?

Secretary HUMPHREY. It is in Treasury; yes.

Senator FREAR. What are the investments of the fund?

Secretary HUMPHREY. Well, they are all Government special issues.

Senator FREAR. The same policy is followed in the fund for the retirement of civil service employees as you follow in the social security fund?

Secretary HUMPHREY. That is right.

Senator FREAR. Yes, sir.

In other words, you take out the cash and put in Government bonds.

Secretary HUMPHREY. Same general policy.

I think it might be well to just tell a little incident about that, as a part of this.

A number of years ago, 2 or 3 years ago—it seems a lot longer, these are a very long 4 years, so it seems longer [laughter]—but 2 or 3 years ago, a businessman was a little critical of the fact that we took the money, as he said, out of the funds and put in an I O U, which is not an I O U, it is a Government obligation. And I asked him if he did not have a pension fund, and he said he did. And I asked him what his pension fund was invested in. He says, "Ours is invested in Government bonds." I said, "So is ours."

There has been a lot of criticism.

Senator FREAR. He was a satisfied customer after that.

Secretary HUMPHREY. But it is entirely unjustified, the criticism.

Senator FREAR. If you refer to the 1956 Annual Report of the Civil Service Commission, why was the interest in 1956 less than the 3 previous years, even though the principal was higher each year?

Secretary HUMPHREY. I think you will have to ask Mr. Burgess about that. This is Mr. Burgess' function to handle these things, and I cannot give you the detail. He will save a lot of time in answering them.

Senator FREAR. Yes. All right, sir.

Mr. Secretary, what programs suggested by the President have not been enacted by the Congress?

Secretary HUMPHREY. I do not think I could tell you in detail, Senator.

Senator FREAR. One of them, you know, was Federal aid to education.

Secretary HUMPHREY. You mean that were suggested in the present budget which have not yet been enacted?

Senator FREAR. No. The programs that were originally suggested by the President, either in his state of the Union message or——

Secretary HUMPHREY. For this year, or the whole 4 years?

Senator FREAR. The whole 4 years.

Secretary HUMPHREY. I couldn't tell you right offhand.

Senator FREAR. I see.

You do not know whether Congress has enacted all of the programs suggested by the President?

Secretary HUMPHREY. No; I do not think so. I can think of one that means a great deal to me that was not enacted, and that was putting the Post Office on a pay-as-you-go basis. [Laughter.]

Senator FREAR. I think that is a very good one.

Secretary HUMPHREY. It is one I have been very interested in.

Senator FREAR. The President could have corralled a lot of extra support, I think, had his suggestions been in a little different form. We will not debate the Post Office Department now, Mr. Secretary. But had those programs been put into effect, what difference do you think it would have made in the budget?

Secretary HUMPHREY. I could not tell you. The Post Office would have helped us quite a lot.

Senator FREAR. That would have been one in your favor.

Secretary HUMPHREY. Yes, sir.

Senator FREAR. I suppose, just as a parting shot, we ought to go after something, Mr. Secretary. [Laughter.]

Yesterday, President Eisenhower asked business to refrain from increasing prices. Do you believe the steel industry should comply with the President's request?

Secretary HUMPHREY. I do not know whether he asked them not to increase at all, or not. I think what is intended, and I think what is correct, is that this matter of inflation is a very, very serious problem for all of us, for everybody in this country, and I think that the Government cannot do the job alone and should not be expected to. I do not think the Government can do any of these economic jobs alone.

I think that the economics of this country are very, very largely dependent upon the conduct of the people of the United States and what they do.

And the people of the United States, and specifically, I think, both employers and employees, in making their demands either for wages or for prices, should take into account not what is going to happen just in the next quarter or the next half-year or the next year, but they should take into account the effect of their actions on the whole economy. Within the limits of successful business operation and fair wages—you are entitled to both, and this country will not be any good without both—but within the limits of a reasonably successful operation and fair wages, that longer-term view should be taken and the demands of both should be harmonized, as far as possible, looking to the longer-term views instead of what is going to happen just next week.

Senator FREAR. Do you think in the President's request yesterday that he should have excluded the farmers? In other words, he referred only to business. Is farming a business in that category; or is it not?

Secretary HUMPHREY. I assume he was talking about business, not——

Senator FREAR. Business industrial, and not farmers?

Secretary HUMPHREY. Yes. That would be my assumption.

Senator FREAR. But you certainly feel the farmers should not refrain from getting a little more of the consumer's dollar on these increased prices?

Secretary HUMPHREY. I do not know too much about it, but I think the farm problem is a little different problem from what is called the business problem.

Senator FREAR. Yes, sir; I recognize the problem is different, but the money in his pocket means just as much as it does to the industrial man.

Secretary HUMPHREY. What I mean is this, Senator: You would not have exactly the same things; it is a different problem. You would have different ways of getting at the problem.

Senator FREAR. I concur in that statement very, very much. As a matter of fact, I think perhaps we have tried to do things for different types of industry as they relate to farming, and maybe to farming direct, and have not been too successful in it.

I will make this the last one, and this is from memory:

I believe earlier in your testimony, you indicated that the people of this country, including the industrialists should refrain from subsidies as far as possible.

Then you went on to say that, all of these people who had been affected by budget cuts were here crying on the shoulders of the administration, saying that it was all right to clip the budget for somebody else, but not where it affected them.

I think during that conversation you said to your knowledge, that no group of industrial people or no segment of our economy had so far come forth requesting that subsidies be eliminated.

Secretary HUMPHREY. That their own subsidies——

Senator FREAR. Their own subsidies be eliminated.

Secretary HUMPHREY. I have not seen any.

Senator FREAR. I think in some testimony before this committee, a couple of farm groups did state that they were in favor of no Federal subsidies whatsoever for anybody, and that they would agree to start the "no subsidy" appeal if there was some indication that industry and others would follow it up.

I just think those farm organizations, at least, should be given a little credit for their initiative in trying to eliminate Government subsidies.

Secretary HUMPHREY. I think that is right.

Senator FREAR. Thank you, Mr. Secretary, for your kindness in answering the questions, and the manner in which you have answered them.

I think after we have read this record, that they will be very reflective. Thank you.

Secretary HUMPHREY. Thank you, Senator Frear.

The CHAIRMAN. The Chair recognizes Senator Williams, of Delaware.

Senator FREAR. This is a Delaware day. [Laughter.]

Senator WILLIAMS. Mr. Secretary, first I would like to refer to questions asked by my colleague in connection with the civil service retirement system, and I think this should be put into the record in order to clarify it at this point. The Hoover Commission in studying the reorganization of the Government found that we had about 18 to 20 different retirement systems and made a recommendation that a committee should be appointed for the purpose of studying these retirement systems with the thought perhaps of consolidating them. In 1952 Congress passed a resolution setting up such a Committee and appropriated $250,000. President Truman appointed this Committee, of which Mr. Kaplan was the Chairman.

In 1953 the Committee asked for an extension to complete its work, and President Eisenhower asked for an additional appropriation of $167,000, which Congress approved. He then reappointed the same Committee to continue the work, and pending the report of that Committee, Congress did hold up appropriations.

Now, the Committee in their report to Congress made the recommendation that we should combine these systems and the civil service system all with the social-security system, which proposal was rejected by Congress.

Secretary HUMPHREY. That is right.

Senator WILLIAMS. And in place of that, Congress passed a law putting the contributions of the employees on a fixed 6½-percent rate, and we fixed the Government's contribution at 6½ percent, which is mandatory, and your budget estimate this year of six-hundred-million-something dollars is an estimate only, but it is payable identically, I mean in direct proportion to the amount of salaries paid?

Secretary HUMPHREY. That is right.

Senator WILLIAMS. This rate is fixed under the law, and whether there is an accumulated deficit or whether there is not is something the Congress will have to face in the future, I suppose.

Secretary HUMPHREY. At some other time.

Senator WILLIAMS. At some other time.

Secretary HUMPHREY. Thank you very much.

Senator WILLIAMS. Furthermore, under the law, the investments are required by law all to be in Government bonds?

Secretary HUMPHREY. Yes, sir.

Senator WILLIAMS. I thought it should be cleared. It just so happens I have here the report, but we will not go into the trouble of reading that report here and the recommendations.

Secretary HUMPHREY. That is right.

Senator WILLIAMS. Mr. Chairman, I was interested in a report that came out this morning, or a release to the press, which I think should be commented upon. It is a report of the Subcommittee on Fiscal Policy of the Joint Economic Committee of the House and Senate, under the chairmanship of Congressman Mills. It is comprised of Congressman Curtis of Missouri; Senator Douglas, a member of this committee; Senator O'Mahoney; and Senator Goldwater.

I would like to read just an excerpt from this report, because they rather strongly endorse the monetary policies of the administration as I interpret it. This report reads—I am reading from page 2 of the report:

> Inflation is a grave economic problem facing the American economy today. Failure to deal with it forthrightly will result in increasing hardships for millions of Americans. It will impose the costs of economic instability on future generations by making achievement of steady economic progress increasingly difficult.

And continuing reading over on another page of the report, it says:

> The basic problem is an inadequate level of savings out of current income. An ever-increasing volume of real savings is needed to meet the economy's requirements for replacement of plant and equipment under inflated prices and for growth based upon full exploitation of rapid technological advances. Fiscal and monetary policies should be directed toward encouraging a higher level of voluntary real savings under the present conditions of inflationary pressure.
>
> Since these objectives have not been fully accomplished, public policies to cope with increases in the price level must take the form of general fiscal and monetary restraints on the expansion of total spending. It is recognized that the burden of such restraints may not be evenly distributed throughout the economy. The burden of inflation, however, is far more inequitably distributed. The alternative to general fiscal and credit controls is some form of direct Government control over wage and price determination. The use of this type of control would produce results as bad, if not worse, than the inflation against which it would be directed, and should be avoided.

I was wondering, Mr. Secretary, if you would care to comment on this report at this time?

Secretary HUMPHREY. I testified before that committee on Friday, June 14, and I was very gratified and pleased to read the report that that committee made, because the committee's report is exactly along the lines of the policy that we have been following. It follows the policy that we have been following almost exactly, and it recommends that it be continued.

Senator WILLIAMS. That is the reason I thought it was worth calling to the attention of the committee.

Secretary HUMPHREY. I think it is very desirable to have this report for your consideration. They heard a large number of outside witnesses as well as the administration witnesses.

Senator WILLIAMS. Mr. Chairman, I think it would be well—it is very short—if here we might have made a part of the record this complete statement.

The CHAIRMAN. If there is no objection, it will be inserted.

Senator KERR. I reserve the right to object, Mr. Chairman. I see no reason to clutter up this record by including within it a rather official lengthy document. It can be filed.

Senator WILLIAMS. I will withdraw the request, but the part I wished included is only a page and a half.

Senator KERR. I have not objected. I will reserve my right to object.

Senator WILLIAMS. You may be right.

The CHAIRMAN. The secretary to the committee says it would be duplicating. So it will be filed.

Senator WILLIAMS. In the interests of economy, then, we will withdraw it.

Senator KERR. Still reserving the right to object, and that is the only way I can speak at this time, Mr. Chairman, I hope that the members of the committee will read that report, because I think, if they carefully discern it, they will find from it what should not be in our report.

Senator WILLIAMS. The reason I was asking that it be put in as part of the record was that I thought the committee should read it, but we will see that the committee is supplied with copies.

Mr. Secretary, a lot has been said during recent months, and in particular during the recent days before this committee, as to the question of high interest rates, and the question has come to my mind as to whether or not interest rates are high if we go back and compare them over a period of prior years, or whether we just are considering interest rates high today because we are comparing them with two periods in which there were artificial controls in operation?

Secretary HUMPHREY. I think the latter is the case, Senator.

Senator WILLIAMS. For instance, we compare interest rates today with the period between 1941 and 1951, at which time they were supported at par by the Federal Reserve System. Is that not true?

Secretary HUMPHREY. That is correct.

Senator WILLIAMS. And, prior to 1941, going back to around 1920, I think it was, Government bonds were partially tax exempt—is that not correct?—and some of them were wholly tax exempt?

Secretary HUMPHREY. That is right.

Senator WILLIAMS. Therefore, the tax-exempt feature of those bonds would make a great difference in the comparative rates? In other words, if Government bonds were tax exempt today, we would have a more——

Secretary HUMPHREY. You would have a lower interest rate.

Senator WILLIAMS. A lower interest rate. Now, to pursue that thought: How does the interest rate on municipals today compare with what it was 20 or 25 years ago? I think that information is in the President's Economic Report.

Secretary HUMPHREY. Your high-grade municipal bonds from Standard & Poor's—and I will just read the years. This begins with the year 1929 and goes on to the present, so I will just not read the years, but the amounts, and you will get the way they fluctuated: 4.27, 4.07, 4.01, 4.65, 4.71, 4.03, 3.40, 3.07, 3.10, 2.91, 2.76, 2.50, 2.10, 2.36, 2.06, 1.86, 1.67, 1.64, 2.01, 2.40, 2.21, 1.98, 2.00, 2.19, 2.72, 2.37, 2.53, 2.93. That 2.93 is at the present time. That was 1956.

Senator WILLIAMS. In other words, State—I mean municipals—are——

Secretary HUMPHREY. They have increased in the past year again to—they run this year starting with January at 3.40, 3.26, 3.32, 3.33, 3.52, 3.44, 3.44, 3.51, 3.57, 3.64, and 3.70 on June 8.

Senator WILLIAMS. They have averaged this year around 3.75; is that about right?

Secretary HUMPHREY. Just a little less than that. They are around 3.75 now, and they might have averaged a little less than that.

Senator WILLIAMS. And the period 1929 to, say, 1939, that 10-year period, they averaged a little better than 4 percent; is that right?

Secretary HUMPHREY. Yes, for that period.

Senator WILLIAMS. In the early thirties?

Secretary HUMPHREY. That is right. They were all better than 4 percent.

Senator WILLIAMS. Of course, municipals are tax exempt; but in reality they are financing today on a comparative basis cheaper than they were in that period; is that not true?

Secretary HUMPHREY. Yes, sir; that is correct. The low point was reached in 1946, and they have been going up steadily since 1946, almost steadily.

Senator WILLIAMS. Yes. But, at the low point in 1946, Government bonds were being supported at par?

Secretary HUMPHREY. That is correct.

Senator WILLIAMS. And interest rates were being kept at an artificially low level, which would have had an effect on them?

Secretary HUMPHREY. That is right.

Senator WILLIAMS. How are the interest rates on AAA corporation bonds?

Secretary HUMPHREY. Well, they follow the same pattern, almost exactly, and they start with 4.73, 4.55, 4.58, and they finish with 3.36, and down to the end here at 3.82.

Senator WILLIAMS. But they, too, based upon Moody's reports of AAA bonds, are lower today than they were in the average of those prior years?

Secretary HUMPHREY. Yes, sir. They got up as high as 5.01 in those years.

Senator WILLIAMS. Now, I asked you, Mr. Secretary, to compile a record of the interest rates on Government bonds alone. Do you have that report there with you?

Secretary HUMPHREY. You are talking about the——

Senator WILLIAMS. The public debt.

Secretary HUMPHREY. Public debt over how long a period?

Senator WILLIAMS. I asked you to go back as far as reasonable, and will not ask you to read all the record, but you could summarize it, perhaps, and we will incorporate the whole report in the record. I think you went back a hundred years, did you not?

(The table referred to, "Computed interest rate on the public debt and yields on long-term Governments," is as follows:)

Computed interest rate on the public debt[1] *(1855–1957) and yields on long-term Governments (1919–57)*

[Percent per annum]

June 30	Computed rate	Long-term yields[2]	June 30	Computed rate	Long-term yields[2]
1855	6.53		1908	2.35	
1856	5.88		1909	2.33	
1857	5.88		1910	2.33	
1858	5.47		1911	2.33	
1859	5.36		1912	2.36	
1860	5.32		1913	2.36	
1861	5.63		1914	2.36	
1862	6.03		1915	2.37	
1863	5.91		1916	2.38	
1864	5.80		1917	3.12	
1865	6.21		1918	3.91	
1866	6.29		1919	4.18	4.70
1867	6.20		1920	4.22	5.56
5868	5.86		1921	4.34	5.26
1869	5.83		1922	4.24	4.19
1870	5.83		1923	4.21	4.34
1871	5.83		1924	4.18	3.96
1872	5.77		1925	4.10	3.79
1873	5.78		1926	4.09	3.68
1874	5.73		1927	3.96	3.35
1875	5.67		1928	3.88	3.36
1876	5.66		1929	3.95	3.66
1877	5.49		1930	3.81	3.25
1878	5.32		1931	3.57	3.14
1879	4.44		1932	3.50	3.67
1880	4.66		1933	3.35	3.20
1881	4.61		1934	3.18	2.95
1882	3.96		1935	2.72	2.70
1883	3.88		1936	2.56	2.65
1884	3.95		1937	2.58	2.74
1885	3.98		1938	2.59	2.52
1886	4.02		1939	2.60	2.14
1887	4.15		1940	2.58	2.34
1888	4.16		1941	2.52	1.90
1889	4.14		1942	2.28	[3] 2.44
1890	4.14		1943	1.98	2.45
1891	3.87		1944	1.93	2.49
1892	3.91		1945	1.94	2.34
1893	3.91		1946	2.00	2.17
1894	4.00		1947	2.11	2.24
1895	4.07		1948	2.18	2.42
1896	4.06		1949	2.24	2.32
1897	4.06		1950	2.20	2.34
1898	4.06		1951	2.27	2.64
1899	3.90		1952	2.33	2.61
1900	3.28		1953	2.44	3.05
1901	3.02		1954	2.34	2.52
1902	2.96		1955	2.35	2.86
1903	2.79		1956	2.58	2.94
1904	2.70		1957:		
1905	2.70		May 31	2.75	3.49
1906	2.60		June 25		3.64
1907	2.42				

[1] Interest-bearing.
[2] Average of monthly average for June and July each year, 1919 through 1952; June 30 each year, 1953 through 1956.
[3] Partially tax-exempt, 1919 through 1941; fully taxable 1942 through 1957.

Secretary HUMPHREY. Yes. This is on the Government debt and it goes over a very long period of time at 6 percent and 5 percent.

Senator WILLIAMS. I would suggest just in order that we might save time, we just take 10-year intervals. They are in blocks there where you can give them.

Secretary HUMPHREY. These seem to be in 5-year intervals.

Senator WILLIAMS. All right.

Secretary HUMPHREY. Yes, these seem to be in 5-year intervals. I can put them in 10-year periods and come pretty close.

Senator WILLIAMS. All right.

Secretary HUMPHREY. Starting way back with 1855 to 1865, it was all between 5 and 6 percent, more nearly 6.

Senator WILLIAMS. It started out in 1855 at 6.53 percent?

Secretary HUMPHREY. That is right.

Senator WILLIAMS. And it got down as low as 5.80 during that 10-year period?

Secretary HUMPHREY. It got down as low as 5.32 at 1 period.

Senator WILLIAMS. Yes.

Secretary HUMPHREY. It would be between 5 and 6, averaging just under 6.

From the year 1865 to 1875, about the same thing would be true, the high point there being 6.20, and the low point was 5.73.

The next period, 1875 to 1885, it would be around 5 percent. The top was 5.67 and the low was 3.95. Wait a minute. It was 3.88.

From 1885 to 1895 it would be around 4 percent, a little better than 4 percent. The high was 4.16 and the low was 3.87.

From 1895 to 1905, it began to drop down. It went from 4.07 down to 2.70, and that would average around 3 percent, a little better than 3.

From 1905 to 1916, was a low period. It went from a high of 2.70 to a low of 2.33, an average of about 2.5 percent.

From 1915 to 1925 it was running up again and would average over 3.5 percent, I would say. The low was 2.37 and the high was 4.34, but many more 4's. It was above 4 percent for the greater part of the time.

Senator WILLIAMS. During those intervals there were some long-term bonds sold as high as 5.56, is that correct?

Secretary HUMPHREY. That is correct. The long-term bonds sold at 4.70, 5.56, 5.26.

Senator KERR. What period was that? Pardon me, I did not get that?

Secretary HUMPHREY. Well, in the year 1920 there were long-term—1919 was when the long-term bonds were sold at 4.70; in 1920 at 5.56; in 1921 at 5.26; 1922 at 4.19; 1923 at 4.34; and 1924 at 3.96.

Then from 1924 on—well, let us take the next 5 years now. It is a little easier to compute. The next 5 years—from 1925 to 1929—the average would be about 3.75 percent, or between 3.75 and 3.5 percent.

The next 5 years, 1930 to 1934, would average about 3.5 percent.

The next 5 years, 1935 to 1939, would average about 2.75 percent.

The next 5 years, 1940 to 1944, would average about 2.25 percent, I would say, a high of 2.58 and a low of 1.93.

Then from 1945 to 1949 the average would be a little over 2 percent.

And from 1950 to 1954 the average would be about 2.35, between 2.25 and not as high as 2.5. Then in 1955 it was 2.35, and in 1956 it is 2.58.

Senator WILLIAM. Mr. Chairman, I would like to make this entire chart a part of the record because I think it does show that throughout the history our interest rates have fluctutated from a high of 6.5 percent.

Secretary HUMPHREY. Over 6.

Senator WILLIAMS. Down to around 2.25 to 2.5 at times; and that these fluctuations have occurred on 2 or 3 different occasions from the low to the high during this period.

Secretary HUMPHREY. We have been up and down 2 or 3 times.

Senator WILLIAMS. Those conclusions are safely supported from that report.

Secretary HUMPHREY. A number of times.

Senator WILLIAMS. And based upon the record of how rates on municipals have declined it can be said that interest rates on Government bonds today are high only because we are comparing them with two artificially low level periods of interest. Would you agree with that?

Secretary HUMPHREY. I think that is about right.

Senator WILLIAMS. Would you recommend that the Government go back to the policy of the Federal Reserve System's supporting Government bonds?

Senator HUMPHREY. I would recommend very positively against it as a standard practice.

Senator WILLIAMS. And that position was concurred in by the report of this committee to which we referred just a few moments ago?

Secretary HUMPHREY. That is correct.

Senator WILLIAMS. Are there not only two ways, you might say, in which interest rates could be forced at a lower level; one would be to go back to the old policy of supporting all Government bonds, or perhaps the printing of some money to pay off these bonds?

Secretary HUMPHREY. Or a much reduced demand for money.

Senator WILLIAMS. Yes.

Mr. Secretary, perhaps this is in the record before, but just who owns our national debt when we speak of this $7 billion interest that is being disbursed? Who gets that money?

Secretary HUMPHREY. Yes, sir, I can tell you who owns the debt and, of course, the ones who own the debt would be the people who get the interest.

Government investment accounts own $54 billion.

Senator WILLIAMS. Those are mostly the trust funds, such as the civil service retirement fund?

Secretary HUMPHREY. That is right.

Senator WILLIAMS. Social security fund, and the other trust funds administered by the Government?

Secretary HUMPHREY. That is correct.

Senator WILLIAMS. And to the extent we pay larger amounts of interest into those funds, we would automatically have to appropriate less money ultimately to make them good if there was a deficit?

Secretary HUMPHREY. That is right.

Senator WILLIAMS. And, on the other hand, if interest rates were reduced to those trust funds, our obligations to appropriate would be greater?

Secretary HUMPHREY. Might be increased if we ran a deficit.

Senator WILLIAMS. Federal Reserve banks—I will read the figures to the nearest billion instead of getting into detail.

Secretary HUMPHREY. These figures are all as of December 31, 1956. Federal Reserve banks, $25 billion.

Senator WILLIAMS. Might I ask you at that point, the interest that is paid in earnings of the Federal Reserve bank——

Secretary HUMPHREY. Comes back 90 percent to the Treasury.

Senator WILLIAMS. Ninety percent of that comes back to the Treasury?

Secretary HUMPHREY. That is right.

Senator WILLIAMS. Yes, sir.

Secretary HUMPHREY. Less expenses. They pay their expenses, and 90 percent of the rest is paid back.

Senator WILLIAMS. Yes.

Secretary HUMPHREY. Commercial banks, total of commercial banks is $59 billion. Now, that is divided, if you care, between various kinds—reserve city banks and other banks but it is commercial banks.

Senator WILLIAMS. That is all right?

Secretary HUMPHREY. Yes. Total about $59 billion.

Life insurance companies, $8 billion; other insurance companies, $5 billion; mutual savings banks, $8 billion; savings and loan associations, $3 billion; State and local pension funds, $5 billion; corporate pension trusts, $3 billion.

I am reading in each case the rounded figures.

Senator WILLIAMS. That is right.

Secretary HUMPHREY. Which comes out to $91 billion.

Now, those are private financial investors.

Senator LONG. Could I ask at that point the chart be placed in the record?

The CHAIRMAN. The chart will be put in the record.

(The chart, "Ownership of the public debt," is as follows:)

Ownership of the public debt, Dec. 31, 1956

	Amount held	
	Billions of dollars	Percent
Government investment accounts:		
Federal old-age and survivors insurance trust fund	21.8	8
Railroad retirement account	3.6	1
Federal employees retirement funds	7.3	3
Veterans life insurance funds	6.7	2
Unemployment trust fund	9.1	3
All other	5.5	2
Total	54.0	20
Federal Reserve banks	24.9	9
Private financial investors:		
Commercial banks:		
Federal Reserve members:		
Central Reserve city banks	8.3	3
Reserve city banks	17.6	6
Other banks	22.4	8
Nonmember banks	11.1	4
Total, commercial banks	59.4	21
Life insurance companies	7.5	3
Other insurance companies	5.3	2
Mutual savings banks	8.0	3
Savings and loan associations	2.8	1
State and local pension trust funds	4.9	2
Corporate pension trust funds	2.8	1
Total, private financial investors	90.7	33
Other investors:		
Individuals (including personal trusts):		
E and H savings bonds	41.4	15
Other savings bonds	8.7	3
Marketable securities, etc	16.5	6
Total, individuals	66.6	24
Nonfinancial corporations	19.2	7
State and local governments [1]	10.8	4
Nonprofit institutions, etc	2.7	1
Foreign and international accounts	7.7	3
Total, other investors	107.0	39
Total, public debt	276.7	100

[1] Other than pension trust funds.

Secretary HUMPHREY. That is $91 billion that go to private institutions, of which $59 billion are banks.

Now, other investors—these are individuals—the E and H bonds, $41 billion. The other savings bonds, $9 billion. Marketable securities, $17 billion. Or a total for individuals of $67 billion.

Now, then, the nonfinancial corporations, which are business corporations and others, $19 billion. State and local governments, $11 billion. Nonprofit institutions, $3 billion. Foreign and international accounts, $7 billion. Or those other investors are a total of $107 billion.

So that the total of private nonbank investors are about $138 billion. The banks are about $60 billion, and that plus the Federal Reserve is about $85 billion. And that adds up to a total of $276 billion of total debt.

Senator WILLIAMS. Mr. Chairman, I would like to have that chart put in the record in its entirety at this point, because I think it should be noted at this time that of this debt, $54 billion is paid to the trust funds operated by the Government, and, of the other $90 billion item, about $30 billion of it goes to insurance companies, and it is individual Americans who own most of the insurance.

Secretary HUMPHREY. That is right; again, to go back——

Senator WILLIAMS. To go back again, the same thing is true of the corporate pension trust funds and about $40 nillion of E and H bonds and other savings bonds, which include J's and K's, I understand, are guaranteed at par and have fixed interest rates so far as the American people are concerned, and there is only the remaining portion of it which is subject to any fluctuation or demand as far as sale is concerned?

Secretary HUMPHREY. As to what?

Senator WILLIAMS. That are subject to fluctuations on the market, that is on the open market, that is the part that is not in the investment trust funds?

Secretary HUMPHREY. Oh, no; that is not correct.

Senator WILLIAMS. They are not——

Secretary HUMPHREY. The part in the funds are not——

Senator WILLIAMS. They are fixed?

Secretary HUMPHREY. They are fixed.

The CHAIRMAN. The Chair has no objection to insertion of the chart in the record, but for the record, did the Senator from Delaware say that these trust funds were owned by the Government? Is it not a fact that some trust funds are not owned by the Government? How are the social security and railroad retirement funds classified?

Secretary HUMPHREY. The Government is the custodian of the fund, I think, is the proper way to put it.

The CHAIRMAN. When such a table is placed in the record will it show those which are exclusively owned Government trust funds, and those for which the Government is only the custodian?

Secretary HUMPHREY. We will itemize that.

Senator WILLIAMS. I might say, Mr. Chairman, these are not put in as Government-owned trust funds, but Government investment accounts of which we have charge.

The CHAIRMAN. The Senator stated they were Government-owned.

Senator WILLIAMS. I did not mean to state Government-owned, but operated.

The CHAIRMAN. The Chair raised the point only to clarify the record.

Senator WILLIAMS. They are not Government-owned, but there is a Government responsibility behind them.

The CHAIRMAN. If there is no objection, with that modification, the table will be inserted in the record.

Senator WILLIAMS. However, I do not think we can escape the fact that the civil service retirement fund and the social security fund are to a certain extent responsibilities of the Government, and, as was pointed out before, if either of them gets into difficulty, I am sure the Government will be promptly asked——

Secretary HUMPHREY. To make good.

Senator WILLIAMS. To make good.

Now, Mr. Secretary, I would like to discuss the purchasing power of the dollar briefly here, and I asked you to prepare a chart here and I would like to refer to that.

I asked the Secretary to prepare this chart, which shows the purchasing power of the dollar and how it has changed since 1939. It shows that 10 cents was lost prior to our entering World War II, between the period of 1939 and 1941; and 13.5 cents was lost during World War II, that is, the period 1941 to 1945.

Secretary HUMPHREY. That is correct.

Senator WILLIAMS. And 18 cents was lost from August 1945 to June 1950?

Secretary HUMPHREY. That is right.

Senator WILLIAMS. And 6.5 cents was lost between June of 1950 and July of 1953?

Secretary HUMPHREY. That is right.

Senator WILLIAMS. And 2 cents was lost since the Korean war up until April 1957, is that correct?

Secretary HUMPHREY. That is correct.

Senator WILLIAMS. And you will agree with me that this is an alarming trend. While we are glad to see it is leveling off since 1952, that is, the rapid tendency downward, the recent 2 cent decline is a matter of great concern and should be to all of us, do you not think?

Secretary HUMPHREY. I think that is right, Senator, although this line looks very level on this chart. The matter of the last 12 months is a matter we should be paying strict attention to, as we have been, and I said these swings occur in the economy, as they always do. This will level off again.

Senator WILLIAMS. It was the recognition of this danger of the downward trend that was behind the policy of the Federal Reserve to let interest rates seek a little higher level?

Secretary HUMPHREY. That is correct.

Senator WILLIAMS. Mr. Chairman, it has been suggested I put this chart into the record.

The CHAIRMAN. If there is no objection the chart will be included in the record, but it should be made clear that from April 1956 to April 1957, 2 cents or 4 percent of the purchasing power of the dollar was lost in inflation.

Senator WILLIAMS. That is correct.

The CHAIRMAN. I think it should be clearly indicated that this chart was——

Senator LONG. Would it be in order, Mr. Chairman, to continue the line there to bring it up to the present date? I think the chart is very helpful.

Secretary HUMPHREY. It does go to the present date, I believe. If you will just look at the thick line, then you will see a little dot. Then it brings it right to the day.

Senator LONG. Would it be correct then to say as of now you have a 50-cent dollar compared to a 100-cent dollar in 1939?

Secretary HUMPHREY. 49.71 is the exact figure.

The CHAIRMAN. The 49.67 cent present value should show clearly.

Secretary HUMPHREY. That is drawn right on the chart if you would look at it.

Senator LONG. I do not object to it. I would be glad to see the chart in the record. It would be very helpful.

Senator WILLIAMS. I think—and that is the purpose of putting it into the record—that while it does show a certain even line, it is this downward trend, which gives us concern. The 2 cents which, as the chairman has pointed out, is a 4 percent drop.

Secretary HUMPHREY. That is right.

Senator WILLIAMS. But it is the trend we want to stop, and we want to stop it before it gets out of control.

Secretary HUMPHREY. And as the chairman has pointed out, and applicable to these questions about creeping inflation of the other day, a 2-cent drop on a 50-cent dollar is twice as much as a 2-cent drop on a 100-cent dollar.

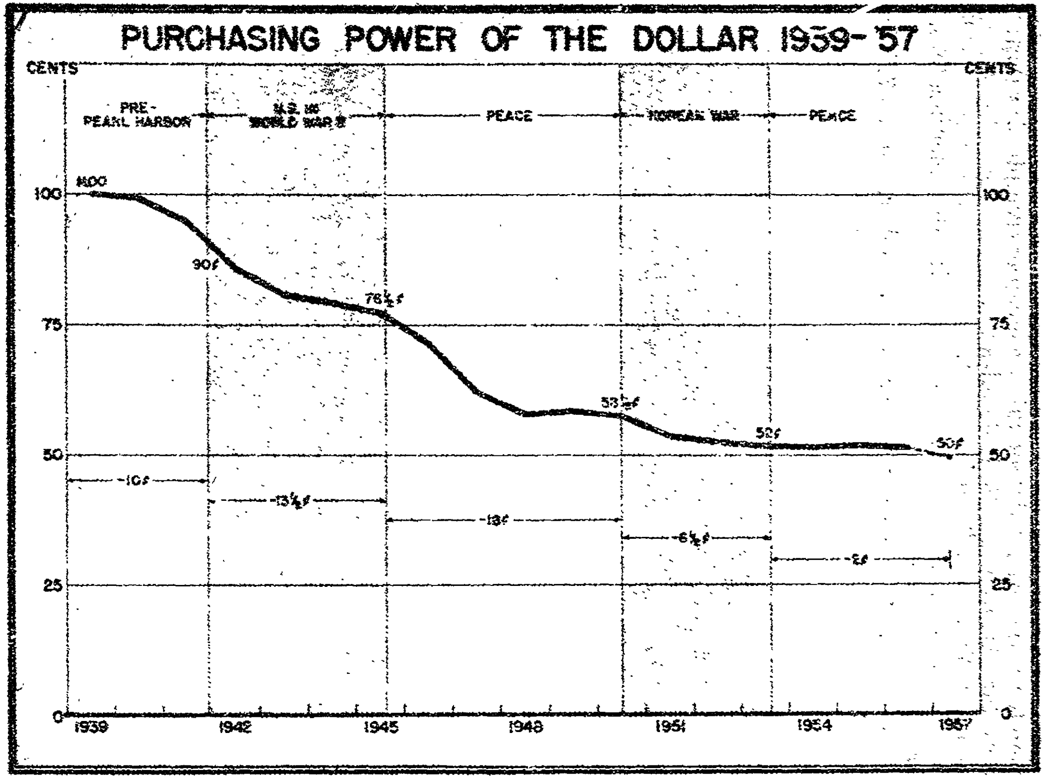
Senator WILLIAMS. I do not think we can overemphasize that.

Secretary HUMPHREY. So it doubles up.

Senator WILLIAMS. That is correct.

The CHAIRMAN. Without objection and with that modification, the chart will be inserted.

(The chart, "Purchasing power of the dollar, 1939–57," is as follows:)


PURCHASING POWER OF THE DOLLAR 1939-'57
CENTS
CENTS
PRE-PEARL HARBOR
U.S. IN WORLD WAR II
PEACE
KOREAN WAR
PEACE
$1.00
90¢
76½¢
58½¢
52¢
50¢
-10¢
-13½¢
-18¢
-6½¢
-2¢
100
75
50
25
0
1939
1942
1945
1948
1951
1954
1957

Senator WILLIAMS. Mr. Secretary, there has been some question raised that perhaps the monetary policies of higher interest rates may have had some adverse effect on housing and perhaps the administration had been unwise or the Federal Reserve Board had been unwise in promoting these higher interest rates on the basis that it would curtail building of new houses, and I was interested in a speech that was made a couple of days ago by Mr. Roy M. Marr, the president of the United States Savings & Loan League, at which time he was speaking before the New England convention of savings and loan associations, and Mr. Marr made the statement, and I will quote here from the report on his speech. He said that the Government's tight money policy in the mortgage market has "kept the lid from blowing off the housing market."

Would you care to comment on that statement, and do you think there would have been danger in the loose money policy as far as the housing industry was concerned had it not been checked?

Secretary HUMPHREY. I think there is no doubt, Senator Williams, that the cost of housing was rising quite rapidly in these latter years, and I think that if additional pressures had continued that the cost of housing would have continued up even faster than it has been going up.

Senator WILLIAMS. You think that those building houses, while they are paying higher interest rates——

Secretary HUMPHREY. They would have paid a lot more in other costs.

Senator WILLIAMS. In the actual cost of construction?

Secretary HUMPHREY. That is correct. And I think the figure in my statement, that I read previously, conclusively demonstrated that.

Senator WILLIAMS. I noted that they did, and that is the reason I called attention to his statement, because it supported that position even more affirmatively than you put it.

Mr. Chairman, I have here just that portion of Mr. Marr's speech, a page and a quarter, from which I have just read, and I want to have that put into the record.

The CHAIRMAN. What is it?

Senator WILLIAMS. Mr. Marr's statement before the United States Savings & Loan League in which he defended the administration's monetary policy and said had it not been for the higher increased interest rates, the lid would have been blown off so far as the housing industry is concerned.

The CHAIRMAN. Is there any objection? If not, it will be received for the record.

(The extract from the speech of Roy M. Marr is as follows:)

EXTRACT FROM SPEECH OF ROY M. MARR, PRESIDENT OF THE UNITED STATES SAVINGS AND LOAN LEAGUE, DELIVERED JUNE 24, 1957, BEFORE THE NEW ENGLAND CONFERENCE OF SAVINGS & LOAN ASSOCIATIONS AND COOPERATIVE BANKS AT YORK HARBOR, MAINE

The recent revival in housing starts, in the face of a continued "tight money" mortgage market, suggests that the housing industry is not as dependent upon Government help now as some groups believe it is. We are going to build close to a million new houses in 1957, despite the fact that Government insured and guaranteed loans are less attractive now to investors than they have been at almost any time since World War II.

The housing industry was so busy for the first 10 years after World War II eliminating the Nation's housing shortage, that there was little attention given to the vital question of just how much influence the Government should have in housing. But the housing shortage is over, and it is time to take a long look where we are headed.

While much of the Government's help in housing was desirable and commendable, not all of its aid was an unmixed blessing. I believe any objective observer would have to agree that some of the Federal program to make plenty of "easy" credit available to home buyers has been at least partly responsible for the inflationary spiral in housing costs. The rise in home building costs since World War II has been greater, namely 85 percent, than the rise in the cost of living which is 53 percent and in per capita income, which is 50 percent.

As these cost increases came along they were translated into price increases for new houses. To help sell the houses at higher prices, Congress was implored and steadily reduced downpayment requirements, first on GI loans, and later on FHA loans. This procedure sold houses, but it also promoted inflation in housing costs and prices, since it delayed a showdown in the vital issue of how to stop the continual trend upward in building costs.

Even during the years 1953 to 1956 while price levels and the cost of living remained largely stable, construction costs continued to mount at the rate of 4 to 6 percent a year. If it had not been for the tightening credit conditions in the mortgage market during this period and in 1957, there is no telling just how high building costs would have skyrocketed by now. The widely discussed and sometimes condemned "tight money" policies actually kept the lid from blowing off.

Senator WILLIAMS. Mr. Secretary, do you think it is a fair statement made by some that the result of a 50-cent dollar is, in effect, a 50-percent repudiation of the public debt?

Secretary HUMPHREY. Well——

Senator WILLIAMS. Perhaps "repudiation" is not the proper word, but would you say——

Secretary HUMPHREY. It does certainly definitely affect the man who, at the time the dollar was worth a dollar, bought a security with it. He certainly has lost in the purchasing power of his money that he had at that time.

Senator WILLIAMS. I think it was one of the Rothschilds, I do not have his exact quote, who once stated that inflation was a painless method of extracting the life savings from the people without using the unpopular procedure of levying taxes.

Do you think it is possible for a government to adopt an inflationary policy and syphon the earnings or the savings from the people away from them in such a manner?

Secretary HUMPHREY. It is not only possible, Senator Williams, but it has been done. It has occurred in a good many foreign countries.

Senator WILLIAMS. And right——

Secretary HUMPHREY. Where life savings have been completely wiped out.

Senator WILLIAMS. And the depreciation in this country of the dollar to approximately 50 cents has eliminated half the savings in this country?

Secretary HUMPHREY. It moves in that direction.

Senator WILLIAMS. As far as the purchasing power of the dollar is concerned?

Secretary HUMPHREY. It moves in that direction; yes, sir.

Senator WILLIAMS. Would you go so far as to classify inflation as a hidden or a concealed tax?

Secretary HUMPHREY. Well, I do not know. It is so easy to get mixed up in technical terms. There is no question that it is a loss in value. Now, whether you would define it as a tax——

Senator WILLIAMS. Well, it is not exactly a tax?

Secretary HUMPHREY. I do not think it is strictly a tax, but it does reduce the value of savings that people have made.

Senator WILLIAMS. If an administration or a government, whether it be our Government or any government, wished, they could, through deliberate inflation, take the savings away from the people without their consent?

Secretary HUMPHREY. They could wipe out all of their savings without their consent.

Senator WILLIAMS. That is correct.

Now, Mr. Secretary, in connection with the $4 billion refinancing problem which you had a couple of months ago, at which time a portion of that was not subscribed for and which transaction has been discussed previously here, I would like to ask this question: You offered these 5-year bonds at that time to the holders of the bonds; was that not true?

Secretary HUMPHREY. That is right. They had two choices. They could take a short one or a long one.

Senator WILLIAMS. Could anyone who was not a holder of one of the bonds have a right to subscribe?

Secretary HUMPHREY. He could not subscribe directly to either of the issues that were offered. He could have indirectly done it by purchasing the previous security from one of the holders and using it to come in, but this was a privliege that was given to holders of those maturing securities.

Senator WILLIAMS. Holders only?

Secretary HUMPHREY. And unless you were a holder either through previous purchase or through purchase at the time, you could not subscribe.

Senator WILLIAMS. In other words, we read sometimes of the bond issues being heavily oversubscribed 2 to 3 times. In this instance it could not have possibly been oversubscribed and it could only be undersubscribed to some degree?

Secretary HUMPHREY. That is exactly right, there could not have been any oversubscription.

In that connection perhaps I want to report on the sale of bills we made yesterday which has been discussed. I have the figures here which were released today. The $3 billion that we offered for sale yesterday, and, as you will recall, Senator, was not a turnover such as the one you have just been referring to. This was a sale that was open to the public for public bidding. These were $3 billion of tax anticipation bills that would run for 264 days, to be dated July 3 of 1957 to mature on March 24 of 1958, and they were offered on June 24, and the books were open at Federal Reserve banks on June 26. The results were as follows:

The total applications were a little over $4.5 billion for the amount of $3 billion which was accepted.

The range of the competitive bids was from a low of 3.20 percent to a high of 3.56 percent, or an average for the total of $3 billion that was accepted of 3.485 percent.

Senator WILLIAMS. I did not catch that.

Secretary HUMPHREY. 3.485 percent was the average interest on the bids that were accepted.

Senator WILLIAMS. How does that compare with your previous financing of similar bonds?

Secretary HUMPHREY. The short-term bills, the 90-day bills, were 3.40 a week ago Monday and 3.23 last Monday.

Now these subscriptions were—and these will all be published—were well spread out throughout the country among the various Federal Reserve d stricts.

Senator WILLIAMS. The reason that I have brought the question up and in connection with the other issue is because I think there has been some misunderstanding as a result of the fact that the previous bond issue was not oversubscribed, as is customary with Treasury issues.

Secretary HUMPHREY. It could not be oversubscribed because only people holding those bonds could possibly participate.

Senator WILLIAMS. And on this recent issue anyone could bid, and that is the reason it was oversubscribed?

Secretary HUMPHREY. That is correct, yes.

Senator WILLIAMS. Now, Mr. Secretary, who actually gets hurt worse as a result of inflation or devaluation of our currency in the country, what classes of people get hurt worst?

Secretary HUMPHREY. The person who is hurt the worst, Senator, I believe, is the individual citizen who is a relatively small saver, who is not a speculator, who is not conversant with and active in financial markets, but who is just a good common citizen of America, and the respected right kind of a citizen of America who is trying to save to protect himself and his family with some nest egg for the future for the purpose of sending children to school or to cover sickness or getting ahead, promoting his own position, and who is unable to and not qualified, and does not want to, study financial markets and/or be in and out of markets and all that sort of thing.

He is the fellow who really gets hurt in inflation.

Senator WILLIAMS. It could be said that the man who can really afford it the least gets hurt the most?

Secretary HUMPHREY. That is exactly right.

Senator WILLIAMS. Is it not also true that in the history of all these instances where we have had wild inflation that the extremely wealthy of the country involved are usually the ones who come out the best in that their investments are usually in fixed assets?

Secretary HUMPHREY. The fellow who comes out the best is the speculator.

Senator WILLIAMS. Yes.

Secretary HUMPHREY. The next are the fellows who have advice and help in the handling of their affairs, and who are people of larger affairs; the people who really get hurt are the people who are just going along about their own business doing the right kind of a job and being the fine citizens of the country.

Senator WILLIAMS. And whose security is pretty much tied up either in life insurance, pension account, social security, or retirement systems or some type?

Secretary HUMPHREY. That is right.

Senator WILLIAMS. And he is usually the fellow who gets it the worst?

Secretary HUMPHREY. He is the fellow who gets it the worst.

Senator WILLIAMS. You made the suggestion in your opening statement before the committee here, or in reply to one of the questions, I forget which, that inflation grows in a degree proportionate to the prosperity of the country, and while I think I understood what you had in mind——

Secretary HUMPHREY. I do not recall.

Senator WILLIAMS. That we are bothered with inflation as a result of our prosperity.

Secretary HUMPHREY. I do not think I said inflation grew. I think I said the inflationary pressures grow.

Senator WILLIAMS. The pressures of inflation?

Secretary HUMPHREY. That is right, the pressures tending toward inflation; and the more prosperous you are, Senator, the more watchful you have got to be to see you do not succumb to those pressures.

Senator WILLIAMS. I think I understood what you meant by that, but I would like to ask this question now: Is it possible for a country to have wild inflation in a period of depression or a recession?

Secretary HUMPHREY. Well, you usually do not have wild inflation in those periods.

Senator WILLIAMS. Well, the reason——

Secretary HUMPHREY. It is perfectly conceivable that, having succumbed to the pressures of inflation in a period of prosperity, and started the printing of money, that that might be continued clear on through a depression, and keep going on and on and on until you had the whole economy completely destroyed.

Senator WILLIAMS. Well, that is the point I wanted to bring out, because I was of the opinion that while you could have the pressures of inflation in a period of prosperity——

Secretary HUMPHREY. The result might go right on through.

Senator WILLIAMS. Correct. The result might extend.

Secretary HUMPHREY. The pressures would not be as heavy, but as it accumulated, those pressures would continue and——

Senator WILLIAMS. And has not that been the historical result of inflation in many of the countries of the world?

Secretary HUMPHREY. That is exactly what has happened in a good many places.

Senator WILLIAMS. Do you have a record of what has happened in some of the other countries in recent years?

Secretary HUMPHREY. Well, of course, one of the most spectacular was China. I do not happen to have a record on China. That was very spectacular.

Senator WILLIAMS. And was it not the result of prosperity?

Secretary HUMPHREY. That finally wound up in disaster, in complete disaster, when it finished.

Italy has had a very marked inflation in comparatively few years. Italy, what you bought for $1.64 in 1937 you paid $112 for last December.

Of course, we are not talking about dollars.

Senator WILLIAMS. In their currency?

Secretary HUMPHREY. Their currency.

Senator WILLIAMS. That is percentagewise?

Secretary HUMPHREY. But expressed in terms of their currency.

Senator WILLIAMS. Percentagewise. I think that in that period——

Secretary HUMPHREY. In other words, things cost 68 times as much, let me put it that way.

Senator WILLIAMS. Yes.

Secretary HUMPHREY. In whatever it was.

In France you went from 4.27 to 103.

Senator WILLIAMS. Dollars?

Senator HUMPHREY. Relative to dollars.

Senator WILLIAMS. Relative to dollars.

The CHAIRMAN. Can I ask what year that was?

Secretary HUMPHREY. That was from 1937 to December of 1956. The figures that I am giving you are during that period.

That was 24 times as much.

Senator WILLIAMS. Yes.

Secretary HUMPHREY. In Belgium you went from 25 to 105, or 4 times as much.

In the Netherlands, from 38 to 110, or 3 times as much.

In the United Kingdom, from 44 to 114, or about 2½ times as much.

In Norway, from 45 to 111, or 2½.

In Denmark, from 48 to 114, again 2½.

In Sweden, from 49 to 111, about 2¼.

Canada, 54 to 104, or twice.

United States, 54 to 103, or twice.

Switzerland, 59 to 105, or something less than twice.

Senator WILLIAMS. I would like to put that complete chart in the record, Mr. Chairman, because it shows that inflation is not a problem confined to the United States alone but that it is one confronting many of the other countries as well and one which has wrecked many of the governments of those countries.

Secretary HUMPHREY. It is worldwide, Senator, and where it is not fought against, where it is not controlled, it ultimately lands in complete disaster.

We are fortunately in the low brackets. We are in one of the places where it has been controlled the best.

Senator WILLIAMS. And we are largely in the low brackets or will stay in the low brackets because we are recognizing the problem and are taking what at the time may be unpopular steps to correct it; is that not true?

Secretary HUMPHREY. That is correct.

The CHAIRMAN. When you insert that in the record, would you put in Turkey and Greece or some of the Middle East countries?

Secretary HUMPHREY. Yes, sir; we would be very glad to. We will be very glad to do that.

Senator WILLIAMS. I happen to have one for Brazil. I do not think Brazil is in your report. We can add that to it, too.

The CHAIRMAN. Add the South American countries.

Senator WILLIAMS. I had asked for information for more of those countries, but this was all that was available at this time.

The CHAIRMAN. Make it as complete as possible.

Secretary HUMPHREY. Mr. Chairman, we will add that and several others.

(The cost of living indexes are as follows:)

Cost of living (or retail price) indexes for selected countries

	Reported index (1953=100)			Increase, 1937 to December 1956	
	1937	December 1952	December 1956	Percent	Multiplication of prices
Greece	[1] 0.25	91	126	+50,300	504.0 times.
Italy	1.64	100	112	+6,729	68.3 times.
France [2]	[1] 4.27	101	103	+2,312	24.1 times.
Brazil	[3] 14.00	88	189	+1,250	13.5 times.
Turkey	26.00	99	139	+435	5.4 times.
Belgium	25.00	100	105	+320	4.2 times.
Netherlands	38.00	98	110	+189	2.9 times.
United Kingdom	44.08	99	114	+159	2.6 times.
Norway	45.00	98	111	+147	2.5 times.
Denmark	48.00	101	[4] 114	+138	2.4 times.
Sweden	49.00	101	111	+127	2.3 times.
Canada	54.00	100	104	+93	1.9 times.
United States	54.00	109	103	+91	1.9 times.
Switzerland	59.00	101	105	+78	1.8 times.

[1] Index for 1938.
[2] The index for France, which is based on selected retail prices in Paris alone, has currently been artificially held down by the Government through subsidies and other devices.
[3] Index for 1939. All figures are for São Paulo.
[4] January 1957.

Source: International Financial Statistics.

The following figures for Italy, covering retail apparel and food prices, are cited as an example of wartime and postwar inflation in Europe:

	[1] 1938	January 1946	January 1947	July 1950	January 1953	July 1956
Apparel	100	(2)	5,479	5,514	6,212	6,262
Food	100	3,399	4,644	5,844	6,617	7,405

[1] 1939 not available.
[2] Not available.

Data for Brazil, one of the few countries for which published index figures are available for an extended time period and for varied categories of commodities, indicate an inflation problem in Latin America:

	Food	Housing	Clothing	Fuel	Medical care	Tobacco	Household cleaning articles	Transportation
1939	100	100	100	100	100	100	100	100
1945	245	270	301	441	207	132	243	115
1946	312	358	369	316	250	257	253	128
1947	372	492	409	319	358	251	317	147
1950	428	481	457	409	407	311	457	228
January 1953	641	569	512	497	459	369	552	225
July 1956 [1]	1,352	1,136	1,257	811	1,068	602	1,383	972

[1] Converted roughly to 1939 base.

Senator WILLIAMS. In connection with this same subject, Mr. Chairman, I will put into the record—I will not trouble to read it—a story in Newsweek of July 1, 1957, by Mr. Henry Hazlitt, entitled, "The Great Swindle." It is a rather interesting tabulation showing the degree of inflation in all of these countries throughout the world.

The CHAIRMAN. Do you offer that for the record?

Senator WILLIAMS. I would like to insert that in the record.

The CHAIRMAN. If there is no objection, it is so ordered.
(The article, The Great Swindle, is as follows:)

[Newsweek, July 1, 1957]

BUSINESS TIDE

THE GREAT SWINDLE

By Henry Hazlitt

A year ago (Newsweek, June 25, 1956) I printed here, under the above title, a table showing the depreciation, in terms of domestic purchasing power, of the currencies of 53 countries in the 10 years from 1946 to 1955. This table had been compiled by Franz Pick. He has now carried it forward, for the 9-year period from January 1948 to December 1956, in the 1957 edition of his Currency Yearbook. I present the results below, showing the depreciation of 56 currencies in that period.

It is important to keep this appalling worldwide picture constantly before our minds. For it reminds us that inflation is nothing but a great swindle, and that this swindle is practiced in varying degrees, sometimes ignorantly and sometimes cynically, by nearly every government in the world. This swindle erodes the purchasing power of everybody's income and the purchasing power of everybody's savings. It is a concealed tax, and the most vicious of all taxes. It taxes the incomes and savings of the poor by the same percentage as the incomes and savings of the rich. It falls with greatest force precisely on the thrifty, on the aged, on those who cannot protect themselves by speculation or by demanding and getting higher money incomes to compensate for the depreciation of the monetary unit.

WHY INFLATION?

Why does this swindle go on? It goes on because governments wish to spend, partly for armaments and in most cases preponderantly for subsidies and handouts to various pressure groups, but lack the courage to tax as much as they spend. It goes on, in other words, because governments wish to buy the votes of some of us while concealing from the rest of us that those votes are being bought with our own money. It goes on because politicians (partly through the second- or third-hand influence of the theories of the late Lord Keynes) think that this is the way, and the only way, to maintain "full employment," the present-day fetish of the self-styled progressiveness. It goes on because the international gold standard has been abandoned, because the world's currencies are essentially paper currencies, adrift without an anchor, blown about by every political wind, and at the mercy of every bureaucratic caprice. And the very governments that are inflating profess solemnly to be "fighting" inflation. Through cheap-money policies, or the printing press, or both, they increase the supply of money and credit and affect to deplore the inevitable result.

The following table is based on official cost-of-living indexes, many of which understate the real extent of currency debasement. Russia and its satellite countries are omitted because disparities between actual and "official" price levels are so wide and the statistics are meaningless. The American dollar, to which so many other currencies are ostensibly tied, itself shows a depreciation of 15 percent in the period. The British pound sterling, the world's most important trade unit, lost 34 percent, the French franc 52 percent, the currencies of Chile, Paraguay, Bolivia, and Korea, from 93 to 99 percent.

CURRENCY SHRINKAGE

Percentage decline in purchasing power of monetary units, January 1948–December 1956

Dominican	2	Norwegian	33
Egyptian	6	New Zealand	33
Portuguese	6	Spanish	34
Haitian	8	United Kingdom	34
Swiss	10	Thailand	35
Ceylonese	11	Turkish	36
Burmese	12	El Salvador	40
Dutch Antillean	12	Nicaraguan	40
Ecuadoran	13	Mexican	45
Pakistan	14	Colombian	46
Belgian	15	Uruguayan	48
United States	15	Finnish	49
Indian	15	Icelandic	51
West German	18	Australian	52
Venezuelan	19	French	52
Hong Kong	23	Japanese	55
Guatemalan	23	Austrian	55
Canadian	25	Peruvian	55
Italian	25	Greek	58
Honduran	26	Indonesian	59
Costa Rican	27	Israeli	66
Irish	28	Brazilian	70
Malayan	28	Argentine	73
Danish	29	Taiwan	85
Swedish	29	Chilean	93
Netherlands	30	Paraguayan	96
South African	31	Bolivian	99
Iranian	33	Korean	99

Senator WILLIAMS. Mr. Secretary, the present high interest rates are being defended by the administration, and I think properly so, as anti-inflationary, but now in order to know what effect they have had on the consumer prices, I would like to ask you to furnish for the record at this point the consumer index for the years 1939 through 1957 along with statistics showing the purchasing power of the dollar for the same period.

You had those in your previous report, but I think it would be important to have it again at this point in the record. We will then have the trend of cost of living in this country as well as other countries

Secretary HUMPHREY. I will see if we can not get it right away.

Senator WILLIAMS. It is pages 18 and 19.

Senator HUMPHREY. I have the tabulation here. It is more detailed than the one in my statement.

Senator WILLIAMS. I see.

Secretary HUMPHREY. And this shows the calendar years beginning with 1939 and running through each calendar year through 1956. Then it shows the figures quarterly for 1956, beginning with April 1956, and its shows the months, January, February, March, and April of 1957. And it shows the price index for each of those years and months, the percentage of the change in points and the change in percent, in the purchasing power of the dollar and the change for each of these periods, and I can read any part of it that you would like.

Senator WILLIAMS. I would suggest you just make whatever comments you wish, and we will then put the complete report in the record at this point.

Secretary HUMPHREY. Well, it shows the same percentages of reduction that we have discussed previously.

Senator WILLIAMS. Yes.

Secretary HUMPHREY. Except that this does it not in groups but for every year. It is all shown for each year, and for the months I have referred to.

The CHAIRMAN. If there is no objection, it will be inserted. But it should be noted that the Consumers Price Index figures in this table are on a 1947–49=100 base and the value of the dollar figures are on a 1939=100 base.

(The tabulation, "Consumer prices and purchasing power of the dollar, 1939–57," is as follows:)

Consumer prices and purchasing power of the dollar, 1939–57

Calendar years	Consumer prices: Price index (1947–49=100)	Consumer prices: Change in index: Points	Consumer prices: Change in index: Percent	Purchasing power of dollar [1]: Cents	Purchasing power of dollar [1]: Change
1939	59.4			100.0	
1940	59.9	+0.5	+0.8	99.2	−0.8
1941	62.9	+3.0	+5.0	94.4	−4.8
1942	69.7	+6.8	+10.8	85.2	−9.2
1943	74.0	+4.3	+6.2	80.3	−4.9
1944	75.2	+1.2	+1.6	79.0	−1.3
1945	76.9	+1.7	+2.3	77.2	−1.8
1946	83.4	+6.5	+8.5	71.2	−6.0
1947	95.5	+12.1	+14.5	62.2	−9.0
1948	102.8	+7.3	+7.6	57.8	−4.4
1949	101.8	−1.0	−1.0	58.3	+.5
1950	102.8	+1.0	+1.0	57.8	−.5
1951	111.0	+8.2	+8.0	53.5	−4.3
1952	113.5	+2.5	+2.3	52.3	−1.2
1953	114.4	+.9	+.8	51.9	−.4
1954	114.8	+.4	+.3	51.7	−.2
1955	114.5	−.3	−.3	51.9	+.2
1956	116.2	+1.7	+1.5	51.1	−.8
1956—April	114.9			51.7	
July	117.0	+2.1		50.8	
October	117.7	+.7		50.5	
1957—January	118.2	+.5	+3.8	50.3	−1.9
February	118.7	+.5		50.0	
March	118.9	+.2		50.0	
April	119.3	+.4		49.8	

[1] As measured by Bureau of Labor Statistics Consumers' Price Index, assuming purchasing power at 100 cents in 1939.

Source: Department of Labor.

Senator WILLIAMS. I would like to refer to your statement in which you said—

> We first balanced the budget and then entirely eliminated planned deficits. The budget in effect when we took office in 1953 produced a $9.4 billion deficit, and the budget proposed for the fiscal year 1954 called for a $9.9 billion deficit. Our administration immediately went to work with the help of the Congress to reduce the planned deficit for fiscal 1954, and indeed the final deficit, $3.1 billion, was only one-third of that anticipated by the prior administration.

Now, in connection with that I would like to review with you just what steps have been taken by the administration to accomplish this objective and make the comparison with the actions taken by the preceding administration, because they have been compared earlier. I would like to start out with this question: What was the debt at the time that you took control in 1953, in January 1953?

Secretary HUMPHREY. At the end of 1952, December of 1952, it was $267.445 billion.

Senator WILLIAMS. $267.445 billion?

Secretary HUMPHREY. Yes.

Senator WILLIAMS. What was your cash on hand at that time?

Secretary HUMPHREY. $6.064 billion.

Senator WILLIAMS. That would be a difference of about $261 billion, is that correct?

Secretary HUMPHREY. That is correct.

Senator WILLIAMS. What were the contractual obligations or unexpended appropriations outstanding at that time?

Secretary HUMPHREY. About $80 billion.

Senator WILLIAMS. Do you consider these contractual obligations, in effect, obligations of the Government, contingent liabilities?

Secretary HUMPHREY. Well, they are not strictly contingent liabilities, but, in general, they, of course, are obligations that have to be provided for. Some can be reduced, as we did at that time, my recollection is, that about $11 billion were canceled off that year, and then the remainder was substantially reduced in the next few years.

Senator WILLIAMS. What was the debt on June 30, 1946?

Secretary HUMPHREY. 1946; that was December 31 that I gave you.

Senator WILLIAMS. Whatever comparable figure.

Secretary HUMPHREY. Well, the comparable figure, if you want it calendar year.

Senator WILLIAMS. Well, we will put it January 1, 1947.

Secretary HUMPHREY. December 31.

Senator WILLIAMS. Have you got June 30; that was the figure I had here.

Secretary HUMPHREY. I can give you both.

Senator WILLIAMS. Let us have June 30, then.

Secretary HUMPHREY. June 30 of 1946, practically $270 billion, $269.898 billion.

Senator WILLIAMS. In other words, between the period June 30, 1946, and January 1, 1953, the debt had dropped $2.4 billion, is that right?

Secretary HUMPHREY. That is right.

Senator WILLIAMS. What was the cash on hand on June 30, 1946?

Secretary HUMPHREY. It was high, $14.238 billion.

Senator WILLIAMS. $14.238 billion. Cash on hand was $14.2, and when you took over it was about $6 billion, is that correct?

Secretary HUMPHREY. That is correct.

Senator WILLIAMS. Therefore, while the debt between 1946 and 1953 had dropped $1.4 billion, the cash had dropped $8.2, is that correct?

Secretary HUMPHREY. That is correct.

Senator WILLIAMS. What were the contractual obligations or unexpended appropriations outstanding on June 30?

Secretary HUMPHREY. In 1946?

Senator WILLIAMS. 1946.

Secretary HUMPHREY. I do not have those with me, Senator.

Senator WILLIAMS. I happen to have them here, which I will put in the record. The figures were obtained from the Library of Congress and they gave it $28,022,633,816.

The CHAIRMAN. The Chair objects to putting those figures in the record as "contractual obligations." They appear to represent only unexpended balances in appropriations which were not necessarily under contract. And as of June 30, 1946 much of that money was in funds deobligated by cancellation of war contracts. It would seem that to call those balances "contractual obligations" would be misleading, and the Chair hopes the Senator from Delaware will not insist upon such an insertion in the record.

Senator WILLIAMS. I had not asked to put it in the record, Mr. Chairman.

The CHAIRMAN. The Chair misunderstood.

Senator WILLIAMS. No. I just quoted the figure of contractual obligations as furnished by the Library of Congress at that time, and I think if you will just wait until I get through, you will find I am not just defending these as being fixed obligations of the Government but that I am trying to establish the fact that it is an unusual event for the Government to carry this large amount of unexpended obligations, in other words, it is not normal. It has only been in recent years that we have had any such amounts carried forward.

The CHAIRMAN. I ask the pardon of the Senator for interrupting him, but it was understood that he had asked to have it inserted in the record.

Senator WILLIAMS. No, I had not. In fact, to save time, I will not ask to put anything into the record.

These unexpended appropriations on June 30, 1956, were $28 billion at that time, and the cash on hand was $14 billion.

Secretary HUMPHREY. 1946?

Senator WILLIAMS. In 1946, unexpended balances were $28 billion, and during the period 1946 and 1953 they had increased from $28 billion to $83 billion on January 1, 1953; is that correct?

Secretary HUMPHREY. Well, that is what those figures——

Senator WILLIAMS. Approximate?

Secretary HUMPHREY. That is approximately it.

Senator WILLIAMS. What in that same category are the unexpended appropriations as of today, or the most recent day you have?

Secretary HUMPHREY. I think about $46 billion.

Senator WILLIAMS. About $46 billion. And they dropped from $83 billion down to $46 billion?

Secretary HUMPHREY. That is about it—very roughly.

Senator WILLIAMS. That is a drop of about $37 billion.

Do you think it is possible for this to be brought down further in light of the fact it was only $28 billion at the end of June 30, 1946, which was a period very close to the end of World War II when conceivably there could be more excuse for it being higher than than it would be in peacetimes. Am I correct in that assumption or not?

Secretary HUMPHREY. I am not sure, Senator.

The problem, of course, is this, and our great problem today is this: that the expenditure per unit for these defense items is so great—$8 million for a B-52, millions of dollars for a single airplane, or a terrific sum for an aircraft carrier. The value of the units has increased so that it is pretty hard to keep enough units ahead in the backlog to have what you need coming along and yet get this total amount of money down to where you would like to have it.

Senator WILLIAMS. I noticed that——

Secretary HUMPHREY. I am not saying there cannot be any improvement made because we are still working for further improvement. But as you go down, it gets that much harder. Every time you drop a little, it gets that much harder.

Senator WILLIAMS. I had the Library of Congress compile this to show whether it was customary or historical to carry these large amounts of unexpended balances, and it seems it has not been; that they reached their alltime high presumably in 1951 and 1952.

Secretary HUMPHREY. That is right.

Senator WILLIAMS. They now are on the way down, and I am glad to see they are on the way down. Is it not a fact, with this large amount of unexpended balance remaining or unexpended appropriations, Congress has, in effect, lost control of the spending policies?

Secretary HUMPHREY. Well, their control has been impeded. I would not say that they had lost it, and, of course, you have to have this in mind, Senator: We are now spending a great deal more money. Both administrations in these later years have been spending a great deal more money in total, and as your total expenditures go up, why, of course, your forward commitments go up with it; so that it would not be possible to have as low forward commitments if you were spending, let us say, $60 billion as it would if you were spending $6 billion.

But I do think that every effort should be made to reduce them as far as possible in order to let the Congress have a closer control, the closest possible control over the expenditures.

Senator WILLIAMS. It has been pointed out by many, including the chairman the other day, and I think correctly so, the fact that even though we at this session reduced appropriations we will say by $3 billion to $4 billion, spending next year as a result of these unexpended obligations could even be higher than it was this year. Is that not true?

Secretary HUMPHREY. I think it could.

Senator WILLIAMS. You think it could?

Secretary HUMPHREY. I think it could, and it is something you have got to watch every minute.

Senator WILLIAMS. Do you have any recommendations as to how—and first I want to congratulate you on the progress you have made because I think bringing those down from $83 billion to $46 billion which is quite an achievement—but do you think they can be brought down lower, or do you know of anything that we could do in Congress to help bring them down lower?

Secretary HUMPHREY. Well, under the present system, it is just a matter of working at it continuously. I am not sure myself that the other system is not a better system—the system of accrual accounts with authority to contract and annual appropriations—there has been a great deal of discussion of that. A couple of years ago, with the approval of the chairman of the Finance Committee here, and with the approval of the chairman of the Senate Appropriations Committee—and with some approval of the Ways and Means Committee—we finally got hung up in the Appropriations Committee of the House in trying to put in a revision of the system of appropriations, total appropriations, and the method of handling them, which I think would have been a great step forward in giving a better, not only a better control but a better knowledge of the Congress from which they could exercise control of the finances of this country.

Senator WILLIAMS. I am in agreement with you, and I was bringing this out because I think that supports the position you took over before the committee.

Secretary HUMPHREY. We started that, as I recall it, nearly 3 years ago, was it not, Mr. Chairman, and we worked at it; I thought a year and a half ago we pretty nearly had it done; and then it ran onto some rocks.

Senator WILLIAMS. Even without that, you have made substantial progress in bringing it down.

Secretary HUMPHREY. That is correct.

Senator WILLIAMS. Now, to get back to the other point, I would like to get to, on the cash differences of the expenditures: On June 30 of 1946 our national debt was $269.8 billion, and they had cash of about $14.3 billion. Therefore, the reduction in the debt of $1.4 billion during the period between June 30, 1946, and December 31, 1953, is more than offset by a reduction in cash of $8.3 billion.

Secretary HUMPHREY. That is correct.

Senator WILLIAMS. Now, what is the cash on hand as of your nearest date today?

Secretary HUMPHREY. Today?

Senator WILLIAMS. And your debt.

Secretary HUMPHREY. Let us see, June 24, I think that is the last day we have a figure for.

Senator WILLIAMS. What was your cash?

Secretary HUMPHREY. The balance was $5.320 billion.

Senator WILLIAMS. That is the cash. $5.3. What was your debt?

Secretary HUMPHREY. The debt as of that day was $270.587 billion.

Senator WILLIAMS. That would leave a net of $265.2 against $261.4 when you came in?

Secretary HUMPHREY. I think that would be about it.

Senator WILLIAMS. Now, at that time in 1953 the contributions to the road-building fund were made out of direct appropriations?

Secretary HUMPHREY. That is correct.

Senator WILLIAMS. Now, they are carried as a trust fund, is that not true?

Secretary HUMPHREY. That is right, from additional taxes. That is partially additional taxes.

Senator WILLIAMS. That is right. How much is in that trust fund as of today?

Secretary HUMPHREY. I might not be able to get it for the day, but maybe for the first of the month.

Senator WILLIAMS. Well, as closely as you can.

Secretary HUMPHREY. We can get it close enough.

There are a lot of papers in this Government. [Laughter.]

I guess we had better get it for you, Senator.

Senator WILLIAMS. You can furnish that for the record.

Secretary HUMPHREY. I will furnish it.

We ought to be able to give you the estimate for June 30.

Senator WILLIAMS. That ought to be fairly close.

Secretary HUMPHREY. Yes, fairly close. The January budget estimate of the fund balance was $400 million.

Senator WILLIAMS. In the road building trust fund?

Secretary HUMPHREY. Yes. That would be an estimate, and that is an estimate.

Senator WILLIAMS. During this same period between, we will say, June 30, 1946, which was practically the end of the war, and up to the present time, the Government has disposed of a lot of surplus property in the sale of various surplus war property and surplus rubber plants, and so forth?

Secretary HUMPHREY. That is correct.

Senator WILLIAMS. Do you have a breakdown of the amount that has been received for the surplus property throughout these years, and, if not, could you furnish that for the record?

Secretary HUMPHREY. Yes, sir, I am sure we could furnish it. I do not know that we can give it to you without delay, but we can certainly furnish it, and we will.

Senator WILLIAMS. Yes. If you could, and as to the years in which that was received, I would like to have it.

Secretary HUMPHREY. Fine.

Wait a minute. We have it here. This goes for a period of years.

Senator WILLIAMS. If you do not have it here.

Secretary HUMPHREY. I think we will check it for you.

Senator WILLIAMS. Yes, that will be all right if you furnish it for the record.

Secretary HUMPHREY. Yes.

(The matter requested is as follows:)

Sale of surplus materials or activities, fiscal years 1946 through 1949

[In millions of dollars]

	1946	1947	1948	1949
Net proceeds from surplus property in United States	549.2	1,914.7	2,094.8	316.5
Net proceeds from surplus property in foreign areas	14.1	305.1	473.1	71.0
Proceeds from surplus vessels		625.1	750.2	69.4
Proceeds of sales or dispositions from strategic and critical materials stockpile			8.8	
Recoveries, defense aid, commodities, supplies and services				51.4
Recovery of costs, national defense, war, and reconversion activities, RFC				100.0
Sale of scrap and salvaged surplus materials				24.8
Services and expenses reverse lend lease	5.9	2.3	1.8	
Old condemned surplus property, Navy Department	.2	25.7	29.5	
Capital equipment (includes trucks, horses, etc.)	40.3	34.3	38.5	
Ordnance material (war)	15.0	.7	.3	6.6
Proceeds of Government owned securities, sale of war supplies	.3	.2	.4	.4
Surplus personal property	71.6	2.4		
Total	696.6	2,910.3	3,392.4	640.1

NOTE.—Figures are rounded and will not necessarily add to total.

Sale of surplus materials or activities, fiscal years 1950 through 1957

[In millions of dollars]

	1950	1951	1952	1953	1954	1955	1956	1957 estimate (January 1957 budget)[1]
Net proceeds from surplus property in United States	166.6	149.1	66.8	37.4	51.5	67.5	143.4	54.0
Net proceeds from surplus property in foreign areas	75.7	32.3	53.0	58.8	18.4	34.1	43.7	5.7
Proceeds from surplus vessels	51.9	43.5	77.0	44.5	33.5	51.8	60.6	21.6
Proceeds of sales or dispositions from strategic and critical materials stockpile			29.3	20.5	1.7		4.2	3.0
Net proceeds from surplus property in foreign areas, act Oct. 3, 1944, foreign exchange conversions					22.2	29.8	38.0	38.5
Net proceeds from excess property in foreign areas, act of June 30, 1949, foreign exchange conversions					2.1	1.6	4.2	.3
Recoveries, defense aid, commodities, supplies and services	8.1	13.8	22.2	32.1	24.9	33.2	53.2	100.0
Recoveries, defense aid, commodities, supplies and services, foreign exchange conversions					1.5	1.6	2.0	1.2
Recovery of costs, national defense, war, and reconversion activities, RFC	25.0	50.1	113.6	113.0	184.9	390.3	73.7	
Sale of scrap and salvaged surplus materials	8.8	27.1	11.7	4.6	5.3	5.6	94.1	95.9
Total	336.2	316.1	373.4	311.0	346.0	615.5	517.3	320.1

[1] Budget estimates.

NOTE.—Figures are rounded and will not necessarily add to totals.

Senator WILLIAMS. As these surplus properties were sold, surplus war goods, the receipts were put into the Treasury in the general fund, is that correct?

Secretary HUMPHREY. That is correct.

Senator WILLIAMS. And they were, in effect, nonrecurring income?

Secretary HUMPHREY. That is correct.

Senator WILLIAMS. And the deficit, while it reduced the deficit to that extent, had the property not been sold, the deficit would have been greater, whatever years these were?

Secretary HUMPHREY. I think that is right, except for this, Senator: that this is a sort of a continuing thing.

Senator WILLIAMS. That is right.

Secretary HUMPHREY. While you say it is a one-shot credit, that is true as to the particular item; but there are so many items that the Government has that, with continual work at it, you keep finding new items year after year.

There are credits year after year, although they are for different items.

Senator WILLIAMS. Yes. I recognize that, and perhaps as we have sold one, we have built something else.

Secretary HUMPHREY. We build something else, and a little while later we sell that and build something else.

Senator WILLIAMS. I was speaking of that from a reflection of the cash position of the Government that it was a cash income at the time it was sold.

Secretary HUMPHREY. That is correct. It is a cash income, and as to any particular unit, it is a one-shot item, but the units keep recurring; other units keep recurring to a point where it is almost a continuous item.

Senator WILLIAMS. Yes. But——

Secretary HUMPHREY. In varying amounts.

Senator WILLIAMS. Of course, in disposing of the war surplus plants——

Secretary HUMPHREY. It gets larger when you have a war and lesser when you have not.

Senator WILLIAMS. In 1950 Congress adopted the Mills plan, which was an accelerated plan for payment of taxes for corporations. I would like to ask this question: Was not the net effect of the Mills plan the advancement of corporate taxes by one-half fiscal year before it was completed——

Secretary HUMPHREY. That was the objective.

Senator WILLIAMS. That was the objective, and it was the accomplishment. But was not the net effect financially of that plan that it advanced about $8 billion more in the period in which that plan was operating than would have been collected had the Mills plan not been adopted?

Secretary HUMPHREY. I think that is right. It advanced it from one fiscal year to the other.

Senator WILLIAMS. That is right, and that advancement resulted in an accelerated income; I think the figures figured by Mr. Burgess——

Secretary HUMPHREY. About $1.5 billion a year, as I remember.

Senator WILLIAMS. About $1.5 billion a half-year, but the cumulative total was around $8.8 billion all together brought in between the period of 1950 when this plan was adopted; and the net effect of it practically vanished at the end of the 1956 fiscal year?

Secretary HUMPHREY. That is correct.

Senator WILLIAMS. And that——

Secretary HUMPHREY. Well, the net effect vanished a while before that.

Senator WILLIAMS. The bulk of the effect——

Secretary HUMPHREY. There was a very little—after the fiscal year—after June 30, 1955, there was practically no change.

Senator WILLIAMS. That is correct.

The only corporations that had an odd fiscal year were brought in to even it up?

Secretary HUMPHREY. Just minor adjustments.

Senator WILLIAMS. During that period it was really we had about an $8.8 billion nonrecurring income coming in during that period?

Secretary HUMPHREY. That is right. In fiscal years. It does not change the total dollars, but it did increase the amount per fiscal year.

Senator WILLIAMS. And the report of the Budget Bureau as to the deficit at the end of each fiscal year as it is shown in their reports, during that period, would have been changed and would have been about $8.8 billion greater deficit had it not been for the Mills plan adopted, or some such similar plan?

Secretary HUMPHREY. I think that is correct.

Senator WILLIAMS. How many—speaking of deficits and budgets—how many times has the budget been balanced in the last 30 years?

Secretary HUMPHREY. Thirty years is quite a while. Let us see here.

This table goes from 1929 through 1957, with estimates for 1957 and 1958.

Senator WILLIAMS. There have been how many periods in which that budget has been balanced?

Secretary HUMPHREY. What were the years there?

It was balanced in 1929 and 1930. That is two. Then there is a series of 16 deficits from the period from 1931 to 1946, both inclusive.

Then in 1947 there was a surplus of $754 million. In 1948 there was a surplus of $8.4 billion.

Senator WILLIAMS. That was the "do-nothing" 80th Congress. They did not do bad on balancing the budget, did they?

Secretary HUMPHREY. $8.4 billion.

Then there are 2 years of deficit. Then in 1951 there was a surplus of $3.5 billion.

Senator WILLIAMS. 1951?

Secretary HUMPHREY. Yes, sir.

Then there are 4 years of deficit; and then there are 3 consecutive years of balanced or anticipated balanced budgets.

Senator WILLIAMS. In other words, since 1930, we have had six balanced budgets; is that correct?

Secretary HUMPHREY. I think that would be right.

Senator WILLIAMS. Two in 1947 and 1948?

Secretary HUMPHREY. Two in 1929 and 1930.

Senator WILLIAMS. Well, 1929, 1930.

Secretary HUMPHREY. And two in 1947, 1948. That makes four. Then one in 1951.

Senator WILLIAMS. And three under this administration?

Secretary HUMPHREY. Then three in a row.

The CHAIRMAN. Two are anticipated; they have not yet——

Secretary HUMPHREY. Two of them, I think, are real.

The CHAIRMAN. As of this date only one is actual. The balance for fiscal years 1957 and 1958 are estimated——

Secretary HUMPHREY. Well, one.

The CHAIRMAN (continuing). For the record.

Secretary HUMPHREY. We are 3 days off, Mr. Chairman.

The CHAIRMAN. One of the three is a year off.

Secretary HUMPHREY. Yes.

The CHAIRMAN. That one was included.

Secretary HUMPHREY. The one a year off is simply the budget estimate.

The CHAIRMAN. But that is included in your list, is it not?

Senator WILLIAMS. That list was prepared by counsel——

Secretary HUMPHREY. Mr. Chairman, if you want to be specific about it, the balancing of the budget is the presentation of the budget, and a balanced budget has been presented. Now, whether it will work out in practice or not, remains to be seen.

The CHAIRMAN. Actual balance occurs only when income is in excess of outgo. There is a vast difference between balanced budget estimates and actually balanced budgets. In the past 25 years there have been more of the former than the latter.

Secretary HUMPHREY. A great many of them. That is right.

The CHAIRMAN. I beg your pardon, Senator Williams. I just wanted to make it clear that in this list of balanced budgets two are anticipated. One may be 3 days off, but the other is a year.

Senator WILLIAMS. I think that the one for 3 days can be accepted.

Secretary HUMPHREY. I will underwrite one of them, but not the other, for sure.

Senator WILLIAMS. Eliminating the other, then we have the situation where it was balanced in 1929 and 1930, is that right?

Secretary HUMPHREY. That is right.
Senator WILLIAMS. And it was balanced again in 1947 and 1948?
Secretary HUMPHREY. That is right, and balanced again in——
Senator WILLIAMS. In 1951?
Secretary HUMPHREY. 1951.
Senator WILLIAMS. And it was balanced again——
Secretary HUMPHREY. In 1955 and 1956.
Senator WILLIAMS. 1955 and 1956?
Secretary HUMPHREY. No. 1956 and 1957.
Senator WILLIAMS. 1956 and 1957.

So when you boasted of the balanced budget, you had two balanced budgets under your belt, and you had a historical record of being associated with an administration which had balanced some budgets prior thereto?

Secretary HUMPHREY. That is correct.

Senator WILLIAMS. I think that it is. I would like for that complete chart to be put into the record, because I think it is well for us to pay attention to that since unquestionably the Government deficits over a period of years do contribute to inflation.

Senator HUMPHREY. Perhaps more than anything else.

The CHAIRMAN. There is no objection to that chart being put in, but the reference to so-called obligations and unexpended balances should be clarified.

Secretary HUMPHREY. Have we got a chart on that?

Senator WILLIAMS. There has been no request to put such a chart in.

The CHAIRMAN. I understand, but the Senator read figures of eighty-odd and forty-odd billion dollars which may be balance figures but not necessarily obligation figures, and it is not clear whether that is the total of the unexpended balances. They appear to represent only balances in appropriations. That is by no means the total of all unexpended balances. For example, they do not include balances in authorizations to spend out of the debt.

Senator WILLIAMS. I do not know whether it is or not, but this chart was prepared by the Library of Congress in Washington here, and it is our Legislative Reference Service, and it was prepared in reply to my request or inquiry for the various Federal financial data: their letter reads:

> In reply to your recent inquiry for various Federal financial data, the following information is submitted: No. 1. Unexpended appropriations.

And he has in parentheses, "General and special accounts."

The CHAIRMAN. What is the total of that?

Senator WILLIAMS. On June 30, 1946, it was $28,022,633,816. On June 30, 1947, $17,720,154,104. On June 30, 1948, $19,632,952,700. And on May 31, 1953, actual, $91,280,853,215. And on June 30, 1953, at that time it was estimated it was $83,298,436,271.

The CHAIRMAN. There is no objection to the Senator reading it into the record, but the record should be clear as to what the figures represent, and that unexpended appropriations are not necessarily firm obligations.

Senator WILLIAMS. This was furnished by the Library of Congress, and the reason I was bringing this up was to show during the period of 1946, 1947, and 1948, we did operate the Government, assuming they are right over there—and if they are not, we had better get another staff to do the job—we operated with unexpended appropriations ranging from $17 billion to $28 billion, and later they ran up as high as $91 billion, and dropped back to $83 billion around 1953 at the time he came in——

The CHAIRMAN. Senator, unexpended balances in appropriations are one thing, but appropriations are only one method of authorizing expenditures. Other methods include the growing practice of authorizing expenditure out of debt receipts, which requires no appropriation. There are balances in this category. There are balances in revolving funds. There are balances in contract authorizations, and so forth. The total of these balances now is approximately $70 billion, but this cannot be called $70 billion in firm obligations at this time. The chair makes this point in the interest of a complete and clear record.

Senator WILLIAMS. I would like to have the record printed because I believe we should have it before us.

(The tabulation, "Budget receipts and expenditures," is as follows:)

Budget receipts and expenditures

[In millions]

Fiscal year	Budget receipts	Budget expenditures	Surplus or deficit (−)	Fiscal year	Budget receipts	Budget expenditures	Surplus or deficit (−)
1929	$4,038	$3,299	$734	1944	$43,635	$95,059	−$51,423
1930	4,178	3,440	738	1945	44,475	98,416	−53,941
1931	3,116	3,577	−462	1946	39,771	60,448	−20,676
1932	1,924	4,659	−2,736	1947	39,786	39,032	754
1933	2,021	4,623	−2,602	1948	41,488	33,069	8,419
1934	3,064	6,694	−3,630	1949	37,696	39,507	−1,811
1935	3,730	6,521	−2,791	1950	36,495	39,617	−3,122
1936	4,069	8,493	−4,425	1951	47,568	44,058	3,510
1937	4,979	7,756	−2,777	1952	61,391	65,408	−4,017
1938	5,615	6,792	−1,177	1953	64,825	74,274	−9,449
1939	4,996	8,858	−3,862	1954	64,655	67,772	−3,117
1940	5,144	9,062	−3,918	1955	60,390	64,570	−4,180
1941	7,103	13,262	−6,159	1956	68,165	66,540	1,626
1942	12,555	34,046	−21,490	1957 [1]	70,628	68,900	1,728
1943	21,987	79,407	−57,420	1958 [1]	73,620	71,807	1,813

[1] Estimated.

The CHAIRMAN. I did not recall that there was a balance total of $91 billion in appropriations alone.

Senator WILLIAMS. I do not know whether there was or not. I am only reading the official report.

The CHAIRMAN. If there were appropriations large enough to result in carryover of $91 billion, they must have been to the military for conduct of war.

Senator WILLIAMS. What were they at the time we came in, Mr. Secretary?

Secretary HUMPHREY. The figure from the budget report was $78.4.

The CHAIRMAN. Would you break them down by departments?

Secretary HUMPHREY. We could do this, Mr. Chairman.

The CHAIRMAN. I think you will find there is authority to spend out of debt and so forth, in addition to balances in the appropriations.

Secretary HUMPHREY. It might be, but it would be relative if we used these figures, and I will just put these figures in, they would have the same deficiencies or credits.

In 1953 there was $78.4. In 1954 they were $67.8. In 1955 they were $52.1. In 1956 they were $46 billion.

Senator WILLIAMS. The point I am making is, without going into the discussion as to whether the items therein should be classified as unexpended balances or something else, they are comparable figures for the different years for that particular category that you are talking about.

Secretary HUMPHREY. The ones I have just read are comparable.

Senator WILLIAMS. Comparable. And——

Secretary HUMPHREY. Those are the budget figures for each year.

Senator WILLIAMS. Those are the budget figures, and whether the Library of Congress got those figures correct or incorrect, they are the same as yours. I never made any estimate, they were compiled upon my request by the Congressional Library.

The CHAIRMAN. No one is more critical of these carryover balances than I am, but I do not understand that reduction in them can accurately be counted as savings.

Secretary HUMPHREY. No.

Senator WILLIAMS. No.

Secretary HUMPHREY. Mr. Chairman; no. There is nobody, as I am glad to testify, there is nobody who has been more critical of these—of the size of these balances or who has been of greater assistance to the administration and to me than you have personally in trying to get them down, and with other Members of Congress, Senator Williams and others, in trying to get them down; and we have, that is one place where we have made some progress in reductions.

Senator WILLIAMS. I think the chairman is correct they do not represent savings, but I do think they are an item which should be brought under control, and I think, Mr. Secretary, that you have done an excellent job in bringing them under control. As you bring the unexpended appropriations down to a more realistic figure comparable to what was done in prior years, we will have a better control, both executive and Congress, over the expenditures of the Government.

Secretary HUMPHREY. I think that is right.

Senator WILLIAMS. I do not think we will have any control over the expenditures until we do.

The CHAIRMAN. I concur with Senator Williams in that and that is what some of us, including Senator Williams and the Secretary have been trying to do. As I recall, Mr. Secretary, when you came in, you gave much attention and effort to reducing the balances.

Secretary HUMPHREY. That is correct.

The CHAIRMAN. But reduction in balances is not directly reflected as savings in terms of the actual cash position of the Treasury. I think the chief objection to excessive balances is that they cause Congress to lose control over expenditures. Spending agencies can use an unexpended balance at their will, subject to some limitations, of course.

Secretary HUMPHREY. It certainly helps in better control.

The CHAIRMAN. I know Senator Williams did not intend it, but I do not want the record to leave the impression that reduction in these balances as such can be counted as reduction in spending or actual savings.

Senator WILLIAMS. They were not put into the record with the thought they were reductions in spending or actual savings. But let us put it this way: They can well be reductions and savings over a period of years if they are brought under control; is that not correct?

Secretary HUMPHREY. That is correct.

Senator WILLIAMS. And to the extent they are outstanding, they can all represent expenditures if neither the Congress nor the administration makes any effort to curtail them?

Secretary HUMPHREY. That is correct.

Senator WILLIAMS. Therefore, it can be said when you have got $80 billion or $90 billion outstanding, it can be expenditures and it can be a savings when we bring them under control.

As to the statement that as they are brought down under control, they do not represent immediate savings, I am in agreement.

The CHAIRMAN. They are not down under control now.

Senator WILLIAMS. No.

The CHAIRMAN. Even forty-odd-billion dollars in appropriation balances alone——

Secretary HUMPHREY. Is pretty high.

Senator WILLIAMS. Is too high.

The CHAIRMAN. Results in substantial loss of expenditure control. I think this is one of our great problems. I thoroughly agree with Senator Williams. We have discussed this repeatedly. Some way should be found to reduce unexpended balances and give Congress control over expenditures. Until around 1944 or 1945——

Secretary HUMPHREY. 1944.

Senator WILLIAMS. But the fact we operated the Government in the years 1946, 1947, and 1948 with unexpended obligations of only $17 billion to $28 billion, I think, could well be looked at. The fact that it was operated with that amount at that time shows that it can be done, and I think the fact, Mr. Secretary, that you had brought it down from eighty-billion-odd-dollars to forty-billion-odd-dollars is a step in the right direction, and you should be commended for it; however, I agree fully with the chairman, we should not sit back and take too much pride in that because it is still far too high, and I have supported his position many times. We have got to bring these outstanding balances under control.

The CHAIRMAN. The only reason I took the liberty to interject was to be sure that the record did not create the impression that reduction in balances, desirable as it is, necessarily results in direct and immediate savings. As chairman, it is my responsibility to make the record as accurate as possible. There may be, as Senator Williams says, some savings in the future.

Secretary HUMPHREY. It is a step toward saving.

The CHAIRMAN. That may develop. But reductions in balances and savings are neither synonymous nor simultaneous.

Senator WILLIAMS. In that point we are in complete agreement. But we are holding these hearings with the hope of working out something that can help us in the future, and not for the immediate.

The CHAIRMAN. Much credit is due this administration, Secretary Humphrey in particular, and to Senator Williams for the progress made to date in reducing balances.

I apologize for interrupting.

Senator WILLIAMS. No. I think it is well enough to get that point clear.

Mr. Secretary, I would like to refer to your statement, and I will read the paragraph to which I am referring:

> In 1954, in order that the people might benefit from the substantial reduction in Government expenditures, we brought about a tax cut that has provided them with annual savings of about $7.5 billion.

Then continuing you said:

More than 60 percent of that reduction went to individuals. Every taxpayer benefited.

Now, in some of the questioning during the committee hearings questions have been asked concerning this tax reduction as to whether or not it was possibly a contributing factor toward inflation; and reference was also made to the tax reduction, which occurred around 1948 as having perhaps been somewhat responsible for inflation; and I would like to ask you this question:

Do you think that tax reductions in a period when the budget is balanced are inflationary?

Secretary HUMPHREY. I think it depends, Senator, on other things besides just the balancing of the budget as to what the contribution of the pressures might be.

By and large if the tax money that is taken from the people is used by the Government for the purchase of goods or services that do not in any way contribute to the supply of goods and services available for public purchase, then I think that a tax reduction which would go to the people and would become available for increasing the supply of services available to the people would be deflationary.

If it were the contrary, if the opposite were true, under circumstances of high employment, of high prosperity, it might be inflationary.

Senator WILLIAMS. In other words, you feel that when we——

Secretary HUMPHREY. In other words, you have to take more into account than just the fact of a balanced budget.

Senator WILLIAMS. I agree with you. But in a situation where you have a budget balanced to the extent that you can make a reasonable reduction in the debt, it is advisable, if you can, to pass the tax reduction on?

Secretary HUMPHREY. What was that?

Senator WILLIAMS. When you have a budget surplus sufficiently whereby you can make a reasonable contribution on the national debt, would it not be wise at that time, if you have enough left over after doing that, to pass it along in the form of a reduction?

Secretary HUMPHREY. I think that is correct.

Senator WILLIAMS. Do you not think it would be a dangerous philosophy for any administration to adopt, where it would even be suggested, that the way to control inflation in this country would be to adopt a high-tax program, or one that would siphon off the excess spending money, as some of them put it, from the taxpayers in the form of high taxes?

Secretary HUMPHREY. It would be extremely dangerous if the money was used by the Government for purposes that were not productive of goods and services for the people.

Senator WILLIAMS. It would be equally inflationary for the Government to siphon it off in taxes, and then spend it as a Government expenditure?

Secretary HUMPHREY. It might be much worse, depending on what they did with it.

Senator WILLIAMS. The suggestion or the question was asked as to whether these tax reductions went to the group that needed it most, and I think you made the statement that you felt it went to all individuals and helped those of low incomes as much as it did those with large incomes; is that correct?

Secretary HUMPHREY. That is correct.

Senator WILLIAMS. And particular reference was made to the exemption status, whether or not the exemptions could be raised from $600 to $700, and I think your testimony in that connection was quoted a couple of times here, and I would like to ask this question:

When was the exemption raised from $500 to $600, this present rate? Was that not in 1948 by that "do-nothing Congress"?

Secretary HUMPHREY. I cannot tell you, sir. I will have to check. 1948 is correct, he says.

Senator WILLIAMS. 1948.

The exemption now is $600 only by virtue of the fact that they were raised at that time, and if I recall correctly, over the veto of the President.

Secretary HUMPHREY. I do not have that in mind.

Senator WILLIAMS. I was particularly interested in this, and this report I have was assembled by a member of our staff: I asked him to get the historical record of personal exemptions, because I think that this Administration or any Administration is interested in seeing that the exemption be as high as possible. I read from this report it is interesting to note that in 1913, on March 1, when the first Federal income tax law was adopted, the exemption at that time for single persons was $3,000, and for a married couple, was $4,000.

In 1917, that was dropped to $1,000 for a single person, and $2,000 for a married couple.

In 1921, it was left at $1,000 for a single person, but the exemption for married couples was raised to $2,500, and that stayed in effect until 1924.

In 1925, and continuing through 1931, the personal exemption was raised to $1,500 for a single person; to $3,500 for a married person, and at that time the credit given for each dependent was $400.

In 1932, and continuing through 1939, it was reduced to $1,000 for a single person, $2,500 for a married couple, and $400 for each dependent.

In 1940 the personal exemption was reduced from $1,000 to $800 for a single person, and for a married couple was reduced from $2,500 to $2,000, and the exemption for dependent children was the same, $400.

In 1941, a single person exemption was further reduced to $750. A married couple was reduced from $2,000 to $1,500, and exemptions $400, the same, for dependents.

In 1942, that was reduced to $500 per single person, $1,200 for a married couple, and exemption for dependents, $350.

In 1944, it was left at $500 for a single person, and reduced to $1,000 for a married person, and $500 for the dependent children. And the $500 single-person exemption and $1,000 married-couple exemption which was adopted in 1944 was the all-time low in exemptions, and this trend was only reversed in 1948 when it was raised to $600 and $1,200.

In 1948 it was also raised to $1,200 exemption to those over 65 and the blind.

Do you see any possibility of that being raised further in the foreseeable future?

Secretary HUMPHREY. Of course, that will all depend on when money is available, when a surplus is available for the payment of a tax reduction.

When that time comes, I personally think that more attention should be paid to a revision of rates than to a shift in exemptions.

Senator WILLIAMS. I pointed these exemptions out at this time because I thought the historical record of how the exemptions had been treated would be good for the committee, as well, in their deliberations, and also it was interesting to note that those who were criticizing you the other day for not having raised them higher, their administration had never raised exemptions when they were in power.

The last increase in exemptions was in 1948, the "do-nothing Congress" again.

Also, I refer to the first tax bracket or the normal tax rate which today is 20 percent, that is considered the tax which is applicable to the low-income group; is that correct?

Secretary HUMPHREY. That is correct.

Senator WILLIAMS. What was that rate when you came into power?

Secretary HUMPHREY. What was the 20-percent rate?

Senator WILLIAMS. In 1952, the normal tax rate, the first bracket.

Secretary HUMPHREY. 22.2. It was a 10-percent reduction, 22.2; that is correct.

Senator WILLIAMS. That was in 1952, and you dropped that to 20 percent?

Secretary HUMPHREY. That is right.

Senator WILLIAMS. Do you happen to have before you the historical background of those rates?

Secretary HUMPHREY. I have not, but we will get it.

Senator WILLIAMS. I have it here, and we will put it in the record, because this is the tax which is most applicable to the low-income groups; is that not true?

Secretary HUMPHREY. That is right.

Senator WILLIAMS. It started out in 1913 at 1 percent. Not many of us can remember that year, but we would all like to try that rate again.

It was raised to 2 percent in 1916; and in 1918 it was raised to 6 percent. In 1919 and 1920 it was dropped back to 4 percent.

In 1923 it was dropped to 3 percent. In 1924 it was dropped to 2 percent. In 1925 it was 1½ percent.

In 1928 it was 1½ percent. In 1929 it was one-half of 1 percent.

And in 1930 and 1931 it was 1½ percent. In 1932 it was raised to 4 percent. In 1940 it was 4.4 percent.

In 1941 it was raised to 10 percent. In 1942 it was raised to 19 percent. In 1944, it was raised to 23 percent.

In 1946 it was dropped to 19 percent; and in 1948 it was dropped to 16.6 percent—the "do-nothing Congress" got active again.

In 1950 it was 17.4 percent; it was raised. And in 1951 it was raised to 20.4 percent.

In 1952, it was raised to 22.2, which was an alltime high, or represented an increase of 550 percent in that 20-year period.

And I ask the question again, if that increase in that normal bracket does not represent the tax which is most applicable to the low-income groups of America?

Secretary HUMPHREY. That is correct.

Senator WILLIAMS. In other words, it was a 550-percent increase in that group of the applicable rate, as well as a reduction in their exemption from $1,000 to $500 for a single person during that same period.

Secretary HUMPHREY. That is correct.

Senator WILLIAMS. So I do not think that the record of our critics or your critics on that particular point has been too good when it comes to considering their actual legislation dealing with the low-income groups.

Would you agree with that?

Mr. Chairman, I would like to put this chart into the record, too.

The CHAIRMAN. If there is no objection, it is so ordered.

(The chart referred to is as follows:)

Individual income tax: Combined exemptions and credits for married person with 3 dependents and first bracket tax rate, 1913–54 [1]

Income year	Combined exemptions and credits	First bracket rate	Income year	Combined exemptions and credits	First bracket rate
1913–15	$4,000	1.0	1932–33	3,700	4.0
1916	4,000	2.0	1934–39	3,700	4.0
1917	2,600	2.0	1940	3,200	4.4
1918	2,600	6.0	1941	2,700	10.0
1919–20	2,600	4.0	1942–43	2,250	19.0
1921–22	3,700	4.0	1944–45	[2] 2,500	23.0
1923	3,700	3.0	1946–47	2,500	19.0
1924	3,700	2.0	1948–49	3,000	16.6
1925–27	4,700	1.5	1950	3,000	17.4
1928	4,700	1.5	1951	3,000	20.4
1929	4,700	.5	1952–53	3,000	22.2
1930–31	4,700	1.5	1954	3,000	20.0

[1] Before deductions and disregarding earned income credit.
[2] $500 credit for each dependent allowed against surtax which begins at 20 percent. Such credits not used in computing 3 percent normal tax.

Senator WILLIAMS. Mr. Secretary, do you think—I asked this question before—do you think that tax increases, as such, over a period of years, either increases or decreases as such, have much relation to inflation if they are geared to balanced budgets or to balancing the budget?

Secretary HUMPHREY. Well, as I said, Senator, I do not think the only consideration that affects the inflationary or noninflationary effect is the balanced budget. I think there are other things, too.

But they certainly are less effective in connection with a balanced budget than without it.

Senator WILLIAMS. Do you have any information there as to the number, the changes that have been made in our tax structure, increases or decreases, over a period of time?

Secretary HUMPHREY. No; I have not. Again, we can get it. It is simply I did not bring a lot of tax data here. I did not know we were going to get into a tax inquiry. But I will be very glad to get anything you want.

Senator WILLIAMS. The question had been brought up as to the implications of these two reductions, and I thought it would be well to get that information.

Secretary HUMPHREY. Yes.

Senator WILLIAMS. Would you wish to comment any further as to the distribution of this $7.5 billion tax reduction, as to the categories?

Secretary HUMPHREY. Well, this distribution was discussed the other day, and I can divide it this way: The total was $7.4 billion embraced in these various reductions.

Now, of that, as nearly as we can allocate it, there was $2.8 billion that went to business of one kind or another; there was $4.6 billion that went to individuals.

Of that—I think that is the main division.

Senator WILLIAMS. I also have here a chart, which I will read into the record and only comment on briefly, which shows that since our first Federal income tax was enacted, in 1913, we have had 10 reductions in taxes throughout those periods.

Those reductions are as follows: The first one was in 1919—taxes were reduced; that is, for individuals I am speaking of—in 1922 there was a reduction; in 1923 there was a reduction; in 1924 there was a reduction; in 1925, taxes were reduced; and in 1928 they were reduced; in 1929, they were reduced. And during that period we did have balanced budgets; and, therefore, I do not think it could be charged that they were inflationary.

The next tax reduction was in 1946, and the next one was in 1948, and then this administration had the one in 1954.

During that same period, we have had 15 increases.

In 1916, taxes were increased; in 1917, they were increased; 1918, they were increased. They were increased in 1930, 1932, 1934, 1936, 1940, 1941, 1942, 1943, 1944, 1950, 1951, and 1952; they were increased.

So I think if we will examine the record here, we will find the effect of lowering the taxes when the budget was balanced was certainly not inflationary, and whether—of course, the increases, the bulk of them, were in a period when the budget was substantially unbalanced, and whether that had too much effect or not, I do not know.

But certainly I think we could be in agreement that taxes themselves should not be utilized as a source of siphoning off the money of the people just to curb inflation.

Secretary HUMPHREY. I agree.

The CHAIRMAN. The committee will be in recess until Monday morning at 10 o'clock.

(Whereupon, at 12:55 p. m., the committee recessed, to reconvene at 10 a. m., Monday, July 1, 1957.)

INVESTIGATION OF THE FINANCIAL CONDITION OF THE UNITED STATES

MONDAY, JULY 1, 1957

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

The committee met, pursuant to recess, at 10 a. m., in room 312, Senate Office Building, Senator Robert S. Kerr presiding.

Present: Senators Kerr (presiding), Long, Smathers, Gore, Martin, Williams, Flanders, Carlson, and Bennett.

Also present: Robert P. Mayo, Chief, Analysis Staff, Debt Division, Office of the Secretary of the Treasury.

Elizabeth B. Springer, chief clerk; and Samuel D. McIlwain, special counsel.

Senator KERR. The committee will be in order.

The Senator from Delaware?

Senator WILLIAMS. Thank you, Mr. Chairman.

Mr. Chairman, I have gone over most of my questions that I had planned to ask, and I think the bulk of the questions, after conferring with the Secretary, can more appropriately be addressed to Mr. Burgess when he comes down, or the Chairman of the Federal Reserve Board.

Therefore, I shall defer questioning at this time and turn it over to Mr. Long.

I would like to make this statement, though, since this represents perhaps the last appearance the Secretary will make before this committee, when these hearings are concluded: As one of his admirers, I would like to join with his many friends in expressing regret at your decision of separating from the Government, and express to you my congratulations at the excellent job you have done as Secretary of the Treasury.

STATEMENT OF HON. GEORGE M. HUMPHREY, SECRETARY OF THE TREASURY—Resumed

Secretary HUMPHREY. I appreciate that very much, indeed, Senator, very much.

Senator WILLIAMS. I will withhold the remainder of my questions for the other witnesses, Mr. Chairman.

Senator KERR. The Senator from Louisiana, Mr. Long.

Senator LONG. Mr. Secretary, I am sorry this may be the last time I will have the occasion to examine you, particularly. While in Government, you have been most courteous to us, and supplied us with information we have attempted to obtain.

You explained how high interest rates help some people and hurt others.

Is not the same thing true, at least to a considerable extent, of inflation? It helps some and hurts others?

Secretary HUMPHREY. Yes, I think that is true, but I think not nearly to the same extent. I would think far more people are hurt by inflation than are helped by it.

Senator LONG. Does it not oftentimes depend upon where a person stands? For example, just by a textbook study of economics, I gain the impression that any person who is in position to have his income adjusted may have some net gain. For example, a workingman who gets a cost-of-living increase when prices rise, but continues to make fixed payments on his home, may be somewhat ahead because there happens to occur some degree of inflation.

Of course, I am not speaking of a person with fixed income, in which case a person is not in position to adjust himself to price increases. But those who get an adjustment to increase their income as a result of inflation, insofar as they owe some fixed debt, are helped by it, are they not?

Secretary HUMPHREY. I suppose there are people who are helped by it. I think mostly, after a period, it is people who are very agile in their trading, in their ability to trade and adjust.

Senator LONG. The point is that perhaps to a lesser extent, but the same thing is true to a considerable extent, there are some people who are helped by inflation as well as those who are hurt.

Secretary HUMPHREY. I think that is correct.

Senator LONG. Is not the principal objection to inflation the social injustice to those on fixed income and those whose incomes are heavily weighted by assets in savings accounts, cash or banks?

Secretary HUMPHREY. Well, I think inflation hurts a great many people and, over a period of time, all except a comparatively few, are hurt by it.

Senator LONG. It does not particularly hurt the Government in trying to service or pay off the national debt, does it? I mean, if we had not had such inflation, with the huge debt we have, it probably would be much more difficult to service or reduce.

Secretary HUMPHREY. If we did not have an inflation, we would not have as huge a debt.

Senator LONG. We would have a lot of it, even if we had not had inflation, would we not, and it would be more difficult to service or reduce?

Secretary HUMPHREY. Well, I do not know. That, of course, is a subject of conjecture, and nobody can tell. If we had not had the inflationary prices, why, we would not have had as big a debt, and whether it would be harder to pay a smaller debt or not, I am not prepared to say.

Senator LONG. My principal objection to inflation is the social injustice that occurs to a lot of people, although I think it does help quite a few, but I think it is quite an injustice on the whole, because it creates more injustices than it does good.

Secretary HUMPHREY. I believe that is right, Senator, and I think the unfortunate part of it is that it is most harmful to those least able to bear it.

Senator LONG. With regard to interest rates, considering high interest rates entirely on their own account, and separate from the problem of inflation, is there not a considerable amount of social injustice in high interest rates?

Secretary HUMPHREY. Is there not?

Senator LONG. Is there not, yes.

Secretary HUMPHREY. Well, I think anything which gets unduly out of line can cause difficulties, yes.

Senator LONG. I have always been somewhat on the low-interest-rate side since I read that quotation where Christ chased the money-changers out of the temple. It seems to me as though, in the main, 6 percent, 8 percent interest, with people trying to buy homes, that sort of thing, is not socially desirable.

It seems to me to be desirable to have the interest low.

Secretary HUMPHREY. You can certainly get interest rates so high that it is not right.

Senator LONG. You have told us that high interest rates discourage borrowing, and to that extent tend to be anti-inflationary. But does a rising interest rate not also encourage lending? In other words, a person who can get a high interest rate is more inclined to lend than otherwise.

Secretary HUMPHREY. I think that is right; it stimulates savings, too.

Senator LONG. To the extent that high interest rates encourage lending, would they not be inflationary?

Secretary HUMPHREY. Well, it is not the lender that causes the inflation. It is the creation of the debt and the spending of the money which causes the inflation.

Senator LONG. The point I have in mind is that while it might tend to discourage somebody from borrowing money, it encourages another to lend, and in that respect one tends to offset the other; is that not correct?

Secretary HUMPHREY. Well, to some extent.

Senator LONG. Mr. Secretary, you have supplied me with a considerable amount of information that we will put in the record later on.

There is additional information which I would hope you could obtain for us, and I do not know where we can get it except from your Department, and I would like to have you supply this for us.

I do not believe you are going to have much of it available at the moment, and some of it will take a considerable amount of study. I will be glad to supply you these questions.

Secretary HUMPHREY. Fine; and we will get the information and bring it back.

Senator LONG. I would like to know, for example, what have been the changes in interest rates, year by year, since the beginning of 1950 and on into the middle of 1957, in the case of new borrowings on the part of homeowners.

Do these figures include discounts; and, if so, how much discount, and what is the effective rate of interest considering the discount?

I am asking that as at the beginning of 1950 because interest rates did not begin to rise just when your administration came in. They began to rise in 1950.

I would like to know what have been the changes in interest rates in the case of new borrowings on the part of farmers from the beginning of 1950 to mid-1957.

The same thing for unincorporated business.

And I would like to know the same thing for consumers in obtaining installment credit and noninstallment credit.

Then on the basis of these trends, what would you now compute to be the current annual rate of interest charges, in dollars, on all outstanding indebtedness other than public borrowing, and how does that compare with the figure in 1950 and 1953?

Also, what would this amount now be, in dollars, if all outstanding indebtedness other than public borrowings were at current rates of interest?

Further, how many years would it take before refinancing put such outstanding borrowings under current rates, assuming no further increase in interest rates, and what would be the percentage of the total nonpublic indebtedness refinanced in 3, 5, 10, and 15 years?

I would like to know, also, what has been the dollar trend in business investment in plant and equipment and construction since the start of 1950, the start of 1953, and on until the middle of 1957.

Further, a rough approximation of how these investment trends would break down according to corporate and noncorporate investment, and according to business size and corporate structure.

For example, what proportion of this investment had been undertaken by firms with assets in excess of $100 million, and what proportion by firms with assets in excess of $1 billion.

That is a big job, but I think you have assistants over there who can do it. It is a big job, but it seems to me this is information this committee should have.

Secretary HUMPHREY. It sounds like a big job, but we will go to work on it.

Senator LONG. Thank you so much.

(The information referred to is as follows:)

Question: What have been the changes in interest rates year by year since the beginning of 1950 and on into the middle of 1957 in the case of new borrowings on the part of homeowners? Do the figures include discounts, if so how much and what is the effective rate considering discount?

No satisfactory figures are available to show average interest rates paid on mortgage loans, particularly the more significant figures that take into account the sale of such loans at discounts.

Some information on the trend of mortgage rates in recent years, taking discounts into account, may be gained from Federal Housing Administration opinion surveys made at various times in the years 1953 to date, indicating typical prices offered for FHA-insured home mortgage loans. Prices compiled from these surveys are shown in the following table, with computed yields based on the assumption of an effective maturity of 15 years for a 25-year mortgage, after allowing for amortization.

The usefulness of these figures is rather limited, however, since they cover but one area of the national mortgage market, they are based on opinions rather than actual transactions, the basis for the survey has changed somewhat over the period, and the difficulty of computing accurate yields is complicated by amortization and prepayment problems.

Average typical prices offered for FHA-insured (sec. 203) home mortgage loans[1] *and indicated yield to effective maturity, for selected dates*

Date (1st day of month)	United States average price per $100	Indicated average yield to effective maturity[2]
4¼ percent loans:		*Percent*
1953—July	$98.7	4.70
October	97.1	4.94
1954—January	97.7	4.85
April	98.9	4.67
July	99.4	4.59
October	99.5	4.58
1955—January	99.5	4.58
April	99.3	4.61
July	99.0	4.65
August	98.9	4.67
September	98.7	4.70
October	98.4	4.74
November	98.2	4.77
December	98.0	4.80
1956—January	98.2	4.77
February	98.2	4.77
	Weighted to reflect probable volume of transactions	
March	98.4	4.74
April	98.6	4.71
May	98.3	4.76
June	97.8	4.83
July	97.6	4.86
August	97.6	4.86
September	97.1	4.94
October	96.7	5.01
November	96.5	5.04
December	96.0	5.12
5 percent loans:		
1957—January	97.2	5.44
February	97.3	5.42
March	97.3	5.42
April	97.5	5.39

[1] In market areas of FHA insuring office cities; immediate delivery transactions. Beginning January 1956, data are specifically for mortgages with 25-year maturity, 10 percent downpayment.
[2] Amortization is assumed to reduce a 25-year mortgage to an average effective maturity of 15 years.

Source: Federal Housing Administration data, and derived computations.

Question: What have been the changes in interest rates on the part of farmers from the beginning of 1950 to date to mid-1957?

Average interest rates paid by farmers for real-estate and non-real-estate loans, as estimated annually by the Department of Agriculture, are given in the following table.

Interest rates on loans to farmers for selected years

Year	Non-real-estate loans[1]	Real-estate loans[2]	Year	Non-real-estate loans[1]	Real-estate loans[2]
	Percent	*Percent*		*Percent*	*Percent*
1946	6.0	4.6	1953	6.5	4.7
1950	6.4	4.5	1954	6.5	4.7
1951	6.4	4.6	1955	6.5	4.8
1952	6.5	4.6	1956	6.6	4.8

[1] Non-real-estate loans by banks to farmers, estimated average rate for year.
[2] Rate on farm mortgage debt; all lenders, as of Jan. 1.

Source: Department of Agriculture.

Question: What have been the changes in interest rates on the part of unincorporated business from the beginning of 1950 to date—to mid-1957?

We know of no compilation of interest rates on loans to unincorporated business. However, some indication of the trend in such rates may be seen in a Federal

Reserve Board compilation of interest rates on short-term business loans, classified by size of loan, as given in the following table.

Bank rates on short-term business loans, 19 cities

[Percent]

	All loans	Size of loan (thousands of dollars)			
		1-10	10-100	100-200	200 and over
1946—March	2.1	4.1	3.1	2.3	1.7
June	2.0	4.2	3.1	2.2	1.7
September	2.0	4.0	3.1	2.1	1.7
December	2.1	4.4	3.2	2.1	1.8
1950—March	2.60	4.45	3.54	2.94	2.31
June	2.68	4.50	3.65	2.94	2.39
September	2.63	4.51	3.63	2.95	2.34
December	2.84	4.60	3.73	3.10	2.57
1951—March	3.02	4.68	3.88	3.27	2.76
June	3.07	4.73	3.93	3.32	2.81
September	3.06	4.74	3.99	3.36	2.78
December	3.27	4.78	4.05	3.49	3.03
1952—March	3.45	4.85	4.16	3.66	3.24
June	3.51	4.90	4.21	3.72	3.29
September	3.49	4.91	4.22	3.74	3.27
December	3.51	4.88	4.21	3.77	3.29
1953—March	3.54	4.89	4.25	3.75	3.32
June	3.73	4.98	4.38	3.91	3.53
September	3.74	5.01	4.40	3.93	3.54
December	3.76	4.98	4.39	3.96	3.57
1954—March	3.72	4.99	4.37	3.94	3.52
June	3.60	4.97	4.35	3.89	3.37
September	3.56	4.99	4.32	3.82	3.32
December	3.55	4.92	4.29	3.84	3.31
1955—March	3.54	4.93	4.29	3.83	3.30
June	3.56	4.92	4.29	3.83	3.33
September	3.77	4.98	4.44	3.99	3.56
December	3.93	5.01	4.52	4.14	3.75
1956—March	3.93	5.05	4.55	4.13	3.74
June	4.14	5.18	4.69	4.34	3.97
September	4.35	5.30	4.86	4.52	4.19
December	4.38	5.32	4.90	4.63	4.20
1957—March	4.38	5.38	4.94	4.59	4.21

Source: Federal Reserve Board.

Question: What have been the changes in interest rates on the part of consumers obtaining installment credit and noninstallment credit from the beginning of 1950 to date to mid-1957?

We know of no compilation of interest rates on loans of this type.

Finance charges on installment loans vary from one locality to another and with respect to the terms and conditions on specified transactions financed. So far as we are aware, the only general data on finance charges are contained in the recently published study of consumer installment credit by the Board of Governors of the Federal Reserve System. This study includes an index of finance charges based on information reported by a sample of sales finance companies which operate on a nationwide basis. The index measures financing costs to the purchaser per $100 of unpaid balance of a 12-month contract on a low priced popular model passenger car. On a 1946 base of 100, the index was 99 in 1952 and 105 in 1956. For further information on this subject, see pages 49–60 of Consumer Installment Credit, part I, volume I, Board of Governors of the Federal Reserve System, 1957.

Question: On the basis of these trends, what do you now compute to be the current annual rate of interest charges in dollars on all outstanding indebtedness other than public borrowings, and how does this compare with the figure at the beginning of 1950, 1953?

We know of no compilation of data that would provide the basis for authoritative figures on total interest charges on outstanding private indebtedness.

Question: What would this amount now be in dollars, if all outstanding indebtedness other than public borrowings were at current rates of interest?

Question: How many years would it take before refinancing puts such now outstanding borrowing under the current rate, assuming no further increases in interest rates?

We are unable to supply estimates in answer to these questions, since the necessary information is not available on the rates of interest paid on the outstanding indebtedness in the various categories, nor on what the current rates would be.

Question: What have been the dollar trends in business investment in plant and equipment and construction since the start of 1950, 1953 and on into the middle of 1957?

Question: Will you make a rough approximation of how these investment trends break down according to corporate and noncorporate investment, and according to business size within the corporate structure? What proportion of this investment has been undertaken by firms with assets in excess of $100 million? In excess of $1 billion?

Business investment in plant construction and equipment for the years 1948 to date is given in the accompanying table. A breakdown is shown as between corporate and noncorporate investment. We are unable, however, to supply figures or estimates of corporate investment by size of firm, for we know of no available compilation of such figures.

Business expenditures for plant and equipment 1948–56

[In billions of dollars]

	Corporate	Noncorporate	Total		Corporate	Noncorporate	Total
Calendar years:				Calendar years—Con.			
1948	$18.8	$3.3	$22.1	1955	$24.2	$4.5	$28.7
1949	16.3	3.0	19.3	1956	30.0	5.1	35.1
1950	16.9	3.7	20.6	Quarters: 1957 (annual rates):			
1951	21.6	4.0	25.6	1st quarter	(1)	(1)	36.9
1952	22.4	4.1	26.5	2d quarter	(1)	(1)	37.3
1953	23.9	4.4	28.3				
1954	22.4	4.4	26.8				

[1] Not available.

Source: Securities and Exchange Commission and Department of Commerce.

Senator LONG. With regard to the problem of inflation itself, you recognize, of course, that there are other ways this problem could be approached. For example, the Federal Reserve has powers over rediscount rates; it has powers over the amount of reserves a bank must carry, and, while I do not believe the powers exist at this time, Congress could, if it wished, give price controls to an appropriate agency to the extent that it wished to, or that it should authorize credit controls.

It would seem to me, if any were to be considered, that the indirect methods mentioned above certainly would be more appropriate at the present time than price controls.

What is your reaction to the appropriateness of these various other measures which could be used to control inflation?

Secretary HUMPHREY. Well, I think they all, except the physical controls, have been employed in an appropriate way. Of course, Mr. Martin is the expert on that, but I think they have changed the discount rates and the reserve requirements from time to time, and those are all controls which the Federal Reserve, in the proper exercise of its functions, can carry out.

Senator LONG. Do you believe that the reserve requirements should be increased?

Secretary HUMPHREY. I think that all has to fit into a pattern, and that is strictly within Mr. Martin's field of activity. That is something that the Treasury does not control, and I would suggest you ask Mr. Martin.

Senator LONG. You do not feel in position to comment on that?

Secretary HUMPHREY. I think that is strictly within his field of activity.

Senator LONG. Of course, that does affect your responsibilities and your ability to finance and manage the Federal debt, does it not?

Secretary HUMPHREY. It certainly does, and, in fact, any action of the Federal Reserve Board does affect us. But, nevertheless, they are an independent agency that operate by themselves.

Senator LONG. Inasmuch as they are supposed to be an independent agency, it seems to me it is more appropriate I ask you the question, however, because you are the man who has to advise the President on these functions.

Secretary HUMPHREY. Not on these. That is the Federal Reserve function.

Senator LONG. Are you not his principal financial adviser, though, as far as the Cabinet is concerned? They do not sit in at these Cabinet meetings with him, and you do. And, I imagine, when he has a fiscal-policy problem, he asks you.

Secretary HUMPHREY. The Federal Reserve Board reports to the Congress and not to the President.

Senator LONG. Does that not make you even more so the man to advise the President on those matters?

Secretary HUMPHREY. If it were desirable to change the law, or something of that sort, yes, I think that would be. But there has been nothing of that kind, that I know of.

Senator LONG. Have you considered recommending any type of credit controls?

Secretary HUMPHREY. It has been considered 2 or 3 times, and the Federal Reserve Board made a very elaborate study on it. I think the President's economic advisers took the matter up, and I think you will find on one of their reports some comments with respect to it. Each time, it has been decided it was not a desirable thing to do under the circumstances existing at the time.

Senator LONG. Of course, part of your judgment on that would be guided by the fact that you, perhaps, do not believe that credit controls are an appropriate measure to control inflationary tendencies in peacetime, but they should only be resorted to in emergencies.

Secretary HUMPHREY. Well, it is pretty hard, Senator, to make an ironclad rule on these things, but I certainly would not feel that, up to the present time, it was desirable to put in physical controls, credit controls. We had them in wartime, and we abandoned them, as you know. I do not believe there has been anything up to this time which would justify their being put back in force. I do not favor it.

Senator LONG. Looking at the single problem of a man buying a house, I had some misgiving about voting for the last housing bill to reduce downpayments, as it did seem to me we were not doing a man a favor in reducing down payments if it would contribute to higher interest rates, on the theory that, for example, an increase of 1 percent in interest on a $10,000 house would cost a man more than $1,000 by the time he paid his mortgage out.

It would not be doing him any particular favor to reduce his downpayment by $200 or $300 if the effect of that would be to contribute to an increase in the interest rates, and thereby require him to pay about $1,000 more by the time he got through buying the house.

We should certainly consider those problems when we consider the amount of the downpayment, should we not?

Secretary HUMPHREY. I think that is right.

Senator LONG. Mr. Secretary, you supplied us with certain material which I requested, and I appreciate it. It was, for the most part, everything I was seeking to obtain. I believe there are 1 or 2 respects in which you were not able to supply me just what I wanted, and perhaps you might be able to get the rest of it.

There has been so much said about these inflationary tendencies that occurred in earlier years that I thought it might be well to review those and review the factors which contributed to them. For a while we have had quite a bit of discussion of the degree of the inflation, but very little has been said about the cause.

You have supplied me with the actual percentage increases in gross national product, the increase in civilian employment, the Federal budget position, year by year, and the budget expenditures and the budget surplus.

It seems to me it would be well to place in the record at this point the gross national product, in 1956 prices, and annual rate of increase, from 1940 to 1957, and I will ask that that be placed in the record at this point.

(The document referred to is as follows:)

Gross national product, in 1956 prices, and annual rate of increase, 1940–57

Period	Gross national product	Percentage change, year to year	
Calendar years:	*Billions*		
1940	$213.7		
1941	247.2	+15.7	
1942	278.7	+12.7	
1943	309.6	+11.1	+9.0 percent for 5 years.
1944	332.6	+7.4	
1945	325.7	−2.1	
1946	290.6	−10.8	
1947	289.6	−.3	
1948	302.7	+4.5	
1949	301.8	−.3	+1.9 percent for 7 years.
1950	329.9	+9.3	
1951	354.2	+7.4	
1952	366.6	+3.5	
1953	381.6	+4.1	
1954	374.6	−1.8	
1955	401.7	+7.2	+3.0 percent for 4 years.
1956	412.4	+2.7	
1st quarter: [1]			
1956	(2)	(2)	
1957	(2)	(2)	

[1] Seasonally adjusted annual rate.
[2] Not available.

Source: Department of Commerce.

Senator LONG. I asked for this in constant dollars because it seemed to me that would be about the only way to calculate it to gain some perspective of the point.

I notice during the years 1940 through 1945, inclusive, there was a 9 percent annual average increase in the gross national product; the greatest increase occurred during the early war years.

That tended to create great inflationary pressures, did it not?

Secretary HUMPHREY. I think—well, that is one of the things that occurred.

Senator LONG. During the middle period, from 1946 through 1952, inclusive, there was a 1.9 percent average annual increase for those 7 years.

And during the period 1953 through 1956, inclusive, there was a 3 percent annual average increase for those 4 years; and I believe that so far the average annual rate for 1956 and 1957 is running about 2.7 percent. That is not shown in these figures you supplied me, but the figures I have available indicate that.

Secretary HUMPHREY. For 1956, this tabulation shows 2.7; yes, sir.

Senator LONG. Yes, sir.

Now, we did not have much choice about expanding our gross national product during those war years, and it was completely desirable, was it not?

Secretary HUMPHREY. Oh, yes; I think so.

Senator LONG. And when you expand at the rate of as much as 15 percent, as we did in 1941, 12 percent in 1942, 11 percent in 1943, and 7.4 percent in 1944, that is so much greater than our average rate of national product expansion that it does place a great amount of pressure upon our industrial capacity, and those are inflationary pressures, are they not?

Secretary HUMPHREY. They are inflationary pressures.

Senator LONG. And against that, it was almost inescapable there would necessarily be a considerable amount of inflation.

The 3 percent average from 1953 through 1956, plus the 2.7 increase most recently, does not create any such pressure upon our economy, certainly not to compare with a 9 percent increase pressure, does it?

Secretary HUMPHREY. I think that is right, but we had unused capacity right up to the war.

Senator LONG. And, that being the case, it would indicate that during those war times, there was a very great pressure upon our facilities to produce; there was a tremendous increase in national product which did impose a tremendous inflationary pressure.

Here is a table which you supplied me with respect to civilian employment, and the annual increases during the years 1940 to 1957. I ask that this be put into the record at this point.

Senator KERR. Without objection, it may be inserted in the record.

(The table referred to is as follows:)

Civilian employment and annual increase, 1940–57

Period	Number (thousands of persons, 14 years of age and over)	Percentage change, year to year	
Calendar years:			
1940	47,520		
1941	50,850	+6.0	+2.2 percent average for 5 years.
1942	53,750	+6.8	
1943	54,470	+1.3	
1944	53,960	-.9	
1945	52,820	-2.1	
1946	55,250	+4.6	+2.2 percent average for 7 years.
1947	58,027	+5.0	
1948	59,378	+2.3	
1949	58,710	-1.1	
1950	59,957	+2.1	
1951	61,005	+1.7	
1952	61,293	+.5	
1953	62,213	+1.5	+1.5 percent average for 4 years.
1954	61,238	-1.6	
1955	63,193	+3.2	
1956	64,979	+2.8	
1st 5 months:			
1956	63,555		
1957 [1]	64,062	+.8	

[1] On basis comparable with earlier years.

Source: Department of Commerce.

Senator LONG. There again, we find there was an increase.

Secretary HUMPHREY. I just haven't that paper yet, Senator. We will have it in just a second.

You go right ahead.

Senator LONG. There was an average annual increase of 2.2 percent in civilian employment during the years 1940 through 1945—the computation I have had made is 2.5 percent—and in some years the increase was as much as 6.8 percent; and even that does not make allowance for the increase in working time.

As you recall, there was a great amount of overtime employment during that period.

Secretary HUMPHREY. Well, you see, we were going at that time right from a period of large unemployment into a period of substantial employment. If you go back to 1938 and 1939, there were between 9 and 10 million unemployed, just prior to this time, and then as the war needs took effect——

Senator LONG. What would be the figure for 1940 for unemployed?

Secretary HUMPHREY. That is right where the change began. Here are the unemployment figures:

Beginning in 1938, it was 10.390 million; in 1939, it was 9.480 million; in 1940, it was 8.120 million; in 1941, it was 5.560 million. It was going from a time of great unemployment which extended over a long period of time, to high employment during the war.

Senator LONG. During the war years, even with those large increases in civilian employment, we were also recruiting a vast amount of our manpower in the armed services, were we not?

Secretary HUMPHREY. That is right.

Senator LONG. This wartime strain on the civilian labor force is just common knowledge, because you know as well as I do we were recruiting people from among housewives, old people——

Secretary HUMPHREY. Mothers.

Senator LONG (continuing). Almost everyone we could find, and labor was extremely short.

Secretary HUMPHREY. That is right.

Senator LONG. In order to recruit labor during wartime, to get women to quit their homes and go to work, and to induce people who were not in the labor force to join the labor force while so many men were in the service, we had to pay to get those people to do it, unless we were going to recruit them the way of Stalin or Khrushchev, the way they go out and tell people, "You are it."

In order to pay people to do it in our American way, we had to increase our payrolls and our rates of pay by a considerable amount, did we not?

Secretary HUMPHREY. That is right.

Senator LONG. Do we have those pressures at the present time to contribute to inflation?

Secretary HUMPHREY. Very much less.

Senator LONG. In 1956 and 1957, we have been increasing civilian employment by about 1.5 percent as an annual average, and we have only about 3 million people in the armed services. There is not a great factor of overtime employment now.

Would this not be just about within our average rate of expansion on an annual basis?

Secretary HUMPHREY. The employment we have had during this period has been very high, I think perhaps higher than the average, but it is nothing like wartime pressures.

Senator LONG. I asked for a statement of the Federal budget position for the fiscal years 1940 through 1958. You have supplied me with that, but I wanted those figures computed on the basis of constant dollars because I thought this would enable us better to analyze inflationary pressures.

You have supplied me with the Federal budget position based on, not what I would call constant dollars, because that calculation was not made by you except with regard to the purchase of Federal goods and services, but you have supplied me with the calculation based on current dollars and I have that table here and will ask that it be put into the record at this point.

Senator KERR. Without objection, that may be done.

(The table referred to is as follows:)

Federal budget position, fiscal years 1940–58

[In billions of dollars]

Fiscal year	Net budget receipts	Budget expenditures	Surplus (+) or deficit (−)	Fiscal year	Net budget receipts	Budget expenditures	Surplus (+) or deficit (−)
Actual:				Actual—Con.			
1940	5.1	9.1	−3.9	1950	36.5	39.6	−3.1
1941	7.1	13.3	−6.2	1951	47.6	44.1	+3.5
1942	12.6	34.0	−21.5	1952	61.4	65.4	−4.0
1943	22.0	79.4	−57.4	1953	64.8	74.3	−9.4
1944	43.6	95.1	−51.4	1954	64.7	67.8	−3.1
1945	44.5	98.4	−53.9	1955	60.4	64.6	−4.2
1946	39.8	60.4	−20.7	1956	68.2	66.5	+1.6
1947	39.8	39.0	+.8	Estimated:			
1948	41.5	33.1	+8.4	1957	70.6	68.9	+1.7
1949	37.7	39.5	−1.8	1958	73.6	71.8	+1.8

Senator LONG. I notice that during the war years there were tremendous deficits.

For example, in 1942, the deficit was $21.5 billion. In 1943, the deficit was $57 billion. These deficits are expressed in current dollars.

Do you believe that we could have avoided those deficits?

Secretary HUMPHREY. Well, I am not in any position to say, Senator. We had a war on our hands, and we had to prepare for war, and I am not in any position to say that it was well done or poorly done. We did what we thought was required, and we were all working at it.

Senator LONG. Well, it occurrs to me we might have been able to do it a little more efficiently. I saw some evidence of waste where I was, and perhaps you did where you were. But in time of war, I do not think we were going to try to save a few nickels if it might reduce our fighting capacity.

Secretary HUMPHREY. That is right. And while I think you saw some waste and I saw some, and probably everybody else did, maybe a few days' extra speed was worth it.

Senator LONG. We had some pretty good people who made a record, and have gone ahead since that time, who did what they could, I am sure, to keep the costs down. I think Mr. Knudson, of General Motors, did, and I am sure General Eisenhower did all he could over in Europe to hold the costs down, and General MacArthur did what he could in the Pacific.

But with a budget deficit running $21.5 billion in 1942, and $57 billion in 1943, in current dollars, if you adjusted those figures to uniform 1956 dollars, a $57 billion deficit as of 1943 would compare to a deficit of almost $100 billion now, would it not?

Secretary HUMPHREY. Well, perhaps it would.

Senator LONG. And the same thing would be true, to a lesser degree, of the $51 billion deficit in current dollars in 1944?

Secretary HUMPHREY. Well now, wait a minute. I do not think it would be as much as that, quite, but it might be a substantial increase.

Senator LONG. Well, it would certainly be at least 50 percent more, expressed in uniform 1956 dollars.

Secretary HUMPHREY. The 1944 budget dollar——

Senator LONG. The dollar was estimated at about a 75-cent dollar, about an 80-cent dollar in 1940 by the chart Senator Williams put into the record, compared to a 50-cent dollar now.

Secretary HUMPHREY. Well, your 2 big years are 1944 and 1945, and the dollar was a 77-cent dollar then, as compared with a 50-cent dollar now. That is a one-third shrinkage.

Senator LONG. Yes.

Secretary HUMPHREY. So you perhaps could increase this by a half.

Senator LONG. No. If the dollar shrunk one-third from 1944–45 to now, the dollars spent in 1944–55 must be increased 50 percent to translate them into 1956 dollars.

Secretary HUMPHREY. I would guess it would be about a half upon that basis.

Senator LONG. The computations I have had made, expressed in uniform 1956 dollars, come to a deficit of about $39 billion in 1942, about $97 billion in 1943, about $85.5 billion in 1944, and about $90.6 billion in 1945. Perhaps your people can give you some suggestions as to making a computation.

Secretary HUMPHREY. I do not believe we can make a calculation without a terrific amount of work, because, you see, you have to readjust all your revenues on a new base and everything else. We can give you, as we did on the following table, the cost of goods on a level-dollar basis.

Senator LONG. Here is what I was thinking——

Secretary HUMPHREY. But to make up a budget on a level-dollar basis, if we went into that, and to get one which is anywhere near right is a terrific job.

Senator LONG. What I was attempting to do was just to gain some perspective about this matter, and it seems to me about the best way to do it would be to say what was the deficit in dollars at that time in current dollars, and then to translate it into 1956 dollars for purposes of comparison. In terms of 1956 dollars, as I have had it computed, the average annual deficit, 1943–45, was well over $90 billion.

Secretary HUMPHREY. That would not be right.

Senator LONG. How far wrong would you guess it to be?

Senator HUMPHREY. If you would do it on this rule-of-thumb basis, you would increase it about a half. But I do not know whether that would take into account all of these other calculations which you have to make. It is a very complicated thing, Senator, when you start to get into it.

We tried, and it got awfully complicated.

Senator LONG. Well, one of the purposes——

Secretary HUMPHREY. I do not believe there is a quick way to do it.

Senator LONG. On your subsequent table, just on the purchases of services and goods alone, you estimated, in terms of 1956 prices, that the purchases would have amounted to $131.4 billion in 1943, and that did not include a great number of Government services. It did not include interest on the debt, veterans' benefits, and public assistance, and various other things.

We were paying less than half the cost of the war during that time out of current taxation, were we not, somewhere in that vicinity, and the balance by borrowing?

Secretary HUMPHREY. I think that is about right during the last years of the war.

Senator LONG. But the precise amount is not too important to the question I have in mind, because here is the point I am thinking of: Even a deficit of $57 billion in 1943 in 1943 dollars was a deficit of enormous size, contrasted with a small surplus now. Even if you used your one-third calculation, you would get a 1943 deficit of about $76 billion in 1943 in 1956 dollars. Actually, the correct adjustment lifts the $57 billion to $97 billion, as I have had it computed.

Secretary HUMPHREY. I just do not know for sure about that, because, you see, you have your income also affected, as well as your expenses—I do not think you just pick out one figure and apply a ratio to a single figure. You have got to apply your ratios to everything.

Senator LONG. Might I suggest, Mr. Secretary, that you——

Secretary HUMPHREY. I really do not think, Senator, that I could give you any quick figure here which is any good. We looked it over. And if you just adjust one set of figures, it leaves out entirely the calculation of the other set of figures.

So you have to go through and adjust it all, and that is a terrific job.

Senator LONG. Well, it does not make too much difference to me how you calculate it, because I do not think your answer is going to be too far different, whether you attempt to go through and take every item, one by one, or whether you just say the purchasing power of the dollar declined a certain percentage, and you multiply by your ratio. To me, it does not make too much difference. I just want to gain some perspective of the matter.

Secretary HUMPHREY. But you cannot take a net figure and multiply that by the ratio without adjusting both sides. You have got to adjust both revenues and expenditures, and I am not sure but what you would come out pretty near the same place.

Senator LONG. Well, if you take——

Secretary Humphrey. You cannot just adjust the cost side and leave the revenue side out. You have got to adjust them both. And if you adjust them both, I am not sure you will not come out in the same position.

Senator LONG. As a man who did not have a doctor of philosophy in economics, I would start out by taking our revenues in a war year, and subtract that figure from our expenditures, and then attempt to translate the deficit into 1956 dollars. This method does take account of what you call both sides. If the expenditure and revenue sides were adjusted separately, subtraction would give the same figure as merely adjusting the deficit. That is what I was trying to drive at, to see, first, how much we went into the red in those war years, and then to calculate from that how much of a deficit that would have been based on uniform 1956 dollars, thus making the comparisons more meaningful by adjusting for price change.

Secretary HUMPHREY. Well, it is a very tricky calculation, and I cannot do it. You can't just take the revenues the way they are published. Maybe you can, but I cannot. We tried, and we could not get anything which we thought was satisfactory.

Senator LONG. Well, would you, then, supply me, with regard to the subsequent table you have here, where you show the Federal Government purchases of goods and services in 1956 dollars, with the Government income during those years, to correlate with those calendar years, and would you supply me, in terms of current dollars, with the amounts which were spent on the items which were not included, which would be interest on the public debt, veterans' benefits, public assistance, and so forth?

Those figures should be available.

Mr. MAYO. In current dollars?

Senator LONG. In terms of current dollars, as of that time.

Secretary HUMPHREY. What do we do? Do we use the tax rates in effect at that time, or the tax rates in effect at this time?

Senator LONG. The tax rates as of that time. What I am attempting to arrive at, Mr. Secretary, is a calculation, for purposes of perspective, to see what the inflationary pressures were as of that time compared to now. I would like to arrive at the deficit during those years in terms of 1956 dollars, so we could have better indication as to what the inflationary pressures were as of that time.

Secretary HUMPHREY. We will see what we can do, but I——

Senator LONG. The question I was getting to is, looking at a $57 billion deficit in 1943 in terms of the then dollars, which would be a far greater deficit in terms of 1956 dollars, and similarly as to the $51 billion deficit in 1944, the $53.9 billion deficit in 1949——

Secretary HUMPHREY. 1945.

Senator LONG. 1945, pardon me—certainly we would both agree that those created tremendous inflationary pressures.

Secretary HUMPHREY. I think that is right.

Senator LONG. Now, compared to that, in 1956 and 1957 to date, the Government does not have a deficit; it has a surplus.

Secretary HUMPHREY. That is right.

Senator LONG. Do we, then, have anything like even the beginning of the pressure of deficit financing to compare to anything we had during those wartime years?

Secretary HUMPHREY. No, sir. It is in very much better control now than it was then.

Senator LONG. In fact——

Secretary HUMPHREY. It is in better control now, Senator, than it has been for many years, wartime and no wartime. You go back a long time to get it in as good control as it is today.

Senator LONG. Here is your statement of the Federal Government purchases of goods and services. I would suggest putting those in the record at this point, even though I would like to have the additional calculations to give the whole picture.

Senator KERR. Without objection, that may be done.

(The table referred to is as follows:)

Federal Government purchases of goods and services, in 1956 prices, and annual changes, 1940–57

[In billions of dollars]

Period	Amount	Change, year to year	
Calendar years:			
1940	15.2		
1941	33.3	+18.1	
1942	90.9	+57.6	
1943	131.4	+40.5	+21.6 average for 5 years
1944	147.2	+15.8	
1945	123.1	−24.1	
1946	30.1	−93.0	
1947	21.0	−9.1	
1948	27.3	+6.3	
1949	31.6	+4.3	−9.3 average for 7 years.
1950	26.7	−4.9	
1951	44.2	+17.5	
1952	58.1	+13.9	
1953	64.9	+6.8	
1954	52.2	−12.7	−2.8 average for 4 years.
1955	48.3	−3.9	
1956	47.0	−1.3	
1st quarter: [1]			
1956	(2)	(2)	
1957	(2)	(2)	

[1] Seasonally adjusted annual rate.
[2] Not available.

Source: U. S. Department of Commerce.

(The additional material previously referred to follows:)

It is not possible to take the Federal deficit in current dollars and convert it directly to dollars of constant purchasing power, and get an answer that has any real meaning. The only way to approach the problem of what the Federal budget surplus or deficit would have been under the theoretical condition of constant dollar purchasing power would be to pick a base—say 1956 dollars—then work out independently both budget expenditures and budget receipts in constant prices, and then subtract receipts from expenditures. It is possible to work out figures on budget expenditures on a constant dollar basis, although it would take considerable time since no official figures have ever been developed. In attempting to convert budget receipts to a constant dollar basis, however, a great many new problems would enter the calculations.

Federal Government revenue cannot be converted to constant dollars for a period of years by a simple adjustment for changes in the purchasing power of the dollar. This is true both for total receipts and for receipts from the separate tax sources. In the case of the most important receipts source—the individual income tax—the deduction for personal exemptions, as a dollar amount fixed by statute, would be a very large constant figure unaffected by price changes. Of even more importance, the progressive rate structure would preclude any simple price adjustment. As an example, in 1944 a married man with three dependents, earning $5,000 would have paid $630 in Federal income tax. Converted to 1956 dollars, his income for 1944 would have been $7,900. Since the increase in overall prices was 58 percent, his income tax, however, would be up 111 percent, instead of 58 percent, because the tax would have risen to $1,330 as a result of applying 1944 tax rates and exemptions to the higher income. An attempt to convert the 1944 income tax receipts to the 1956 price level by assuming that the increase would equal the price rise of 58 percent would thus be very misleading.

Serious problems would also occur in the case of the corporation income tax, particularly in the area of fixed costs, such as depreciation. Several of the most important excise taxes, notably on liquor and tobacco, are specific taxes (per gallon, per unit, etc.) and the revenues are not directly affected by price changes. For the foregoing reasons we are unable to supply the requested calculations.

Senator LONG. And here is the statement which you supplied me, of the private money supply and the annual change, 1940 to 1957. I will ask that this be put into the record at this point.

(The table referred to is as follows:)

Private money supply [1] *and annual change, 1940–57*

[In billions of dollars]

Period	Amount	Change, year to year	
End of December: [2]			
1940	42.3		
1941	48.6	+6.3	
1942	62.9	+14.3	
1943	79.6	+16.7	+12.0 average for 5 years.
1944	90.4	+10.8	
1945	102.3	+11.9	
1946	110.0	+7.7	
1947	113.6	+3.6	
1948	111.5	−2.1	
1949	111.7	+.2	+3.8 average for 7 years.
1950	118.2	+6.5	
1951	124.4	+6.2	
1952	129.0	+4.6	
1953	131.1	+2.1	
1954	134.1	+3.0	+2.6 average for 4 years.
1955	137.7	+3.6	
1956	139.3	+1.6	
April:			
1956	133.1		
1957	134.7	+1.6	

[1] Demand deposits adjusted and currency outside banks.
[2] The end of December figures are seasonally the highest of the year.

Source: Federal Reserve Board.

Senator LONG. We find that there was a tremendous increase in the money supply during wartime. This was in current dollars, year by year.

The increase in money supply, for example, was $6 billion in 1941; in 1942, it was $14.3 billion; in 1943, it increased by $16.7 billion; 1944, it increased by $10.8 billion; 1945, by $11.9 billion.

Such huge increases in the money supply probably did create still additional inflationary pressures, particularly when compared to the much smaller amount of money supply that existed as of that time. How would you——

Secretary HUMPHREY. If we had gone on in the way we were going, and I am not saying there is any occasion for it, but if we had continued, as you have indicated, at the rate we were going, this country would have been just like some of these other countries; our dollar would have been practically worthless. We would have had a terrible catastrophe in America.

Senator LONG. Yes.

Secretary HUMPHREY. There is no doubt but what inflationary pressures have been very greatly reduced.

Senator LONG. There was an average annual increase of $12 billion during those war years in the money supply.

Without allowing for the difference in the value of money as of today, during the period 1953 through 1956 there was an average annual increase of only $2.6 billion in the money supply. In other words, the increase was about one-fifth as much during these more recent years as it was during those war years.

Secretary HUMPHREY. It has been a great stabilizing influence.

Senator LONG. That would also indicate much less inflationary pressure from the increases in money supply during these recent years than during the war years?

Secretary HUMPHREY. The inflationary pressures have been very greatly reduced, and we have had a much more stable condition.

Senator LONG. The next item you supplied me with is a statement of the Consumer Price Index, and the annual changes, 1940 to 1957. I notice, during the war years 1941 through 1945, the average increase was 3 points, or 5.2 percent, during those 5 years. It was 5.2 points, or a 5.8-percent increase, during the 7 succeeding years, and it was 0.7 point, or 0.6 of 1 percent, as an average for the 4 years 1953 through 1956, and it was about 1.5 percent in 1956, and May 1957 indicates about 3.6 percent above May 1956.

It looks like it might be growing somewhat more rapidly during the last month or so.

(The table referred to follows:)

Consumer Price Index, and annual change, 1940–57

Period	Index (1947–49=100)	Change, year to year		
		Points	Percent	
Calendar years:				
1940	59.9			
1941	62.9	+3.0	+5.0	
1942	69.7	+6.8	+10.8	+3.4 points or 5.2 percent, average for 5 years.
1943	74.0	+4.3	+6.2	
1944	75.2	+1.2	+1.6	
1945	76.9	+1.7	+2.3	
1946	83.4	+6.5	+8.5	
1947	95.5	+12.1	+14.5	
1948	102.8	+7.3	+7.6	+5.2 points or 5.8 percent average for 7 years.
1949	101.8	−1.0	−1.0	
1950	102.8	+1.0	+1.0	
1951	111.0	+8.2	+8.0	
1952	113.5	+2.5	+2.3	
1953	114.4	+0.9	+0.8	
1954	114.8	+0.4	+0.3	+0.7 point or 0.6 percent average for 4 years.
1955	114.5	−0.3	−0.3	
1956	116.2	+1.7	+1.5	
May:				
1956	115.4			
1957	119.6	+4.2	+3.6	

Source: Department of Labor.

Secretary HUMPHREY. Well, that is not just for the month. That is for the period May to May, for 12 months. But it has gone much more rapidly in this last 12 months than it had for the preceding 4 years.

In the preceding 4 years, we had a very stable situation. The economy was on a very stable basis, one of the most stable bases we have had for many years, and it lasted over that 4-year period.

Within the last 12 months, we have had this move upward that we talked about the other day.

Senator LONG. Here is the question that occurs to me: If you compare the war years, where you had this tremendous increase in the money supply, in the amount of civilian employment and production, and because of the war tremendous increases in expenditures and enormous Government deficits—and I do not know how you could have avoided them—if you compare these war years with the absence of any comparable inflationary pressures in the most recent years, how can you account for a 3.6 percent increase in the cost of living this last year as compared with only 5.2 percent increase during war time when you had all of these tremendous inflationary pressures?

Secretary HUMPHREY. Well, I think I answered that as best I could the other day when I read into the record a very complete statement as to just why I thought it had occurred.

Senator LONG. Can you give me, in general terms, why it has occurred?

Secretary HUMPHREY. Senator, I can go right back to that. That is all set out in great detail, in answer to Senator Kerr, and I can read it again if you would like, but that is the answer.

Senator LONG. Could you summarize it?

Secretary HUMPHREY. I do not think so. I think that it takes a full explanation. You just cannot say it in a word. I was very careful to try to get it exactly as I thought it was, and I gave it.

Senator LONG. Well, would you regard keeping consumer price inflation at the 5.2 percent annual average level during those 5 war years as being a good record, as against all the many inflationary pressures that existed as of that time?

Secretary HUMPHREY. Well, frankly, I do not think I am in position to answer that. I do not see any reason to criticize it or comment on it, frankly.

Senator LONG. If you do not have any suggestions as to how it might have been improved upon——

Secretary HUMPHREY. Well, you cannot go back. It is a fact that that is what happened. It occurred. You know exactly what the facts are, and there they are. There is nothing you or I can do about them. They are there, and I do not think that it gets us anyplace to go over it.

Senator LONG. Viewing all of your discussion of the inflation that occurred during the war period, I do not see why we had all this discussion if it is not to be enlightening to some extent, or if there is nothing we can learn from this period, or if you cannot find anything that was wrong or that you think should have been changed or different. I would like to have your advice as to how you think those years might have been improved upon.

I was not a part of the Government. I do not think you were, either. We were doing the best we could in other capacities.

Secretary HUMPHREY. That was a war period, and I do not see a thing to be gained, Senator, by you and I sitting here discussing what might or might not have been done during the war.

Senator LONG. Then why did you——

Secretary HUMPHREY. I frankly do not know about it.

Senator LONG. Why did you make considerable reference to those years in your opening statement?

Secretary HUMPHREY. I stated facts. I stated the facts just as you have.

Senator LONG. Well, in stating those facts, you do not offer any criticism as to how it might have been different or how it might have been otherwise?

Secretary HUMPHREY. Not at all. I am simply reciting the facts as they occurred. I see no point in criticizing it or commending it, either one. It is a fact, and we stated the facts to have them in review.

Senator LONG. It does seem to me, when you review the inflation that occurred during wartime, with great inflationary pressures, without saying that anything different could have been done then, you shed no light on why we have had a 3.6 percent inflation during the past 12 months. We have no Government deficit, we have no genuine pressure on the labor force, we have no great increase in the money supply. What do you think is causing all this inflation we are having now?

Secretary HUMPHREY. I answered you that just a minute ago.

Senator LONG. It is not—could it be an increase in the money supply? Certainly, there has been only a very small increase, compared to some we have seen in the past. Could that be it?

Secretary HUMPHREY. Why no, Senator, I answered just a minute ago, and I will be very glad to go through it again if you would like to have me. It is right here, and I can read it right over again.

Senator LONG. Would you just tell us what are the highlights of that as to why we are having this great pressure now?

Secretary HUMPHREY. I will read it all.

Senator LONG. This inflation——

Secretary HUMPHREY. I will be glad to read it all and then you can select what you think is desirable.

Senator LONG. Why do you not read it for your own benefit and lift out what you think would be enlightening. It seems to me it is not necessary to read that statement if you have it before in the record.

Secretary HUMPHREY. Senator, I think I gave you a careful analysis of what I believed was the situation. I did the very best I could. I will be glad to do it over again, but that is my analysis of what I think is the situation today, and I do not care to do it any other way, except to state it the way I believe it is, in full text.

Senator LONG. Well, would you pass me that statement and I will just take a brief look at it. If it has been read for the record, I was not here.

Secretary HUMPHREY. Yes, it is all in the record.

Senator LONG. I would not like to fill the record up with it again. Based on this statement here, if I understand this statement, you believe that most of these increases, most of these inflationary pressures, seem to be related to the demand for durable goods and industrial expansion?

Secretary HUMPHREY. That is the way it began.

Senator LONG. Do you believe that the increase in interest rates is contributing to holding down prices on industrial expansion?

Secretary HUMPHREY. I believe it is helping; yes, sir.

Senator LONG. In what industry do you believe that—and I take it that you believe it is desirable to postpone at this time further investments or expanded investments in plant machinery, equipment, and other durable goods?

Secretary HUMPHREY. Just some of it, there is some postponing.

Senator LONG. Do you think industry is postponing some of these plans?

Secretary HUMPHREY. I think some industries are postponing, definitely.

Senator LONG. In the main, which ones?

Secretary HUMPHREY. Well, in the main I think the most obvious one is machine tools.

Senator LONG. Nevertheless, we do have larger expansion plans going on in most of the industries, in a great number of them, do we not?

Secretary HUMPHREY. We have large expansion plans that are in course, now.

Senator LONG. I believe that the information that I want on that subject is more detailed in the questions that I supplied you in the beginning, and, therefore, we can look at that when those calculations are prepared.

Secretary HUMPHREY. Thank you, Senator.

Senator LONG. Now, with regard to the cost of housing, is that not increased by an increase in interest rates?

Secretary HUMPHREY. Yes, I think it is increased somewhat by interest rates.

Senator LONG. I do not know how you calculate it, Mr. Secretary, I have got just a rough approximation that I made during an examination of it here the other day on the increase in costs in interest rates on housing.

In the prepared questions that I have handed you there, I have asked for the average increase in housing, in interest on housing loans, but I do believe I have a calculation here of about what the difference is in interest rates on houses which I will find in just a moment.

I calculated, Mr. Secretary, just the difference, for example, on a 20-year mortgage between a 4-percent mortgage and a 5-percent mortgage, and the difference in mortgage costs would be $1,294.91 on a 20-year mortgage. Now, that is a difference of about, well, it amounts to about 12 percent of the original investment by the time it is paid out.

Now, the same thing on a 25-year mortgage for $10,000 would be $1,694, and if we had one of these long-term veterans' type mortgages, the difference would be $2,249.78.

Do you believe that the increase in financing on housing has increased as much as 1 percent?

Secretary HUMPHREY. You mean from 4 to 5 percent?

Senator LONG. As much as 1 percent, let us say, from 1950 to the present time.

Secretary HUMPHREY. Well, I think I had better check it. I cannot tell you whether it has or not. That is in part of your questions you asked here.

Senator LONG. Yes; I have asked that, and I believe it is necessary for the record.

Secretary HUMPHREY. I think we had better get the answers to those questions and we will do that. I cannot tell you right off the bat.

Senator LONG. Now, assuming there is that much difference—and I know it is as much as 1 percent different in Louisiana, where I am trying to do some financing myself right now; I am in process of buying another home and I am paying at least 1 percent more than I was paying some time ago—for a man buying a $20,000 home, he could be paying as much as $4,000 extra by the time he paid off the mortgage. Of course, in a short term, a shorter term, let us say for a 20-year mortgage, he could be paying as much as $2,500 more, and that is not too big a house that you get for $20,000.

That is a very serious matter, it would seem to me, for a person buying a home. Do you find it that way?

Secretary HUMPHREY. I suppose that is about $10 a month on a $20,000 house.

Senator LONG. Well, by the time you pay the——

Secretary HUMPHREY. On the other hand, Senator if that helps to hold down the other costs of the home, the other costs of the home which are so much greater than the interest costs; if the interest cost helps to hold it down, I think it is very worthwhile.

Senator LONG. Do you think the higher interest costs are going to hold down the cost of labor? Is not labor going to bargain for an increase every year and try to get a better working contract if it can?

Secretary HUMPHREY. I think that higher interest costs tend to level the whole thing out, and I think it affects all costs over a period of time.

Senator LONG. I would like for you to explain to me how is a higher interest cost going to cause a laboring man to ask for less wages?

Secretary HUMPHREY. Well, as the whole thing levels out, as your whole industry levels out, I think you will find that that is the way it will work. It always has worked that way, and I believe over a period that it will again.

Senator LONG. It seems to me, Mr. Secretary, if I were a laboring man—suppose I was doing what the junior Senator from Louisiana right now is doing, trying to buy my wife a larger home, and I proceed to sell the house I have got and buy a larger house, but in doing so, I have got to pay about an extra $10 a month in rent, that is, in interest charges on that home. Then would that make me ask for a lesser wage increase because then I was having to pay more of my paycheck on interest on that home?

It would seem to me I would be demanding more.

Secretary HUMPHREY. Not right at the moment, but over a period, as the whole thing levels out, all your costs will begin to level out. It will help to level them out.

Senator LONG. Well, now——

Secretary HUMPHREY. It would not do it all alone.

Senator LONG. As far as that laboring man bargaining for the wage, he is going to ask more if he is having to pay a higher interest on his own home, he is going to want more wages to build someone else's home, is he not?

Secretary HUMPHREY. It will depend pretty largely on what the other costs of the home are, what amount they have gone up, and how much the other costs keep within reasonable bounds.

Senator LONG. Let us take the materials that go into that home. If the man who is cutting that lumber and timber is having to borrow some money to stay in business, as most of these fairly small concerns do, is he not going to try to pass along that increased interest charge in the price of his product?

Secretary HUMPHREY. Yes. And to that extent, as I said the other day, to that extent the interest is inflationary. On the other hand, if there is less demand for his lumber and the lumber sales are strung out and there is less demand for lumber, it will tend to stabilize the selling price of his lumber and it will tend to keep the lumber from rising in price. If the lumber does not rise in price, it will tend to keep the whole thing steady and will decrease the cost of his house.

Senator LONG. He is certainly going to try to pass that along, is he not?

Secretary HUMPHREY. That will all tend to level out, and interest is relatively so small a part of the total, as I pointed out, that the difference if you can save $50 in the cost of the lumber and it costs you $3 or $2 in the cost of the interest to do it, why, I think it is well worthwhile.

Senator LONG. Is it desirable that we reduce the number of houses built? And if I understand correctly, you say to reduce the demand for his lumber you have got to cut back on housing construction, have you not?

Secretary HUMPHREY. That is right, that is what is happening.

Senator LONG. Do you think that that is desirable, to cut down on housing construction?

Secretary HUMPHREY. I do. I think it is far better to have more houses available at reasonable prices than to have the price go through the roof so nobody can buy a house.

Senator LONG. Do you have any indication to tell us that houses are costing less because less of them are being constructed?

Secretary HUMPHREY. I think they are costing less than they would have cost if you just let it go, yes, sir. I think if you let all of the demand for housing come on, I think you will further push up the price of the house and the price of the housing will go up much faster than the price of the interest. So you will be way ahead as compared to the price of the house and the price of the interest.

Senator LONG. Do you feel, with a decrease in housing starts, with the housing industry starting 21 percent less than it did a short time ago, that an increase in housing starts would be inflationary?

Secretary HUMPHREY. What do you mean, what increase?

Senator LONG. I mean according to your statement here, your housing starts are down about 21 percent over what they were a short time ago.

Secretary HUMPHREY. Do you mean if we were building 1,500,000 houses instead of a million? If we were building 1,500,000 houses this year instead of a million?

Senator LONG. I think it is 900,000 as against 1.3 million some time ago, and that would be about 21 percent. less than the figures to which you had previously referred.

Secretary HUMPHREY. That is right. If we were trying to build 3.3 million houses right now, as well as the other things we are doing in this country today, I think it would be very inflationary. It would be another thing to add to the inflation, and it would add to the cost of your house.

Senator LONG. Suppose we do not go that far in one step. We are 21 percent below what we were doing a few years ago in terms of housing. Suppose we took up half of that slack, and increased housing starts by about 10 percent, and that lower interest charges were part of that picture. Would you regard it as being inflationary that we just went and moved 10 percent back up toward what we were achieving some time ago?

Secretary HUMPHREY. Nobody can tell you, Senator, which straw it is that breaks the camel's back. You can keep putting a straw on at a time until finally the back breaks and nobody can tell you which straw it was, whether it was the first one or the last one. So that I cannot tell you at exactly what point—and you cannot, either, and nobody can—at exactly what point you get this added pressure. But I am sure, very sure, that if you attempt to, if you want to illustrate it, if you attempt to double or if you attempt to increase by 50 percent the amount of housing that we are building, you would increase the cost of houses, and you would increase them very substantially.

Senator LONG. You say if I attempted to increase double or by 50 percent, but if we increased by only 10 percent the number of housing starts, and mind you, we would still be far below the capacity to which you referred——

Secretary HUMPHREY. Well, I cannot tell you, Senator.

Senator LONG. Would that be inflationary?

Secretary HUMPHREY. I cannot tell you which straw breaks the camel's back. If we went back to where we were 2 years ago, to the number of starts we had 2 years ago, I feel very sure it would be inflationary and it would cause increases under present conditions.

Senator LONG. Well, do you agree with those who say the housing industry is a depressed industry as of this moment?

Secretary HUMPHREY. I do not think it is particularly depressed.

Senator LONG. They could certainly build more.

Secretary HUMPHREY. They could build more houses if they were not doing something else.

Senator LONG. Would you agree that it is a depressed industry in a number of areas?

Secretary HUMPHREY. Well, I do not know. I do not know whether there are areas where they are depressed or not.

Senator LONG. Because some of my builders contend it has fallen off tremendously.

Secretary HUMPHREY. I know as I go around the country I see an awful lot of new houses and a million new houses is a lot of houses.

Secretary LONG. Mr. Secretary, you are referring to 900,000 housing starts as a good housing record?

Secretary HUMPHREY. It is 990,000, which is, in round figures, a million.

Senator LONG. Compared to your reference to 1.3 million housing starts a short time ago—I guess that was about 1952 or 1953—and you also made reference, quite correctly, to the fact that we should have an expanding economy. In other words, our labor force is increasing by about 1.5 percent a year, and our economy is growing at the rate of 2.7 for this year—I think a 40-year average would be 3 percent. In a properly expanding economy, should not housing starts be up at least by 1½ percent a year?

Secretary HUMPHREY. Well, of course——

Senator LONG. Would not it indicate that as far as the housing industry is concerned, it should not be at all inflationary just to take up the slack that has been lost during the last 4 years?

Secretary HUMPHREY. They do not go just year by year. These things average out. You go more one year and less another, and over a period you average out into a general increase, but it does not always go up every year.

Senator LONG. Let us talk about the rent situation for a moment because that is an item which has increased in recent times.

Would you regard the interest cost of money as being one of the landlord's principal costs?

Secretary HUMPHREY. Well, I do not know. I suppose it varies with different landlords.

Senator LONG. My impression on some of these long-term mortgages is that the mortgage payment is exceeding the payment of the principal. Certainly if you string it out to a 30-year mortgage of 5 percent or more, it works out that way. The interest charge actually exceeds the payment on principal over a period of 30 years.

Now, 5½-percent money is not at all unusual in Louisiana, in fact, some folks are having to bid 6 percent for it; and I assume it is that way in other parts of the country. When those interest charges increase, does not that increase the price that the landlord is compelled to charge for rent?

Secretary HUMPHREY. Yes.

Senator LONG. To the extent that it does, it is inflationary, is it not?

Secretary HUMPHREY. If it is done to excess, I think that would be true.

Senator LONG. If it is done at all, is it not inflationary?

Secretary HUMPHREY. No.

Senator LONG. It is part of corporate giving?

Secretary HUMPHREY. No. I do not believe, if it is done at all——

Senator LONG. Well, you were referring——

Secretary HUMPHREY. These things have got to balance out.

Senator LONG. You were referring to a house where the increased charge increased $10 a month on a $10,000 house. If it is an apartment, the unit cost of which is $10,000, would not that $10 a month increase the man's cost of living just as much?

Secretary HUMPHREY. Yes, sir; I thought we figured $10 on a $20,000 house a few moments ago.

Senator LONG. As any other item he has to pay?

Secretary HUMPHREY. Any other $10 item.

Senator LONG. And would not the landlord feel compelled to raise his rent in order to catch back the additional interest?

Secretary HUMPHREY. That is right; just the same as any other $10 item, his costs have gone up $10.

Senator LONG. In that case, Mr. Secretary, insofar as this squeeze on housing discourages the construction of new housing, does not that further tend to increase inflation in that with less houses available, the landlords are in position to demand a higher price?

Secretary HUMPHREY. Well, if you get into real shortages, I think that would be true.

Senator LONG. You have spoken in terms of supply and demand here?

Secretary HUMPHREY. That is right.

Senator LONG. If you have a shortage in the supply of rental housing and if you cut down on housing starts, those who have housing for rent are in position to demand a better price, are they not?

Secretary HUMPHREY. That is right, if the demand keeps up. But at some point, of course, the demand will level off and that will ease it back again.

Senator LONG. Mr. Secretary, just over the weekend, in fact, several things happened since we met last time, one of which is the tragedy of Louisiana which we were discussing before this session started, and I will not get you into that, but starting this week, we have had this large increase in the price of steel. Is not that going to contribute to a considerable amount of inflation?

Secretary HUMPHREY. I think that that will contribute to costs pretty well over a rather large area of the economy, to an increasing cost.

Senator LONG. I notice it is about $6 a ton; is that correct?

Secretary HUMPHREY. That is what I read in the paper.

Senator LONG. I think you know something about the steel industry. Can you tell me about what is the average price of steel now as against which that increase would apply?

Secretary HUMPHREY. Senator, I will have to look it up for you. I have been out of the steel business 4 years and a half, and what I know, I read in the paper.

Senator LONG. Even without that, you can tell me more about steel prices than I can tell you.

Secretary HUMPHREY. I have not looked at it; I will have to look it up. I have not looked at it for about 4 years and a half.

Well, here are three dates. December 30, 1952, $0.04376——

Senator KERR. How much?

Secretary HUMPHREY. Cents. This is cents per pound, Senator.

Senator LONG. Four and how much?

Secretary HUMPHREY. $0.04376. On June 26, the same comparable figure, that is June 26 of 1956—the first was December 30, 1952. This is June 26 of 1956, it was $0.05179 and the next date—wait a minute. A year later, June 25, 1957—that is after this announcement? Where is it after the announcement?

Mr. MAYO. We do not have it after the announcement.

Senator KERR. What was it before?

Senator GORE. What was it just before the announcement?

Secretary HUMPHREY. Just before the announcement it was $0.05670.

Senator KERR. It went up $6 a ton?

Secretary HUMPHREY. I do not know whether that is applied ratably across the board. You divide it by 2,000. I do not know how that will work out.

Senator KERR. Is the price of it $155 a ton before the raise?

Secretary HUMPHREY. What is that?

Senator KERR. Was it not $155 a ton across the board before the raise?

Secretary HUMPHREY. Let me just multiply it out. Let us get it on tons here.

Mr. MAYO. Yes.

Secretary HUMPHREY. This average would be $113.40.

Senator GORE. $113.40 would be my figure.

Secretary HUMPHREY. That is right. That is the composite price for finished steel.

Senator LONG. Would you tell me about what the percent increase would be?

Secretary HUMPHREY. That is finished steel, not semi——

Senator LONG. Can you——

Secretary HUMPHREY. What is that?

Senator LONG. Can you tell us what percentage increase that would be?

Secretary HUMPHREY. I read in the paper where it was 4 or 5 percent.

Senator GORE. About 5 percent.

Secretary HUMPHREY. The newspaper, I think, said either 4 or 5 percent.

Senator LONG. I take it that is going to contribute to an increase in many other different things, is it not?

Secretary HUMPHREY. I think probably it will as time goes on, yes, sir. There will be a lag in it, but I think it will contribute to further increases in costs.

Senator LONG. Well, steel is a major part of the cost of building. It is a considerable part of the cost of a great number of fabricating industries—automobiles and various others, almost too numerous to mention, it would seem to me.

Secretary HUMPHREY. I think I saw somewhere in the newspaper that this would be—what was that on, the price of an automobile—they published what it was—$10 or $22 or something like that on the cost of an automobile.

Senator LONG. Do you think that this——

Secretary HUMPHREY. $10 or $22—I have forgotten now, but it was some such figure as that, that would add to the cost of an automobile. I read it in the paper yesterday.

Senator LONG. Do you think that these high interest charges had any effect one way or the other with regard to the increase in the price of steel?

Secretary HUMPHREY. At this particular time?

Senator LONG. Yes. This last increase.

Secretary HUMPHREY. Well, I really do not know. I do not see just how they would.

Senator LONG. Do you think that these high interest rates did anything to keep it down?

Secretary HUMPHREY. As I understand it, the direct reason for this increase in the cost of steel at this particular time is that they had a 21- or 22-cent wage advance that was agreed to a year ago that became effective on July 1, and that increased steel costs—it is to cover some part at least of that wage increase.

Senator LONG. Well, the information that I have had is that every time the steel companies finish negotiating a wage contract, they have advanced their price either immediately thereafter or sometime shortly thereafter, and that invariably the price increase would be greater than the wage increase in terms of dollars. They would advance their price beyond that which they found it necessary to advance wages to a considerable degree; and that on occasions—I do not have the announcements here—but on occasions that the steel companies have explained that in advancing these prices beyond their increase in wages by a considerable amount, they felt they should do this in order to finance their expansion program.

Have you seen or been apprised of any such information as that?

Secretary HUMPHREY. No, I do not know, and I do not know to what extent this covers it or whether it exceeds it. I do not know.

Senator LONG. Well, this is, for a person who is supporting high interest rates on the theory they are going to curb inflation, it seems to me this is a fact that you would want to know a lot about as to what is the basis of this 4- or 5-percent increase in the cost of steel, what is the basis. Is there anything more you can tell us about it than you have told us?

Secretary HUMPHREY. Not a thing. I only know what you know or what I read in the papers.

Senator LONG. Have you inquired of the steel people or executives of that industry why they are increasing their prices, if they think it is justified?

Secretary HUMPHREY. Well, I am sure it is perfectly obvious that it is related to the increase in wages. They made it effective at the same time, and it is perfectly obvious there is a connection.

Senator LONG. Do you have any information, or have you attempted to obtain any, as to whether or not this price increase is more than necessary to offset the increase in wages?

Secretary HUMPHREY. No, I have not.

Senator LONG. Are you familiar with the profits of the steel industry?

Secretary HUMPHREY. In a general way. I read them in the paper.

Senator LONG. Well, they pay taxes to you. I imagine that you probably have some information on what they are paying you, do you not?

Secretary HUMPHREY. Well, I don't figure out particular companies, no, but they do, of course, in the Internal Revenue Bureau, and they are part of our income. I am interested in what is our income.

Senator LONG. It seems to me, Mr. Secretary, that as of this moment, at this point in our hearing, that the increase in the price of steel is going to increase the cost of living more than any one item that is going to happen any time right away; and I would just be curious to know what, if anything, these high interest rates are doing to hold down the cost of living, or what they had to do with this steel increase.

Secretary HUMPHREY. Well, I wish I could tell you, but I do not know. I do not know that higher interest rates had anything to do with the steel increase.

Senator LONG. Have you ever heard of the concept?

Secretary HUMPHREY. When you say "high interest rates," I do not really think Senator, that we have high interest rates. We have higher rates than they formerly were, but viewed generally, our interest rates today are not unduly high. They are not unusually high interest rates. They are interest rates that are within a scale of the swing that has occurred many times before. They are higher than they were in recent years.

Senator LONG. I understood that one of the utilities, I believe, out in Puget Sound or one of them out West issued mortgage bonds at 6¼ percent. That was the highest for a public utility in 20 years or more than 20 years.

Secretary HUMPHREY. Well, we have been more than 20 years in a period of low rates, you see. First we had the depression, the long depression, when there was no demand for money, and the demand was extremely low for a good many years of the depression; it went on year after year.

Then after we got through the depression, we got into the war and had some regulation, and then following that we had these artificially low rates that were established by operation of the Federal Reserve System.

Senator LONG. I have been led to believe that the steel industry and certain of the other major industries, rather than borrowing the money, which I understand high interest rates would discourage, are going on with the expansion of their industries but doing it by increasing the price of their product, and thereby paying for the expansion out of profits. Do you have any information at all along that line?

Secretary HUMPHREY. Well, I think industry in this country has paid out less in dividends than it earned, and has built reserves, such as the chairman the other day was talking about the Nation doing, and as individuals do when they can, to build some reserves to build for the future; and I think that well-run business operates in that same way.

To that extent, they increase their business or increase their plant capacity out of earnings that are not distributed to their stockholders.

Senator LONG. Well, insofar as any business or industry increases its price, and in order to pay for the expansion of that industry, that price increase would be inflationary, would it not?

Secretary HUMPHREY. Well, I do not think the steel price increase was related to that. I think that price advances do contribute to increases in costs, and they contribute to increases in costs of all the people who buy or use or consume the particular thing that has had a price advance so that it does contribute to an increase in the cost of living; price advances anywhere do that.

Senator LONG. Those are all the questions I have to ask, Mr. Secretary. And I would like to have the information which I requested, and perhaps I will want to ask some questions subsequently.

Secretary HUMPHREY. We will see that you get it.

Thank you, sir.

Senator KERR. The Senator from Vermont, Mr. Flanders.

Senator FLANDERS. Mr. Chairman, I wish to make an opening statement.

In the questions which I shall ask of you, Mr. Secretary, certain assumptions are made. One of them is that we are in a period of general prosperity. This is shown by a low level of unemployment such as is not customarily reached except under war conditions.

It is shown also by generally high average weekly earnings of industrial employees, and by an increasing production evidenced by the gross national product. The figures are averages; and within the averages, there are some industries, some groups of individuals, which do not share in the general prosperity. However, I take to be a valid assumption that there is general prosperity.

When we look at the price levels, however, we are faced with an unpleasant fact. After remaining quite stable for a period of 3½ years, there has been an almost continuous rise in consumer prices.

Wholesale prices had remained almost constant for a 2½-year period, beginning and ending around 6 to 8 months earlier than the consumer price level; they rose earlier and have now leveled off. This gives some hope that there may be in the ordinary course of consumer prices, a leveling off there, in a few months.

The clouded area in such a prediction, however, is the fact of a continuing wage-price situation which may delay or prevent the return of a leveled-off consumer price index. This must be taken into account as well as the normal relationships between the supply of money in the market, and the goods and services offered in return for it.

Inflation is our problem. This problem I conceive to be made the more difficult by its connections with the current prosperity. I would raise the questions as to whether and how inflation can be brought under control during a period of prosperity, except by returning to price controls and rationing.

What we seek to find in these hearings, it seems to me, is a practical means of controlling inflation by other than such arbitrary controls.

In the questions which follow, there will be found, I hope, no evidences of a desire to attack the administration. There will also, I predict, be found no evidences of a purpose to defend the administration, or that member of it who now sits before us and is subjected to our interrogations.

The purposes of the questions which I shall ask are objective in character and directed toward getting light and leading on this problem of restraining inflation during a period of prosperity.

With that prelude, I move on to the questions.

Mr. Secretary, assuming that inflation arises from an increase in money supply as compared with the available supply of goods and services, what is the cause of the present inflation? Is it too much money?

Secretary HUMPHREY. I rather think not, Senator. I think that the money supply has been kept within quite reasonable bounds.

Senator FLANDERS. Well, is it too little goods and services?

Secretary HUMPHREY. I think that that has been at the bottom of it; yes, sir.

Senator FLANDERS. Conceivably it might be a little of both.

I have here a chart from the Federal Reserve charts, historic supplement, September 1956, and it shows a steady decrease in the ratio of money supply to the gross national product beginning in 1905 and going down, so just at this point, I just raise the question as to whether there may not be some deficiency in the supply of money.

Secretary HUMPHREY. It is very, very difficult to measure these things with any exactness, you know. You have to feel your way as you go, and nobody can tell exactly on this. This is not subject to mathematical calculation. You have to work at it and develop along with it and see what the results are.

Senator FLANDERS. I have been puzzled by this classical theory of inflation, being too much money for the goods and services offered because if this is a case of too much money, the question arises, why are interest rates high instead of low?

Secretary HUMPHREY. Well, I do not think it is too much money, Senator, and I think you have nearly answered your own question.

I think the fact that interest rates have moved up shows that the demand for money exceeds the supply of money and credit at the present time, the wish for money, the use, the demand that people want to make of it.

Whether the necessity for it is there or not, nobody knows, because demand can run above necessity. If people fear further increases in prices of any commodity, money or anything else, they are very apt to move to overbuy; and that may be going on with money, they may be overbuying in anticipation of a rise.

Senator FLANDERS. There is another possible factor in there in which I became interested a number of years ago, and that is the question of the velocity or rate of turnover. That is something which, when I was president of the Federal Reserve bank in Boston, I was never able to get the Board here in Washington to interest itself in.

I wonder, do you have any indications, any figures, as to the velocity of the money supply?

Secretary HUMPHREY. Yes. It is here in the chart book.

Senator FLANDERS. Will you give me the page?

Secretary HUMPHREY. You have the chart book?

Senator FLANDERS. 1956.

Secretary HUMPHREY. 1957.

Senator FLANDERS. I do not have 1957.

Secretary HUMPHREY. May of 1957 is the one I am looking at.

Senator FLANDERS. They do not give it to me as soon as they do to you.

Secretary HUMPHREY. Let us see if we do not have 1956 here.

Senator FLANDERS. What page is that on?

Secretary HUMPHREY. This is page 8.

Senator FLANDERS. I imagine the paging is the same.

Secretary HUMPHREY. Does that say "turnover of demand deposits"?

Senator FLANDERS. Deposits and currency. There is no turnover figure here.

Secretary HUMPHREY. This shows it right here.

Senator FLANDERS. I wonder if that is a new chart.

Secretary HUMPHREY. I cannot tell you. This is Mr. Martin's field.

Senator FLANDERS. We will wait until we see Mr. Martin before we go further with that.

For the record, I would like to ask some questions about money itself, and whether you can answer these questions immediately, have the data, I do not know, but they can at least be put in the record.

I want to know about our money; if the volume of our money is of importance, I want to know how it is issued and what gives it value.

What about the change in my pocket—silver and bronze and nickel—how much of that do you put out, when, and what gives it its value?

Secretary HUMPHREY. Well, I hink we will have to get that for the record for you.

Senator FLANDERS. All right.

And silver certificates, the same.

Secretary HUMPHREY. Yes. We will get that.

(The information referred to is as follows:)

Circulation statement of United States money—May 31, 1957

Kind of money	Total amount	Money held in the Treasury: Total	Amount held as security against gold and silver certificates (and Treasury notes of 1890)	Reserve against United States notes (and Treasury notes of 1890)	Held for Federal Reserve banks and agents	All other money	Money outside of the Treasury: Total	Held by Federal Reserve banks and agents	In circulation [1]: Amount	Per capita [2]
Gold	[3] $22,620,261,821	$22,620,261,821	$21,964,687,524	$156,039,431		$499,534,866				
Gold certificates	[4] (21,964,687,524)	[4] (19,116,501,395)			[4,5] ($19,116,501,395)		$2,848,186,129	$2,815,555,600	$32,630,529	$0.19
Standard silver dollars	488,435,800	230,832,202	195,636,079			35,196,123	257,603,598	6,724,754	250,868,844	1.47
Silver bullion	2,209,149,846	2,209,149,846	2,209,149,846							
Silver certificates	[4] (2,403,644,039)						2,403,644,039	240,001,216	2,163,642,823	12.65
Treasury notes of 1890	[4] (1,141,886)						1,141,886		1,141,886	.01
Subsidiary silver	[4] 1,378,272,400	17,790,780				17,790,780	1,360,481,620	53,297,889	1,307,183,731	7.65
Minor coin	483,873,100	2,295,464				2,295,464	481,577,636	10,222,715	471,354,921	2.76
United States notes	346,681,016	2,306,153				2,306,153	344,374,863	22,565,629	321,809,234	1.88
Federal Reserve notes	27,371,374,795	74,296,295				74,296,295	27,297,078,500	1,204,388,305	26,092,690,195	152.62
Federal Reserve bank notes	135,333,191	465,540				465,540	134,867,651	1,580,000	133,287,651	.78
National bank notes	62,286,957	204,480				204,480	62,082,477	294,005	61,788,472	.36
Total, May 31, 1957	55,095,658,926	25,157,592,581	24,369,473,449	156,039,431	[4] (19,116,501,395)	[6] 632,079,701	[7] 35,191,038,399	4,354,690,113	30,836,348,286	180.37

PAPER CURRENCY OF EACH DENOMINATION IN CIRCULATION—MAY 31, 1957

Denomination	Gold certificates	Silver certificates	Treasury notes of 1890	United States notes	Federal Reserve notes	Federal Reserve bank notes	National bank notes	Total
$1		$1,293,447,514	$293,369	$5,098,218		$1,498,390	$339,722	$1,300,677,222
$2		2,824,515	177,202	72,840,173		341,180	161,088	76,344,758
$5		772,865,003	324,530	233,679,079	$1,073,092,585	2,130,357	11,353,215	2,093,453,760
$10	$8,710,490	93,399,826	221,336	6,648,736	6,414,592,760	10,282,655	19,665,100	6,553,620,892
$20	12,653,994	647,910	69,650	2,420,712	9,788,091,300	27,860,910	19,960,320	9,851,704,796
$50	3,484,155	151,535	1,300	201,225	2,638,970,058	31,789,450	4,468,550	2,679,006,265
$100	4,892,150	90,520	29,500	329,600	5,493,612,500	59,325,700	5,739,750	5,564,019,720
$500	1,075,250	7,000		352,500	282,182,000		86,500	283,703,260
$1,000	1,594,500	9,000	25,000	320,000	390,849,000		21,000	392,827,500
$5,000	100,000				3,090,000			3,190,000
$10,000	120,000				8,210,000			8,330,000
Fractional parts							62,627	62,627
Total	32,630,529	2,163,642,823	1,141,886	321,809,234	26,092,690,195	133,287,651	61,788,472	28,806,940,790

Date	Amount	Per capita [2]	Date	Amount	Per capita [2]
May 31, 1957	$30,836,343,286	$180.37	June 30, 1935	$5,567,092,519	$43.75
Apr. 30, 1957	[8] 30,518,977,493	178.75	June 30, 1930	4,521,987,962	36.74
Dec. 31, 1956	[9] 31,790,236,325	187.38	June 30, 1925	4,815,207,508	41.57
May 31, 1956	30,513,434,778	[10] 181.70	Oct. 31, 1920	5,698,214,612	53.18
June 30, 1955	30,229,323,246	182.91	Mar. 31, 1917	4,172,945,914	40.49
June 30, 1950	27,156,290,042	179.03	June 30, 1914	3,459,434,174	34.90
June 30, 1945	26,746,438,483	191.61	Jan. 1, 1879	816,266,721	16.76
June 30, 1940	7,847,501,324	59.46			

[1] The money in circulation includes any paper currency held outside the continental limits of the United States.
[2] Based on Bureau of the Census estimates of population.
[3] Does not include gold other than that held by the Treasury.
[4] These amounts are not included in the total, since the gold or silver held as security against gold and silver certificates and Treasury notes of 1890 is included under gold, standard silver dollars, and silver bullion, respectively.
[5] This total includes credits with the Treasurer of the United States payable in gold certificates in (1) the gold certificate fund—Board of Governors, Federal Reserve System, in the amount of $18,273,837,300 and (2) the redemption fund for Federal Reserve notes in the amount of $842,664,095.
[6] Includes $74,000,000 lawful money deposited as a reserve for Postal Savings deposits.
[7] The amount of gold and silver certificates and Treasury notes of 1890 should be deducted from this amount before combining with total money held in the Treasury to arrive at the total amount of money in the United States.
[8] Lowest amount since Dec. 31, 1956.
[9] Highest amount to date.
[10] Revised.

NOTE.—There is maintained in the Treasury—(i) as a reserve for United States notes and Treasury notes of 1890—$156,039,431 in gold bullion; (ii) as security for Treasury notes of 1890—an equal dollar amount in standard silver dollars (these notes are being canceled and retired on receipt); (iii) as security for outstanding silver certificates—silver in bullion and standard silver dollars of a monetary value equal to the face amount of such silver certificates; and (iv) as security for gold certificates—gold bullion of a value at the legal standard equal to the face amount of such gold certificates. Federal Reserve notes are obligations of the United States and a first lien on all the assets of the issuing Federal Reserve bank. Federal Reserve notes are secured by the deposit by the Federal Reserve bank concerned, with its Federal Reserve agent, of a like amount of collateral consisting of such discounted or purchased paper as is eligible under the terms of the Federal Reserve Act, or gold certificates, or direct obligations of the United States. Each Federal Reserve bank must maintain reserves in gold certificates of not less than 25 percent against its Federal Reserve notes in actual circulation. Gold certificates deposited with Federal Reserve agents as collateral, and those deposited with the Treasurer of the United States as a redemption fund, are counted as part of the required reserve. "Gold certificates" as herein used includes credits with the Treasurer of the United States payable in gold certificates. Federal Reserve bank notes and National bank notes are in process of retirement.

Senator FLANDERS. Tell me, when I was a boy, or a young fellow, the 16-to-1 controversy filled the air, and at that time there was a great deal of talk about—what did they call that part of the silver that was not coined—seigniorage, was it?

Secretary HUMPHREY. Yes.

Senator FLANDERS. What has happened to the seigniorage? Does it still exist?

Secretary HUMPHREY. It still exists.

Senator FLANDERS. Do you have uncoined silver in your vaults?

Secretary HUMPHREY. I will have to put that in the record. I cannot tell you.

(Secretary Humphrey later submitted the following:)

The Treasury has on hand as of June 30, 1957, approximately 1.8 billion fine ounces of silver bullion valued at $2.280 billion.

Senator FLANDERS. That is just curiosity; that is all that is, but I think we are entitled to have that satisfied once in a while.

I take it there is silver behind silver certificates. I wonder whether you put a dollar behind it, or what it is.

Secretary HUMPHREY. What the value is?

Senator FLANDERS. How are the Federal Reserve notes paid out, and how do you determine how many to print, and how does the Federal Reserve System determine how many to put out?

Secretary HUMPHREY. I think that these questions probably——

Senator FLANDERS. Maybe Mr. Martin knows.

Secretary HUMPHREY. I think these are Mr. Martin's questions.

Senator FLANDERS. I would like to know, however, how many are out at the present time.

Are there any other kinds of money, that is, money that you can hold in your hands and pass, besides those?

Secretary HUMPHREY. Yes.

Senator FLANDERS. There are gold notes, I guess, that never see the light of day.

Secretary HUMPHREY. I do not think there are many gold notes out.

Senator FLANDERS. No, I do not think they ever see the light of day.

Secretary HUMPHREY. I think you mentioned about all that are out now.

Senator GORE. You are overlooking the Confederate money.

Secretary HUMPHREY. The Confederate money. [Laughter.]

Senator FLANDERS. Let us come to the other type of money, which is bank credit. That we have figures on, and I am interested in this, for the record: Page 26 of this document, which we all have, seems to show a continuous rise in total deposits and currency; and of time deposits, a continuous rise; and of demand deposits, a slower rise.

It does not look as though we were running into any deficiency of money, from looking at that chart, but now I want to ask you these questions:

I want to ask you about the relationship between credit and debt, which is which?

Secretary HUMPHREY. Well, it is a little hard to tell. It is "chicken and egg," really. It is when one person has a credit, another has a debt.

Senator FLANDERS. The money we actually use in business, when a man writes a check to settle a bill and a man receives a check from having settled the bill and deposits it, is all based on debt somewhere by somebody.

Secretary HUMPHREY. Well, it starts with a credit in a bank. Before you can write a check, you have got to have a credit in the bank. And when you have a credit in the bank, the bank has a debt of an equivalent amount. So when you write a check on it, you release one debtor.

Senator FLANDERS. Yes.

Secretary HUMPHREY. One fellow cancels a debt, and you transfer your credit to another man, and the debtor then owes another man until he checks it out of that bank and puts it in another.

Senator FLANDERS. I am wondering what makes it increase, as that chart shows it increasing year by year. Is not somebody increasing or groups increasing their indebtedness?

Secretary HUMPHREY. Well, on currency, of course, it is increasing.

Senator FLANDERS. Yes. But so are the bank deposits.

Secretary HUMPHREY. Yes.

Senator FLANDERS. Can those bank deposits be increased without a large increase in debt to correspond to the increase in the deposits?

Secretary HUMPHREY. Well, any bank deposit creates both a credit and a debt. The debt——

Senator FLANDERS. How is the bank deposit generated? That is the question I am trying to ask. Is it not generated—if I go to the bank and borrow money, I get the money and leave a note. I get the money, I do not——

Secretary HUMPHREY. You get a credit.

Senator FLANDERS. It is a bookkeeping transaction.

Secretary HUMPHREY. You get a credit.

Senator FLANDERS. I get a credit, and I leave a note.

Secretary HUMPHREY. That is right.

Senator FLANDERS. Now, that credit is good for money. I can check against it.

Secretary HUMPHREY. That is right.

Senator FLANDERS. But would it be there if I had not gone into debt?

Secretary HUMPHREY. Well, that particular money would not have been, no.

Senator FLANDERS. But take all the money in general, would any of that money which is represented by bank credit have been there if others like myself had not gone into debt?

Secretary HUMPHREY. I think that is right.

Senator FLANDERS. I can tell you, I have a very vivid recollection of a question I asked you, just in passing, 2 or 3 years ago. I said to you, "What would happen if everybody, the Government included, paid up their debts all at once?"

And your remark was, "We would be in a hell of a mess." [Laughter.] I do not know whether you remember that or not.

Secretary HUMPHREY. I do not, but I think I would still make the same answer.

Senator FLANDERS. Well now, does retiring debt—these questions, I may say, are not just for the fun of it, though they have certain humorous aspects.

Secretary HUMPHREY. I think, Senator, frankly, I think these particular questions would be much better addressed to Mr. Martin and Mr. Burgess, who are experts in this——

Senator FLANDERS. I am coming around to your part of it——

Secretary HUMPHREY (continuing). In this particular field.

Senator FLANDERS (continuing). If I reach my destination.

Secretary HUMPHREY. You have not reached me yet.

Senator FLANDERS. All right.

Now, does retiring debt reduce the money supply?

Secretary HUMPHREY. I think it would.

Senator FLANDERS. Does too much credit make inflation by increasing the money supply?

Secretary HUMPHREY. Well, it could. I really think, that you are asking some rather technical questions here which should be answered by the technicians rather than myself.

Senator FLANDERS. Yes.

However, this is where it gets to your area of responsibility. Perhaps you do not have to know how it works or whether it works, but does not increasing the Federal indebtedness increase the money supply, and does not the decreasing of the Federal indebtedness decrease the money supply?

Those questions come into questions of debt management.

Secretary HUMPHREY. Well, I think that that depends on where it is. When it is in the banks, I think you are entirely correct. I think to the extent it would be in individual holders, it might not.

Again, I think, your technicians would be better on that, but I believe that is the correct operation.

Senator FLANDERS. I will leave that, then, for the technicians.

But you have just said something which indicates that it makes a difference, in your judgment, with the money supply, as to whether, in increasing your debt or, I presume, conversely, in paying it off, whether it is indebtedness to banks or indebtedness to persons.

Secretary HUMPHREY. Investors.

Senator FLANDERS. Insurance companies?

Secretary HUMPHREY. That is correct.

Senator FLANDERS. So that, would you say, then, so far as you and I understand the situation—I am not putting you in with the technicians now—that bonds or certificates or bills, or what have you, that go into the banks, would tend to be more inflationary than those that are taken up by individuals?

Secretary HUMPHREY. I think so.

Senator FLANDERS. Well, do pegged rates facilitate disposal to private holders or the banks? If you have pegged rates well below a natural interest rate, do the bills or bonds or what have you, by the fact that they are pegged, tend to go into private hands or into bank hands?

Secretary HUMPHREY. I think probably what would happen would be, if they were pegged at below normal demand prices, that you would increase very substantially the Federal Reserve's holdings. They probably would get more of them that way than any other.

Senator FLANDERS. Here is another technical question which I will leave for Mr. Martin or Mr. Burgess, but in general would you say that massive Government expenditure tends in the direction of inflation through an increase in the money supply?

Secretary HUMPHREY. Well, massive Government expenditure, particularly if it is deficit expenditure, is inflationary.

Senator FLANDERS. But now, inflation occurs under a balanced budget, apparently.

Secretary HUMPHREY. I think it can.

Senator FLANDERS. Has it not?

Secretary HUMPHREY. Yes.

Senator FLANDERS. So that the Government indebtedness——

Secretary HUMPHREY. To some degree; not as much as it would with an unbalanced budget.

Senator FLANDERS. No. It, however, is not a sovereign remedy.

Secretary HUMPHREY. Well, I think again there, Senator, that it would have a good deal to do with what the money was spent for. If the money, a substantial part of the money, is spent by the Government, as it is now, for goods and services that do not contribute to the capital of the country or to the current services or goods for the people, I think that that is quite a different picture, and more inflationary, price-inflationary, than it would be to the extent that the Government spent the money for things which do contribute to the capital of the country or that build up the country. You see, you are adding to your payrolls and you are not adding goods for people to buy. And when you add to the payroll and do not add to goods for people to buy, I think you add to the pressure.

Senator FLANDERS. Now, as an individual I may want to buy an automobile.

Secretary HUMPHREY. That is right.

Senator FLANDERS. As a citizen, I may want to buy a sewage disposal system. What is the difference between those two things?

Secretary HUMPHREY. I do not think there is too much. But when you talk about a B-52 or a guided missile, I think there is quite a bit of difference.

Senator FLANDERS. Yes.

Secretary HUMPHREY. Because you do not buy those.

Senator FLANDERS. Yes.

Supposing we decide to reduce, suppose we succeed in reducing, Government expenditures. What would you want to do? Would you want to reduce taxes, or retire indebtedness, the first thing?

Secretary HUMPHREY. It would depend largely on how much we had available. If we had a sufficient amount available, of course, the ideal thing is to do some of both.

Senator FLANDERS. Is one of them inflationary and the other deflationary, in your judgment?

Secretary HUMPHREY. Well——

Senator FLANDERS. Or at least one neutral and the other deflationary?

Secretary HUMPHREY. I think that might be.

Senator FLANDERS. The reducing of taxes gives people more to spend; Government stops spending and people start.

Secretary HUMPHREY. That is right.

Senator FLANDERS. So that, to that extent, is neutral.

Secretary HUMPHREY. Well, that again depends a little on this other thing we were talking about.

Senator FLANDERS. Yes.

Secretary HUMPHREY. It depends on where the saving is made.

Senator FLANDERS. Yes.

Secretary HUMPHREY. If the saving is made in a sewage disposal plant or in a highway, it is one thing. If it is made in a B-52 or something of that kind, it is another.

Senator FLANDERS. In the last few years, our defense expenditures have been reduced, but our nondefense appropriations have increased.

Secretary HUMPHREY. That is right.

Senator FLANDERS. Does that worry you any?

Secretary HUMPHREY. Well, frankly, the reduction in our defense expenditures does not, because I think that has been done within proper limitations. I think our defense posture, from all we can learn, is adequate and proper.

Nondefense expenditures, I would hope, could be handled in a way that would not increase faster than the services really required of the Federal Government, laying aside obligations that States or local communities might properly handle for themselves.

Senator FLANDERS. I am noting that very considered reply of yours, and agreeing with you, too.

Secretary HUMPHREY. I am very glad of that.

Senator FLANDERS. We seem to be in a wage-price spiral, and that brings me back again to the question as to whether it is an easy thing to control inflation during a period of prosperity.

Secretary HUMPHREY. It is an extremely difficult thing, Senator, and it can only be done, I think, gradually, by persistent, continuous effort.

Senator FLANDERS. I am just wondering how—this, however, I will have to ask Mr. Martin, and that is, how credit control can affect that particular element of inflation.

And I shall also want to ask somebody—I am not going to ask you—what the relation is between the classical description of inflation as being a relation between money supply and goods, on the one hand, or this thing we see at work, which is the wage-price spiral.

I have had some folks tell me that in connection with this wage-price spiral, it was the duty of the employer to resist the union, and thereby protect the worker. Have you any thoughts on that point of view?

Secretary HUMPHREY. Well——

Senator FLANDERS. I am not going to ask you. [Laughter.]

I have noted lines of questioning which seem to indicate that the high interest rate in itself is being used as a tool to fight inflation.

Well, is the high interest rate a result or a tool of our fight against inflation?

Secretary HUMPHREY. I think it is a result.

Senator FLANDERS. It is not being used as a tool?

Secretary HUMPHREY. No. I think that it follows from a restriction of credit.

Senator FLANDERS. Yes.

Well, I have a lot of stuff laid up here for Mr. Martin.

Secretary HUMPHREY. Good.

Senator FLANDERS. Thank you.

Secretary HUMPHREY. Thank you very much.

Senator KERR. I have talked to the Senator from Florida, Mr. Secretary, and he tells me that it will require between an hour and 2 hours for him to ask the questions which he has in mind, and get the answers from you on them.

In view of that, we will wait until in the morning for him to begin questioning.

And so the committee will recess until 10 o'clock in the morning.

I have a statement which is being prepared, which I will give to the press, or any of them that are curious about it, as soon as it is received here.

Senator BENNETT. Mr. Chairman, before we adjourn, do you know whether it is the plan of the committee to go on into the afternoon tomorrow, as well?

Senator KERR. I do not believe that it is.

We have a conference with the Ways and Means Committee on the social security bill we passed, and in view of the fact that it has a provision with reference to the period beginning July 1, it is felt that if agreement can be had, it would be wise to reach it.

I do not believe the chairman had in mind to meet tomorrow afternoon; and in the event he does not return, that will be the decision made.

Senator BENNETT. Our next man up to bat is not here today; and if there were a chance he would come up tomorrow afternoon, assuming that 2 hours would take care of the questions of the Senator from Florida, I think he should be notified.

Senator SMATHERS. I am satisfied 2 hours will be sufficient for me. In fact, it may not be that long.

Senator BENNETT. We will go forward on the assumption there will be no meeting tomorrow afternoon.

Senator KERR. That is my judgment.

(Whereupon, at 12 noon, the committee recessed, to reconvene at 10:20 a. m., Tuesday, July 2, 1957.)

INVESTIGATION OF THE FINANCIAL CONDITION OF THE UNITED STATES

TUESDAY, JULY 2, 1957

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

The committee met, pursuant to recess, at 10:20 a. m., in room 312, Senate Office Building, Senator Harry Flood Byrd (chairman) presiding.

Present: Senators Byrd (chairman), Kerr, Frear, Long, Smathers, Gore, Martin, Williams, Flanders, Carlson, and Bennett.

Also present: Robert P. Mayo, chief, analysis staff, Debt Division, Office of the Secretary of the Treasury; Elizabeth B. Springer, chief clerk; and Samuel D. McIlwain, special counsel.

The CHAIRMAN. The committee will come to order.

The Chair recognizes the Senator from Florida, Senator Smathers.

Senator SMATHERS. Thank you, Mr. Chairman.

STATEMENT OF HON. GEORGE M. HUMPHREY, SECRETARY OF THE TREASURY—Resumed

Senator SMATHERS. I may say at the outset, I have no opening statement, Mr. Secretary, but I would like to congratulate you on your durability and your resiliency. You come here each morning looking vigorous and refreshed. I do not know just how you do it, but however you do do it, I hope you will give us the secret to it one of these days.

I want to commend you for the vigor with which you defend the positions which you have taken here, and I can tell you that I, for one, consider it a great privilege to be able to sit here and hear the exchange of views between you and the members of this committee.

This inquiry being conducted into the financial condition of the country is a great education for me. I imagine there are other Senators here who are learning something about it, too.

In any event, I do believe that great benefit will result to the country by reason of this hearing, and I am sure that is what we all hope for.

I am sure, Mr. Secretary, that a man of your talents and experience in this economic and fiscal field recognizes that we are in an area where there are divergent views, and that a person who may have a different view from that which you express does not mean that his motives or his patriotism is any less pure than your own.

Secretary HUMPHREY. That is right.

Senator SMATHERS. And that just because one man expresses a view, an economic view, contrary to another man's, does not mean that one is politics and the other's is scripture. There is room for difference and honest disagreement in this field; do you not agree?

Secretary HUMPHREY. I agree.

Senator SMATHERS. During the course of the testimony as I have listened to it, you have stated several times that the inflation which we have had in the past, particularly the past 10 months, has resulted from the pressures of high prosperity.

That has been your statement; has it not?

Secretary HUMPHREY. That is correct.

Senator SMATHERS. Can one assume from the position which you have taken that so long as we have prosperity, we are bound to have inflation?

Secretary HUMPHREY. No; I think not, Senator. But I think we are bound to have, with prosperity, inflationary pressures, and I think that as long as we have high prosperity, we must be watchful and guard against the pressures that come with it, to see that we do all that we can to keep inflationary pressures under control.

Senator SMATHERS. Mr. Secretary, what have you specifically done to unhitch inflation from prosperity in the past year?

Secretary HUMPHREY. Well, I think that the monetary policies pursued by the Federal Reserve Board have been beneficial, and will be more beneficial, as time goes on. There is always a lag in these things. They never correspond exactly in timing. What you do today has an effect tomorrow or some time hence, and I think the policies pursued by the Federal Reserve Board in general, with which we have been in accord, have been and will be helpful in restraining the inflationary pressures.

Senator SMATHERS. Well, it is an admitted fact, is it not, that the purchasing power of the dollar has decreased by 2 cents in the past year or 18 months?

Secretary HUMPHREY. Two cents in the last year.

Senator SMATHERS. That the Consumer Price Index has gone up 3.9 points, I believe it is, in the last year.

Now, is it your opinion that these policies which you have instituted may begin to be felt, possibly not this year, but maybe next year?

Secretary HUMPHREY. Well, I would not say that. I think perhaps they are being felt all along, and that they have had a restraining influence, that the Consumer Price Index might have gone further up without those pressures.

In fact, I feel quite sure that they would. But the full effect, I think, will be delayed somewhat as we go along. It takes time for these things to begin to operate fully.

Senator SMATHERS. Do you think that if you had acted sooner, or instituted any new policies or different policies than those which you have instituted, you might have been able to stop the inflation which resulted this past year?

Secretary HUMPHREY. Well, Senator, it is always hard to say. This economic machine of ours is a delicately balanced affair, and I think after most events you can look back and think perhaps you could have done a little better.

On the other hand, if you had begun earlier or had exerted greater pressures, which might have been done, it might have had repercussions which would have been worse than the present situation we are now having. You see, you do not want to go so far that you turn the whole thing about.

I think the illustration I used the first year I was here is about as good an illustration as I can give in the handling of the economy and the care with which it must be done, that is, the Government's participation in it. I likened it at that time to driving a truck down an icy hill. You are going too fast and you do not know what will happen when you get to the bottom of that hill. You try to slow down to make a turn at the bottom of the hill, and you just have to apply the brakes and gradually bring yourself down.

If you slam the brakes on, you will spin around and wind up around a telephone pole. You just have to do it very carefully.

Senator SMATHERS. That is right.

Secretary HUMPHREY. And you could do it faster, but it might be disastrous if you did.

Senator SMATHERS. Using that same illustration, however, do you see anything in the statistics of last year to indicate that the brakes you applied are slowing down this inflationary trend?

Secretary HUMPHREY. I think I do. I said something about that the other day. I think, as I said to Senator Kerr, that the short supply situation has been ameliorated, particularly in the heavier lines, and I think there is some evidence that this whole thing is slowing somewhat.

Senator SMATHERS. Would you not say that the——

Secretary HUMPHREY. All we wanted was to slow it somewhat. You do not want to spin this truck around and wind up around a telephone pole.

Senator SMATHERS. That is right.

What I am concerned about, Mr. Secretary, is whether of not, in all candor, we are slowing it down at all, and whether or not there is possibly something in addition that we might do.

Would you not agree that the interest rates, which continue to rise, and, for example, the recent steel price increase, which I know you had nothing to do with and deplore as much as everybody else; the increase in the debt—we saw in the paper yesterday morning where the income to the Government was going to be somewhat less than anticipated this year—would you not agree all of these factors indicate that, rather than slowing down the inflationary trend, possibly that trend is picking up—certainly this is true in recent months?

Secretary HUMPHREY. Well, Senator, these things are never plain. There is never a crystal-clear view. I think if anybody was so wise that they could gather all of the factors in their mind and see clearly exactly where we were going, it would not be long before we would all be working for him.

So there is always a doubt. You can always look at things in two ways, and not be quite sure until afterward.

But if you look back, many times it looks pretty plain, and you wonder why you did not see it more clearly.

Senator SMATHERS. Well, I think we all agree that everyone's hindsight is better than their foresight.

However, I was just wondering if we could not get an accurate picture, if at all possible, as to what is happening this year.

What I am interested in is this question, as I started out to say, about the inflation that we are having at this particular time.

You say that possibly the policies which you have instituted will have some effect a year or two from now.

Secretary HUMPHREY. No, no. I think they are having an effect currently. I think we are currently restraining it from going further, and I think that there are perhaps more evidences of their becoming effective currently than there are evidences of the fact that they are not.

Senator SMATHERS. Do you think we have to have some sort of a recession in order to bring about stoppage to this inflationary trend?

Secretary HUMPHREY. I do not believe so. I hope not. I think that what we need is a little less pressure forward, but that does not necessarily mean a recession. It means some readjustments here and there, but it does not necessarily mean that we go into a difficult time.

Senator SMATHERS. Do you have any specific suggestions as to what we could do in order to stop these pressures from going forward?

Secretary HUMPHREY. Well, Senator, I do not know anything else that can be done which we are not now doing, or that it is possible to do.

I think perhaps some less Government expenditure would be a helpful thing. But when you look around and see just where you can reduce Government expenditure, you find that it is very difficult, as the Congress is finding, as we all are. Everybody is struggling with that.

I think everybody agrees that if we could render the proper service, and if we could maintain an adequate posture of defense, with somewhat less expenditure, that that would be a wholesome thing in retarding the pressures at the present.

Senator SMATHERS. I gather, you do not see anything specific we might do at this particular time to stop this inflationary trend in which we find ourselves.

Secretary HUMPHREY. I do not see anything, myself, that we can do which I think it is practical to do, or that we should be doing it or trying to do.

Senator SMATHERS. But you recognize we are in an inflationary trend, a rather serious one, at this particular time?

Senator HUMPHREY. The dollar has moved down in value and the cost of living has moved up more than we would like to see it.

Senator SMATHERS. You would then agree, would you not, that your successor, who is going to take over very shortly, you good friend and ours, Mr. Anderson, is not only going to inherit some of your prosperity, but he is going to inherit a great many of your problems?

Secretary HUMPHREY. This job, Senator, is going to be filled with problems for everybody who has it, every day that he is in the job. And if it is not one kind of a problem, it will be another.

Senator SMATHERS. Mr. Secretary——

Secretary HUMPHREY. And he will be lucky if it is only one problem at a time.

Senator SMATHERS. I agree it is a complicated job.

Mr. Secretary, yesterday I was much encouraged to hear you say that you were not critical of the past administration in the handling of the financing of World War II and the Korean war; and then, I think in answer to Senator Kerr several days ago, you said you did not have the job as Secretary of the Treasury then and did not want to hazard any guess as to how you would have done it.

As I say, I was happy to hear you say that, and I assume that is exactly what you meant.

In the light of that, in a speech which you made to the Detroit Economic Club in the heat of the campaign of 1956, I presume that, even though you made some reference to the manner in which the war was financed, that you did not intend to be critical of the administration that was then in power.

Secretary HUMPHREY. I do not remember what I said, Senator. Perhaps you can refresh my recollection.

Senator SMATHERS. I think that possibly I would like to believe we could just classify that, too, as you have characterized one of President Eisenhower's statements—that it was just sort of campaign oratory, and we can forget that particular matter.

Well, here it is, before the Detroit Economic Club, October 8, 1956. You were talking of the prosperity of America, and you said:

> Let's go back to 1939—before the last World War—and come down to today. In the period of about 6 years, from 1939 through the end of 1945, the year the war ended, the value of the dollar in goods that it would buy was reduced from 100 cents to 76 cents, a reduction of 24 cents or about one-quarter. During that period interest rates, by deliberate design of the administration then in power, were artificially held at low levels.

Then you go on to say again it dropped off some more, and you say:

> And, during most of that period, by deliberate design of the administration then in power, interest rates were still being held to a low level.
>
> "And all that time the cost of living was going up."
>
> Since the election of this administration from 1952—

the value of the dollar, and so forth, have been stable.

> Interest rates have been allowed to fluctuate naturally, both up and down, in response to the extent of demand.
>
> The record is all too clear. The evidence of the actual facts is too convincing. While we had arbitrarily cheap and plentiful money the cost of living doubled—the value of the dollar was cut in half. Whereas with money advancing or declining more freely in response to the pressure of demand, we have enjoyed a perfectly remarkable stabilization in the cost of living and as sound a dollar as can ever be had.

Secretary HUMPHREY. I would say that was a very dispassionate statement of fact. [Laughter.]

Senator SMATHERS. I do not know how dispassionate it was, Mr. Secretary. That is what I just wanted to ask you about. Was it political, or critical, or completely dispassionate?

In this statement where you say "we have enjoyed a perfectly remarkable stabilization in the cost of living and as sound a dollar as can ever be had," would you agree that statement was made a little prematurely, in light of the facts?

Secretary HUMPHREY. No; I do not think so. We went through a period of 4 years when I think that obtained, and I think a study of the record of history will demonstrate that.

Senator SMATHERS. You do not deny, Mr. Secretary, that since making this statement the dollar has not been very stable and the cost of living has gone up considerably?

Secretary HUMPHREY. Well, just in the last few months, but——

Senator SMATHERS. Since this speech was made.

Secretary HUMPHREY. Yes; that is right. What was the date? I do not remember.

Senator SMATHERS. October 8, 1956.

Secretary HUMPHREY. This was last fall?

Senator SMATHERS. Just before the election.

Secretary HUMPHREY. I see.

Senator SMATHERS. And I know there are some people who can make dispassionate statements just before election dates, but they are few and far between.

Secretary HUMPHREY. But this was perfectly accurate at the time.

Senator SMATHERS. You would agree, Mr. Secretary, that at the present moment you could not say that, "we have enjoyed a perfectly remarkable stabilization in the cost of living and as sound a dollar as can ever be had"?

Secretary HUMPHREY. Not for the last several months.

Senator SMATHERS. So in that respect, at least, that statement is not accurate, even though it may have been dispassionate——

Secretary HUMPHREY. No, no. The statement was accurate. There is no question about that.

Senator SMATHERS. At the time it was made.

Secretary HUMPHREY. That is correct.

Senator SMATHERS. You could not make that statement today.

Secretary HUMPHREY. That is correct; not as to the last few months. There has been a change.

Senator SMATHERS. Mr. Secretary, as I sit around here and listen to these——

Secretary HUMPHREY. I hope, however, that a few months from now you will be able to make it again.

Senator SMATHERS. I would hope so, and I am sure everybody in this room hopes so, Mr. Secretary.

Secretary HUMPHREY. I am sure of that.

Senator SMATHERS. There have been some economists who express the view that the best way to combat inflation is to increase productivity and production.

Now, do you subscribe to that particular economic theory?

Secretary HUMPHREY. Well, as more goods are available—there is a relationship between supply and demand, and as the supply increases or the demand decreases, or a combination of the two, which is usually what occurs, the pressures abate.

Senator SMATHERS. In other words, as there are more goods which are available to meet the demand, then, of course, that lessens the intensity of the demand.

Secretary HUMPHREY. That is right. It works both ways.

Senator SMATHERS. If you believe in that theory, then, how can you subscribe to the soundness of a theory which I observed you doing yesterday, for example, in the field of housing, where you approve or applaud the fact that we are having less production——

Secretary HUMPHREY. Well, it all depends——

Senator SMATHERS (continuing). In the housing field.

Of course, as you understand, when you have less production in the housing field, you have less demand and production of TV sets and refrigerators and furniture, and all that goes into those houses.

Secretary HUMPHREY. It depends on where the demands are the greatest. Sometimes, by lessening one demand, you help in another area, and that is what is going on now.

We have had these pressures on men and materials, we have been short of men and materials, and we have had more pressure for the use of men and materials than we have available.

Now, as those pressures abate, this thing will balance off again, and I think that is probably what is going to happen.

Senator SMATHERS. As I gather, we are also having a deflation in housing and at the same time inflation in other fields and that possibly this economic theory which we talk about says the best way to combat inflation is to produce things, is to have more goods, and to have more production, yet the point I do not get is how you can take both positions on it. It may be that you can, though I just do not understand how.

Secretary HUMPHREY. Well, I think when you are using men and materials very fully, the thing you have got to rely on then is some abatement in demand, because you cannot greatly increase your supplies. Your supplies are large, and when you are running at large production and large supplies and large use of men and materials, then if you try to further increase the demand, why, you put the pressure on the price rather than on the increase in goods.

Senator SMATHERS. Mr. Secretary, I wonder if that is exactly what is happening.

When we look at the Economic Indicator we see on page 10, for example, where expenditures for new plant and equipment have gone up 33⅓ percent in the last couple of years. It is now indicated that $37.890 billion is going to be spent in 1957 for plant expansion. In 1954 it was only $26 billion. If we look on page 16 under production and business activity, we see that even though we have a 33⅓ percent increase in plant expansion, we actually do not have any larger production or business activity. Does that not indicate we are not getting the production and the business activity that we should have reason to expect we would get, in the light of this expansion? Does it not indicate that we are not producing and that as a result we have greater inflationary pressures than we should have?

Secretary HUMPHREY. I think it illustrates exactly what I have said, Senator. It illustrates that we are increasing productive capacity. And, of course, during a process of increasing productive capacity you do not get the full output. That comes after it is completed. You do not get the production out of a new plant until the last machine is in operation and until the whole thing is settled down and running.

Now we are passing through a period here of large expansion and we are now beginning to get some real results. During a period when the use of men and materials is so largely devoted in that field, it is less devoted in the other fields. And if you try to demand it, it is drawn from the other field of expanding production capacity.

If you try to increase the demand of consumer goods besides the increase in demand for increased productive capacity, why, you just do not get the production that is required, and your demand exceeds your supply.

Senator SMATHERS. That sounds all very good.

Secretary HUMPHREY. That, I believe, has gone on. That as I said the other day, is the base for this movement that is taking place, and due to the lags in the operation, all these things take time, there are lags all along the line.

And I believe that our basic prices are stabilizing and have been now for some months, as the pressures are beginning to diminish, I think that you are beginning to see some signs that the pressures are going to diminish in the other fields, too.

Senator SMATHERS. Mr. Secretary, you say that and you indicate that, but it is not supported by these figures, nor is it supported by these charts, because, as I look at the chart on page 16, there is no indication that production is going up. As a matter of fact, production and business activity here looks like it is going down, if I can look at a line and detect whether it is up or down, and I think I have some capacity to do that.

Furthermore, this great plant expansion actually began to take place in early 1956.

Secretary HUMPHREY. That is right.

Senator SMATHERS. So we have had 18 months.

Secretary HUMPHREY. It began even earlier than that. It began in 1955.

Senator SMATHERS. Mr. Secretary, all right, then, your answer to that is that you believe we will finally have more production capacity and more productivity.

Secretary HUMPHREY. I believe the whole thing will level off.

Senator SMATHERS. And you still believe that is a desirable thing to have more productivity.

Secretary HUMPHREY. I believe the whole thing, the supply and the whole business, will level off and meet the market.

Senator SMATHERS. If you believe that is a desirable thing, why do you not encourage a little more productivity in the housing field, if production and productivity are desirable?

Secretary HUMPHREY. Well, I think you have good production in the housing field, a million units.

Senator SMATHERS. We have production, but the indications are they are turning down. We dropped from 1.3 million.

Secretary HUMPHREY. No. But they dropped off further, and now they are beginning to come up again.

Senator SMATHERS. Do you have any figures which support that?

Secretary HUMPHREY. Yes. Yes.

Senator SMATHERS. As a matter of fact, I believe the home builders estimate there are only going to be 880,000 houses built?

Secretary HUMPHREY. That is what they did, Senator, but let me read you the figures here on these estimates. I will start back here with just November and December, which were a million estimated starts.

Then it is 975,000, 923,000, 880,000, and then it changes. Then it is 940,000 and now it is 990,000.

Senator SMATHERS. And you approve of that? You approve of more housing and more productivity?

Secretary HUMPHREY. As the men and materials become available, I think that is exactly what will happen. The demand will shift, and instead of building plants and factories, and building heavy machinery and all that, the demand will shift and the men and materials will move over and we will again have more housing production.

Senator SMATHERS. Is that the way you planned it? Did you plan it to go down at this particular time?

Secretary HUMPHREY. No.

Senator SMATHERS. Or is this just what your observation is, sort of hindsight, or was this foresight?

Secretary HUMPHREY. No. I am trying to show you what the facts are as nearly as I can see them.

Senator SMATHERS. That is right.

You say you are now satisfied everything is going up?

Secretary HUMPHREY. I believe the capacity for production will be up, yes, sir.

Senator SMATHERS. Mr. Secretary, just to change for a second over to another thought. You have been questioned a great deal about the increasing cost of interest rates on Government bonds, and I think in answer to Senator Kerr's question, you stated something to the effect that if we had to refinance our Government debt at the present rate of interest, that it would cost us an additional, I think it was, 2 or 3 billion dollars, was it not?

Secretary HUMPHREY. It was a large figure. Of course, it is purely a hypothetical thought, because you will not do that. There is no necessity for doing it. And that can only be done over a long period of time.

Senator SMATHERS. Well, if you can—let us put it this way: You have to sell securities to somebody in order to finance the Government.

Secretary HUMPHREY. We keep working at it, a piece at a time, all along.

Senator SMATHERS. That is right.

Secretary HUMPHREY. But the whole job is a long job.

Senator SMATHERS. If you had to refinance, at the present interest rate, it would cost the Government in the neighborhood of $2 billion would it not?

Secretary HUMPHREY. I think that was it, right in that area somewhere.

Senator SMATHERS. Now the question which occurs to me is this: You would like to avoid that, and certainly all of us would. Have you given any thought to the fact that cities and counties and States, and authorities created by those agencies can issue bonds which are tax free? Do you think there would be any advantage if the Government decided to once again make Government bonds tax free?

Secretary HUMPHREY. We have been through that many times, Senator, and I have always been opposed to it. And I am opposed to it for this reason: As it is now, we get back 30 or 40 percent of this cost, so that while it would cost us, say, $2 billion, the actual cost itself, we collect back quite a bit of it through taxes.

Now, the reason I am opposed to making them tax free, which would automatically tend to make the interest rates lower and probably leave us in about the same position, because by getting back these hundreds of millions we are taking a good big slice out of the $2 billion we pay out, anyhow. The way we are doing it, I think that is the fairest way of doing it, because if we made them tax free, the man who pays a 20 percent tax would only get 20 cents off; the man who pays a 90 percent tax would get 90 cents off. And I do not think it is fair to discriminate between the buyers of our bonds in that way.

I think so long as we have this steeply graduated tax system, that the thing to do is pay the interest and take it away in taxes on a graduated basis rather than to charge the little man the same amount we do the big man.

Senator SMATHERS. Well, that is a very fine expression.

Secretary HUMPHREY. And I have been opposed to it always, for that reason.

Senator SMATHERS. But the Treasury has considered that prospect, and you do not think it is a good idea?

Secretary HUMPHREY. We have considered it many times, and I am opposed to it.

Senator SMATHERS. If the interest rates continue to go up, do you think there might be a time when just a matter of arithmetic might dictate that if we are going to keep within our national debt limit, we possibly may have to go to that extremity?

Secretary HUMPHREY. No; I would not think so. I think you would come out pretty near the same place in the end, and you would not have as fair a distribution.

Senator SMATHERS. Yes. All right, sir.

Mr. Secretary, I want to turn to something I am a little bit more familiar with, and that is this matter of small business. And I might say to you, sir, that I am a member of the Small Business Committee. I think there are other Senators here on this committee who are also members of the Small Business Committee of the Senate.

In your statement you say:

> We have encouraged small business.

And then you say:

> Upon the success of small-business firms to prosper and grow depends much of our production and our survival as a free competitive society.

And I am sure everybody would agree with that statement.

> This Administration has sought in many ways to aid smaller firms and to relieve them of burdensome taxes and requirements.

Then you say:

> * * * small business has benefited materialy from tax law changes—the expiration of the excess profits tax law, the reduction in personal income-tax rates in 1954, and the extensive revision of the Internal Revenue Code.

Then you say:

> Even more important to the smaller firms is the general prosperity of the past 4 years.

Now, Mr. Secretary, I wonder if you, in looking at that in retrospect, think that may be somewhat of an overstatement, or is that what you subscribe to?

Secretary HUMPHREY. I subscribe to it, Senator. I believe it is correct.

Senator SMATHERS. Do you believe small business during the last 4 years has benefited for the reasons you have set out here?

Secretary HUMPHREY. I do. I think those are all reasons for benefiting small business.

Senator SMATHERS. Mr. Secretary, I want to direct your attention to table No. 1—and will you see that the Secretary gets that table. We have eight tables I want you to look at.

(The table referred to is as follows:)

Percentage of sales going to manufacturing corporations with assets under $1,000,000 expressed as percentage of all manufacturing corporation sales

1947	18.9	1952	15.5
1948	17.8	1953	13.7
1949	17.3	1954	13.6
1950	16.9	1955	13.0
1951	16.2	1956	14.2

Twenty-five percent drop in their percentage of total sales from 1947.

Source: FTC-SEC Quarterly Financial Reports for Manufacturing Corporations (compiled by Senate Small Business Committee).

Senator SMATHERS. Mr. Secretary, I have taken some time to study these statistics, which have been prepared from the Federal Trade Commission and the Securities and Exchange Commission Quarterly. The reports are on manufacturing corporations.

From the information found here, I do not believe the picture is quite as promising for small business as one might be led to believe from your statement.

For example—and I would like, Mr. Chairman, to introduce in the record at this point table I—I find that the percentage of sales going to manufacturing corporations with assets of $1 million or less has declined from 18.9 percent in 1947 to 14.2 percent last year, or a 4.7 drop, which is equivalent to 25 percent less of the total sales.

Secretary HUMPHREY. Mr. Senator, if you will look at the table, you will see that the entire drop took place before we got here.

Senator SMATHERS. You say that it has increased——

Secretary HUMPHREY. If you look at the period we have been here, your table indicates that it has been quite steady, and is just a little higher in 1956 than in either or any of the previous 4 years. But the entire drop occurred during a period when policies other than ours were in effect.

Senator SMATHERS. Would you agree there has been no appreciable increase or improvement in the sales of small manufacturing corporations, from this table; in other words, the difference between 13.7 and 14.2?

Secretary HUMPHREY. I think they are a lot better off during this past 4 years, as seen from this table, than during the 6 years which this table shows.

Senator SMATHERS. In other words, you are going to take the position that from 1953 on, you people have held ground on this?

Secretary HUMPHREY. And we were losing it pretty fast before that.

Senator SMATHERS. Well, I would agree that small business has lost ground, but nobody made the statement, so far as I know, until you came along, that small business was really getting along better in recent years than——

Secretary HUMPHREY. Than they had in the previous years, and I think this table conclusively demonstrates that.

Senator SMATHERS. All right.

Senator BENNETT. Mr. Chairman, I do not want to interrupt the questioning of my colleague, but I cannot understand the heading. Sales by whom, of what? Are these purchases by the Federal Government?

Senator SMATHERS. No. These are small business percentages of total sales of all manufacturing corporations. In other words, the percentage of such sales going to small business.

Senator BENNETT. You mean sales made by, and not sales going to?

Senator SMATHERS. No; sales made by.

Senator BENNETT. Thank you.

Senator SMATHERS. All right.

In your statement, nowhere do I find any reference to the position of small and big business firms in terms of sales and profits within the past few years. I think this omission actually was somewhat unfortunate, and I would now like to direct your attention to table II.

The CHAIRMAN. In what?

Senator SMATHERS. Table II, profits per dollar of sales after taxes.

(The table referred to is as follows:)

Profits per dollar of sales after taxes

Year	After taxes		Percentage difference
	Assets under $1,000,000	Assets over $1,000,000	
1947	4.7	7.0	149
1948	3.6	7.4	105
1949	2.3	6.3	173
1950	3.8	7.4	94
1951	2.3	5.3	130
1952	2.0	4.7	135
1953	1.8	4.7	161
1954	1.4	5.0	257
1955	1.8	6.0	233
1956	2.2	5.8	163
1948-52	2.8	6.2	+221
1953-56	1.8	5.4	+390
Percent change 1948-52 to 1953-56	−36	−13	

Source: FTC-SEC Quarterly Financial Reports for Manufacturing Corporations.
Compiled by Senate Small Business Committee.

Senator SMATHERS. Once again we see a situation where the companies with assets under $1 million have lost ground. In 1951, it was 2.3; then it dropped in 1952 to 2.0. Then in 1953 it went even further down, to 1.8; 1954, 1.4; 1955, it went back to 1.8; 1956, 2.2. So there has been some relative increase, small increase, for small companies with assets under a million dollars within the last year.

However, if you look at the companies with assets over $1 million, you see where their profits per dollar of sales, after taxes, have increased considerably. In other words, it was 4.7 in 1952, 4.7 in 1953, 5.0 in 1954, 6.0 in 1955, and 5.8 in 1956.

This would indicate, would it not, that actually the small-business firms are not realizing as great a prosperity as are the larger firms, and that there is a growing spread between the small and the large manufacturing corporation profit margins?

Secretary HUMPHREY. Well, Senator, as I look at the table, what it shows to me is this: that going all through the period of years which the table shows, the small businesses have never made as much as the larger businesses relative to the capital investment, and that, I suppose, is attributable to overhead and various other things. But the same is true in all of the years.

If you will look at the years prior, beginning with 1952 and prior thereto, you will see that the trend was steadily down in earnings for both big companies and little companies in about the same proportion.

Senator SMATHERS. That is right.

Secretary HUMPHREY. If you will look at the rest of the table, you will see that from 1953 on, the trend is up for both big and little business.

Senator SMATHERS. Well, it actually went down, in 1954, to the lowest point it ever hit for small business.

Secretary HUMPHREY. That is right, during that period.

Senator SMATHERS. Since then, there has been a slight upturn.

Secretary HUMPHREY. That is right, it has picked up. It has picked up more for the small businesses than it has for the large businesses since the low point in 1954.

Senator SMATHERS. But the spread, the percentage difference, I think we could work it out and say the percentage difference between the companies with assets under a million dollars and those over a million dollars is spreading—well, it may be justified, I do not know. You say that it is.

Secretary HUMPHREY. I do not know.

Senator SMATHERS. It is considerable.

Secretary HUMPHREY. I do not know whether it is or not. I am just looking at this table and saying what I see from it, and you see about the same relationships all the way through, except that during the period prior to 1953, it was on the way down for both company groups, and since that time it is on the way up for both company groups, and the smaller companies have been going up a little faster than the larger companies.

Senator SMATHERS. I would want the record to show that in 1947, the small businesses had the highest point in return that we have had since then. In 1947, 4.7; and then there was a drop to 3.6 in 1948, 2.3 in 1949, back up to 3.8 in 1950, 2.3 in 1951, 1952 is an even 2.0, and then in 1953 a drop to 1.8.

In 1954, it hit the alltime low of 1.4. Now it has gone up to 2.2.

I think you will agree, it is considerably lower than it was in 1947 or 1948. I do not think anybody would deny, who has looked at the statistics, that small business is slowly being squeezed more and more in the present economic picture.

Secretary HUMPHREY. Not according to this table. I do not think that is so.

During the last 3 years, it has been moving up like the other, and of course you also would have to take into account, I think, in order to get a proper perspective of this, the various tax structures in effect at the time, and all of that.

Senator SMATHERS. Yes. We will talk about that.

Secretary HUMPHREY. You see, you have the wartime and some rather radical changes in taxes during these periods, and this is all after taxes, so you will have to compare the whole thing, I think.

Senator SMATHERS. If there had been any great benefit in tax changes, it would have been reflected in the picture of 1954 and 1955, and there is a very minute change.

Secretary HUMPHREY. I would not say that is taxes. But there is a rather marked change that the smaller businesses since 1954 have been increasing faster than the large businesses.

Senator SMATHERS. Mr. Secretary, I want to direct your attention to table III.

(The table referred to is as follows:)

Concentration of total assets of manufacturing corporations, June 30, 1951, and June 30, 1956

Asset size of corporation (in millions of dollars)	Cumulative percent of total assets of manufacturing corporations	
	1951	1956
All asset sizes	100.0	100.0
Over 100	47.2	58.5
50 to 100	54.8	65.3
10 to 50	70.8	78.9
5 to 10	77.6	83.2
1 to 5	89.2	92.1
¼ to 1	96.2	97.4
Less than ¼	100.0	100.0

Source: FTC-SEC quarterly financial reports for manufacturing corporations.

Concentration of total assets of manufacturing corporations, June 30, 1951, and June 30, 1956—Continued

Assets by size groups, 1951 and 1956, 2d quarter (in millions of dollars)	Assets		Percent change, size group to total assets
	1951	1956	
All asset sizes	149,699	195,577	+30.7
100 and over	70,480	114,316	+62.2
50 to 100	10,627	13,270	+24.9
10 to 50	24,655	26,492	+7.5
5 to 10	10,274	8,497	−17.3
1 to 5	17,307	17,399	+.5
¼ to 1	10,585	10,423	−1.5
Less than ¼	5,741	5,180	−9.8

Source: FTC-SEC quarterly financial reports for manufacturing corporations.

Senator SMATHERS. One of the most disturbing factors we see developing here, it seems to me, is this steady increase in the percentage of total assets of large manufacturing corporations, while, apparently, small companies assets continue to grow smaller.

In 1951, 47 percent of the assets of all manufacturing corporations in the country were in the hands of corporations having assets of more than $100 million each.

Anyway, by last year, according to the Federal Trade Commission and the Securities and Exchange Commission report, this percentage had risen from 47 to 58.5 percent, an increase of more than 11 percentage points in just 5 years, or equivalent to a 23-percent increase in assets for the big ones. And, at the same time, the aggregate amount of assets for manufacturing firms in the $10 million class and below has declined about 5 percent between 1951 and 1956.

Would you say that this trend toward concentration of more assets in the larger firms poses a threat to what you have described as our free-enterprise system? Do you think this is a bad trend, or sort of a dangerous trend?

Secretary HUMPHREY. I really do not know, Senator, and I do not know that I can get it, quite, from this table.

Senator SMATHERS. Well, if you do not follow this table, I think that Mr. Mayo and you gentlemen know that there has been a greater and greater increase in the assets of the very large corporations, and I think there has been a consequent——

Secretary HUMPHREY. I think that is right. I think what is going on is that, as we are making bigger and bigger things and more expensive things, and turning out larger volumes, that we are requiring, in order to make costs reasonable, larger machinery and larger investment, larger machine tools, and all the things that we use; we require much more power than we used to use.

For a man to earn the kind of wages he gets today, he has to have more power, and he has to have bigger machines, and more of them. And I think that our whole trend is toward bigger and more expensive things, more mechanical, electronic, and all sorts of devices, in order to multiply a man's earning power.

Of course, that is what makes this country; it is the ability to increase an individual's productivity. If you can supplement that with investment, with power, with all these new machines and larger machines, and more powerful machines, and electronic devices, and all of the things we have, that makes that man more productive, and, as he becomes more productive, it permits the making of goods that would cost less; it makes better goods, and it means that the man can earn more money. And I think that is part of this whole great program that is going on in America.

Senator SMATHERS. But does not that also mean, Mr. Secretary, as you have indicated here in your statement, that small business may be, by the very nature of our economy, the modern vanishing American, so to speak. As these larger firms get bigger and——

Secretary HUMPHREY. Well, no.

Senator SMATHERS. The automation increases and the need for power and big machinery; maybe it means the small-business man has no place in this kind of economy.

Secretary HUMPHREY. No; I do not think so. I think the total number of businesses in America today is higher than it has ever been. I think the total number of small businesses is higher than it has ever been, certainly in relation to starts and stops, and I think there is an evolution going on where some things require larger power.

But the very fact that you do have large amounts of money, and let's just take power alone, that you have large amounts of money and great powerplants in the country, means that those powerplants can furnish power to that many more small people as well as to large ones.

So, I think the whole thing is growing, but I do think there is a trend toward more requirements for the individual man to make him more productive, and I think that is good.

Senator SMATHERS. I think you would agree, would you not, that those statistics which have been prepared by the FTC and Securities and Exchange Commission reports, indicating that firms with assets of $100 million and over are increasing their assets at a rate of about 23 percent, whereas the others, $10 million and less, are going down; that it is a matter of concern?

Secretary HUMPHREY. Let us think about it for a minute, and I am just trying to think the way things are.

Senator SMATHERS. All right.

Secretary HUMPHREY. Let's take the amount of money, for instance, that it would take to double a great electric power installation in order to serve twice as many small businesses as well as big businesses.

The amount of money invested in small businesses would be much less than it would cost to double the power that is going to serve those small businesses. I would want to have a broader look, I think, than just this table, to be concerned about it.

Senator SMATHERS. Let me put it to you this way, hypothetically: If it appeared from the statistics that there was a rather rapid growth of large firms above $100 million in assets and over, and an equally proportionate decrease in firms of $10 million and under, would that concern you? Would you think there was some danger to our free-enterprise system?

Secretary HUMPHREY. Well, I think what we want, Senator, above all else, is to keep America the land of opportunity for the young man who wants to work and get ahead.

Senator SMATHERS. That is right.

Secretary HUMPHREY. And we want to promote, we want to see that America continues to be the great land of opportunity for the young fellow who wants to work.

Senator SMATHERS. Right; to which all of us subscribe.

My hypothetical question is, if there were this large concentration or growth in assets of companies with $100 million and over, and a proportionate decrease in those of $10 million and less, you would be concerned with it, would you not?

Secretary HUMPHREY. No; not necessarily. What would concern me would be when the opportunities to work and develop in America get less. Then I will be concerned.

Senator SMATHERS. And you are satisfied that today young men have the same equal opportunity to go out and start in new business as they did some 20 or 30 years ago?

Secretary HUMPHREY. Except for tax laws, I think they have a far greater opportunity, far greater.

Senator SMATHERS. Do you think the money supply is as available to them today as it was 20 and 30 years ago?

Secretary HUMPHREY. When I first had responsibility for running a business, we had 8 percent preferred stock and 7 percent bonds, and I was mighty glad to have them.

Senator SMATHERS. In other words, by that you mean——

Secretary HUMPHREY. That is actual experience.

Senator SMATHERS. In answer to my question, you say that you think it is easier to borrow money today that it was back when the interest rate, let us say, was down to about 2 percent?

Secretary HUMPHREY. It was—well, you go back——

Senator SMATHERS. I have changed the date on you a little bit.

Secretary HUMPHREY. You changed the date.

Senator SMATHERS. Maybe, when you started, it was over 20 years ago.

Secretary HUMPHREY. It was. Quite a lot. [Laughter.] Quite a lot.

Senator SMATHERS. But would you say that the increasing interest rate has made it easier for small men to borrow money and go into business?

Secretary HUMPHREY. I do not know. That is a pretty big question. I think that a fair interest rate, as I have said before, and a feeling of security in the value of our money, is the thing that makes savings; and when you have savings, it is much easier to get money. That is where you get it.

I fear that when you have this very cheap, arbitrary interest rate that you are doing two things, that you are discouraging savings in two ways: First, because you are arbitrarily holding the value of savings down and, second, because the value of the dollar that was being saved was depreciating rapidly. And under those circumstances, I think it was difficult and would be difficult to get savings.

Senator SMATHERS. I do not want to subscribe to some of the conditions which you put into your statement, but I would just want to say this, freeing myself from consenting to some of that but wanting to get back to just one question: Do you mean to say you believe it is easier for a young man today who is going out, trying to go into business, to borrow money than it was back in 1935?

Secretary HUMPHREY. 1935—I am just trying to think back.

Senator SMATHERS. Or 1936.

Secretary HUMPHREY. 1935 or 1936, I am just trying to think back.

You see, you are right at the edge there of a time when you just could not get any money, if you go back another year, everybody was broke.

I would say that it was quite a bit easier to get money today than it was in 1935, yes.

Senator SMATHERS. You think that it was easier then. And do you think——

Secretary HUMPHREY. Money is much easier to get today, I believe.

Senator SMATHERS. Do you think it was easier to borrow money in 1937——

Secretary HUMPHREY. It certainly was than in 1933 and 1934. Now, in 1935 you are getting right around the edge somewhere.

Senator SMATHERS. In 1937–38, do you believe it was more difficult for young people who might want to get started in business to borrow money than it is today?

Secretary HUMPHREY. No. I think 1936, as I remember, 1936 and 1937, they were pretty good years, and then we dropped off in 1938.

Senator SMATHERS. Do you think the interest rate has anything to do with the desire of people to get in their own business?

Secretary HUMPHREY. Well, I will put it this way, Senator: I think that a difference of 1 percent or so in your interest rate, or even 2 percent in your interest rate, with the kind of a tax structure we have now, which means that half of it is paid by the Government, is——

Senator SMATHERS. If you are in a certain bracket it means that.

Secretary HUMPHREY. No, no. Corporations we are talking about. These are all corporations, and they pay half of it.

Senator SMATHERS. Well, there are a lot of businesses which are not incorporated?

Secretary HUMPHREY. Oh, yes; there are. But we were talking about corporations.

Senator SMATHERS. I do not mean to talk just about corporations. I mean to talk about businesses, two boys go out and enter a partnership.

Secretary HUMPHREY. Take it on the average, the average is around four-tenths, something of that kind, so approximately about 40 percent of all interest is taken in taxes.

Senator SMATHERS. Now, Mr. Secretary, what I do not understand right there is this: As I gather, your testimony here over the course of the last couple of days, and today, is that you approve of this high interest rate because it has a tendency to slow things down and ease the demand for goods and services?

Secretary HUMPHREY. That is right.

Senator SMATHERS. Now you are telling me this high interest rate makes it easy for a fellow who wants to start a new business and expand.

Secretary HUMPHREY. No.

Senator SMATHERS. How can you be on both sides of it?

Secretary HUMPHREY. No, I do not mean that at all. You asked me about a few specific years, Senator, and we happened to hit years when we were just emerging from a depression and there were difficulties besides just interest rates.

Senator SMATHERS. I would like to ask you this question: Have your policies been designed to slow down the business activity, and thereby combat inflation, or have they been——

Secretary HUMPHREY. No.

Senator SMATHERS (continuing). Or have they been designed to help the small-business man get started and make it possible for him to expand?

Secretary HUMPHREY. We have done it both ways on the interest rates.

Senator SMATHERS. That is just what I am having a hard time understanding, how one policy can do both.

Secretary HUMPHREY. If you will just give me a minute, I will tell you how we can do both.

Senator SMATHERS. Excuse me.

Secretary HUMPHREY. The interest rates are tending to curtail activity, they are tending in the direction of curtailing expansion.

Senator SMATHERS. That is right.

Secretary HUMPHREY. The tax changes that we made were tax changes which directly benefited small business, which helped small business to get started.

So that small business got some advantages which were particularly advantageous to small business through the tax law, tax revision, and they were curtailed through the interest rate. But the large were also curtailed.

Senator SMATHERS. So you are going to say, then, that actually this program you have was designed to ease the inflationary demands, and sort of slow down expansion for the sole purpose of combating inflation; and yet, on the other hand, it was very helpful to small business because——

Secretary HUMPHREY. No.

Senator SMATHERS (continuing). You passed a tax law which had some hidden benefit to the small-business man, and thereby made this sort of a double-headed operation, beneficial both ways.

Secretary HUMPHREY. Small business got a better break out of it than the larger business.

Senator SMATHERS. What part of the tax law was beneficial to the small-business man, Mr. Secretary?

Secretary HUMPHREY. Well, one of the principal things, I think, was the changes in depreciation.

Senator SMATHERS. Changes in depreciation.

Secretary HUMPHREY. Yes.

Senator SMATHERS. The provision of the tax law concerning whether you can file as a partnership or a corporation, which I think was recommended by you people, do you know whether or not any regulations have ever been put out under that particular provision?

Secretary HUMPHREY. I cannot tell you. I do not know.

Senator SMATHERS. If I told you that no regulations had been put out, would you want to disagree with me? My information is that none have been put out.

Secretary HUMPHREY. I will make inquiry and find out.

Senator SMATHERS. You do not want to agree with me, but you will make inquiry?

Secretary HUMPHREY. That is right.

(Secretary Humphrey later submitted the following:)

No regulations have yet been issued applicable to section 1361, a new provision of the Internal Revenue Code which gives certain partnerships and proprietorships the option to be taxed as corporations. This is one of the sections of the code on which regulations are still in the process of preparation.

Senator SMATHERS. You say they have benefited under the tax laws. In what respect was that?

You think the small business firms benefited by the repeal of the excess profits tax that was adopted in, late what, the 1954 Code, 1953 Code?

Secretary HUMPHREY. 1953, I believe, Senator.

Senator SMATHERS. Yes.

Secretary HUMPHREY. Yes. I think they benefited by the repeal of the excess profits tax.

Senator SMATHERS. I hand you table VII, and ask you to take a look at that. I find that you are pretty good at these tables. I am sure if anything can be made out of it, you can do it. [Laughter.]

I would like to direct your attention to the table. You will note that in the first column are net-income classes. Let us just take small business, for example, small firms, and say those which have a net income of from $15,000 to $20,000. We will go on up if we want to, but just take that for a minute.

Secretary HUMPHREY. Yes.

Senator SMATHERS. The number of returns which included, of course, excess profits tax, was 212. The net income was $3,771,000. The income tax was $1,132,000. Excess profits tax was $134,000. You see that?

Secretary HUMPHREY. Yes.

(The table referred to is as follows:)

Type of tax liability—All returns, by net income class, income tax and excess profits tax, 1953

Net-income class	Number of returns	Net income (thousands)	Income tax (thousands)	Excess profits tax (thousands)
Under $5,000	44	$93	$28	$16
$5,000 to $10,000	56	486	151	90
$10,000 to $15,000	113	1,470	447	95
$15,000 to $20,000	212	3,771	1,132	134
$20,000 to $25,000	1,076	24,984	7,600	778
$25,000 to $50,000	10,294	353,999	125,981	18,978
$50,000 to $100,000	5,686	400,194	173,057	82,716
$100,000 to $250,000	4,436	697,265	333,762	59,701
$250,000 to $500,000	1,877	660,681	327,923	61,373
$500,000 to $1,000,000	1,160	806,869	408,924	73,449
$1,000,000 to $5,000,000	1,199	2,551,923	1,303,537	238,061
$5,000,000 to $10,000,000	204	1,434,739	735,081	138,881
$10,000,000 or more	210	9,856,547	5,012,969	969,203
Total	26,567	16,793,021	8,430,502	1,613,424

Statistics of Income for 1953, pt. 2, Corporation Tax Returns for Taxable Year Ending July 1953 Through June 1954, p. 99, U. S. Treasury Department, Internal Revenue Service.

Senator SMATHERS. Now, if we added up the small business firms, those which I think were small, which are those under $5,000, from $5,000 to $10,000, from $10,000 to $15,000, and from $15,000 to $20,000, that makes a total of 425 firms which had the benefit of getting relief from the excess profits tax.

Then I would like to direct your attention down to some other figures. For example, let us skip down to the biggest crowd, which is the $10 million in net income or more. The number of returns which were filed there is 210.

You skip over to the excess profits tax relief which they got, and they got $989,203,000. In other words, of the total savings resulting from the repeal of the excess profits tax, we find that these large firms of $10 million or more got over 60 percent. There are only 210 firms in that category, which received over 60 percent of the excess profits tax savings.

So if you look at that figure, Mr. Secretary, I think you would be forced to agree—not forced to agree, but I think your fairness would cause you to agree there was very little comparative benefit which resulted to small-business firms from the excess profits tax repeal.

Secretary HUMPHREY. Does this purport, Senator, to be all of the returns filed? I was just inquiring.

Senator SMATHERS. Yes; that is all of them.

Secretary HUMPHREY. All returns.

Senator SMATHERS. These are statistics of income from the corporation tax returns for the taxable year ending July 1953, through June 1954, from page 99, United States Treasury Department, Internal Revenue Service.

Secretary HUMPHREY. Yes.

This does not show the percent. There is not any way to figure the percent of savings per investment.

Senator SMATHERS. No; it does not show the savings per investment, but if you look on down, we can take the $20,000 firms and less, there are a total of 425 of them. If we add up from $5,000 up to $20,000, there are 425 firms.

When you begin to get into the larger firms, you see that the $20,000 to $25,000 was over 1,000 in number; you see, $25,000 to $50,000 was 10,000, that is the largest number; and $50,000 to $100,000 is 5,000 firms that were able to benefit from repeal of excess profits tax. From $100,000 to $250,000 there were 4,436 firms; and those with net incomes of $250,000 to $500,000, 1,877 firms. And it goes on up to those with net incomes of from $1 million to $5 million. In this category there were 1,199 firms which were able to benefit.

And yet, I remind you that the small firms, those having net incomes from $5,000 and under up to $20,000, totaling 425 paid an excess profits tax of $284,000.

Secretary HUMPHREY. Would this relate to corporations only, or does this relate to individuals?

Senator KERR. Corporations are the only ones who pay excess profits tax.

Secretary HUMPHREY. Yes; that is what I was going to point out to him.

One of your difficulties is that the corporations are only about 15 percent or so of small business, of this very small——

Senator SMATHERS. That is right.

Secretary HUMPHREY. When you talk about them. So that about 85 percent of those people are not involved in this at all.

Senator SMATHERS. But I remind you your statement is that during the past 4 years small business has benefited from tax law changes; to wit, the excess-profits tax.

Secretary HUMPHREY. I think if you were talking about corporations, Senator, would not a fair split here be about $100,000? And if you took corporations at a fair split of $100,000, then I think you would find that the large number of corporations really were getting some relief.

Senator SMATHERS. If we took your figures, that is right, we would say it would add up, total up, to a large number of corporations.

Secretary HUMPHREY. That is right.

Senator SMATHERS. I agree with you.

Secretary HUMPHREY. Quite an amount of spread.

Senator SMATHERS. But the amount of money which was saved to them did not in any way approximate what the biggest 210 firms got for themselves—this $989 million.

Secretary HUMPHREY. Well, but you also would not know how much money was invested in these, either, which you have to take into account.

Senator SMATHERS. That may be. The investments, we are not talking about that particularly. We are talking about—naturally, a small-business man does not have as much investment or he would not be a small-business man.

Secretary HUMPHREY. That is right, and relatively, unless you would compare that, I do not think you would have an accurate comparison.

Senator SMATHERS. I think it is pretty clear from that figure, however, that great savings in the repeal of the excess-profits tax went, in point of dollars, to very few large corporations.

Secretary HUMPHREY. Well, in point of dollars, yes; the great dollar volume is in the larger businesses. They do the big dollar volume in the country.

Senator SMATHERS. And they apparently have the big profit. And, of course, as you say, they have the big investment.

Secretary HUMPHREY. They do the big dollar volume, that is correct.

Senator SMATHERS. But I would not want to leave it and have the appearance that actually the excess-profits tax was of any appreciable benefit to what we ordinarily call small business, though there were some who did benefit to a small degree by it.

Secretary HUMPHREY. I think that is right. I think the small businesses really, if you talk to them, I think you will find they were very, very active in their advocacy of the repeal of the excess-profits tax, and I think——

Senator SMATHERS. Actually, if you make a comparison with total business——

Secretary HUMPHREY. I think the excess-profits tax was the thing that deterred the opportunity for growth of the small business about as much as anything that could possibly have. I really think an excess-profits tax, outside of extreme war necessity, is a tax that we never should have in this country. That will kill off a small business faster than anything else you can do.

Senator SMATHERS. I do not want to debate that with you. I want only to debate with you this point as to whether or not the repeal of the excess-profits tax actually benefited to any appreciable extent very small businesses, when there are approximately 4,125,000 small businesses and only 425 of them were able to use it.

Mr. Secretary, I have statistics——

Secretary HUMPHREY. Just before we leave this, I would just like to bring out this point, which I think might be helpful to you: The biggest percentage of reduction, of savings as compared to total tax, is in the case of the smallest firms, those with the very first $5,000 and under. In other words, the $5,000-man saved the highest percentage of his income by the repeal of the tax, of anybody on the whole table.

Senator SMATHERS. That is right.

Secretary HUMPHREY. And as you go down——

Senator SMATHERS. There were 44 of those people in the country.

Secretary HUMPHREY. As you go down, you will find, as you get into the top bracket, that there is a 16 percent saving, where they started out with a 36 percent saving.

Senator SMATHERS. Would you say that 200—would that be higher where you have got 210 firms which saved $989 million?

Secretary HUMPHREY. The percentage is higher, very much higher. They had a 16 percent saving, and the small fellow had a 36 percent saving.

Senator SMATHERS. There were 210 large firms which benefited to the tune of $989 million compared with 425 small firms which benefited to the extent of $284,000.

Secretary HUMPHREY. That was a 16 percent saving; and the other man had a 36 percent saving.

Senator SMATHERS. Well, the total amount of money which was saved in the excess-profits tax was $1,613,424,000, and approximately 60 percent of that went to about 210 large firms.

Secretary HUMPHREY. Well, of the total income, about 60 percent, or a little better, of the total income was had by those same people.

Senator SMATHERS. That is right.

Secretary HUMPHREY. But the percentage of savings per dollar of income was greater in the lesser brackets.

Senator SMATHERS. I must just say this: You can agree that with only 44 small-business firms in that low classification, compared with the total of approximately 4 million of them in the country, is not a very large percentage of small firms benefiting——

Secretary HUMPHREY. The corporations, you start right out, you see, the corporations are only about 15 percent of the total, anyway.

Senator SMATHERS. That is right. Corporations were the only ones to benefit by the repeal. But we are talking about helping small business.

Secretary HUMPHREY. Of course, the others had individual relief, you see.

Senator SMATHERS. We will talk about the individual ratings in just a minute.

When your statement said the expiration of the excess-profits tax benefited the small-business men, actually there were very few small-business men who were incorporated, or in a situation where they had to pay excess-profits taxes.

Secretary HUMPHREY. And those fellows got help.

Senator SMATHERS. And those fellows got some help, you say?

The CHAIRMAN. The advice comes from the Senate we will have to vote on a treaty.

(Discussion off the record.)

The CHAIRMAN. Suppose we just recess temporarily.

(Short recess.)

The CHAIRMAN. The committee will come to order.

Senator Smathers?

Senator SMATHERS. Mr. Secretary, I have some statistics which have been prepared by the Federal Trade Commission showing the number of corporate mergers taking place in the last few years. These show the total has risen from 617 in 1934 to a high of 905 in 1956, a 46.6 percent increase.

Furthermore, the record for 1957 shows 411 in the first 5 months, compared with 406 for the same period last year.

I think it is also significant to note the rise in the number of mergers and acquisitions in industrial firms from 288 in 1952, to 295 in 1953, 387 in 1954, 689 in 1955, and 638 in 1956.

There was a little bit of a downtrend in 1956.

The Federal Trade Commission data also reflect that 70 percent of the acquisitions of other firms in 1955 was made by businesses with assets of $10 million or over. In other words, most of the acquisitions were by the big fellows who can afford to buy.

Would you care to comment as to the reasons which may have prompted this intensified merger and consolidation which has been going on?

Secretary HUMPHREY. I think one of the principal reasons, Senator, is the desire for flexibility, and to cover a wider field, to guard themselves against changes in conditions where one kind of a product will go down and another kind will go up.

You see, this is, I think, largely two things: It is largely the transition from war to more peacetime business, concerns which sprang up during the war period and made war materials or things which contributed more to the war, felt that those things were not going to be in big demand, and they would join up with others. Or, if they were largely in that business, they would get others so as to look to switching from wartime goods to more peacetime goods, and rather than starting fresh, they would acquire a smaller company which was already in the business.

Senator SMATHERS. In other words, more diversification.

Secretary HUMPHREY. The other thing is, with our great advance in new things, the great technological advances of all kinds, I think the tendency is to broaden lines, make new products.

You see, a very large percentage of the goods that are made today are the kinds of goods nobody ever heard of 15 or 20 years ago. So when a small concern develops or is developing a line, it hates to have all of its eggs in one basket, and one at a time it expands the lines until it has 4 baskets or 5 baskets, in order to get a stabilization by diversity.

Another thing, of course, that has had a substantial effect are tax laws. A man builds up a business, and has made it successful.. Whatever his family has is in that business, and his death taxes are high. He feels he does not want to die and leave a heavy tax problem to his children, and he seeks a way to remove it.

Senator SMATHERS. Do you think we should change that tax law in that respect?

Secretary HUMPHREY. Of course, the tax law already provides wherever there is a hardship, then he has an extended period, a 10-year period, within which to pay. That was done in the code to alleviate that particular hardship.

Senator SMATHERS. May I ask you another question right there on this tax matter.

You are familiar with that provision which, oversimplified, I will put it this way, allows a big corporation to buy a small company which has not a favorable balance sheet, and increase, you might say, the big company's assets, but use the carryover loss provisions of the small company to at the same time lessen their taxes?

Secretary HUMPHREY. Well, that provision in the tax law was very much tightened up.

There previously had been an abuse, I think, of that privilege, and I think companies had been acquired for their previous losses rather than for what they then had. And the provisions of the tax law and of the regulations, both have been very materially tightened up in the last 2 or 3 years on that.

Senator SMATHERS. Do you think they should be tightened up more, or do you think we should eliminate that provision from the tax laws? How can that be a good provision?

Secretary HUMPHREY. Well, let us say you and I are stockholders in a small concern, and we have gone through 2 or 3 years of pretty bad times developing a business, and we finally emerge and in a year or two we show a little earnings, and then we show some better earnings, and then somebody who wants to diversify and take on our line comes along, and we want to sell out to him and take a capital gain, which we have a perfect right to do.

Senator SMATHERS. Sure.

Secretary HUMPHREY. One of the assets we have is, with this growing business, and this business was turning into a profitable thing, we have a right to deduct our past losses which you and I paid out of our pockets in order to build up what we now have, and I think it would be pretty unfair to deny us any right to carry that forward. I do not think we should be able to carry it forward where it is simply for a tax dodge.

Senator SMATHERS. That is right.

Secretary HUMPHREY. Where it is a legitimate business transaction. I think it would be quite unfair for us to be denied that privilege.

Senator SMATHERS. Would you think it would be advisable for this committee or the Ways and Means Committee of the House to amend that law so that the acquiring corporation would not be able to use the net operating losses of the acquired smaller corporation?

Secretary HUMPHREY. That is what I have just said. I do not think it would be wise, because that would be taking away from you and me the right to recoup the losses we have made to build this business into a profitable concern, and I think that over a period you and I would have a right to recoup that loss.

Senator SMATHERS. Yes. As I understand it——

Secretary HUMPHREY. If the buying concern cannot take advantage of it, then we have no way to get it back. So I think——

Senator SMATHERS. In other words, then, we recognize that the law makes it possible, I mean encourages an acquiring corporation to go out and hunt one which has got——

Secretary HUMPHREY. No.

Senator SMATHERS (continuing). Which has got a loss carryover situation that they can benefit from.

Secretary HUMPHREY. No, I do not think so. You see, the law and the regulations are tightened now so it has to be part of a real business transaction. It cannot be just a tax dodge.

Senator SMATHERS. It is sort of getting off my point, anyway.

With respect to these mergers we have talked about, which have increased, as I say, 46 percent from 1954 to 1956; furthermore, the record for 1957 shows 411 in the first 5 months compared to 406 in the same period last year. Mr. Secretary, do you believe there will come a point in our free-enterprise system where a further concentration in American industry should not be permitted?

Secretary HUMPHREY. Well, what is going on, Senator, is that the number of business enterprises are not going down. They are going up, and quite markedly, in this country. And as long as they continue to increase, I do not think we have anything to fear.

For instance, I will just take the two ends of this particular table, just to illustrate it.

Senator SMATHERS. Yes.

Secretary HUMPHREY. It begins with 1929, in which there were 3 million enterprises, and it goes to 1956, in which there were 4,250,000 enterprises, or an increase of over a third, an increase of 40 percent in that period of time, and there is nothing tricky about it. It has been going up all the time.

The number of enterprises went down in the early thirties. It got down in 1933 to 2,782,000, and then it went up and got up over 3 million. Then it went down in 1944 to 2.8 million, during the war; and then it went up again.

It has been a constant rise from that time up until now, when it is up above 4 million. We have had a 40 percent increase in business enterprises since the war.

Senator SMATHERS. Of course——

Secretary HUMPHREY. So I do not think we have anything to fear about business being cramped down. We are expanding our businesses all over the place.

Senator SMATHERS. I have some figures which indicate that today, in the industrial field, some one-seventh of 1 percent of business corporations are hiring over 50 percent of all wage earners.

Secretary HUMPHREY. I would not be surprised at that.

Senator SMATHERS. Fortune magazine, I think, had an article on it this month——

Secretary HUMPHREY. Yes.

Senator SMATHERS (continuing). Which showed the top 500 industrial firms in the United States today, and that amounts to about one-seventh of 1 percent, hired 50 percent of all wage earners.

Does that not indicate tremendous concentration of not only assets but of employment and everything else?

Secretary HUMPHREY. Well, you are getting now out of the question of the growth of small business, and getting into how big is too big?

Senator SMATHERS. Well, you have asked the question.

Secretary HUMPHREY. I do not know how big is too big. I think it is a problem which requires our thoughtful consideration in this country.

Senator SMATHERS. You would agree, though, there would come a time when businesses could become too big, would you not?

Secretary HUMPHREY. Obviously, you go to where there is one, and I would say, yes, then you have got a Russia on your hands.

I really do not know. I think it is a very serious problem that needs a lot of thought, as to——

Senator SMATHERS. That is right.

Secretary HUMPHREY (continuing). As to how big is too big.

Senator SMATHERS. Then you would agree there is a pattern with respect to concentration of assets and employment power, which could become too big and thereby threaten the free enterprise system as we know it, though you are not prepared to say where that point is.

Secretary HUMPHREY. That is right.

Senator SMATHERS. But you would agree there is some point along the road we should——

Secretary HUMPHREY. Well, I think it is a subject of very serious concern, and I think we ought to give it a lot of thought.

Senator SMATHERS. You think we ought to give it a lot of thought now, do you not?

Secretary HUMPHREY. I think we ought, on all of these problems, we ought to be thinking all the time; yes, sir.

Senator SMATHERS. You do not want to hazard the guess we are approaching the point now where we should begin to greatly worry about this concentration?

Secretary HUMPHREY. I would think there was nothing to worry about. I think it is a matter for thought, but as long as we have this continual and substantial growth of total business, I think we have a very strong anchor to windward.

Senator SMATHERS. Well, the statistics show that more and more of the wage earners are employed by less and less of the corporations, and that the few corporations on top are acquiring more and more assets, and we know it from our experience.

Secretary HUMPHREY. That is right.

Senator SMATHERS. You know that General Motors have gone into, various fields that 10 years ago they were not in.

Secretary HUMPHREY. On the other hand, as you go through any city, you see the outskirts filled with new little businesses, new plants, new small businesses all over.

Senator SMATHERS. You agree most of the grocery stores you see are chainstores, and most of the drugstores you see are chainstores.

Senator HUMPHREY. A great many of them.

Senator SMATHERS. And we are moving into an area where there are less and less actual individual operations, even though there may be more outlets for the big corporations.

Secretary HUMPHREY. No. There actually are more individual operations, actually very substantially more individual operations, as well as this other that you speak of.

I am not in any way suggesting that what you say is not true; that this is going on. But there are at the same time more smaller ones growing up, or more other ones growing up.

Senator SMATHERS. All right.

Let me ask you this question now: Do you feel that the tax policies, the credit policies, and the high-interest-rate policies, such as they are, have encouraged this sort of concentration and this acceleration of concentration of assets in the bigger corporations at the top?

Secretary HUMPHREY. Well, I do not know whether it would encourage them at the top so much as it would encourage the intermediate or smaller ones to get together for the very reason you and I were talking about a few minutes ago, where I want diversity and you want diversity, and we say to each other, "Let's the two of us go together, and we will help diversify," and then we go on to the Senator there, and we say, "You come in with us, and that gives us three strings to our ball instead of one."

I think that has been going on more than the large companies taking on smaller ones.

Senator SMATHERS. You would not say diversity is a new word for monopoly?

Secretary HUMPHREY. No, because I think these are smaller, relatively smaller.

I think the larger ones are developing. They have the resources to develop on their own far more than you and I would have in smaller businesses. I am seeking some of your research staff, and you want mine, and so on.

Senator SMATHERS. The excess-profits tax repeal, of course, as we have demonstrated a moment ago, dollars, dollarwise, however, did encourage big business.

Secretary HUMPHREY. More dollars, lesser percentage of the total, but more total dollars.

Senator SMATHERS. More total dollars.

Secretary HUMPHREY. That is correct.

Senator SMATHERS. That is right. And when they had the relief of more total dollars, then, of course, they would increase their profits.

Secretary HUMPHREY. That is right.

Senator SMATHERS. Mr. Secretary, in the March 1957 issue of Survey of Current Business, which is put out by the Department of Commerce, there is an article which is entitled "Business Anticipations of Capital Expenditures and Sales for 1957," and the lead paragraph says this:

> Business expects to make investment outlays of more than $37 million this year——.

Secretary HUMPHREY. Billion.

Senator SMATHERS (reading):

> $37 billion this year, 6½ percent above the amount spent in the record year of 1956. Final figures for last year show a 22 percent rise over 1955 in the aggregate, about the same as was anticipated in the survey conducted just a year ago.

Then it goes on to say this:

> A breakdown by size of firm indicates that large and medium-sized firms are responsible for the anticipated rise in manufacturing investment in 1957. Small companies, in the aggregate, expect a reduction in outlays.

Now here, it seems to me—this is a survey by the Department of Commerce—that which we have been talking about seems to be true, namely, that the present policies which were designed to hold down excessive use of credit for capital expansion, have actually failed to do so; and we have the figure here of the Economic Indicators, and what has happened is that the smaller firms who can least afford it are the ones that these policies are really holding back, rather than working on the bigger ones. And they are the ones who are not able to expand.

Secretary HUMPHREY. I think probably it took hold of the smaller ones first, and I think it is taking hold of the other ones now.

Senator SMATHERS. You believe it will take hold of the bigger ones?

Secretary HUMPHREY. I believe it will. I believe that the——

Senator SMATHERS. You say that, of course, in the light of the fact that the Economic Indicators show that expansion expenditures for new plant and equipment have jumped up 33¼ percent in just a couple of years.

Secretary HUMPHREY. For this year, that is correct, the last couple of years.

Senator SMATHERS. All right, sir. But you believe——

Secretary HUMPHREY. I believe it is leveling off currently.

Senator SMATHERS. You believe that——

Secretary HUMPHREY. I believe that is what the figures show.

Senator SMATHERS. All right.

Now, with respect to this matter of industrial production which we talked about just a few minutes ago, I understood you to say that while you expected capacity to be getting bigger in the immediate future, you did not indicate whether you thought that production would continue to decline and level off or would increase.

Do you recall we were talking about that just a minute ago?

Secretary HUMPHREYS. Yes; I do.

Senator SMATHERS. I wonder if you would care to comment on that. I forgot to ask you that question.

Secretary HUMPHREY. I suppose that is going to be selective in various industries. There are some industries where I think this adjustment is taking place, and we are always adjusting, you know, we are never static; we are always adjusting someplace, and as this adjustment is operating, I think you will find that production will be increasing in certain lines, and maybe decreasing in others.

Senator SMATHERS. On page 16 of the Economic Indicators, it shows that in December of 1956, total industrial production was at a figure of 147; that in January, February, March, April, May, it declined until in May it indicated 143, total industrial production, which would indicate that the trend, as far as production and business activity, is down.

Secretary HUMPHREY. Some leveling off.

Senator SMATHERS. You feel that that trend will continue for some time?

Secretary HUMPHREY. Well, I do not know whether it will continue. If the adjustment just rolls on in that sort of way, I think it probably would be a very salutary thing. It would help us all along the line.

Senator SMATHERS. If it continued to go down just a little bit?

Secretary HUMPHREY. Just a little leveling out.

Senator SMATHERS. It is your opinion that that would create unemployment and things of that nature?

Secretary HUMPHREY. Not if it is just a little. Not if it just levels off and we have just a continuing adjustment, first here and then there.

Senator SMATHERS. Do you think that that would result in less operation at plant capacity in many of the firms?

Secretary HUMPHREY. In some lines, there would be a little, and in others not. It is again, as I say, it will be an adjustment, and that, you see, Senator, is the happiest thing that can happen to this country, because if we let these excesses grow, if you let demand go and excesses do reach a point where the whole thing lets go at once, that is when we have a lot of trouble.

Now, if it can just happen a piece here and a piece there, readjust here and readjust there, a piece at a time, that is when we have our best times in America.

Senator SMATHERS. Some people might call this lessening of production a recession. How far would it have to go, do you think, before it might fall in that category?

Secretary HUMPHREY. Well, we had a lot of questions about terms before, and we had the terms "rolling readjustment," and "recessions."

We had some people talking about a "depression." So you can go on down the scale, depending upon what happens.

Senator SMATHERS. That brings me to a thought about the increase in prices.

Secretary HUMPHREY. Let me just hasten to say, I do not see any recessions or depressions, or anything of that kind, in the offing. All I see is what looks to me like an adjustment which is taking place.

Senator SMATHERS. An adjustment.

And the fact that production, if it should continue to go sort of gradually down, that would not alarm you?

Secretary HUMPHREY. Here and there.

Senator SMATHERS. Even though it might result in some unemployment?

Secretary HUMPHREY. Well, I do not really believe it will result in any marked unemployment. I think that as one moves one way and another moves another, that you will absorb it back and forth. I think there may be some shifts. We are always having these things. These things are always going on.

Senator SMATHERS. As we look at the figure which we just looked at, where the decline in production was shown, and look over on page 10 of Economic Indicators to the expenditures for new plant and equipment, we see that figure is going up, do you not think that might result in a dangerous imbalance, so to speak, in our economy if it continues that way?

Secretary HUMPHREY. I think that is leveling off in the last few months.

Senator SMATHERS. In other words, you think the——

Secretary HUMPHREY. I think it is beginning.

Senator SMATHERS. You think the plant expansion is also leveling off?

Secretary HUMPHREY. Beginning to level off.

Senator SMATHERS. Do you believe our economic machinery, Mr. Secretary, should operate at full capacity, or do you think as a Nation we are better off if it operates at a limited capacity?

Secretary HUMPHREY. No, I think that we want to operate at a high capacity.

Senator SMATHERS. Well then, how can you believe we should operate at a high capacity, and then say that you think this is a good sign where we see the total production is going down at a time when we are increasing our plant expansion?

Secretary HUMPHREY. I do not believe it is going down enough to interfere with the high capacity operation. Again, I say I think this is just an adjustment. All I see here are just adjustments taking place.

Senator SMATHERS. It is not a rolling readjustment. It is just an adjustment?

Secretary HUMPHREY. That is right.

Senator SMATHERS. Mr. Secretary, do you believe that the increase in the steel price of \$6 a ton, I think it is, on raw steel, or \$155 on finished steel, do you think that is going to lessen——

Secretary HUMPHREY. It is not \$155.

Senator SMATHERS. What was it, \$6—anyway, \$6, the increase which is going to be brought about in the price of steel; do you think that that will lessen the demand for steel?

Secretary HUMPHREY. It is very, very hard to tell. Of course, any commodity, as the price rises, it tends to limit the breadth of its market.

And, as I said, in talking to Senator Long the other day, I do not know what straw breaks the camel's back, but you know if a commodity rises too far, it prices itself out of the market; and it does not price itself out of the market all at once, it prices itself out of this little market here, or that little market there, and as it continues to rise, those little markets accumulate, and its market contracts.

Senator SMATHERS. You would agree, would you not——

Secretary HUMPHREY. And substitutes come in.

Senator SMATHERS (continuing). That steel is almost as important to the American economy as oxygen is to the human body and that there would be no way for us to operate the economy, under any terms, if we did not have plenty of steel? Would you agree, therefore, that there must be always a demand for steel?

Secretary HUMPHREY. Yes. But steel can—and I will not limit it just to steel—any commodity, including steel, can price itself into a position where substitutes come in and take part of its market.

And as those substitutes come in, it is very difficult to replace them.

Senator SMATHERS. Do you see any prospect of a substitute for steel being immediately developed?

Secretary HUMPHREY. Well, not so you are going to eliminate all of steel, but there are lots of substitutes for steel that come into a market when the price moves to a certain point—aluminum, cement.

Senator SMATHERS. Do you think that is liable to happen in the face of this increase——

Secretary HUMPHREY. Well, I do not know.

Senator SMATHERS (continuing). Of the steel price?

Secretary HUMPHREY. I do not know to what extent this will be affected, but, as I say, you never know which straw will break that camel's back, but you look around as you go through the country and see the aluminum roofs and the aluminum sheeting, and all that is going in.

Look at the tremendous growth in the use of aluminum sheets, which, except for aluminum, would be steel.

Senator SMATHERS. You agree, of course, that this increase in the price of steel will have an inflationary result, do you not?

Secretary HUMPHREY. I think it will have. As I said yesterday, I think this will have a tendency to increase costs over the wide area in which steel is used.

Senator SMATHERS. In other words, when the cost of a necessary item goes up, in some sense, it is inflationary.

Secretary HUMPHREY. That is right.

Senator SMATHERS. Is that true of money?

Secretary HUMPHREY. I think that is right. Interest is both inflationary and deflationary, as I said the other day.

Senator SMATHERS. You think high interest costs are inflationary?

Secretary HUMPHREY. It is both. It operates both ways, as I said the other day.

Senator SMATHERS. Can you give me an illustration, real quickly, of how it operates both ways?

Secretary HUMPHREY. Yes; I can.

As the interest rates go up, the cost to you as a manufacturer is a little more, so that your tendency is to try to increase your price to try to recoup those extra costs, because over a period of time you have got to cover your costs or more, or else you go out of business.

So it tends to push the price of your goods up as your interest rate rises.

At the same time, as that interest rate rises, it tends to deter you from increasing your plant and from starting a new building program, which will in turn have you entering the lumber market and the brick market and the labor market and other markets and bidding to bring those things in, bidding against me to get the lumber and put the price of lumber up.

It works both ways: It deters you from expansion, and increases somewhat your costs.

Senator SMATHERS. The question occurs to me, if it is inflationary and deflationary at the same time, what, then, is the purpose of having increased interest rates? Why does this administration support increased interest rates if it is both inflationary and deflationary at the same time?

Secretary HUMPHREY. The interest rate is a result of a limitation of credit, and you bid for that just as you would bid to get lumber.

If you and I both want some lumber, you will bid to get it and you will pay more for it than I will and you will get it.

Now if there is only so much credit available, and you bid for it, then the interest rate goes up.

As between the two, while it has both aspects, both inflationary and deflationary, the deflationary, I think, is more effective in times like the present, than the inflationary.

I think the deflationary effect far exceeds the inflationary effect.

Senator SMATHERS. I am pretty simple about this, but if it has an inflationary effect on the one hand, and a deflationary effect on the other, then the only purpose in letting interest rates go way up, the only one that then benefits from it is the fellow who has got a lot of money to lend; is that not right?

Secretary HUMPHREY. No, no. It helps to stabilize the price level.

Senator SMATHERS. Well, it stabilizes it because it is deflationary and inflationary at the same time.

Secretary HUMPHREY. Because it curtails the demand, it curtails your demand. I cannot give it clearer than just you yourself running a business. It does increase your costs, which tends to increase your price. But it also deters you from going into the market and bidding for other things.

Senator SMATHERS. If——

Secretary HUMPHREY. And that is a more important thing than the effect on your cost.

Senator SMATHERS. What, then, is the net gain to anybody in having high interest rates?

Secretary HUMPHREY. The net gain is that there are less bidders for short goods.

Senator SMATHERS. Well, those who have the necessities, just as you have got in steel and a few items like that, of course, the interest rate has little effect on them.

But let us take housing, where the interest rate plays a big part, there it just means people who have not, do without; and the people who have, get some advantage. Is that not right?

Secretary HUMPHREY. It means a postponement of some lines in the bidding contest.

Senator SMATHERS. And the one who has to postpone is the one who is, unfortunately, I guess, in our free-enterprise system, the one who has the least to start with.

High interest rates aggravate an already bad situation, does it not, in that respect?

Secretary HUMPHREY. Not necessarily.

Senator SMATHERS. You think it does not?

Secretary HUMPHREY. I think it improves the situation, because otherwise the price of that commodity would rise much more than the interest costs, if the bidding continued for that commodity.

Senator SMATHERS. Mr. Secretary, I did not mean to get off on the interest rate. I promised myself I was not going to ask you that, and I know you are getting tired, and we want to get through here. I am supposed to be talking about mergers and small business and things of that nature; at least that was the limit I set for myself and I certainly have not kept to it.

Back to this matter of number of manufacturing firms—I have information obtained from the United States Department of Commerce, Office of Business Economics, June 20, 1957, which discloses that as of December 31, 1952, there were in existence 326,900 manufacturing firms; June 30, 1953, one year later, 326,600; as of December 31, 1953, 321,800; June 30, 1954, 317,600; December 31, 1954, 312,500; June 30, 1955, 311,400; and as of December 31, 1955, 308,000.

In other words, there is a loss of 18,900 manufacturing firms since December 1952, a 5.8-percent drop.

(The table referred to is as follows:)

Number of manufacturing firms drops

Dec. 31, 1952	326, 900
June 30, 1953	326, 600
Dec. 31, 1953	321, 800
June 30, 1954	317, 600
Dec. 31, 1954	312, 500
June 30, 1955	311, 400
Dec. 31, 1955	308, 000
Loss of	[1] 18, 900

[1] 5.8 percent drop.

Source: U. S. Department of Commerce, Office of Business Economics, June 20, 1957.

Senator SMATHERS. Mr. Secretary, would this indicate to you that small-business manufacturing firms—of course, this may not actually be small business, but I can presume from our merger figures and consolidation figures that it probably was small business that was being dropped out. What do you think about this trend that we see here?

Secretary HUMPHREY. I think this is part of the postwar adjustment of shifting from military supplies to goods made for general consumption. It is the kind of thing I was talking about a minute ago, where if I was in a business making shells and something or other and I saw that business was probably going to peter out, and so I would join up with you, who were making refrigerators or something of that kind.

Senator SMATHERS. In other words, you think that possibly this is just a merger and consolidation which we talked about earlier?

Secretary HUMPHREY. I think that is what it is: for diversification and shifting out of products that are declining and into new products that are developing.

Senator SMATHERS. But you agree——

Secretary HUMPHREY. If you do not do that, you sooner or later just go out of business. If you keep on making nothing but horse collars, why, after awhile, there will not be any demand for horse collars and you are out.

Senator GORE. Don't you love horses?

Secretary HUMPHREY. I do not say saddles, but horse collars.

Senator SMATHERS. You are not particularly worried in this drop in figures because you explained it away by saying there is just a merger or consolidation or diversification?

Secretary HUMPHREY. I do not think the trend you indicate is anything to be concerned about. I think it is a perfectly natural development.

Senator SMATHERS. Well, all right, sir. Let me just give you another table.

(The table, Business Failure Statistics, 1900–1956, is as follows:)

Business failure statistics, 1900–56

Year	Business failures	Rate of failure per 10,000 firms	Total liabilities	Number of liabilities over $100,000
1956	12,686	48	$562,697,000	1,071
1955	10,969	42	449,380,000	856
1954	11,086	42	462,628,000	860
1953	8,862	33	394,200,000	787
1952	7,611	29	283,300,000	530
1951	8,058	31	259,500,000	432
1950	9,162	34	248,283,000	416
1949	9,246	34	308,109,000	538
1948	5,250	20	234,612,000	397
1947	3,474	14	204,612,000	371
1946	1,129	5	67,349,000	125
1945	809	4	30,225,000	50
1944	1,222	7	31,660,000	46
1943	3,221	16	45,339,000	66
1942	9,405	45	100,763,000	132
1941	11,848	55	136,104,000	163
1940	13,619	63	166,684,000	219
1939	14,768	70	182,520,000	227
1938	12,836	61	246,505,000	262
1937	9,490	46	183,253,000	287
1936	9,607	48	203,173,000	322
1935	12,244	62	310,580,000	553
1934	12,091	61	333,959,000	670
1933	20,307	100	457,500,000	979
1932	31,822	154	928,300,000	1,625
1931	28,285	133	736,300,000	1,055
1930	26,355	122	668,283,000	947
1929	22,909	104	483,250,000	744
1928	23,842	109	489,559,000	....
1927	23,146	106	520,104,000	....
1926	21,773	101	409,232,000	....
1925	21,214	100	443,744,000	....
1924	20,615	100	543,225,000	....
1923	18,718	93	539,386,000	....
1922	23,676	120	623,896,000	....
1921	19,652	102	627,401,000	....
1920	8,881	48	295,121,000	....
1919	6,451	37	113,291,000	....
1918	9,982	59	163,019,000	....
1917	13,855	80	182,441,000	....
1916	16,993	100	196,212,000	....
1915	22,156	133	302,286,000	....
1914	18,280	118	357,908,000	....
1913	16,037	98	272,672,000	....
1912	15,452	100	203,117,000	....
1911	13,441	88	191,061,000	....
1910	12,652	84	201,757,000	....
1909	12,924	87	154,603,000	....
1908	15,690	108	222,315,000	....
1907	11,725	83	197,385,000	....
1906	10,682	77	119,201,000	....
1905	11,520	85	102,676,000	....
1904	12,199	92	144,202,000	....
1903	12,069	94	155,444,000	....
1902	11,615	93	117,476,000	....
1901	11,002	90	113,092,000	....
1900	10,774	92	138,495,000	....

Senator SMATHERS. You say in your statement:

> Even more important to the smaller firms is the general prosperity of the past 4 years.

On the next page you say:

> During the past 4 years, 500,000 new business corporations were formed in the United States. Of course, not all succeeded. A free economy is not a riskless economy. During that period, 44,000 enterprises—noncorporate as well as corporate—failed, but that is lower in relation to the number of new corporations formed than during the preceding 4 years (34,000 failures and 355,000 new incorporations).

Mr. Secretary, this premise is based upon new corporations and the use of these figures, in my opinion, is susceptible of a misunderstanding. Is it not true that these figures could shift back and forth, in other words, partnerships moving to corporations and——

Secretary HUMPHREY. Yes.

Senator SMATHERS. Just as you were talking about a moment ago?

Secretary HUMPHREY. Yes, that is correct, they could.

Senator SMATHERS. With respect to businesses diversifying?

Secretary HUMPHREY. That is correct, they could shift from one form to another.

Senator SMATHERS. Are you aware of the fact that not only has the actual number of business failures been rising, but the rate of failures in terms of the total number of firms in existence also has been rising?

Secretary HUMPHREY. Well, the total number have been rising, but whether it is in relation to the firms or not, I do not know, Senator.

Senator SMATHERS. A Dun & Bradstreet report shows that the rate of business failures—and I think that is what you have got in front of you.

Secretary HUMPHREYS. Yes, sir. This is your table 5.

Senator SMATHERS. Yes. The rate of business failures per 10,000 firms has risen from 29 in 1952 to 33 in 1953, to 42 in 1954 and 1955, to 48 in 1956, and for the January–April, 1958 period, it rose to 55, an increase of 89 percent of business failures since 1952.

Now, if these past 4 years, Mr. Secretary, in your words, have been so helpful to the small-business people, how do we account for this? How do you explain that?

Secretary HUMPHREY. Well, I explained it just as I did before with the other table. If you will look a little further down on your table, you will see during the war years your failures got down to only 74 and 75 in 3 years. Now, if you will take those and relate them to any of the others, you will see that it is a terrific percentage of change. But I do not think that is illustrative.

Senator SMATHERS. We can go back to 1932, the depression era, and we can get a lot of business failures.

Secretary HUMPHREY. That is right.

Senator SMATHERS. But I am talking just in the 4 years or 3 years, if we are going to talk about it in relationship to administrations. In the last years, since 1952, failures have increased 89 percent.

Secretary HUMPHREY. Well, I think that probably a fair way to look at it is to take this rate per 10,000 firms column and then to take the prewar years, 1940 and prewar for a few years, and take these years. I think that this is a postwar adjustment that is taking place.

Senator SMATHERS. I would say this to you, Mr. Secretary, I would not even mention this past 4-year period if it were not for the fact you say in your statement:

> Even more important to the smaller firms is the general prosperity of the past 4 years.

Secretary HUMPHREY. I think that is right.

Senator SMATHERS. When you mentioned the past 4 years, I cannot help but look at these statistics and see there has been an increase in business failures of some 89 percent. It is very difficult for me to reconcile that with your statement.

Secretary HUMPHREY. But it is relatively a small rate of total business failures and the prosperous times have built many, many other stronger businesses. There has been an increase in business failures; these figures show that.

Senator SMATHERS. All right, sir.

Now, I wanted to have you look at table No. 6. We had this once before but we never did quite get agreement on it. I do not know that we will get one now.

(The table, "Number of bankruptcy cases filed in the years indicated," is as follows:)

Number of bankruptcy cases filed in the years indicated

Fiscal year	Merchants	Manufacturers	Others in business	Total
1946	236	201	821	1,258
1947	631	596	1,416	2,643
1948	1,336	806	2,546	4,688
1949	1,909	853	3,664	6,426
1950	2,560	808	4,568	7,936
1951	2,360	522	4,173	7,055
1952	2,319	532	3,358	6,209
1953	2,402	518	3,498	6,418
1954	3,191	745	4,476	8,412
1955	3,217	750	4,615	8,582
1956	3,155	730	4,981	8,866

Source: Edwin L. Covey, Chief of Bankruptcy, the United States courts.

Senator SMATHERS. These figures obtained from the Chief of Bankruptcy of the United States Courts indicates that in fiscal 1956 the number of bankruptcy cases filed by business concerns was the highest in the postwar era. The total number of such cases filed in fiscal 1956 was 8,866, which exceeded by better than 900 the number of cases filed in 1950, the worst year under the prior administration.

I also note that in 1956 there were 3,155 cases filed involving merchants. This is 23 percent greater than the poorest year of the prior administration, 1950.

Now, this steadily mounting rate of bankruptcies seems to me to be a serious thing, and I know you are concerned about it.

Do you believe that this justifies your statement that—

> Even more important to the smaller firms is the general prosperity of the past 4 years.

Secretary HUMPHREY. Yes. You see, there is an increase in these, as is very obvious; it has been increasing almost every year since the war, and I think there is probably a pretty good reason why it does increase almost every year since the war. But the total is still relatively very small.

Senator SMATHERS. In other words, even though there is an increase ——

Secretary HUMPHREY. It is still very small; it is all very small.

Senator SMATHERS. You are, then, not concerned about it?

Secretary HUMPHREY. I am concerned, of course, about anything of that sort, but I am not concerned about it as a factor which is going to be disturbing to the economy.

Senator SMATHERS. You do not believe that the increase in business failures and the increase in bankruptcies have gotten to the point where it is sufficient to disturb you yet?

Secretary HUMPHREY. Not to disturb the economy.

Senator SMATHERS. Do you have any idea how serious it would have to be before you would get disturbed about it?

Secretary HUMPHREY. Well, it would have to be considerably more than it is at the present time, as indicated by these previous years.

Senator SMATHERS. But you agree there is a trend upward with respect to bankruptcies and business failures?

Secretary HUMPHREY. I think the postwar adjustment is going on, and it is taking effect in failures in places and it is taking effect in mergers in places.

Senator SMATHERS. In other words, this is again in the nature of an adjustment?

Secretary HUMPHREY. It is still part of the adjustment that is going on.

Senator SMATHERS. Mr. Secretary, you mentioned in your statement:

> In addition, we have made vigorous efforts to see more defense work is subcontracted to smaller business—

and so on.

I happen to be the chairman of a Small Business Committee which is trying to get the Government to do more with respect to small business. According to the statistics furnished by the Defense Department, in fiscal 1954, small business received 25.1 percent of the procurement dollar. In 1955, this dropped to 21.8 percent. In 1956, it dropped to 19.6 percent. The first 9 months of this fiscal year, the figure was only 16.9 percent. We had a very able Mr. McGuire, from the Defense Department, who was over just the other day, who deplored this very much and said he did not quite know what they would do about it, but they were going to try to make some effort.

I want to ask you: Does this look like the vigorous efforts of the Treasury Department? This was your statement:

> We have taken very vigorous steps to see that more defense work goes to smaller firms.

It appears to me, from these figures, that it has not been. Instead of getting more defense work, they are getting less.

Secretary HUMPHREY. I think that is correct, Senator, and I still think my statement is correct. The President is himself concerned about it. He has talked about it, and all of us have talked about it. The difficulty with the thing is that—let us take a B-52. I just do not know how a small business is going to make a B-52. Let us take a guided missile. How is a small business going to make a guided missile?

Now, they may be able to make some little parts of it, and they can farm out some little parts, but the fact is that our governmental expenditures, our defense expenditures, are going into highly technical, highly complicated, big things—expensive, very expensive things. And I just think that we would not get a B-52 made in I do not know how long if we tried to parcel it all out to a lot of little firms. You have got to have some big companies to build these big things.

Senator SMATHERS. On the surface, I would have agreed with you, were it not for the fact that we had the Defense Department before our Senate Small Business Subcommittee break down the amount of contracts which they thought were suitable for small business.

In other words, even though they are making B-52's, and even though they are making highly complicated electronic items, there are certain items suitable for small business. I want to read you what the figures are in this particular field. The Defense Department shows that, of the total contracts suitable for small business, there has been a steady decline, percentagewise, going to small business. In the fiscal year 1953, small-business firms received 74.2 of the procurement dollar contracts suitable for small business, and 71.4 percent, a drop of 3 points, in fiscal 1954; 69.4 percent in fiscal 1955; 63.8 percent in fiscal 1956. And, the first 9 months of this current fiscal year, the percentage dropped to 57.6. This represents a 22-percent decrease.

Now, I remind you, this is in the procurement dollar suitable for small business, and these are the figures of the Defense Department. We do not make these up. It would indicate to me that Treasury Department efforts have not been vigorous enough in this field.

Is that not the conclusion that you would arrive at?

Secretary HUMPHREY. It may be. I know that the intention and the desire to accomplish it is there, and perhaps the accomplishment is not as good as it should be.

Senator SMATHERS. All right, sir. We talked about the excess-profits tax, so we will skip over that.

Let me ask you this question: I noticed in a column the other day, and I would be interested in knowing whether you believe it would be helpful to small business if we repealed the 3-percent excise tax on transportation?

Secretary HUMPHREY. I think any reduction in tax is beneficial to business.

Senator SMATHERS. As you know, common carriers have to pay a 3 percent excise tax which increases the cost of transportation to those who use these facilities.

Secretary HUMPHREY. Yes.

Senator SMATHERS. Whereas what has happened is, as you well understand, that the private concerns with lots of money are going out and buying their own trucks and carrying their own goods, with the result they do not have to pay the tax. Small business firms say this transportation tax is unfair to them and it results in discrimination against them because they do not have the money with which they can buy trucks and have their own transportation.

You say then that you do believe it would be beneficial if we took off this 3 percent excise tax?

Secretary HUMPHREY. I said any reduction in tax.

Now, if you are going to reduce taxes, that involves a study of what are the proper taxes to take off. But I am sure that you can find anybody who pays any tax will feel much better if his tax is reduced.

Senator SMATHERS. There is no doubt about that, but what I am thinking of, trying to relate this to small business——

Secretary HUMPHREY. I am not prepared to say that the tax that would do small business the most good—if you are going to just take off a tax, I am not at all prepared to say that the transportation tax would be the one of all the things you might do.

Senator SMATHERS. But if you are going to take off taxes.

Secretary HUMPHREY. Then you ought to study very carefully to see which of the various things are the best to do within the means you can afford to give up.

Senator SMATHERS. You can well appreciate that particular tax has a discriminatory effect on the small-business man who does not own his own transportation facilities.

Secretary HUMPHREY. I think that would bear a good deal of study, because there are a lot of small truckers very hungry for business, and I am not at all sure that they cannot operate more efficiently at less cost than a business running its own line.

Senator SMATHERS. Of course, if that were the case——

Secretary HUMPHREY. And the cost of a truck is not too great.

Senator SMATHERS. Well, the fact is that the more successful companies who have the money to invest, own their own trucks. That is true of those who have got the money to invest.

Secretary HUMPHREY. Investment in a truck is not so great that it is beyond the people's capacity——

Senator SMATHERS. Of course, small business, Mr. Secretary——

Secretary HUMPHREY. Dollars count, I know that.

Senator SMATHERS. That is right.

Since they must borrow the money and pay an increased interest rate on it, it makes it pretty difficult for them.

Now, the President's Cabinet Report on Small Business made certain recommendations with respect to small business. Some of these recommendations are as follows: One, that taxes imposed on business corporations be modified by reducing the tax rate from 30 percent to 20 percent on incomes up to $25,000.

Two, that businesses be given the right to utilize, for purchases of used property not exceeding $50,000 in any one year, the formulas of accelerated depreciation that were made available to purchasers of new property by the Internal Revenue Code of 1954.

Three, that corporations with, say, 10 or fewer stockholders be given the option of being taxed as if they were partnerships.

Fourth, that the taxpayer be given the option of paying the estate tax over a period of up to 10 years in cases where the estate consists largely of investments in closely held business concerns.

Now, why in the light of that report which was made by the President's Cabinet Committee to help small business, has not some recommendation come over to the Congress so that we could put any one of these or all into effect?

Secretary HUMPHREY. The Treasury's position, my own position in the matter is this: that we are on such very narrow grounds, that I have advocated the retention of all of our taxes. I have not felt that we had any room for tax reduction; and I have not favored piecemeal reductions, just a little here and a little there just because there are so many people who do have tax hardships and are entitled to some consideration. Unless you have enough to do a job to help with a lot of hardships, I think it is very unfair to just pick out anyone.

So purely because we did not have the money, because we cannot afford it, I have been opposed to tax reductions. I am very much in favor, always you know and have always been, in favor of tax reduction the minute we can afford it.

Senator SMATHERS. You said that you thought there were so many people that were suffering hardships that we should not have a piecemeal tax reduction bill?

Secretary HUMPHREY. That is right.

Senator SMATHERS. Would you be in favor, when we do have a tax reduction bill, to take care of those people who had hardships first?

Secretary HUMPHREY. Yes, sir; first.

Senator SMATHERS. And you would put in that category the small-business man, I assume?

Secretary HUMPHREY. Yes, sir.

Senator SMATHERS. All right, sir, thank you very much.

Mr. Secretary, with respect to the rapid writeoff provisions, do you know how much of that, if any, in the last 3 or 4 years has gone to what we would call small-business men?

Secretary HUMPHREY. No, I do not, but I would think that it would be a relatively small percentage.

Senator SMATHERS. That is right. The small-business share of the total writeoffs certified by ODM for the period 1952 to 1953 was 13.4 percent; 1954, 11.9 percent; in 1955, 5.9 percent. We were unable to get the figures for 1956.

Secretary HUMPHREY. I have opposed that, as you know, Senator.

Senator SMATHERS. Yes, sir. All right, sir.

Now, Mr. Secretary, I want to ask you just 2 or 3 more questions, and then I will stop. Are you familiar with the Standard Factors Corp. of New York City, an organization which has been making some studies with respect to credit, the effect of credit on small business?

Secretary HUMPHREY. No, I am sorry, I do not.

Senator SMATHERS. They have made a finding that small-business bank credit is decreasing—the first Standard Factors survey covered 727 manufacturing companies. I refer you to table No. 8, if you would care to look at it, sir.

(The table, "Percent of 727 manufacturing companies having a line of bank credit, March 1955 and March 1956 by size of company," is as follows:)

Percent of 727 manufacturing companies having a line of bank credit, March 1955 and March 1956 by size of company

Net worth of company	Percent of companies with bank lines March—	
	1955	1956
$5,000 to $25,000	53	18
$25,000 to $100,000	82	44
$100,000 to $500,000	94	79
$500,000 to $1,000,000	99	98
$1,000,000 to $2,500,000	99	96
Over $2,500,000	99	99

Source: Standard Factors, Inc.

Senator SMATHERS. It found that, while in March 1955 89 percent of the firms had a line of bank credit, 1 year later only 53 percent had such credit lines. And, significantly, the smallest firms were the ones hardest hit. Of the firms with net worth less than $25,000, 53 percent had credit lines with banks in 1955, but only 18 percent had credit lines a year later.

Whereas, on the other hand, firms with net worth of more than $2.5 million suffered no loss in bank credit lines whatsoever.

Then they made a followup study in November and they found that many large corporations were turning to the banks to cover capital spending rather than rely on the bond markets. The report stated this:

> This tendency to lower long-term credit and use renewable short-term bank loans decreases the pool of short-term bank money available to small borrowers who have no other source of financing. This trend makes bank credit even tighter than it would ordinarily be, and it is critically pressing small business.

Mr. Secretary, do you feel that the tight-money policy, in the light of these particular statistics, is helping small business get credit?

Secretary HUMPHREY. I think it is helping the whole economy, as I have said. All a line of bank credit is, is an invitation to come into the bank and talk about a loan within a certain amount of time. It does not assure the making of a loan. It is simply a relationship for discussion of a loan, if you qualify to get it when you ask for the loan, and——

Senator SMATHERS. Do you consider the man who comes in to a banker and states that he would be interested in obtaining a loan—that he is an applicant for a loan—would you classify him as an applicant for a loan?

Secretary HUMPHREY. The man who does what?

Senator SMATHERS. The man who comes in and talks to the banker in the first instance and says he is interested in getting a loan, and says, "Here is what I need and here is what security I have." Do you consider that man to be an applicant for a loan?

Secretary HUMPHREY. If he sought to borrow.

Senator SMATHERS. If he sought to borrow.

Secretary HUMPHREY. For what he wanted, then he would be an applicant for a loan.

Senator SMATHERS. Do you know the Small Business Administration does not consider such a person an applicant for a loan?

Secretary HUMPHREY. What do they call him?

Senator SMATHERS. They do not call him anything. As a matter of fact, they do not even recognize him. That is one of the things that is a little bit misleading with the Small Business Administration. The figures which we have indicate that they have made more loans in the last couple of years.

Secretary HUMPHREY. That is right.

Senator SMATHERS. But, with respect to the total number of applicants which are coming in—and, the best we can get, it is that there are about an average of 8,000 a month going to the Small Business Administration in the various offices around the country. According to the Small Business Administration report, they only list that total, I think, of 4,000 applicants receiving it. The way they make these figures, jockey these figures—I do not say "jockey" in an unfriendly way; I just mean they use them to their advantage.

Secretary HUMPHREY. They just jockey. [Laughter.]

Senator SMATHERS. They only consider as applicants, those who have actually had their applications processed up through the offices and receive final review.

Secretary HUMPHREY. I see.

Senator SMATHERS. I would like to read for the record excerpts from a report filed by the Select Committee on Small Business in the House of Representatives, which says:

> Although the restriction of the maximum loan limit was increased from $150,000 to $250,000 by the 1955 amendment to the Small Business Act, we find that, conversely, the average size of loans made by the Small Business Administration has declined. The average size of Small Business Administration loans declined from $53,000 as of December 31, 1954, to $49,000 for the 6 months ending December 1955, to approximately $39,000 by June of 1956.
>
> From the foregoing it is clear that, in a period when small-business credit and capital problems had become more difficult, Government credit assistance to small business declined drastically.

Then they went on to say, talking about if you get a loan from SBA you can certainly get it from a bank.

> It would, therefore, appear that an increase in SBA business-loan applications in 1955 would reasonably have been expected. Instead, business-loan applications declined 27 percent and the amount of credit sought fell 31 percent below 1954. It would, therefore, appear that the Small Business Administration failed to fill the gap wherever legitimate credit was not available to small business. This failure must be attributed to the failure to make expeditious disbursements of approved loans or of the imposition of restrictive contract conditions, in which case the agency must be censured.

Mr. Secretary, I think you would agree, would you not, that the increase in the interest rate has made it more difficult for a small-business man to bring about expansion of his business?

Secretary HUMPHREY. Well, I think what you mean is correct; you mean that the restriction of credit which has resulted in an increased interest rate——

Senator SMATHERS. That is right.

Secretary HUMPHREY. Has made it more difficult for people to borrow; that is correct.

Senator SMATHERS. The restriction in credit which has resulted in the increase in interets rates. Could you reverse it——

Secretary HUMPHREY. When I say restriction of credit, what I mean is the restriction on the expansion of credit, because credit has expanded substantially. But it has not expanded as much as the demand and, therefore, there is a restriction on the expansion and the demand has gone on. Therefore, it is harder to borrow. The net is what you want to know; that it is harder to borrow.

Senator SMATHERS. It is harder to borrow?

Secretary HUMPHREY. That is the net.

Senator SMATHERS. And the increased interest rates——

Secretary HUMPHREY. Is a part of it.

Senator SMATHERS. If I am a small-business man and I go to my brother—let's say he is a banker—for a loan, I probably would never get it from him. Let's say I go to some other banker and say, "Let me have some money," and he says, "I will let you have it at 4 percent."

Senator GORE. Five percent.

Senator SMATHERS. Six percent.

Secretary HUMPHREY. Seven. [Laughter.]

Senator GORE. That is the next move.

Senator SMATHERS. That eliminates me. I am the small-business man who cannot expand under those circumstances, and, of course, that places a great restriction on my particular operation. Mr. Secretary, for the record, I would like to read, if I may—Mr. Chairman, I will not read it, either, because I do not want to take that much time. May I insert it in the record?

The CHAIRMAN. It may be inserted in the record.

(The material referred to follows:)

[Excerpts from the Atlantic Monthly, February, 1957]

ARE LIVING COSTS OUT OF CONTROL?

The second side effect of monetary policy is on the competitive balance between large and small business. It would be hard to find a policy better designed to encourage the large and the strong at the expense of the small and the weak. When banks must limit credit, they are impelled to protect their oldest, strongest, and most reliable customers. These, in general, will be the larger firms. (For one thing, the large firm has the strength and reputation to take itself to another bank if it doesn't already have multiple-banking connections.) As a result the burden of the cut falls on newer, weaker, less reliable—and smaller—borrowers. There will be many exceptions to this tendency, but the tendency is inescapable. In recent months commercial bankers have been sensitive about the suggestion that the smaller and weaker borrowers have been losing out. Some have come perilously close to claiming that their least valued clients get their first consideration. This is hardly plausible. These are wonderful times, but banks are still not charitable enterprises. Nor, happily, have bankers yet become completely unbusinesslike.

But the larger and stronger firm has other advantages quite apart from its warmer reception at the bank. Its resources may make it more or less independent of loans not only for operations but also for expansion. And the market power of the large firm allows it to pass higher interest costs along to its customers in higher prices. This the farmer and smaller businessman cannot do.

The effects of monetary policy to date have accorded with these expectations. Smaller businessmen and farmers, having failed to experience the privileged treatment they are supposed to receive at the banks, have been complaining bitterly. The big corporations are evincing no similar distress. The failure rate of small business firms is now higher than for years. Earnings of small firms are at best unexceptional. At the other extreme, earnings of very large firms are near record levels, and their share of all corporate assets has been increasing. Curiously enough, despite the squeeze, bank loans outstanding have also been rising steadily. There is at least a possibility that those who have lost their lines of credit in the squeeze have merely given way to larger and stronger borrowers.

While in principle everyone is in favor of the small-business man, it has long been clear that this affection is largely verbal. We grieve terribly over his fate, but not to the point of doing anything about it. And it is true that big business is here to stay and doubtless will get bigger. Nonetheless, we should recognize that monetary policy, as it is now being practiced, is a magnificent instrument for promoting centralization. A move at the present time to repeal the antitrust laws would, without doubt excite considerable opposition. But it might contribute less markedly to industrial concentration than a long continuation of monetary restraints in their present form. These deny to the smaller and weaker firm the funds on which growth or even survival may depend. The large and the strong tend to get them. The consequences must be clear.

[May 5, 1957, New York Times]

THE MERCHANT'S VIEW

A VIEW OF SMALL-BUSINESS PROBLEMS DURING TIME OF HIGH TRADE VOLUME

(By Herbert Koshetz)

The period ahead does not look too promising, with tightening credit conditions and difficulty in obtaining funds for expansion. The time is fast approaching it seems, when Government monetary policies, unless they are changed, will bring a crisis for small-business men.

Inadvertently, perhaps, Government policy has failed to take into account a trend that has been building up for several years. Large corporations often have found it expedient to utilize long-term bank credit for expanding operations instead of going to the capital markets for funds. As a consequence, commercial banks began funneling resources ordinarily reserved for short-term loans into intermediate- and long-term loans and soon found themselves in a tight situation.

FEW BIG DELAYS

There have been few delays in planned expansion for large corporate enterprises. But many small- and middle-size business men, while they have been able to obtain funds for seasonable merchandise needs, have been compelled to abandon ideas of enlarging operations unless they have had personal resources.

The small-business man is getting a heavy dose of "segmentationitis," a new way to describe his difficulties with the small-business segment of the total business pie. While the total pie was growing larger, shrinkage of the small-business segment did not bear down too heavily on the individual operator.

But where the pie stops getting larger, and it seems that such a time has been reached, the fight for shares of any given segment can become bloody. It will be a case of small business fighting small business as well as large business. And while the latter will find the going a lot tougher, survival will not be so difficult as for the small merchant.

[June 18, 1957, Journal of Commerce]

Financial Situation

INTEREST RATES ARE RISING ALL ALONG THE LINE

Interest rates are rising again as it becomes apparent that the restrictive credit policy will be maintained despite softer tendencies in the economy.

The trend of rates is upward both in the short-term and the long-term sectors of the market for credit.

Bond yields are moving upward briskly despite the drop in mortgage borrowing, the chief source of demand for long-term funds. This results from:

1. The sharp increase in corporate bond financing, which is running well ahead of expectations. Public and private corporate bond offerings in the first quarter were almost tow-thirds larger than in the same period of 1956.

Corporate managements are losing faith in an early downtrun in interest rates, and so are going ahead with bond financing to secure new funds and to pay off swollen bank loans.

2. The upturn in financing by State and local governments. The tax-exempt market is all the more sensitive to increased offerings because the commercial banks, formerly the chief buyers of tax-exempts, are largely out of the market.

As yields on new offerings are lifted to assure their successful sale, yields on outstanding issues look unattractive by comparison and bond prices are marked down in consequence.

SHORT-TERM RATES

Pressure on short-term rates now stems in the first instance from Treasury offerings, actual and prospective.

Despite the balanced budget, the Treasury has to come to the market repeatedly for refunding for the attrition on maturing issues and to pay off savings bonds presented for cash. Under present conditions such borrowing needs would be large even if the budget surplus were a good deal greater than is the case.

Hence, despite the slowing down in business and consumer borrowing, pressure from new Treasury offerings tends to lift short-term interest rates higher.

As yields on Treasury bills and other short-term paper rise, both the prime lending rate of the banks and the discount rate tend to become out of line, along with other short-term interest rates.

NO RELIEF

No relief is to be expected in this situation so long as the Federal Reserve authorities continue to make the checking of the inflation spiral the primary objective of credit policy, regardless of softness in the economy.

As the impression spreads that control of inflation has taken the place of economic stabilization as the effective yardstick for Reserve policy decisions, borrowers tend to become more eager to cover their requirements in advance. This sustains the upward pressure upon interest rates.

Senator GORE. Would you yield off the record?

(Discussion off the record.)

Senator SMATHERS. Mr. Secretary, you are familiar with Dr. Raymond Saulnier; are you not?

Secretary HUMPHREY. I am.

Senator SMATHERS. And you presume he is a respected economist?

Secretary HUMPHREY. Yes, he is, and very able.

Senator SMATHERS. As a matter of fact, I think he works, does he not, with the President's economic committee?

Secretary HUMPHREY. He is the Chairman of the President's Council of Economic Advisers.

Senator SMATHERS. Do you believe that he approves of the present administration's policies with respect to small business?

Secretary HUMPHREY. I do not know, Senator. So far as I know, he does.

Senator SMATHERS. I would like to read you his answer to a question when he recently appeared and testified before the Joint Economic Committee. He says and I quote:

I have no quarrel really with the policy that has been followed, one which since late 1954 has been moving toward greater tightness. But certain aspects of that policy seem to me to have been undesirable. Now, two in particular have been mentioned directly. One is the effect on housing, on home building, and home purchases. The other is the effect on small business.

It was already becoming evident in late 1955 that small business concerns were having rather special difficulty in satisfying their credit needs. We saw this in a rather rapid pickup in the volume of applications for credit to SBA.

Another aspect of that interested us. Without changing their credit standards at all, SBA was finding that an increasing proportion of its applications qualified for loan assistance. This meant that the average quality of the risk that were coming to SBA was improving. What this suggested to me was that increasingly small-business concerns, not concerns in trouble but concerns of pretty good quality, were finding it difficult to meet their credit needs through the private banking system.

Here we find, Mr. Secretary, the President's own economic adviser saying he is concerned over what I think we could call this tight-money policy as it pertains to small business.

Now, do you think there should be any change in this tight-money policy, can there be any change with respect to small business in line with what Dr. Saulnier apparently feels should be done?

Secretary HUMPHREY. Senator, I do not think the change should be made until it is evident that we are leveling off, as I stated, and that the inflationary pressures are within control. I think that to make a change at a time when you have pressures that are pressing us up, unless we believe we see them altering, I do not think there should be a change made.

On the other hand, I think that just as soon as it is reasonable to expect that these inflationary pressures are coming within control, that then our policy should be to make adjustments to begin to relieve the pressures on the other side.

Now, we are between two sets of pressures. I have stated many times we must be flexible. We must not get into a groove and stay there arbitrarily. We must watch the movements just as closely as we can, and we must move between the gaining of inflationary pressures and stability, and we must seek to maintain stability in whatever way we can, in an orderly effort to create it and to maintain it, and we ought to change to do that.

Senator SMATHERS. Do you think there is any possible way that any special legislation or consideration could be given to small business which would relieve them of the sort of harsh situation in which they find themselves under these present policies?

Secretary HUMPHREY. I do not know just how you could do it.

Senator SMATHERS. You would agree that, certainly, under this tight-money policy, it is the small-business man who is suffering the most?

Secretary HUMPHREY. Well, there are many of them in number, perhaps—I do not know. I do not know whether it is home building or small business—I really do not know which is the most affected.

Senator SMATHERS. You do not know of any big-business man who is suffering?

Secretary HUMPHREY. Oh, there have been some big businesses which have had some rather difficult times; yes sir.

Senator SMATHERS. Do not the figures show, however, that corporation profits and things of that nature are up, and that it is rather a prosperous period for big corporations?

Secretary HUMPHREY. For some, for the great majority, yes; that is true.

Senator SMATHERS. Yes.

Secretary HUMPHREY. That is also true of small business, for the great majority, but there are difficulties both with larger concerns and with more smaller ones, more in number, but not in total volume.

Senator SMATHERS. Do you know of any of these large firms with $10 million in assets and over that have gone into bankruptcy lately?

Secretary HUMPHREY. No, but I know of some that have some financial problems.

Senator SMATHERS. But they have been able to go out and borrow money where some small businessman has not. Mr. Secretary, I am sorry you said that the majority of small businesses were better off in your last statement, because that means I should go back to these figures and try to convince you that is not the case. I will not do it, but merely will say this, in conclusion, that the figures we have looked at, which we have discussed here this morning indicate that the small-business man is suffering very greatly under this tight-money policy. It may be that, in the overall picture, it has to be done. I am sure, however, that the small-business man does not think so, and I am sure that he is wondering why, under these policies, he has to suffer when it is apparent that very few of the others, certainly corporate enterprises and the larger ones, are not suffering. The high interest rates weigh particularly heavy on the small-business man.

So, Mr. Secretary, let me just conclude by putting in the record, if I may, Mr. Chairman, this statement about the number of applications which are being made to the Small Business Administration, which is on page 67 of the final report of the Select Committee on Small Business of the House of Representatives, which shows that they are making about 8,000 applications per month but only about 4,000 a year actually were ever approved.

Mr. Secretary, thank you very much.

(The material referred to follows:)

Many requests—few disbursements

In this committee's report, House Report 1045, it was stated: "On the basis of SBA's records submitted to this committee, it is estimated that SBA has received inquiries concerning loans at the rate of about 11,000 per month."

Subsequent to the hearings held by this committee in March of 1955, which required the Administration to retain all correspondence, records, or inquiries, etc., the SBA submitted to this committee figures which indicate that the monthly inquiries for loans continued at or about 8,000 per month

The decrease from the estimated inquireis of 11,000 per month to approximately 8,000 per month was caused mainly by the intopretation placed upon inquires by SBA, and the additional restrictive provisions applied by SBA personnel. Not all inquiries were classified as inquiries for financial assitance. Despite these restrictive interpretations, the rate of inquiries and the differential of the number of applications permitted to be filed remain high.

It has been the SBA's policy, however, to discourage small business people from filing formal applications. SBA instructs its field offices to discourage the filing of an application unless the field office thinks the loan is going to be approved. From past experience, moreover, the field offices have learned that only a few applications will be approved.

In its operations through October 31, 1956, the SBA received 11,737 applications. These applications successfully passed the SBA's screening operations. SBA authorized a net of only 4,511 of these applications. Of this number, only 1,379 were direct loans, committing SBA to $57,330,779. Disbursements had been made on only 897 loans, involving a total disbursement of $36,237,896.

By the definitions of "small business" under which SBA has operated its loan program, there are at least 3½ million business firms, accounting for somewhere between one-third and one-half of all the nonagricultural business done in the Nation.

Secretary HUMPHREY. Thank you, sir.

Senator SMATHERS. I appreciate your courtesy and your willingness to answer my questions, and I hope I have not been too burdensome to you.

Secretary HUMPHREY. Thank you.

Senator SMATHERS. You have been very helpful to me.

The CHAIRMAN. The committee will adjourn until next Monday at 10 o'clock, and Senator Malone will be recognized at that time.

(Whereupon, at 1 p. m., the committee was adjourned until Monday, July 8, 1957, at 10 a. m.)

INVESTIGATION OF THE FINANCIAL CONDITION OF THE UNITED STATES

MONDAY, JULY 8, 1957

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

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

Present: Senators Byrd (chairman), Anderson, Martin, Flanders, Malone, Carlson, and Bennett.

Also present: Robert P. Mayo, Chief, Analysis Staff, Debt Division, Office of the Secretary of the Treasury; C. Dillon Glendinning, Deputy Director, Office of International Finance, Department of the Treasury; Elizabeth B. Springer, chief clerk; and Samuel D. McIlwain, special counsel.

The CHAIRMAN. The committee will come to order.

Senator Malone is recognized.

Senator MALONE. Mr. Chairman, what are the ground rules? Are we on a time limit?

The CHAIRMAN. There is no time limit, I will say to the Senator from Nevada. The only limitation is that the Senator who is interrogating will not be interrupted.

Senator MALONE. That is good enough. I always inquire about the rules, and request they not be changed while I am in there.

The CHAIRMAN. We'll hope moderation will prevail.

STATEMENT OF HON. GEORGE M. HUMPHREY, SECRETARY OF THE TREASURY—Resumed

Senator MALONE. Mr. Chairman, I wish to say first that I am sorry Mr. Humphrey is leaving the Treasury. I think that he has done a fine job with a very bad situation. I think it is a marvelous job just to keep it running, as a matter of fact.

How the American system has stood up under 24 years of this beating is a marvel to most of the folks that I know throughout the country. Something happens to people when they come to Washington. I cannot define it myself, and I have been coming here for 30 years on different jobs as a private engineer, State engineer of my State, and now in the Senate for 11 years, and I do not yet know what it is that happens to people when they breathe this air east of the Potomac for a year or two.

Mr. Secretary, I am glad to see you, and I am sorry you are leaving. I have enjoyed your friendship since we have been here.

I am going to ask you a few questions. Some may seem very simple, but the people whom I know are very worried about the situation. Many of them do not understand the money system. As a matter of fact, I am not sure anybody really understands it.

It is like politics. Just about the time someone says they understand all about politics, they are defeated. [Laughter.] And just about the time they say they understand all about money, they go broke, if they are in private business; and when they understand all about money and they are in Government, they break the Government. As long as someone picks up check.

Apparently it is a very easy thing to make any system work as long as somebody picks up the check.

Secretary HUMPHREY. That is right.

Senator MALONE. But you and I were in business for a long time. I was in it for 30 years before I came here, a very much smaller business than you were in, but I had to pay the help and the rent, and knew that any time I did not, I was not in business.

It is a rule of business, of the free economic system that we started with, and I do not think we really have it now, that whenever a man gets himself involved to the point where he cannot pay his bills he is through. We had certain safety valves in business, we had receiverships and bankruptcy courts. Your business could be taken over and operated.

We have tied down most of the safety valves.

Or course, what happens with a steam engine when you do that, it explodes. And if you find a piece bigger than a quarter, of anybody who has been close to it, it is a miracle.

We used to let these things take their course; our system operates according to the book.

Now, since we threw the system out of gear and tied the safety valves down through picking up the check for the troubled corporations, everybody seems to stay in business except the Government. The Government ends up with a deficit.

I am going to ask you first, Secretary Humphrey, just what is money? What does it represent? If you have $2 in your pocket or in a bank, what does it represent?

Secretary HUMPHREY. Do you mean Federal Reserve notes? They are promises to pay.

Senator MALONE. Suppose you had two silver dollars. I know it is against the law to have gold.

Secretary HUMPHREY. I do not have 2; I have 1.

Senator MALONE. Well, what does it represent? What can you do with it?

Secretary HUMPHREY. It is a medium of exchange.

Senator MALONE. Suppose you had $100 in your pocket or in the bank in a savings account. What have you done that for? What did you put it there for? What does it represent?

Secretary HUMPHREY. It really is, from a practical point of view, a convenient and easy way of making exchanges of services and goods.

Senator MALONE. It means, then, if you want a quart of milk, and that used to cost you 7 cents and now it costs 21, does it not, instead of having to lead the cow along you can take 21 cents of this dollar and get a quart of milk; is that it?

Secretary HUMPHREY. Well, it is a way in which I can render services and get a convenient means of representing the service

I have rendered, which I can hold, put in a bank for safekeeping, or carry in my pocket, and that I can use to buy that quart of milk when I want it. Money is nothing more or less than a convenient way of trading my services for a quart of milk.

Senator MALONE. If you want a pair of shoes and they cost $6 in the old days and cost $25 now, or at least 3 times as much as they did then, whatever it is, instead of having to become a shoemaker you can buy the services of the shoemaker for $6 or $25, whatever it is.

Secretary HUMPHREY. That is right.

Senator MALONE. And you can do this while you work at your regular job that you understand.

Secretary HUMPHREY. That is right.

Senator MALONE. What it really is, then, you might call it stored labor or you are laying up the services you have performed and got paid for, and it represents labor.

Secretary HUMPHREY. Yes.

Senator MALONE. Then if it cost you $5 a day to live in the old days, or $20 now, if you have $20 in the bank you can go a day without working, and pay the regular price.

Secretary HUMPHREY. That is right.

Senator MALONE. Well, then, it is understood, or has been or was for maybe 145 years, up to 1933 or 1934, that when you stored that money, a month or 6 months or a year later, if you had stored $10 in your savings account, that it would still represent $10 in purchasing power.

Secretary HUMPHREY. Well, that was the idea, and it still is. But over periods there have been changes in the relative values.

Senator MALONE. Then, if I understand you correctly, in 1933, we went off the gold standard and started the inflation cycle?

Secretary HUMPHREY. I think so.

Senator MALONE. People were nervous about the risk of inflation and the slogan started, "A dollar is a dollar."

Well, a dollar is a dollar only to a banker, is that not about right? Even if it will only buy 75 cents worth of goods after 6 months. It is still a dollar to a banker, because he did not promise any particular purchasing power of the dollar. He just promised to give the dollar back in the savings account. But the dollar was not a dollar if the purchasing power was considered?

Secretary HUMPHREY. Well, I think that going back as far as I can remember, there have been fluctuations in the prices of commodities, and also fluctuations in the prices of services. And if I have rendered service and saved myself up a hundred dollars, one year it would buy more wheat than it would in another year.

Now, it also might have bought more beef, or maybe they all did not change in the same ratios, but the prices of commodities have varied somewhat, which of course means that the value of the dollar for the exchange for that particular commodity varies with the surplus or shortage of that commodity.

Senator MALONE. Why do you emphasize that it bought more? Did it ever buy more since 1934?

Secretary HUMPHREY. It may have bought more, it may have bought less.

Senator MALONE. Generally, it is less, is it not?

Secretary HUMPHREY. Of recent times, it has been less.

Senator MALONE. Well, over the entire 24 years time, it has been slightly less, has it not?

Secretary HUMPHREY. Yes.

Many, many manufactured articles and many things that we have today, you get more value for the dollar than you did 40 years ago.

Senator MALONE. Now you are getting into your business, and I think you should explain it. Improved inventions and laboratory work have held some prices pretty close to the same amount over the years. But that has been due to improvements in the manufacture and the less labor in the product, has it not?

Secretary HUMPHREY. That is right, and in the quality of product that is produced, the kind of a thing you buy.

Senator MALONE. What I would like you to keep in mind, some of these things about which I am inquiring, I know something about, and some I do not. But I want a record so that when the folks in the mines and on the farms, and working in the factories, if they get a chance to read it, which they have not been doing for a considerable time, will understand it, so you will understand what these questions are for.

Is it not a fact, then, that when you find a product which has held its price pretty well over the last, we will say, 24 years, you find a product which has improved in method of manufacture or producing it, through laboratory experiments and discoveries, and there is less labor or less material or both goes into the manufacture than formerly, and in that way they have overcome the inflationary trend?

Secretary HUMPHREY. I think that is right.

Senator MALONE. I did not want the record to give a wrong impression.

But when you come right down to it, any product today which has not so improved its method of manufacturing, using less labor and manufacturing its products at less cost, being able to buy at less cost for the same reason, then you find about treble the price, do you not?

Secretary HUMPHREY. Well, the other side of that same coin is this: that a good many products which have increased in price have very greatly increased in the value that you get.

Let us just take a Ford automobile or a Chevrolet automobile, and compare it with a model T Ford, and while you pay a good deal more money for your present car, you get a great deal more value for your present car.

Senator MALONE. You are getting into a field, again, where I have had some experience. The first car I ever drove was a model T pickup, and it probably traveled farther than those new ones would go.

What do you get, then, for a man trying to make a living by moving things from one place to another, out of this new car that you did not get out of the model T?

Secretary HUMPHREY. Well, I would refer you to an automobile salesman and let him tell you. [Laughter.] It would be a long story.

Senator MALONE. I have talked to them, too, and I used Buick automobiles for a long time, until I could not get them out of the shop.

The last few years, about 20 years, I have used Oldsmobiles, and the first one cost me about $2,000 or $1,800; and I priced one a few days ago with all this nice, up-to-date equipment, and you know how much it cost? $5,700.

Now, there is not anything they can put on that automobile which makes it worth $3,700 more than the one I got in 1940 for $2,000. So something has happened to this business, and that is what I am trying to find out this morning.

What kind of a money system are we using now? How would you describe it?

Secretary HUMPHREY. I do not know just what you mean.

Senator MALONE. Well, suppose someone just asked you, as they ask me all the time. It has been some time since you have been out there, but you are going back, I understand, so you had better look this up. [Laughter.]

What kind of a money system are we using? Is it a "managed currency," for example?

Secretary HUMPHREY. Well, I do not know, exactly.

Senator MALONE. Do your best to explain it to me.

Secretary HUMPHREY. I do not know just what you are driving at. I just do not know what you mean.

Senator MALONE. What I am driving at is whether we are running it on a principle of sound money or is it being managed by somebody or a board or commission? What is behind the currency, or how do you regulate the value of the currency?

Secretary HUMPHREY. Well, I do not know just how to answer you, Senator.

Senator MALONE. In your own way; put a little horsesense in the thing. We do not want any of these pat answers.

Secretary HUMPHREY. Under your Federal Reserve Act, the issuing of money is under the control of the Board, and so are the limitations on credit.

Senator MALONE. Under the control of who?

Secretary HUMPHREY. The Federal Reserve Board.

Senator MALONE. The Federal Reserve Board.

Secretary HUMPHREY. I really think, if you want to get into that sort of thing, you are far better off to ask it of Bill Martin.

Senator MALONE. No. He is too smart. [Laughter.]

I assure you, I did not mean that to be funny. I would not know Mr. Martin if he walked through the door, and I have been here 11 years. I know you, I knew you the second day you were here. You are easier to get acquainted with, and you have not yet elevated yourself above ordinary mortals.

You say he controls the monetary system?

Secretary HUMPHREY. No; I do not think he controls it.

Senator MALONE. Who does?

Secretary HUMPHREY. Well, you really have got to get out the Federal Reserve Act and read the powers they have.

Senator MALONE. Did you ever read it?

Secretary HUMPHREY. I have read it.

Senator MALONE. I have tried to, but you are in the business. Now tell me about how it is done. Is it a managed currency?

Secretary HUMPHREY. There are some ways of expanding and contracting credit——

Senator MALONE. Then it is a managed currency; is that it?

Secretary HUMPHREY (continuing). That are reflected in the currency; yes.

Senator MALONE. Well, what does that "yes" mean to my question? It is a managed currency?

Secretary HUMPHREY. I do not know. It is entirely a managed currency. I do not know just exactly what a managed currency is.

Senator MALONE. Well——

Secretary HUMPHREY. There are, in fact, ways or powers——

Senator MALONE. Of manipulating it?

Secretary HUMPHREY (continuing). Powers within the Federal Reserve System of contracting and expanding the credit.

Senator MALONE. There are ways of manipulating our money; is that it?

Secretary HUMPHREY. The net effect of it does affect the relationship between currency and goods; yes.

Senator MOLONE. Well, is that not all there is to it?

Secretary HUMPHREY. I think that——

Senator MALONE. The ordinary mortal, I think, working on the farm and in the mines or in industry, all he knows about it is, he either has money in his pocket or he has not. And if he has, he can buy something.

Secretary HUMPHREY. It is a result, I think——

Senator MALONE. If you can manipulate the purchasing power of the money, then it is a managed currency.

Secretary HUMPHREY. Within limitations. But I wouldn't call it manipulation.

Senator MALONE. What are the limitations?

Secretary HUMPHREY. Oh, there are a lot of very definite limitations, Senator, as to just what they can and cannot do in the Federal Reserve System.

Senator MALONE. What are some of the things they can do?

Secretary HUMPHREY. Well, they can affect the volume of bank reserves, they can require greater or lesser bank reserves, which of course affect the credit, and so they can expand or limit the amount of credit. There are a number of things which they are authorized to do.

Senator MALONE. What is something else they can do?

Secretary HUMPHREY. Well, let me get—I think the three principal things from which results flow are the operations of the Open Market Committee——

Senator MALONE. What is that?

Secretary HUMPHREY. Well, that is a committee created in the Federal Reserve System.

Senator MALONE. Who created it?

Secretary HUMPHREY. The law you did, Congress created it.

Senator MALONE. What year was that?

Secretary HUMPHREY. I have forgotten.

Senator MALONE. Was it 1913, when the Federal Reserve was created?

Secretary HUMPHREY. No it was first organized in the twenties.

Senator MALONE. Did Congress create the Open Market Committee?

Secretary HUMPHREY. They operate under that law. You had better get the law and get it accurately. Let us get the Federal Reserve law, and I can read it.

Senator MALONE. Does anybody have it?

Secretary HUMPHREY. No. But if you are going to get into that, if you want to get into this sort of thing, I am not part of the Federal Reserve System and I do not operate it.

Senator MALONE. Do you operate with them?

Secretary HUMPHREY. Sometimes. We are independent of them.

Senator MALONE. What times? I mean, what are the things on which you operate with them?

Secretary HUMPHREY. Sometimes we are in agreement as to policies. We do not operate with them in the sense that we function with them or that they function with us.

Senator MALONE. Do you consult with them?

Secretary HUMPHREY. Yes; we do.

Senator MALONE. Do they consult with you?

Secretary HUMPHREY. Yes.

Senator MALONE. Then you cooperate.

Secretary HUMPHREY. As a matter of fact, we have had a system by which, as I have explained before, Bill Martin comes over for lunch every Monday with us, and Randy Burgess goes over there every week.

Senator MALONE. Bill Martin?

Secretary HUMPHREY. That is right. He is the Chairman of the Federal Reserve Board. And he usually brings 1 or 2 of his people. So that we have a very close relationship with what they are thinking and planning.

Senator MALONE. What is this Open Market Committee; what does it do?

Secretary HUMPHREY. It is a committee that directs and regulates the purchase and sale of Government securities, bills, etc. of the Federal Reserve banks. The transactions are confined mostly to bills.

Senator MALONE. Bills?

Secretary HUMPHREY. Yes.

Senator MALONE. You mean, actually, printed money?

Secretary HUMPHREY. No, no. Treasury bills.

Senator MALONE. What is that?

Secretary HUMPHREY. Ninety-day paper.

Senator MALONE. What is that?

Secretary HUMPHREY. Treasury 90-day paper.

Senator MALONE. That means a bond?

Secretary HUMPHREY. No; it is a bill. A bill is——

Senator MALONE. Explain the difference between a bill and a bond.

Secretary HUMPHREY. Well, a bond has a much longer term. They are all promises to pay. They are promises of the Government to pay, and a bond is a much longer instrument than a note, and a note is a longer instrument than a certificate. A certificate is sometimes related to payment of taxes, and a bill is usually a short-term instrument, 90 days, or something of that kind.

Senator MALONE. A bill is 90 days?

Secretary HUMPHREY. A bill.

Senator MALONE. It is a very short term.

Secretary HUMPHREY. That is right.

Senator MALONE. And a certificate?

Secretary HUMPHREY. They are sometimes related to the payment of taxes, and they are not over a year in extent.

Senator MALONE. What length of time?

Secretary HUMPHREY. A note can be anywhere within a range of 1 to 4 or 5 years. And bonds are usually longer term.

Senator MALONE. Any term for which a bond might be issued.

Secretary HUMPHREY. That is right.

Senator MALONE. Now——

Secretary HUMPHREY. There is no magic in these determinations at all. They are simply the legal terminology.

Senator MALONE. They are bonds—promises to pay that can be changed at the will of the Federal Reserve Board?

Secretary HUMPHREY. These are our designations; they are well understood in the trade.

Senator MALONE. And no doubt well understood by the banks, but the ordinary citizen does not understand them very well.

Secretary HUMPHREY. Well, anybody who deals in them understands them pretty well.

Senator MALONE. Yes, of course. But the ones who really pay them do not understand them pretty well.

Secretary HUMPHREY. Perhaps that is so.

Senator MALONE. Now, taxes; how do you issue a certificate to pay taxes?

Secretary HUMPHREY. What do you mean by issue?

Senator MALONE. You say they are generally issued for taxes.

Secretary HUMPHREY. They are usable for the payment of taxes. They are called tax certificates, and they are issued so they will fall due on a future tax payment date, so that anyone who wants to save up his money to pay his taxes at a future date can buy a certificate and know that it will be usable for the payment of taxes on the date when it is due.

Senator MALONE. It will be redeemable at the time the taxes are due?

Secretary HUMPHREY. He can actually pay his taxes with it.

Senator MALONE. It is a means of saving money for taxes?

Secretary HUMPHREY. That is right.

Senator MALONE. What these designations really are, whether they are bills, certificates or bonds, is a promise to pay, just as if I gave you a note for a hundred dollars, a promise to pay at a certain time.

Secretary HUMPHREY. They are all promises to pay. They are IOU's.

Senator MALONE. Yes.

How many of these IOU's is the Government good for now, how many of them, altogether, are on the market?

Secretary HUMPHREY. It is about $273 billion or $274 billion.

Senator MALONE. An extra 3 or 4 ciphers do not mean much any more.

Secretary HUMPHREY. Well. [Laughter.]

Senator MALONE. Two hundred and seventy-three or four billion.

Secretary HUMPHREY. Yes.

Senator MALONE. Well, 1 billion more or less does not mean much, after 24 years of it.

Secretary HUMPHREY. Well, it changes frequently.

Wait a minute. I will give you the exact figure. This is only for June 30.

Senator MALONE. You mean in 8 days it would change quite a bit?

Do you have at hand there the number of these 4 designations, the amount of the 4 designations that are on the market now?

Secretary Humphrey. As of June 30, I can give them to you.

Senator Malone. Well, that is good enough for us ordinary people.

Secretary Humphrey. These marketable issues total $156 billion, and I will just read round figures.

The bills are $22 billion; the tax anticipation bills and certificates, are $22 billion; Treasury notes are $31 billion; Treasury bonds are——

Senator Malone. $31 billion?

Secretary Humphrey. Yes, $31 billion for notes. I am just taking the nearest round figure. The actual figure is $30.973 billion.

Senator Malone. That is all right.

Secretary Humphrey. The Treasury bonds are, well, the nearest round figure is $81 billion. And that will add up to about $155.7 billion, approximately $156 billion.

Now then, there is a series in addition to that of nonmarketable obligations, so-called, which are composed of Treasury bonds such as investment series and savings bonds, which total up to $66 billion.

Senator Malone. What do you mean by the term "nonmarketable"?

Secretary Humphrey. Well, they are not currently marketable. A savings bond is, as you know, made out to the holder, and it can be redeemed at the Treasury, but it is not a "bearer" bond. You can't sell it in the market. There are $66 billion of these savings bonds and investment series bonds, and then there are special issues that add up to $47 billion, and there is also $2 billion of International Monetary Fund obligations, and other miscellaneous debt that makes the total on this sheet, on June 30, a total debt of $270.527 billion.

Senator Malone. In this managed currency that we have—and that is what I understand you to say we are using, is that right? I want to get it straight. It is managed, within certain limits, and the limits are the powers given the Federal Reserve Board, is that it?

Secretary Humphrey. That is right.

Senator Malone. They have the power to, or do you have it, or the combination, to fix the interest on Government bonds that are going to be sold, on a current issue, that a certain issue will bear?

Secretary Humphrey. No. The Treasury names the amount of interest that it proposes to pay. It is really the market that fixes the amount of it.

Senator Malone. You arrive at that from the market, what you believe will be absorbed by the market?

Secretary Humphrey. That is correct.

Senator Malone. You try not to make it high enough so there will be no velvet in it.

Secretary Humphrey. And yet high enough so that it will sell, so that people will buy. And we have a very accurate criterion of that, because of the trading in our securities that goes on every day.

The public makes a market in our securities, the buyers and sellers make a market every day and, guided by what that market is, and taking into account the amount we are trying to sell and what the holders are, and what uses they have for the money, and so forth, we try to get a price that is as low as we can pay and still sell our securities.

Senator Malone. In other words, it is a good deal like a merchant with goods on his shelves. He has to meet his market.

Secretary Humphrey. The same thing as selling cattle.

Senator Malone. Selling at what the market will bear.

Secretary HUMPHREY. Somebody is selling them every day, and if you put your price too high, why, the fellow passes you by and goes to the next rancher.

Senator MALONE. Then it really depends upon one man, the Secretary of the Treasury, his integrity in trading in bonds to see that the public will buy the offering.

Secretary HUMPHREY. Well, the final responsibility is with the Secretary of the Treasury with the approval of the President.

Senator MALONE. Well, the President's approval is almost automatic: is it not?

Secretary HUMPHREY. He is guided largely by the Secretary of the Treasury.

Senator MALONE. He would have to be, with no experience of his own and not watching it closely.

Secretary HUMPHREY. It is supposed to be the Secretary's job.

Senator MALONE. Then it depends on the integrity of the Secretary of the Treasury to make the best deal for the Government that he can make.

Secretary HUMPHREY. That is right. It is his judgment.

Senator MALONE. Tell me, what is the value, the purchasing power of the dollar today as compared to 1934?

Secretary HUMPHREY. Well, let us see. 1934—do we have those exact dates?

Senator MALONE. Or 1933, before all this managed currency had any effect on the purchasing power.

Secretary HUMPHREY. Let us see if we can get the dates.

The only reason for the problem here is because you picked an odd year. But roughly——

Senator MALONE. It was a very odd year, I remember that we left the sound money standard and invited the low wage foreign competition in our markets.

Secretary HUMPHREY. It was an odd year.

Senator MALONE. A very eventful year, I will add.

Secretary HUMPHREY. Let us say that that dollar was worth $1.02 on that date, it would be worth——

Senator MALONE. What was it worth $1.02 compared to what? Let us take it at 100 cents in 1933 or 1934.

Secretary HUMPHREY. We will take it at 100 cents in 1934.

Senator MALONE. Yes.

Secretary HUMPHREY. All right. Then it would be worth about 48 cents today.

Senator MALONE. It does not jibe too well with the value of the dollar now at 48 cents, based on the value in 1939.

Secretary HUMPHREY. Well, in 1939, the only difference between 1934 and 1939 was a couple of cents. There was very little change between 1934 and 1939, so you can take either of those years and you are within a couple of cents.

Senator MALONE. That was the period there when the slogan "The dollar is a dollar" was created to sell the country on inflation; was it not?

Secretary HUMPHREY. Well, there was very little change. As you remember, those were pretty tough times.

Senator MALONE. And then inflation began to catch up with us, did it not, about that time, and it began to be worth less regularly?

Secretary HUMPHREY. Our tables start with 1939, that is our trouble here; let us take it for the earlier period.

These are all indexes. We will get the dollar value for you.
Senator MALONE. Will you do that?
Secretary HUMPHREY. Yes. How far do you want it carried back?
Senator MALONE. Well, as long as you are going to do it, I think it ought to go back a little further, maybe in the early twenties, if you could do that.
Secretary HUMPHREY. Yes, surely.
Senator MALONE. Start with the dollar worth a dollar, at 1933 or 1934, and then let us just figure out a table which will tell the story.
Secretary HUMPHREY. We will start with a dollar at 1934, and we will go back 5 years and come forward to date.
Senator MALONE. Well, perhaps back in the early twenties, as long as you are going to do the job.
Secretary HUMPHREY. All right.
Senator MALONE. What I am trying to have the record show, Mr. Secretary, is just what effect the fluctuations in the purchasing power of the dollar has on wages and the things we can have, for our own personal benefit, for the wages we earn. That will be a part of the objective.
When did the Treasury change its base to 1939 for comparison of the dollar purchasing value, rather than 1933 or 1934?
Secretary HUMPHREY. I haven't any idea. I didn't know we ever used 1934 as a base.
Senator MALONE. You probably can answer that by looking up the records, as to when they changed the base.
Secretary HUMPHREY. There is not any magic in the base. You can get a base for any year you want. We just picked 1939.
Senator MALONE. Here is the magic in the base, Mr. Secretary. They are now talking about 1948, the value of the dollar from 1948. The magic in the base is that if you took 1955, the value would probably be 95 cents, would it not, or something like that. That is the magic in the base.
And all the folks west of the Rockies, if you say it is 95 cents, they do not know what you base it on, and I would like to get something tangible for comparison.
Secretary HUMPHREY. You are talking about a lot of old people, if you are talking about dollars before 1900.
Senator MALONE. And so are you.
Secretary HUMPHREY. Yes. You and I would remember.
Senator MALONE. That is the reason I am asking you, because we are going to get a younger man in this job, and he will have to look at the record you made.
Secretary HUMPHREY. That is right.
Senator MALONE. I am trying to make one for him. I think a lot of Mr. Anderson, and I am very glad a man of his type is taking your place, if you have to go.
Secretary HUMPHREY. Well, I am, too, Senator.
Senator MALONE. I think he has integrity, and I think he will do the best possible job.
Secretary HUMPHREY. I am sure of that.
Senator MALONE. And he will not be reading the menu backwards, which has been our trouble for a long time.
What happens to a savings account if a man had been saving his money as we all were, that is, I was, taught to do, for many years we did teach savings to the children as they grew up, did we not?

Secretary HUMPHREY. That is right.

Senator MALONE. You still think it is a good idea?

Secretary HUMPHREY. I still do.

Senator MALONE. What happens to a man who saved his money and worked hard to put it away in the bank, and deprived himself, his wife and children of things they really wanted in order to save, what happens to that fellow when the dollar is worth 48 cents instead of the 100 cents when he put it away, Mr. Secretary?

Secretary HUMPHREY. Well, it just means that his savings will buy that much less than they would have bought.

Senator MALONE. Less than half.

They gave him back a dollar out of the savings account in the bank, but they did not give him the purchasing power by 52 percent.

Secretary HUMPHREY. That is exactly right. That is what happens when you get these uncontrolled inflations.

Senator MALONE. Is that what we have had, uncontrolled inflation?

Secretary HUMPHREY. It wasn't too well controlled for a number of years. The last 4 years it has been very moderate.

Senator MALONE. Well, the table you are going to give me will show that, will it not?

Secretary HUMPHREY. It will show it exactly; yes. I think the movement in the last 4—just very roughly, you can take the table from 1939, which was the last prewar year, and during those war years and continuing on, continuing on until 1952, the dollar was just about reduced in half.

Now then, from 1952 on, there has been about 2 cents change or a little more—it has dropped about 2 cents in 4 years, and almost all of that has been within the last year.

(When the following was subsequently submitted it was further discussed. See p. 508.)

Consumer prices and the purchasing power of the dollar, 1913 to date

	Consumer prices (1947–49=100)	Purchasing power of the dollar			Consumer prices (1947–49=100)	Purchasing power of the dollar	
		1939=$1	1934=$1			1939=$1	1934=$1
Calendar year averages:				Calendar year averages—Con.			
1913	42.3	$1.404	$1.361	1937	61.4	$0.967	$0.932
1914	42.9	1.385	1.339	1938	60.3	.985	.949
1915	43.4	1.368	1.318	1939	59.4	1.000	.963
1916	46.6	1.274	1.227	1940	59.9	.992	.955
1917	54.8	1.083	1.044	1941	62.9	.944	.909
1918	64.3	.924	.890	1942	69.7	.852	.820
1919	74.0	.803	.773	1943	74.0	.803	.773
1920	85.7	.693	.668	1944	75.2	.790	.760
1921	76.4	.778	.749	1945	76.9	.772	.744
1922	71.6	.830	.799	1946	83.4	.712	.686
1923	72.9	.815	.785	1947	95.5	.622	.599
1924	73.1	.813	.782	1948	102.8	.578	.556
1925	75.0	.792	.763	1949	101.8	.583	.562
1926	75.6	.786	.756	1950	102.8	.578	.556
1927	74.2	.801	.771	1951	111.0	.535	.515
1928	73.3	.810	.781	1952	113.5	.523	.504
1929	73.3	.810	.781	1953	114.4	.519	.500
1930	71.4	.832	.801	1954	114.8	.517	.498
1931	65.0	.914	.880	1955	114.5	.519	.500
1932	58.4	1.017	.979	1956	116.2	.511	.492
1933	55.3	1.074	1.034	Months:			
1934	57.2	1.038	1.000	May 1956	115.4	.515	.496
1935	58.7	1.012	.975	May 1957	119.6	.497	.478
1936	59.3	1.002	.964				

Source: Department of Labor and derived computations.

Senator MALONE. As a matter of fact, is there not a considerable lag in the change in the actual purchasing power of the dollar from the initiation of the causes for the changes in the purchasing power?

Secretary HUMPHREY. There is a great lag in most of those things; yes.

Senator MALONE. In other words, when this cheapening of the dollar's purchasing power actually begins to take effect, how long before that would you say the causes of that decreased purchasing power were initiated or started?

Secretary HUMPHREY. Well, there are a great many causes for this. I think the war and the governmental policies from 1939 on probably had more to do with it than anything else.

Senator MALONE. Did it have anything to do with it when you went off the gold standard?

Secretary HUMPHREY. Yes; I think perhaps that had some contributing effect.

Senator MALONE. How would that contribute to it?

Secretary HUMPHREY. Well, this all gets back largely to the confidence that the people have in their money, and how much of it they save and how much of it they spend, and all those things. All these things enter into this whole equation, and it is not any simple answer. You cannot just pick out one thing and say that did it. You have to consider a great many things.

Senator MALONE. What are some of these contributing factors?

Secretary HUMPHREY. I just outlined a number of them.

Senator MALONE. Are there any more?

Secretary HUMPHREY. I think so; yes. I think if you went into it, you would find lots of contributing causes of various kinds.

Senator MALONE. When we went off the gold standard—we followed England off the gold standard in 1933, did we not?

Secretary HUMPHREY. I really cannot tell you, I cannot remember.

Senator MALONE. Would you look that up and answer it?

Secretary HUMPHREY. Britain went off in 1931.

Senator MALONE. And we followed in 1933?

Secretary HUMPHREY. In 1933.

Senator MALONE. You might put the dates in, if you will.

Another thing—I do want to ask you a minimum of things you have to look up. I would like to have it answered, however, if you will check. How many nations were on the gold standard in 1931, or before England went off the gold standard? Do you know now?

Secretary HUMPHREY. No, but we will find out.

Senator MALONE. You can answer the question for the record.

Secretary HUMPHREY. That is right. We will find out.

Senator MALONE. How many of them went off the gold standard before England did, and how many of them followed?

Secretary HUMPHREY. Well, we will look it up.

(The Secretary subsequently submitted the following: see also page 508.)

Countries which left the gold standard, April 1929–April 1933

Year and month	Country
1929:	
April	Uruguay.
November	Argentina.
December	Brazil.
1930:	
March	Australia.
April	New Zealand.
September	Venezuela.
1931:	
August	Mexico.
September	United Kingdom, Canada, India, Sweden, Denmark, Norway, Egypt, Irish Free State, British Malaya, Palestine.
October	Austria, Portugal, Finland, Bolivia, Salvador.
December	Japan.
1932:	
January	Colombia, Nicaragua, Costa Rica.
April	Greece, Chile.
May	Peru.
June	Ecuador, Siam.
July	Yugoslavia.
1933:	
January	Union of South Africa.
April	Honduras, United States.[1]

[1] On Mar. 6, 1933, a bank holiday was declared and gold payments by banks and the United States were suspended. On Apr. 5, 1933, all gold held in this country was required to be delivered to the U. S. Government.

Source: The International Gold Standard Reinterpreted, 1914-34, p. 1075, by W. A. Brown, Jr. (vol. 11).

Major countries which left the gold standard, May 1934–September 1936

Year and month	Country
1934: May	Italy.
1935: March	Belgium.
1936:	
April	Poland.
September	France, Netherlands.

Source: Gold and the Gold Standard, p. 121, by E. W. Kemmerer.

Senator MALONE. Now we have determined we do have a managed currency within the limits set by the Federal Reserve Board and within the limits set for the Treasury.

The Treasury, as I understand your testimony, is responsible for financing the public debt. That is right, is it not?

Secretary HUMPHREY. That is right.

Senator MALONE. And you have all the latitude you need to fix the time on the maturing of such bonds or notes or certificates or bills, and the interest to be paid which you think will sell the bonds or notes or certificates, whatever they are.

Secretary HUMPHREY. That is right.

Senator MALONE. So the two of you together have a lot of latitude in managing the currency.

Secretary HUMPHREY. Well——

Senator MALONE. You fix the interest.

Secretary HUMPHREY. Well, that really is not management of the currency.

Senator MALONE. It is management of the currency system.

Secretary HUMPHREY. In the Government fiscal affairs——

Senator MALONE. It is managing to sell the bonds; fixing the interest so they will sell.

Secretary HUMPHREY. In fiscal affairs, we have a good deal of that.

Senator MALONE. Fiscal affairs and managing the currency is almost synonymous in this case; is it not?

Secretary HUMPHREY. Well, no; I would not think so. I think they are quite different.

Senator MALONE. You say that the—I think we had better go back to this business of the Federal Reserve Board, because I am sure you know more about it than I do, or any of our citizens who try to make a living the hard way and save a couple of dollars every now and then, and do not find it profitable, at least from the conversation I am getting from the country when I go out with the farmers, buckaroos, and cowmen, and I have just come back from a week with them.

Who determines the amount of money in circulation?

Secretary HUMPHREY. I think that is as a result of the activities in the province of the Federal Reserve System. You have to include deposits, too.

Senator MALONE. Just how do they determine it, and just how do they arrange to have more money or less money in circulation?

Secretary HUMPHREY. I think you will have to ask that from them.

Senator MALONE. Somehow, I have an idea I am going to get better answers from you than I will from some of these Federal Reserve Board people.

Secretary HUMPHREY. No, Senator. When you get into the technicalities of the Federal Reserve System, I think you ought to ask it of those witnesses. I am not charged with that responsibility, and I do not attempt to exercise it in any way.

Senator MALONE. This is the fifth year you have been here; is it not?

Secretary HUMPHREY. Yes.

Senator MALONE. It is 11 years for me. It seems impossible.

Secretary HUMPHREY. It is a long time.

Senator MALONE. Then could you give me your idea, how do you determine the amount of currency that should be in circulation?

Secretary HUMPHREY. No; I think that——

Senator MALONE (continuing). The amount of money in circulation?

Secretary HUMPHREY. When you want to know the technicalities of the Federal Reserve Board and the law they operate under, I think you ought ask the Federal Reserve Board.

Senator MALONE. After you are gone, I cannot get you back.

Is it Martin who is the Chairman?

Secretary HUMPHREY. Yes.

Senator MALONE. He is liable to tell me, "Well, that is the Treasury's responsibility," and then I am lost.

Secretary HUMPHREY. Well, you can get me back. I will be here.

Senator MALONE. You are going to stay here?

Secretary HUMPHREY. Yes, sir; I will be available as long as you want me.

Senator MALONE. But this hearing may go on, you know, through the year.

Secretary HUMPHREY. I will come back; any time you want to ask me questions that I ought to answer, I will come back.

Senator MALONE. I appreciate that more than you know.

You do say the Federal Reserve Board can determine the amount of money in circulation, and that comes back to you finally, because you have to finance it, and sell bonds, and do the things necessary to get the money.

Secretary HUMPHREY. Well, I do not know just how you mean that.

Senator MALONE. The more money we owe——

Secretary HUMPHREY. This——

Senator MALONE. The general supposition has been lately, in the last 24 years, the more you owe, the wealthier you are.

Of course, I tried that on a banker 25 or 30 years ago, and he cured me permanently. But it is supposed that the United States is wealthier now because we owe more money.

Secretary HUMPHREY. I do not think you spend yourself rich; and I do not think the more you owe, the richer you are, necessarily.

Senator MALONE. I do not, either, but we are just part of the old school, are we not?

Secretary HUMPHREY. I am afraid so.

Senator MALONE. But you want me to get this information from Martin. I will do that.

Secretary HUMPHREY. All the technicalities with respect to their operations, I think should properly come from him, not from me.

Senator MALONE. He does have the power, the Chairman of the Board, that is to say, if the Board goes along with him——

Secretary HUMPHREY. No.

Senator MALONE. If the Board goes along with him.

Secretary HUMPHREY. That is just the thing I do not want to get into and do not want to give any impressions about. The Federal Reserve System operates under the Federal Reserve law, and I assume that they do it, that they operate properly under that law. As far as I know, they do.

And just how they do it and just the detail of the techniques are his proper function and not mine.

Senator MALONE. The only thing you are sure of is, you do not have anything to do with it.

Secretary HUMPHREY. I do not; no, sir.

Senator MALONE. Well, does Congress have anything to do with it?

Secretary HUMPHREY. Yes.

Senator MALONE. How?

Secretary HUMPHREY. They can change the law whenever they like. They passed the law in the first place, and they have amended it, and they can change it.

Senator MALONE. But if they do not see fit to amend or change it at the moment, they have nothing to do with managing it or the amount of money in circulation or any of these things about which you have testified.

Secretary HUMPHREY. Well, I do not know. You will have to ask him about that. I do not know of any.

Senator MALONE. That is right. I do not know of any, either.

Now, if these savers we are talking about, that we taught to save money for about 140 years, 145 years, and then suddenly begin to teach them to spend it and depend on social security, that seemed to be the setup then, how about the pensioners, the people who draw pensions?

The Civil War boys are about all gone, the Spanish-American War boys; and the First World War and the Second World War, and now Korea, whenever compensation is fixed for a disabled soldier, or a pension, old age or anything else, cheapening of the money then has the same effect, does it not, that it has on a saver? If it only buys 48 percent, that is about the way it is. The purchasing power has been reduced 52 percent.

Secretary HUMPHREY. Well, Senator, they are all savers in various forms, whether you have a savings deposit, or whether you are getting yourself a pension, or whether you have an insurance policy, or whether you are in a mortgage and loan association or a fraternal benefit society. There are many, many ways of saving and if your money depreciates in value in relation to goods between the time you save it and the time you spend it, why, you have been hurt. And all those people get hurt when that occurs.

Senator MALONE. Take a family which has an insurance policy on a boy or girl when they are a year or two old, and they are looking ahead to high school and college, say 10 years, 20 years, before 1939, or whatever it is. When that boy or girl is ready for college, there has been considerable question as to whether it will do what they had paid to do.

Secretary HUMPHREY. That is right.

Senator MALONE. The fund would be 48 percent; 52 percent short.

Secretary HUMPHREY. That is right.

Senator MALONE. But the kind of money that this head of the family paid in all the time, they just do not get that kind of money back, in purchasing power.

Secretary HUMPHREY. They have not in the last 20 years.

Senator MALONE. Do you think that is good?

Secretary HUMPHREY. No, I do not.

Senator MALONE. The insurance salesmen over the years, the lot of them who have worked on me, many are successful at the moment, and then I found what I thought were better ways of spending it; even my World War I insurance, I let that go.

But their sales talk as far back as I can remember—and I suppose still is—was that this is a method of saving money, this matter of insurance, paid-up insurance. Is that not right?

Secretary HUMPHREY. That is right.

Senator MALONE. In view of what has developed, what do you think of that method?

Secretary HUMPHREY. I think that it is a perfectly satisfactory method of saving money.

Senator MALONE. Saving money, but what about the inflation?

Secretary HUMPHREY. It has given protection in the meantime, and I think insurance is a very proper thing to have, and a good thing to have.

Senator MALONE. I think it is, too.

Would it be better or worse if the inflation were less?

Secretary HUMPHREY. It would be better.

Senator MALONE. Do you think that would be good?

Secretary HUMPHREY. Yes, sir.

Senator MALONE. You think the thought is still good, but in Washington we have defeated the objective; is that right?

Secretary HUMPHREY. Well, you did not defeat the objective. The objective was lessened in value, but it was not defeated.

Senator MALONE. By 52 percent?

Secretary HUMPHREY. That is right.

Senator MALONE. Over the period of a few years.

If it keeps up—I remember a very famous man one time made a statement which stuck with me, because it seemed to hit it on the head. I never forgot it. I think Will Rogers said, "If this keeps up, we will pay the mortgage off with a possum hide."

That should not happen, should it?

Secretary HUMPHREY. I hope it will not keep up. I have tried to do everything I thought could prevent it, or everything I thought was practical to do to prevent it, and I hope it will not continue.

Senator MALONE. It could continue, could it not?

Secretary HUMPHREY. It could continue.

Senator MALONE. And Will Rogers could be proven quite a prophet in 10 or 15 years if it keeps up, could he not?

Secretary HUMPHREY. He could.

Senator MALONE. Is that not the way Germany paid off their national debt after the First World War?

Secretary HUMPHREY. They had a very severe inflation and depreciation of their currency.

Senator MALONE. It got so it took a wheelbarrow load of it to pay for a pair of ham and eggs.

Secretary HUMPHREY. It got what?

Senator MALONE. It took a wheelbarrow load of their currency to buy a pair of ham and eggs. And they just paid it off by printing the money, is that not right?

Secretary HUMPHREY. I do not remember just what the bonds were paid off at, but they had a very severe inflation and, of course, that would depreciate the value of their obligations.

Senator MALONE. I remember after the First World War, there was an institution set up in New York to sell German bonds. They had quite a time for themselves, but finally it was all paid off with paper. That is right; is it not?

Secretary HUMPHREY. I do not recall.

Senator MALONE. Well, I hoped your memory would be better.

Secretary HUMPHREY. I did not participate in that organization you speak of.

Senator MALONE. But you do think that as long as this inflation keeps up, the savers and pensioners and people who have paid on insurance for 20 or 30 years, are the forgotten people; are they not?

Secretary HUMPHREY. They are definitely forgotten people, and people who are injured.

Senator MALONE. They are severely injured.

Secretary HUMPHREY. They are severely injured.

Senator MALONE. Are there not many men you know who have passed the active age of being in business, where they are depending upon their own energy, past 65 or 70 years old, even older, who have had to return to business and try to augment their income, where they had saved money and would have had plenty under the system if the money had not been cheapened?

Secretary HUMPHREY. I think that is right.

Senator MALONE. You do not think that is good?

Secretary HUMPHREY. No, sir.

Senator MALONE. A good deal has been said over the last 24 years about the supply of goods and services. Under the system we had for a long time, we understood that the supply of goods and services balanced itself if you let it alone, on principle, because everyone was trying to make it work. If a man is manufacturing monkey wrenches, and just could not sell his product, then he cut down his output or got hurt.

And if he had a service to offer the public, if there were too many of those services, too many people working at it, then he got into some other business, naturally, if you let him alone.

Who do you think ought to balance this business, the people work it out themselves under a principle, or should someone in Washington try to balance these services?

Secretary HUMPHREY. Well, Senator, I am a very great believer in the commonsense and the ability of free Americans to look after themselves, and I think that the more they are permitted to look after themselves, the better off they will be.

On the other hand, I recognize that there are certain limitations which should be put on activity of individuals to restrain them from interfering with the rights of other people.

And just where you draw that line, it is an extremely difficult thing. I think our tendency has been to draw the line too far up, and to greatly restrict individual freedom. I think that we have been interfering perhaps more than we should, but it is a delicate line to draw, to preserve for the individual the maximum of individual freedom, and yet prevent him from treading on the rights of others.

Senator MALONE. Now, on this treading on the rights of others, do we not have the antitrust law, and do we not have laws on fraud, and various other methods of preventing people from injuring the rights of others?

Secretary HUMPHREY. Yes; we have a lot of them.

Senator MALONE. Well, do you believe that we ought to follow that line, or that we ought to have a setup here in Washington, a chairman of a commission to judge when we have too much money in circulation or too little in circulation, or are taxed too low or too high?

Do you think that ought to be balanced in Washington by a commission or board, or should Washington, the Congress, work on principle and let people create a balance.

Secretary HUMPHREY. Well, the Government has the responsibility, it is a basic responsibility of the Government, to supply money. The Government is the only place where you can collect taxes. The Government must be the taxing authority.

And I do not know how you could turn over the power to tax to the people or to——

Senator MALONE. I had not mentioned that, you understand.

Secretary HUMPHREY (continuing). Or to private sources, or the issuing of money by private sources.

Senator MALONE. I had not asked you about taxes, had I?

Secretary HUMPHREY. I thought I was answering your question.

Senator MALONE. No, I do not think so.

I asked you whether or not principles could be set down to prevent people from taking advantage of other people, and to have a principle under which you could invest your money or you could go into a certain business and fail if you could not make it, or make it if you could, and not tread on other people's toes. It has nothing to do with taxation.

Secretary HUMPHREY. I think you can.

Senator MALONE. Well, we have gotten away from that, have we not?

Secretary HUMPHREY. Well, to some extent. Whether, as I said a minute ago, we have gone too far or not, our tendency, the tendency in this country, I think, is for the people, whenever anything happens that they do not like, to come to Washington and to try to get it corrected.

Senator MALONE. I wonder how that came about. Congress has delegated almost everything to boards and commissions.

Secretary HUMPHREY. I think the tendency is for them to come too much; that there ought to be less activity from Washington rather than more.

Senator MALONE. Our people have to come to Washington to deal with such people to which Congress has delegated its power. Much of it to foreign nations, including our foreign trade and national economy.

The clock will be all right. Is your name Burgess?

Mr. GLENDINNING. Glendinning, sir.

Senator MALONE. Glendinning. I never met you before, but I do not want to hold you if you have other business.

There is an item in the Constitution of the United States—article I, section 8, which says:

> The Congress shall have power to lay and collect taxes, duties, imposts, and excises * * *

And you believe that is where the power ought to be?

Secretary HUMPHREY. That is right.

Senator MALONE. It says:

> The Congress shall have power * * *
> To borrow money on the credit of the United States.
> To regulate commerce with foreign nations, and among the several States * * *

You believe that is where it ought to be?

Secretary HUMPHREY. Yes, sir.

Senator MALONE. You do believe that?

Secretary HUMPHREY. Yes, sir.

Senator MALONE. It says:

> * * * shall have power to establish a uniform rule of naturalization and uniform laws on the subject of bankruptcies throughout the United States.

You believe that?

Secretary HUMPHREY. Yes.

Senator MALONE. And:

> To coin money, regulate the value thereof, and of foreign coin * * *.

Secretary HUMPHREY. And what?

Senator MALONE. It says that—and for a couple of decades we have overlooked it:

> The Congress shall have power to coin money, regulate the value thereof, and of foreign coin * * *

Secretary HUMPHREY. Yes.

Senator MALONE. You believe that——

Secretary HUMPHREY. Yes.

Senator MALONE (continuing). That is where it ought to be?

Secretary HUMPHREY. Yes.

Senator MALONE. Is that where it is now?

Secretary HUMPHREY. I think so.

Senator MALONE. Under the laws that we now have, what power does the Congress have? They have the power to change the law, but what do they know about what is being done with their constitutional responsibility to coin money and fix the value thereof, if they do not change the law?

Secretary HUMPHREY. Well, I think they have the same power they have in all things. The Congress cannot do everything every day. It has to provide responsibilities for others, and limit those responsibilities and activity. And then it has the power to do just what you are doing now, to call them in and ask them what they have been doing about it.

Senator MALONE. That is what this hearing is for, and I hope we do something about it.

Secretary HUMPHREY. I hope you soon get to Mr. Martin and see what you can do about it.

Senator MALONE. I intend to ask him, don't worry about that. But I think you are a little more familiar with the way the country has been operating. You have not been here in Washington long enough to get "Potomac fever," and you stay here another 5 or 6 years and you will be just like the rest of the officeholders.

I have said this many times, if you do not get back west of the Potomac River to see the folks who are making a living the hard way, about 4 or 5 months you begin to believe this Washington stuff; do you not?

Secretary HUMPHREY. That is right.

Senator MALONE. That is the reason I rode in the Elko Stampede and the Reno Rodeo last week with buckaroos and cowmen in Nevada, to keep my feet on the ground.

Secretary HUMPHREY. That is right.

Senator MALONE. Through that activity I hear a lot of things people do not hear in Washington.

I have heard a good deal over the last 24 years about raising taxes, or manipulating the taxes to balance the purchasing power. Siphoning off the peoples money to prevent inflation. Did you ever hear of that procedure?

Secretary HUMPHREY. Well, I heard some years ago that people—there were people who advocated redistribution of wealth, and all sorts of things, through the taxation system.

I think, myself, that the purpose of taxation is just one thing, just one, and that is to raise the money to pay the Government's bills as fairly and equitably from the people as you can possibly do.

Senator MALONE. And then Congress should be the one to determine the amount appropriated.

Secretary HUMPHREY. Congress absolutely should determine—and Congress does determine—how much money can be spent. They determine how much money can be collected by passing a tax law, and they determine how much money can be spent by appropriations.

Senator MALONE. I think that used to be the case. I do not think Congress had much to do with it in the last 24 years. I have never noticed, for that length of time, that Congress has changed a White House-proposed budget over 3 percent.

Secretary HUMPHREY. Has changed what?

Senator MALONE. A proposed budget over 3 percent which comes from the White House; have you?

Secretary HUMPHREY. I do not know. I have not checked it.

Senator MALONE. You might look up that record, if you will, and as far back as at least under our administration—I say "ours," because we are both of the same political faith, but I do not think we have done very well, either; that is, to change the trend towards White House control.

I think Congress has adopted a lot of White House policies, in appropriating the taxpayers' money, that were never contemplated under the Constitution of the United States. And I think if we do not check it within the next 2 years, that the folks will move in and change the picture.

You might check that statement, if you will, for the last 24 years.

Secretary HUMPHREY. Yes, we can do that.

Senator MALONE (continuing). You have some holdovers in the Treasury who lived through most of this 24 years.

Secretary HUMPHREY. What is that?

Senator MALONE. You have some holdovers in the Treasury that have been through most of this for the last 24 years.

Secretary HUMPHREY. We have some people who have been there 20 years; yes.

Senator MALONE. They can get that information very easily.

Secretary HUMPHREY. We will see if we can get that.

Senator MALONE. The amount that has come from the White House recommended to be spent, and the amount actually appropriated by the Congress. Just find out what the percent of difference is.

Secretary HUMPHREY. We can do that.

Senator MALONE. If you can do it for 20 years, I would appreciate it.

Secretary HUMPHREY. Twenty years. We will try to do it.

(Secretary Humphrey subsequently submitted the following: see also page 508.)

CONGRESSIONAL ACTION ON BUDGET REQUESTS

I have been told by the Bureau of the Budget that data are not available which would compare Presidential budget requests for total new obligational authority over a period of years with the amounts of such authority actually approved by the Congress.

Material has been published, however, on a comparison of appropriation requests and appropriations by each session of Congress from 1946 to date. This information was compiled by the Appropriations Committees and was published on page 110 of the hearings on "The Budget for 1958" before the House Appropriations Committee on January 24, 1957.

Comparison of estimates and appropriations by sessions of Congress (fiscal years 1946–57)

Congress and session	Estimates	Appropriations	Reduction
84th Cong., 2d sess.	$73,208,859,620	$73,041,364,417	−$167,495,213
84th Cong., 1st sess.	66,023,089,195	63,947,281,321	−2,075,807,874
83d Cong., 2d sess.	60,770,315,686	58,160,445,563	−2,609,870,123
83d Cong., 1st sess.	77,190,083,599	65,156,254,797	−12,033,828,802
82d Cong., 2d sess.	94,008,763,252	85,999,646,411	−8,009,116,841
82d Cong., 1st sess.	105,837,897,537	101,117,786,897	−4,720,110,640
81st Cong., 2d sess. (after Nov. 27, 1950)	19,926,529,938	19,841,684,745	−84,845,193
81st Cong., 2d sess. (to Nov. 27, 1950)	63,090,905,227	61,203,355,696	−1,887,549,531
81st Cong., 1st sess.	48,313,575,167	46,497,456,898	−1,816,118,269
80th Cong., 2d sess.	44,446,109,713	41,675,480,957	−2,770,628,756
80th Cong., 1st sess.	39,349,643,652	35,982,887,708	−3,366,755,944
79th Cong., 2d sess.	37,315,954,247	35,734,209,165	−1,581,745,082
79th Cong., 1st sess.	71,175,840,875	69,789,137,110	−1,386,703,765

NOTE.—Foregoing figures pertain only to "appropriations" in appropriation bills and "appropriations" pursuant to permanent law, and therefore does not include other forms of obligational authority such as contract authority and authority to expend from public debt receipts, some of which are enacted in other than appropriation bills.

Source: "Estimates, appropriations, etc." 1946–55, table VIIIa, "Grand total, regular annual, deficiency, supplemental, and miscellaneous acts and permanent appropriations."

Similar information as to the exact fiscal year to which the appropriations applied is not available. The table is also incomplete in that it covers appropriations only and does not include contract authorizations, authorizations to expend from public debt receipts, etc.

In these same hearings the Bureau of the Budget prepared a table in which it compared congressional action for all types of new obligational authority with recommendations of the administration as shown in the Annual Midyear Budget Review for the last 4 years. These data are current only as of the time of the review, and do not reflect any later action.

Information comparing the congressional action on all sources of new obligational authority with recommendations of the administration is available in the annual midyear reviews of the budget for the last 4 years. These give the following information as of the time of the review.

	Recommended	Enacted	Increase (+), or decrease (−).
1954	$72,883,000	$62,770,000	−$10,113,000
1955	57,234,000	55,215,000	−2,019,000
1956	61,591,000	60,994,000	−596,000
1957	66,780,000	68,815,000	+2,035,000

Senator MALONE. Because I do not think Congress has had the guts to take charge of the appropriations for 24 years; they just have not had it. I am sorry.

Secretary HUMPHREY. I think there could be a good deal of improvement in the way in which Congress functions with respect to both income and outgo, in handling the appropriations.

Senator MALONE. There is just one kind of function for Congress, and that is the vote for constitutional processes. There is not any other kind of a function that I know of.

We are appropriating just about $40 billion a year for national defense, are we not?

Secretary HUMPHREY. Yes; that is about it.

Senator MALONE. An average of around $5 billion to $8 billion goes direct to foreign powers, does it not, through direct appropriations and our various trick financial institutions like World Bank, Export-Import Bank, and others; is it not pretty close to that amount?

Secretary HUMPHREY. Of course, Senator, those institutions bring their appropriations in, and they are gone over in very great detail.

Senator MALONE. That is right; they bring them in.

Just a general question——

Secretary HUMPHREY. They are gone over in very great detail, by the Appropriations Committee, for each of those institutions or departments of Government.

Senator MALONE. Well, you may remember, I know something about committee procedure, and I doubt if Congress understands any of it very well.

I am just asking you whether that is not a fact.

Secretary HUMPHREY. That what is a fact?

Senator MALONE. That about 5 to 8 billion dollars a year, for the last 10 years at least, has gone to foreign nations on one pretext or another, either a loan or gift outright, or material going to them.

Secretary HUMPHREY. Or troops in their country.

Senator MALONE. Just leave troops alone a minute.

Secretary HUMPHREY. Well——

Senator MALONE. I am talking about that 5 to 8 billion dollars that just goes to the nations in loans or gifts.

Secretary HUMPHREY. Well, I would have to again check that for the exact figures.

Senator MALONE. Would you do that for 10 years, or make it 12 years.

Secretary HUMPHREY. We will make it 12 years, and say it goes from 4 to 7, and I would be pretty sure you would be right. You are close.

Senator MALONE. That is good enough for me. You have answered it.

Secretary HUMPHREY. That would be right close.

Senator MALONE. We just give away, under some pretext or another——

Secretary HUMPHREY. Again, I do not think I want to say that we just give it away. I think we get something for it.

Senator MALONE. What do we get?

Secretary HUMPHREY. We get some military protection, quite a lot of military protection.

Senator MALONE. That is what the people are told we get. Nevertheless, is that all you have to offer, military protection?

Secretary HUMPHREY. I think very largely what we get is what we hope will be assistance in maintaining our security.

Senator MALONE. Yes.

I notice lately there has been quite a change in attitude of foreign nations. They are getting tired of our troops among them, and the money we are paying out in those countries perhaps is going to keep certain governments in power; is that not about right?

Secretary HUMPHREY. It may not be in every place.

Senator MALONE. Well now, in our controlled inflation, our controlled currency, then, we have not quite controlled it yet, explain to me how the rediscount rate operates. Who fixes it and how does it operate?

Secretary HUMPHREY. There again, you are getting into the Federal Reserve Board technicalities, and I suggest you get it from them. That is a technical operation of theirs.

Senator MALONE. What is the rediscount rate and what effect does it have?

Secretary HUMPHREY. That is something the Treasury has nothing to do with.

Senator MALONE. What is a rediscount rate? The Treasury must understand what it is.

Secretary HUMPHREY. But we have nothing to do with it.

Senator MALONE. I did not ask you that.

Secretary HUMPHREY. That is another witness.

Senator MALONE. What is it?

Secretary HUMPHREY. That is not I.

Senator MALONE. What is it? You are the Secretary of the Treasury of the United States. I did not ask you who manipulates it. I just asked you what it is.

Secretary HUMPHREY. Well, that is the rate at which the banks can borrow from the Federal Reserve.

Senator MALONE. Then when a bank borrows from the Federal Reserve, they pay a certain interest rate, is that it?

Secretary HUMPHREY. That is right.

Senator MALONE. What does it generally run?

Secretary HUMPHREY. They change it. It has run over a very wide range over a period of time.

Senator MALONE. What has it been during the latter period you have been here?

Secretary HUMPHREY. I would have to look it up.

Senator MALONE. Just approximately.

Secretary HUMPHREY. It has gone from a low of 1½ to a top of 3 in the last few years.

Senator MALONE. When a bank borrows, buys Government bonds, what is the modus operandi there? Can they issue money against a Government bond?

Senator HUMPHREY. Now, Senator, I am just sorry, but I am not going to get into the technicalities of Federal Reserve Board operation. You have them coming here, and I am here for discussion of the Treasury's activities, and I am just sorry, but I am not going to get into Federal Reserve operations. You will have to get that from them.

Senator MALONE. I thought you might have learned a little about it since you have been here.

Secretary HUMPHREY. No.

Senator MALONE. You can hardly operate separately, can you?

Secretary HUMPHREY. We are separate.

Senator MALONE. Do you not ever talk to each other?

Secretary HUMPHREY. Yes, sir, we do.

Senator MALONE. Does what they do have anything to do with what you do?

Secretary HUMPHREY. We talk to each other.

Senator MALONE. Does what they do have any effect on what you need to do?

Secretary HUMPHREY. Yes, it does.

Senator MALONE. What is it?

Secretary HUMPHREY. They are very closely related with each other.

Senator MALONE. How?

Secretary HUMPHREY. Well, they have a good deal of effect upon the amount of credit available; the amount of credit available has a great deal to do with the amount of securities we can sell, and how and the way we sell them.

Senator MALONE. What credit? How do you mean?

Secretary HUMPHREY. What?

Senator MALONE. Do you mean the credit available?

Secretary HUMPHREY. Well, it is credit that people, the banking system, has available for lending.

Senator MALONE. How? In what way, I mean, if you could explain it to me.

Secretary HUMPHREY. Well, you are going to get it from them, Senator. I am just sorry——

Senator MALONE. I am not sure I will. I have an idea they will have some way of dodging it.

Secretary HUMPHREY. I will be glad to answer any questions about the Treasury, but I am not going to get into detail on the Federal Reserve Board.

Senator MALONE. You say you do determine the interest to be paid on Government bonds.

Secretary HUMPHREY. That is correct.

Senator MALONE. That is your job.

Secretary HUMPHREY. That is my job.

Senator MALONE. Do you consult with the Federal Reserve Board on that point?

Secretary HUMPHREY. I get the benefit of their thinking about things, and the benefit of the thinking of a lot of people about it.

Senator MALONE. You are the final judge?

Secretary HUMPHREY. I canvass the market just as broadly as I can, before making up my mind.

Senator MALONE. But you are the final judge?

Secretary HUMPHREY. That is correct.

Senator MALONE. Do you have anything to do with determining the margin on the stock exchange?

Secretary HUMPHREY. Not a thing.

Senator MALONE. Does the Federal Reserve Board?

Secretary HUMPHREY. I do not know whether it is Federal Reserve or Securities and Exchange Commission. I think it is Federal Reserve.

Senator MALONE. I think you know that.

Secretary HUMPHREY. I have nothing whatever to do with it.

Senator MALONE. You have already testified about that part of it.

Secretary HUMPHREY. What is that?

Senator MALONE. You have already testified you do not do it. But the Federal Reserve Board does have it, do they not?

Secretary HUMPHREY. Yes, I think they do.

Senator MALONE. Then, in your opinion, if someone, no matter whether it is Federal Reserve Board or whoever it is, can determine the margin on the stock exchange, the percentage you have to put up, whether it be 10 percent or 90 percent, would that not have some effect on the amount of stock sold on the stock exchange, the stock exchanges?

Secretary HUMPHREY. Well, I do not know whether over a long period it would, or not. Over short periods, it would. The stock exchange volume is pretty high with high margin requirements. Whether it would widely expand if margin requirements went down or not, it is a little hard to say.

Senator MALONE. What has been the latitude of regulation? Has it run from 30 or 40 percent up to 75 or 80 percent?

Secretary HUMPHREY. That, again, is their job. Now, you stick to the Treasury, and I will. But I am not going to testify about the Federal Reserve and their particular functions.

Senator MALONE. You do not even know what have been the requirements?

Secretary HUMPHREY. I do not. I do not buy and sell stocks, and I do not have margin accounts.

Senator MALONE. You are connected with some people who sell stocks, are you not?

Secretary HUMPHREY. I do not pay much attention.

Senator MALONE. Are you not connected with some people who sell stock?

Secretary HUMPHREY. What is that?

Senator MALONE. Are you not connected with some organization which sells stock?

Secretary HUMPHREY. None whatever.

Senator MALONE. None whatever?

Secretary HUMPHREY. No, never dealt with stocks particularly.

Senator MALONE. You never dealt with them yourself, but are you connected or have you been connected with any corporations that sell stocks?

Secretary HUMPHREY. Bought and sold stocks, no.

Senator MALONE. I do not say bought them, but sell them for money to operate on, sell their stocks on the market.

Secretary HUMPHREY. They have bought some and sold some, but that is not a business.

Senator MALONE. Is it not on the market?

Secretary HUMPHREY. They do it very rarely.

Senator MALONE. Is it not on the market? Can you not buy stock and sell it——

Secretary HUMPHREY. That is right.

Senator MALONE (continuing). In some of the companies in which you are interested?

Secretary HUMPHREY. That is right.

Senator MALONE. I could buy the stock, or anyone could buy it?

Secretary HUMPHREY. They are quoted on the stock exchange.

Senator MALONE. That is it.

Secretary HUMPHREY. Oh, yes. But that has nothing to do with margins.

Senator MALONE. No? If I started to buy your stock, it would have something to do with the margins—the amount of money that I would have to put up.

Secretary HUMPHREY. That would be your problem.

Senator MALONE. Then it would be a little more of a gamble, maybe, if it was only a 40 percent margin, than a 70, 80 percent margin.

Secretary HUMPHREY. It would depend——

Senator MALONE. It might have something to do with how much stock could be purchased by individuals.

Secretary HUMPHREY. Yes, I think it would.

Senator MALONE. In other words, it has a general effect on the economic system, does it not?

Secretary HUMPHREY. Again, I will say over short periods. Just whether it does over long periods, or not, I am not too sure. Sooner or later, it gets back to savings and, of course, total credit outstanding, and all of those things.

Senator MALONE. We have already gone over that. We can take the savings away from people pretty easily through inflation, can we not?

Secretary HUMPHREY. You can hurt them.

Senator MALONE. Continued inflation is a painless operation.

Secretary HUMPHREY. You can hurt them.

Senator MALONE. They have been hurt, have they not?

Secretary HUMPHREY. I think so.

Senator MALONE. What about the installment period, the installment buying? That is to say, the period and the amount. Did not either the Treasury or the Federal Reserve have something to do with that for quite a while?

Secretary HUMPHREY. Well, they did. There was regulation W that was exercised by the Federal Reserve, which could restrict the amount and restrict the terms. That was repealed after the war, and I think properly so. There has been talk about putting it back, but I would not be in favor of putting it back, certainly under present conditions.

There might be times, when it would be advisable. But this gets back to just what you and I were talking about a few minutes ago. I think the American people are pretty able to run their own affairs pretty wisely, and I think they are a little better judges as to what they can properly owe and what they can properly buy and what they can properly pay, than some bureau here in Washington.

Senator MALONE. But have we not taken that out of their hands through establishing boards and commissions to make decisions, instead of operating on a principle?

Secretary HUMPHREY. No. It is strictly in their hands.

Senator MALONE. Well, just wait until I finish that question. Maybe you would not want to answer that way.

In our method of operating now, where you can cheapen money, and do, continually, you can fix the rate of interest, and do fix it?

Secretary HUMPHREY. Well, I do not fix it.

Senator MALONE. A man goes in business—just a minute.

Secretary HUMPHREY. I do not fix the rate for everybody. I fix the rate for the Government.

Senator MALONE. Just a minute. I am not ready yet for the answer.

You are more familiar than I am, of course, with forming corporations and operating them. But if a man goes into business, makes up his mind when he gets out of school or he has worked for somebody for a long time and wants to go into business, and borrow money to do it, which we all had to do to start, and he knows that if he can borrow money at 3 percent or 4 percent, his business will be a success, but after he has invested his money the interest rate goes up, is there not a tendency to break him?

That is the question to you.

Secretary HUMPHREY. Well, it all depends, of course, on how long he has borrowed his money for. If he is borrowing short term, why, then his money will reflect the——

Senator MALONE. How long can a man in business borrow money for? Is not the bank pretty careful about the time?

Secretary HUMPHREY. It depends on how you borrow it. If you sell mortgage bonds, you can borrow for 50 years.

Senator MALONE. How many small people are going to sell mortgage bonds?

Secretary HUMPHREY. Well, there are comparatively few that can sell 50-year bonds. There are a good many that can sell 20-year bonds, 12- and 20-year bonds.

Senator MALONE. Can a young man going into business, or a man going in without too much capital, sell any bonds at all?

Secretary HUMPHREY. Not until he gets started. You have to have a reputation and be established.

Senator MALONE. I am trying to get back to the fellow in the grassroots who always thought if he could get a few thousand dollars together and go to the bank and borrow a little money, and go into business.

Is it not generally a very limited time that he can borrow that money for?

Secretary HUMPHREY. Yes; I think that is right. When he is first starting, that is true.

Senator MALONE. Is it not almost always callable?

Secretary HUMPHREY. No; I do not think so. I think usually it is borrowed for some period of time, 6 months or a year.

Senator MALONE. Five years, 2 years, 6 months?

Secretary HUMPHREY. Two years or 5 years, or whatever it may be.

Senator MALONE. It is a short period.

Secretary HUMPHREY. It is a relatively short period.

Senator MALONE. He has to make that business pay, or he does not last long.

Secretary HUMPHREY. That is right. You have got to do that, whether you are big or little.

Senator MALONE. That is right. All except the Government. It prints it.

Secretary HUMPHREY. That is, we could.

Senator MALONE. When you come back to a Washington job, all they have to do is print it. That is right, too, is it not?

Secretary HUMPHREY. Well——

Senator MALONE. If we had a chance of going broke, and I will get to that before I am through with you, if there was some system so we had to raise taxes or sell more bonds, but could not just print it, it might help.

Secretary HUMPHREY. Well, of course, in a very broad way. What happened in Germany was—when inflation carries to the extreme and you finally devalue and start all over, why, that is about the same thing for a government that a bankruptcy is for an individual.

Senator MALONE. I think you are exactly right, and there are many people in this country who think we are headed for it. They do not think we intend to pay these bonds at all.

Secretary HUMPHREY. I hope that will never be true.

Senator MALONE. So do I. But we certainly have shown no disposition to pay any of them so far. We brought you here to sell bonds fast enough to keep us out of bankruptcy, just keep selling them as fast as we can spend it; is that not about right?

Secretary HUMPHREY. Well, we have not made much reduction in our debt, but we made a little. You always have got to start.

Senator MALONE. I remember there was——

Secretary HUMPHREY. You know, the first thing you have got to do is balance your budget. We balanced a couple of them, and we have got another one in prospect. We paid a little bit on the debt. We have at least made a start.

Senator MALONE. I remember that on three different occasions here we raised the national debt in this committee. I did not vote for it.

Secretary HUMPHREY. That is quite a lot better to be started in the right direction than to be going on the wrong road.

Senator MALONE. I think you are right. But we have been awfully nervous about it, have we not?

Secretary HUMPHREY. Well——

Senator MALONE. A little bit like a man with the D. T.'s, he goes one way a while and then the other. That is about right, is it not?

Secretary HUMPHREY. Well, I think we made a little progress.

Senator MALONE. I think you have done a marvelous job with the thing you started with, which was an impossible job to start with, and you knew it when you took it. I think that is probably one reason you have stood about all of it you can, and I do not blame you.

Do you believe—and I note that there are several talking about it; even the President mentioned it a few days ago—that if this thing got any worse, and labor insisted on more wages and the steel companies insisted on more or higher prices, and everything went accordingly, we might have to put on a price freeze? What do you think of that?

Secretary HUMPHREY. I would hope very much indeed that we would not have to do that. I think if the country was plunged into war, some great catastrophe of that kind, that we should immediately do so.

I believe, in the event of a war, in an immediate freeze of everything, right across the board, and then very modest adjustment from time to time.

And I think we probably, looking back on it, and this is second guessing, we probably would not owe so much money as we do today if we had done it previously and done it sooner. But that, of course, involves the ability to get it done, and a whole lot of things that make it difficult to do just what you would like to do.

Senator MALONE. Well now, when you are in an extreme emergency, and I agree with you we would call it an extreme emergency when we go to war, some of us go to war, some of us do something else, everyone makes a sacrifice, we understand that, and you freeze prices. You do it so that it does not become lopsided, where wages would be all out of proportion or the price of a certain scarce commodity be out of proportion.

Secretary HUMPHREY. That is right.

Senator MALONE. You do it for that reason; do you not?

Secretary HUMPHREY. That is right. Your whole society has to reorient itself, and you try to——

Senator MALONE. Do you believe in fixing prices in peacetime?

Secretary HUMPHREY. I do not.

Senator MALONE. Do you think that any good purpose can be served by fixing prices in peacetime?

Secretary HUMPHREY. I do not know of any, Senator.

Senator MALONE. When you fix prices in peacetime now, like right now, and you just say: "You must not have higher wages, regardless of what happens through inflated prices, you must not raise the price of any commodity on your shelves or which you are manufacturing," is it not a good deal like putting your finger on the snout of a teakettle without putting the fire out under it?

Secretary HUMPHREY. I think it is very much like it.

Senator MALONE. You know it is going to explode or burn your finger off, only you do not know when; is that it?

Secretary HUMPHREY. It is, when you first start, a long road.

Senator MALONE. Is it not an acknowledgment of failure, in a way, of your system?

Secretary HUMPHREY. You are talking about just in ordinary times?

Senator MALONE. Peacetime, just like today.

Secretary HUMPHREY. Yes; I think it would be.

Senator MALONE. You think it would be an acknowledgment of the failure of the system?

Secretary HUMPHREY. To do it today; yes, sir.

Senator MALONE. Now, then, if you believe that if we quit trying to balance the system, whether it is the Federal Reserve Board or the Treasury—whatever the Federal Reserve Board does to augment this inflation, naturally you have to meet it with your interest rates; do you not?

Secretary HUMPHREY. That is right.

Senator MALONE. So you are helpless; are you not? In fixing interest rates, you have to take what the market provides.

Secretary HUMPHREY. We have to take what the market will provide.

Senator MALONE. You will pay the interest on Government bonds that the traffic will bear; is that not about it?

Secretary HUMPHREY. That is right.

Senator MALONE. I am not convinced, by any means, yet that the dollar is worth 48 cents on the basis of 1934. I hope I will have further opportunity to go into it. I think the purchasing power of the dollar based on 1933 is nearer 33 cents than 48 cents. The men working in the mines, the manufacturing institutions, the $5- or $6-a-day man in 1933-34, that man has to make $15 a day now to live in the same way?

Secretary HUMPHREY. That is right.

Senator MALONE. Now he has to make $15 or $16, does he not, to do the same job?

Secretary HUMPHREY. I think it is in that order.

Senator MALONE. I, for one, do not think you can start on any particular strata or persons to stop inflation.

You hear people say, "Here are the steel companies. They have got to have $6 more a ton, and that is going to cause inflation."

You hear people say, "If you could just hold wages and never let them be raised, why, inflation would be stopped."

But those people do not stop to think that the burden then would be on one class of people. What they are trying to do is find a place to dump the load. Naturally, if you could not raise wages to meet this inflation so he could keep living in the same kind of a house or keep eating the same, it might stop inflation for a while, but it is loading it on one class of people.

I do not know the steel business. You have been in it for a long time. I do not know whether the $6 a ton increase is justified or not. But I know there are some pretty smart people in that business, and they know that to sell steel they have to meet the market.

What do you think about holding labor at one set price, regardless of what inflation does to steel or a bottle of milk, or anything else? Do you think that can be done?

Secretary HUMPHREY. I do not think that arbitrary controls in any segment of the society will operate advantageously. I think if you start it in one place, you will have to follow through in many, many more, and I really do not believe that in peacetime it will work, no matter what you do.

Senator MALONE. In other words you cannot stop with controlling one part of the economy.

Secretary HUMPHREY. And certainly if you did, you would destroy, if you put it in broadly enough to make it effective, you would destroy our freedom of choice which is the heritage of the American citizen.

Senator MALONE. But when you start—I think you said something very significant there, in Washington they get to thinking if they could just fix this one little thing, everything would be all right, but there is no stopping place.

Secretary HUMPHREY. They cannot do that.

Senator MALONE. If they fix one thing, it leads to fixing something else; does it not?

Secretary HUMPHREY. That is right.

Senator MALONE. So you finally have to take over the whole thing, and then it explodes in your face; is that not about right?

Secretary HUMPHREY. Then you have another system.

Senator MALONE. We have been edging closer to that other system during the last 24 years, I think; do you not? We made a rather good approach.

Secretary HUMPHREY. Well, I think we both agree that, as I said a few minutes ago, we have got to watch our step to see we do not encroach, that we do not needlessly encroach, on individual freedom in order to protect the rights of other people.

Senator MALONE. Well, you know Mr. Bulganin and Mr. Khrushchev, in an interview I had with them in Russia, said a very significant thing to me, because we have had people in our country, and still have them, who think the Socialist system is pretty good, or at least a touch of socialism, sort of producing for consumption, and that sort of thing, and holding down the prices of various materials.

But what Bulganin said was this: I asked him, because they called theirs the 16 Socialist Republics, if you will remember, and I said, "Mr. Bulganin, would you tell me the difference between socialism and communism?"

He said, "I will be glad to." He said, "We do not have communism, pure communism. We have a Socialist form of government."

And I asked him what the difference was, and he said, "Socialism is the first step to communism. You first have socialism, and then communism."

I said, "What is the difference?"

He said, "Under socialism, you work according to your ability and get paid according to your work." He said, "Under communism, pure communism, which is our objective, and it might be some time before we reach it, you work according to your ability and get paid according to your needs."

That is the rosy future they hold in front of their people.

So the ideal system, of course, is that everybody would have everything he needs for the work he can do. And under pure communism, he would work according to his ability, and have everything he needed. Under socialism, the first step, he would work according to his ability and get paid according to his work.

Do you go along with that definition?

Secretary HUMPHREY. I do not want either one of them. [Laughter.]

Senator MALONE. If we keep up what we are doing, I have news for you [laughter], we may wake up with the kind of government we think we are fighting.

You mentioned something about the hair-curling business that we might have a depression in this country if we just keep on the way we are going. What did you say about that?

Secretary HUMPHREY. Well, what I said was that if we kept on letting our expenditures get further and further out of control over a long enough period of time, if we did not handle our fiscal affairs in an intelligent way, that we would get into a depression which would curl your hair.

Senator MALONE. What do you think is going to happen if we have a depression—just a nice little one, now, that would probably make that one in 1929 look like a pup—what do you think would happen to our form of government?

Secretary HUMPHREY. I do not know. I do not see anything which would make you anticipate that you would have a 1929 catastrophe or a 1930 depression. I would hope that we had learned enough to not have that sort of thing happen again.

Senator MALONE. What have we learned which would prevent it?

Secretary HUMPHREY. I think the first thing we have learned, and I think perhaps the most important, is to attempt to avoid excesses on the up side so that we do not have to have them corrected by such wide excesses on the down side.

I think that John L. Sullivan said, "The bigger they come, the harder they fall." The higher you go, the further down it is.

Senator MALONE. We are higher now than we have ever been; are we not?

Secretary HUMPHREY. Not necessarily, no. We are not higher now from the point of view of excesses. We are higher in volumes in many things, but not in excesses. It is the excesses that get you into trouble.

Senator MALONE. What do you call excesses?

Secretary HUMPHREY. Well, excessive inventories, excessive spending, lack of savings, all the things that make imbalances.

Senator MALONE. Excessive savings?

Secretary HUMPHREY. No. Lack of savings.

Senator MALONE. Lack of savings.

Secretary HUMPHREY. The imbalances that you get in your economy, wide imbalances.

Now, we do not have existing today the excesses that make for severe reaction, I do not believe, and I think that if we can avoid, if we can be smart enough to avoid, the accumulation of those great excesses, that we do not lay the groundwork for the severe reaction.

Senator MALONE. Well, let us take up this inventory question. The inventory on automobiles is pretty high; is it not?

Secretary HUMPHREY. No; it is not bad.

Senator MALONE. It is not bad at all?

Secretary HUMPHREY. No.

Senator MALONE. How about the inventory on farm products?

Secretary HUMPHREY. That is a problem we have not yet found the right solution for. What it is, I do not know. But I think that any of us, including the farmers themselves, will agree that we have not found the right solution for that problem yet.

Senator MALONE. Well, without going too far into the inventories, do you think the stock exchange right now reflects the true value of all the major stocks?

Secretary HUMPHREY. Well, there is just one thing I am sure about on the stock exchange, what Mr. Morgan said. He knew quite a lot about it, a lot more than I know. He said the one thing he was sure about was that it would fluctuate. [Laughter.]

Senator MALONE. I suppose Mr. Morgan learned something about it in 1929. He did not seem to be hurt too much, you know, in 1929.

After 1929, I was talking to some people in New York one time, including some newspaper people. I was the State engineer of my State then, and I said, "Tell me how you got hurt. You are here, right under the gun. Those of us 3,000 miles away, I can understand how we got hurt."

The fellow looked kind of thoughtful for a minute, and he said, "We thought it was going to happen the next morning, and it happened the night before." [Laughter.]

You remember, and I know you do, I know many people who went into that stock market, like they are doing now, and got out of it, and put the money in the bank because they knew it was unsound, and then just could not stand it and got back in it because it did not happen when they thought it would, and it caught most of them finally.

They all knew it was an unnatural thing, as they know now, but the next morning and the night before makes a lot of difference, does it not?

Secretary HUMPHREY. It makes a lot of difference.

Senator MALONE. And all of our public officials in office in 1929 were the most popular in the world. And the next morning, you could not elect one of them dogcatcher in the Ozarks, and could not since that time.

So popularity is not a very good indication in this situation.

Secretary HUMPHREY. It is not a very good guide.

Senator MALONE. It is not a very good guide.

If we allow prices and the supply of goods to take their natural course, that you believe to be the criterion of what prices should be, to determine themselves in the long run through competition?

Secretary HUMPHREY. I think over a period, they will.

Senator MALONE. Well now, what about our investments abroad? We have a system now that has resulted in quite a lot of investment abroad, do we not? Is not the present system conducive to sending American capital abroad?

Secretary HUMPHREY. Yes.

Senator MALONE (continuing). To encouraging investments aboard?

Secretary HUMPHREY. Yes.

Senator MALONE. What is the system that seems to encourage American money to go abroad now, rather than investing the money here? Just what induces this investment abroad?

Secretary HUMPHREY. Well, there are a great many factors. In one case, there are a good many American concerns which are successful here which are expanding their markets by putting in plants or stores in foreign countries, so that they can reach a broader market.

There is another group of people who are interested in natural resources, and who are finding natural resources in various places around the world, who go there to develop them. There are parts of the world which have natural resources which have not been combed over quite as closely as a good part of our own country, although I personally think there are a lot of resources in this country which have not been developed yet, that can be.

But there are—you can point to a number of very large and fine deposits of natural resources, and one of them, of course, and the largest investment that goes from America around the world, is the oil business. I think there is probably more money in oil around the world in various places than probably any one single thing you can think of.

So there are many reasons why there has been American investment in various countries elsewhere in the world, different objectives that——

Senator MALONE. Those investments abroad in a good many cases are made to produce goods to bring into this country?

Secretary HUMPHREY. In some cases to bring them here, but in other cases to expand markets and develop markets elsewhere.

Senator MALONE. How do we expand our markets with these foreign investments? You put in a plant in England or Scotland or in Japan; you use the cheaper labor there, so that the cost of labor is balanced against the market or the amount you can get for the goods, and then you can sell them there, when you use their labor, at a lower cost?

Secretary HUMPHREY. Well, not necessarily. Let us take—there are all sorts of things. Sometimes that is true. Other times it is not true.

Take a Sears, Roebuck store. It is a good place to have a Sears, Roebuck store in Chicago or Washington. It is also a good place to have it in some big foreign city.

Senator MALONE. Yes. I found several of them in foreign countries.

Secretary HUMPHREY. You find them most anywhere you go. You find them in a lot of places.

Senator MALONE. And, generally speaking, as soon as our American investors can establish the production of the material there, they sell to the local people and ship their goods to our American market, do they not?

Secretary HUMPHREY. Sure.

Senator MALONE. I found a Sears, Roebuck store in Venezuela. I expect we find them, like General Motors and Ford, you find them in many countries.

Secretary HUMPHREY. That is right.

Senator MALONE. But they are selling a product which they manufacture there with the local low-cost labor, selling it to the local people and also importing the goods into the American market.

Secretary HUMPHREY. Well, sometimes they make it there, and sometimes it is parts shipped from here, and it is whatever happens to fit the circumstances.

Senator MALONE. But is it not a fact that most of the stuff shipped from here into foreign countries, that the respective foreign country charges duties or tariffs to prevent imports of the materials they manufacture?

Secretary HUMPHREY. I do not think you can generalize too much on it. I think that is true in some cases, and I think in other cases it is not.

Senator MALONE. Well, do you have any case in mind where it is not?

Secretary HUMPHREY. Yes. Our export trade has gone up a good deal, and we have a large export trade from this country, moving around in other countries of the world.

Senator MALONE. What do you call export trade? Do you call it export trade when we give them the money to buy our goods or give them our surplus agricultural products at below our cost?

Secretary HUMPHREY. Well, of course, it is export trade, but in that——

Senator MALONE. It is not very profitable, is it?

Secretary HUMPHREY. In that situation, it is a subsidized export.

Senator MALONE. And not very profitable.

Secretary HUMPHREY. Well——

Senator MALONE. Except for the fellow who sells. It is not very profitable for the taxpayers here, is it?

Secretary HUMPHREY. I do not know. I think you have to—again, you cannot generalize entirely, I think.

Senator MALONE. If I had the time, I would like to particularize.

Secretary HUMPHREY. You have protective tariffs against goods coming in, to maintain some business at home, and subsidizing of exports to some extent for the maintenance of development at home to go abroad.

I think you have got to be pretty careful. I do not think you can generalize very well about it.

Senator MALONE. Who do you think ought to determine our imports? Do you think some bureau here in Washington should determine what ought to be imported, or do you think there ought to be a principle established by Congress?

Secretary HUMPHREY. I think as largely as possible, the ground rules should be adopted by the Congress, after very full discussion and debate.

Senator MALONE. I agree with you.

Secretary HUMPHREY. Then, of course, you have to have administrative functions to carry it out.

Senator MALONE. But to carry out a principle established by Congress, and not to put it in the hands of the executive or a State Department, is that it?

Secretary HUMPHREY. Just where you break off in the handling of every detail, as to what is discretion and what is detail, that becomes a practical matter in each case as to how you want to handle it.

Senator MALONE. Do you know what it costs to send an American automobile into England, for example? I can go into detail if you insist.

Secretary HUMPHREY. No; I do not know.

Senator MALONE. You do not know. I do. It costs 55 percent of the cost of the car. So not many of them go, except to the ambassadors and other officials. England protects her workingmen's jobs and investors.

Secretary HUMPHREY. Yes.

Senator MALONE. Who have some way of getting the money to buy the cars there.

Secretary HUMPHREY. Yes.

Senator MALONE. Thirty-five percent of the cost is taxes, and 20 percent tariff. We have a 10 percent tariff to bring an English car here, and of course, as you know, we are importing a lot of them now.

I see General Motors is starting to import their cars from their foreign factories now. They say it is self-defense. I suppose it is.

I could tell you more about American capital invested in foreign cheap labor countries and selling in our American market under our virtually free-trade arrangement.

Secretary HUMPHREY. Well, that really is not quite Treasury business, either.

Senator MALONE. Well, it is your business to collect the tariffs.

Senator HUMPHREY. It is our business to collect, that is right.

Senator MALONE. I remember you had what you called a customs simplification bill here, when what it really meant was a changing of classifications, resulting in lowering of the tariffs. I denounced it at the time.

Secretary HUMPHREY. Well, do you think it is more than we estimated? We estimated it would be a very, relatively, small amount.

Senator MALONE. The small amount, is enough to make the difference, the difference in the wages and the cost of doing business here and abroad should be the criterion, and when you tinker with that balance, there is only one organization that knows how to take the profit out of cheap foreign labor at the waters edge, and that is the Tariff Commission. But you took it away from the Tariff Commission in the 1934 Trade Agreements Act and continued the principle in your customs simplification bill.

We could go over that again. We did go over that with you at the time.

Secretary HUMPHREY. That is right.

Senator MALONE. And Mr. Rose your assistant was here.

Secretary HUMPHREY. That is right.

Senator MALONE. And the record reads better now, which we made at that time, than it did at the time we made it, because it is now coming to pass—increased imports as a result of your Customs Simplification Act.

So when you go below, whether 1 percent or 2 percent or 20 percent of that difference in effective wages and the cost of doing business here and abroad, you have done away with your industry here if they cannot reduce wages and costs to meet the foreign prices, have you not?

Secretary HUMPHREY. Well, if you cannot meet the prices here, why, they are going to sell the foreign product, that is all there is to it.

Senator MALONE. Have you any idea they can meet the prices here on textiles, for example, with 15 cents an hour labor in Japan with our machinery installed by American investors?

Secretary HUMPHREY. Of course, the higher you go into goods that require a high percentage of labor, the greater the disparity becomes.

Senator MALONE. I think that is a good remark just to let stay on the record.

Now, Mr. Secretary, in response to a letter to me dated June 28, signed by Mr. Burgess—is Mr. Burgess here?

Secretary HUMPHREY. No, he is not, but he will be up. I believe he is the next witness, Mr. Chairman.

Senator MALONE. Does he know anything that you do not know?

Secretary HUMPHREY. Yes; I think he does, a great deal. [Laughter.]

Senator MALONE. You have been associating with him quite a while now, have you not?

Secretary HUMPHREY. I am not a very good student, I fear.

Senator MALONE. Anyway, the letter was signed by him, but mine was addressed to you. I talked to you on the phone a time or two.

Secretary HUMPHREY. You probably asked for something that he knows more about than I do.

Senator MALONE. I think that prevails in Washington. One of the greatest harms, in my opinion, one of the terrible things done to this country, is when they sold us on a bill of goods that there are definite answers to all economic problems.

You and I know there are not definite answers to them unless somebody picks up the check. So far it has been the taxpayer. You agree with that, do you not?

Secretary HUMPHREY. I agree pretty much.

Senator MALONE. I am sure you do, or you would not still be in business.

Here is a table very interesting to me, table 1, United States gold stock, monetary gold requirements, and foreign dollar holdings in 1934 to 1957.

Do you have a copy of the table there?

Secretary HUMPHREY. Let's see.

Senator MALONE. The letter was dated June 28.

Wait a minute. May 29, a month earlier.

Secretary HUMPHREY. I have got May 22.

Senator MALONE. May 22? May 29. I think this was the last one. The first letter did not give me the answer.

Anyway, in any case, this is my question, very simply: The table shows from 1934 to 1956 and to March 1957, for each year the United States gold stock in one column, United States monetary gold reserve requirements in another column, total foreign dollar holdings in another column, and the foreign official short-term dollar holdings.

My question: First, how much gold do we have that is owned by the United States, in Fort Knox and the Denver Mint, or wherever it may be stored, and in New York, and all such depositories? How much gold do we have in storage?

Secretary HUMPHREY. Now?

Senator MALONE. Right now; that is, March 1957.

Secretary HUMPHREY. In March of 1957, I think I have the same table now that you have——

Senator MALONE. Yes, I am sure you do, or I would have told you it is $22.406 billion; is that right?

Secretary HUMPHREY. That is right. That is the same table.

Senator MALONE. Is that right?

Secretary HUMPHREY. Yes.

Senator MALONE. Now, the next column, then, United States monetary gold reserve requirements, shows $11.761 billion. What does that mean?

Secretary HUMPHREY. Well, there is, under present law, a requirement of 25 percent gold reserve against the outstanding currency and deposits of the Federal Reserve banks, and this is that figure.

Senator MALONE. That is one-fourth.

Now then, how much money is there, then, in circulation, actually, at the present time?

Secretary HUMPHREY. Well, it would be up to four times this, on the basis of the currency that has to be protected in this way.

Let me see if I do not have the exact figure here.

The currency, the currency alone outside of banks, is $27.4 billion outstanding on April 24.

Senator MALONE. In currency, what does that represent, what is that, actually? Is that printed money?

Secretary HUMPHREY. That is printed money and coins; printed money and coins.

Senator MALONE. That is the folding money and the silver, is that it?

Secretary HUMPHREY. That is right.

Senator MALONE. Because there is no gold in circulation.

Secretary HUMPHREY. Silver, copper, nickel.

Senator MALONE. Copper, yes. Could you separate it for me?

Secretary HUMPHREY. Well, I think I can; yes, sir.

$25.855 billion are printed notes as of April 30, 1957.

Senator MALONE. That is the folding money, the little bills that we carry around?

Secretary HUMPHREY. That is right.

And the coin is $4.631 billion. Well now, wait a minute. There are some in silver certificates, there are some dollar bills in there.

Silver certificates are $2 billion—the Federal Reserve certificates are $25.855 billion.

Senator MALONE. Federal Reserve.

Secretary HUMPHREY. Then the silver certificates are $2.100 billion.

I think all the rest, practically all the rest, are coins. There are some old national bank notes, and minor items, but about $2 billion in coins.

Senator MALONE. How much of that is in silver coin?

Secretary HUMPHREY. Standard silver dollars are only $250 million.

Senator MALONE. Then there are some——

Secretary HUMPHREY. There are subsidiary silver coins of $1.301 billion. I suppose those are the small coins, dimes and halves and quarters, and so on.

Senator MALONE. Yes.

Secretary HUMPHREY. So it would be, altogether, including the dollars, it would be about $1.5 billion of silver coins.

Senator MALONE. Those dollar bills and silver certificates, did you say there were $2.100 billion?

Secretary HUMPHREY. That is right.

Senator MALONE. That you can take to the bank window and get silver; can you not?

Secretary HUMPHREY. That is right.

Senator MALONE. It is not against the law to have silver, but it is against the law to have gold; is that right?

Secretary HUMPHREY. That is right.

Senator MALONE. Does this $22.406 billion of United States gold stock represent all of the amount in the various depositories of the country owned by the Government?

Secretary HUMPHREY. I believe so.

Senator MALONE. At least stored by the Government.

Secretary HUMPHREY. Yes.

Senator MALONE. That includes what, besides Fort Knox? Where do you have money stored, gold stored?

Secretary HUMPHREY. There are a number of places where we have it.

Senator MALONE. Denver Mint?

Secretary HUMPHREY. We have it in mints and assay offices.

Senator MALONE. Would you get me a list, and the amounts?

Secretary HUMPHREY. Of where it is?

Senator MALONE. Yes.

Secretary HUMPHREY. Of vaults in New York, and all over? Yes; we can get you a list.

(Secretary Humphrey subsequently submitted the following; see also page 508)

Gold balances as of June 30, 1957

	Total value
New York assay office	$3, 285, 186, 528. 70
United States Mint, Philadelphia, Pa	3, 950, 959. 33
United States Mint, Denver, Colo	5, 955, 373, 333. 88
United States Mint, San Francisco, Calif	629, 745, 404. 27
Fort Knox, bullion depository	12, 483, 414, 764. 30
Federal Reserve Bank of New York	374, 035, 076. 78
Total	22, 731, 706, 067. 26

Senator MALONE. It is not classified, is it?

Secretary HUMPHREY. I do not think so. You are not intending a raid or anything, are you? [Laughter.]

Senator MALONE. I do not think it would make much difference. I am just beginning to understand what we really own. Now, how much of this gold is held by—how much of this gold is foreign holdings, altogether?

Secretary HUMPHREY. Well, I think there is just a little misapprehension about that.

Senator MALONE. I hope so. But will you answer my question?

Secretary HUMPHREY. I will. None of it is held by foreigners.

Senator MALONE. None of it?

Secretary HUMPHREY. None of it. There is none of it that is earmarked or none of it that anybody has any special claim on. What the foreigners have in this country are dollar deposits. Now, with those dollar deposits, what we do is, a foreign official bank can draw against a dollar deposit and ask for gold to be shipped to balance the account. That is not true of private accounts, but it is true of central banks. Now, they have that right. It is very seldom used. There is very, very little of gold that is used.

Senator MALONE. If I have $10 of gold in the bank I do not generally demand the last $10. Is that what you mean?

Secretary HUMPHREY. They can; at the present time, a foreign central bank can ask for gold as against a check for dollars.

Senator MALONE. How much do they have?

Secretary HUMPHREY. The total they have in March was $7.530 billion.

Senator MALONE. That is not what I have here. This says $9.108 billion.

Secretary HUMPHREY. Wait until I get the figures. That is Government bonds.

Senator MALONE. Foreign official holdings——

Secretary HUMPHREY. Well, the short term is $7.5 billion.

Senator MALONE. There is something wrong with this table here.

Secretary HUMPHREY. Wait a minute, until we find out. There is something wrong here.

Senator MALONE. I know there is something wrong, but I think your figures are right.

Secretary HUMPHREY. Here they are. I had it in two columns here. The foreign official is $7.530 billion. And the international institutions is $1.558 billion.

Senator MALONE. What does this mean, then, in this official table furnished me?

Secretary HUMPHREY. Let me add them up; $9.088 billion.

Senator MALONE. Now, define the difference in those two terms. You did not give me that information.

Secretary HUMPHREY. Well, they are the same, you see; the same amount of money. One is——

Senator MALONE. They can demand the money?

Secretary HUMPHREY. What?

Senator MALONE. They can demand the $9.108 billion?

Secretary HUMPHREY. It is two things. It is the short-term foreign holdings plus the international institutions.

Senator MALONE. And they can demand, then, the combination of $9.108 billion?

Secretary HUMPHREY. That is right.

Senator MALONE. Then it is merely a technical matter of deciding what it actually is, but it is $9.108 billion they can demand in gold and secure delivery?

Secretary HUMPHREY. That is right.

Senator MALONE. Can they do that at any time?

Secretary HUMPHREY. Any time, unless we change the rules.

Senator MALONE. Change the rules while the ball is in motion.

Secretary HUMPHREY. That is right.

Senator MALONE. How would we change the rule without going back on our commitments?

Secretary HUMPHREY. Well, depending on circumstances, many countries, under various conditions, have blocked currencies or temporarily withheld payments, and so forth. In the first place, you would not expect requests unless there was some world upheaval, and if there were a world upheaval, there might be temporary moratoriums or—the history of world upheavals has brought forth moratoriums or suspensions of one kind or another when you had a world upheaval.

Senator MALONE. Suppose some people wanted to cause a little upheaval over here; could that be done?

Secretary HUMPHREY. It what?

Senator MALONE. If the people who owned this dollar balance, the foreign-owned currency of $9.108 billion——

Secretary HUMPHREY. They do not own it. What they own are dollars. They do not own any gold. Nobody owns any of this gold but us, that is, of this gold. There is some other gold here that people own, but that is not in these figures. There is earmarked gold.

Senator MALONE. That is interesting, too. How much earmarked gold beyond——

Secretary HUMPHREY. That would not be included in the $22.406 billion. That has nothing to do with it.

Senator MALONE. How much of that type of gold is there in this country?

Secretary HUMPHREY. I would not know.

Senator MALONE. Does it make any difference——

Secretary HUMPHREY. What?

Senator MALONE. Does it make any difference how much of it there is, then, for the purpose of my question?

Secretary HUMPHREY. It would not make any difference for the purpose of these figures, because it is not included in these figures. But nobody has any—the point I am trying to make is, of this $22 billion, nobody has any claim, specific claim, on any of it. Nobody has it earmarked; nobody has a claim on it.

It is simply that they have a dollar-deposit account.

Senator MALONE. Then I will ask the question again.

Secretary HUMPHREY. Now, a foreign central bank can write a check for dollars and ask to have it paid in gold, and, under present practice, we would formally transfer gold to meet a foreign transaction.

Senator MALONE. Probably it is not a Treasury practice, but you understand I am a very simple character when it comes to this money exchange, and I am trying to understand it myself and get it in language so people who would have little time to study it can understand it, so it does not mean anything to say they do not actually own the gold. They own it when they send for it.

Secretary HUMPHREY. What is that?

Senator MALONE. When they write the check, when they ask for it.

Secretary HUMPHREY. All they own are dollars.

Senator MALONE. Suppose they ask for $9.108 billion.

Secretary HUMPHREY. They would get dollars, unless we wanted to let them have gold.

Senator MALONE. You could print the money and give it to them and keep the gold?

Secretary HUMPHREY. We could keep the gold.

Senator MALONE. It is a very interesting statement. I would like to understand that better.

Secretary HUMPHREY. I think that is right.

Senator MALONE. Then it is not necessary to pay any of these commitments in gold?

Secretary HUMPHREY. I think that is right.

Senator MALONE. I do not want you to "think." I want the answer.

Secretary HUMPHREY. Well, I will confirm it. I will state it, and then I will confirm it.

Senator MALONE. Good. Now, total foreign dollar holdings——

Secretary HUMPHREY. That is why Mr. Burgess wrote you this letter, you see.

Senator MALONE. I will tell you, I have more confidence in you than I do in Mr. Burgess, if I must say, for the record. He has been in for a long time, and a part of this plan which led up to what you are trying to correct, and there is no reflection on him. He, no doubt, believes all that business. But I do not, so I am trying to find out now where the ball is, if that is of interest to you. Total foreign dollar holdings——

Secretary HUMPHREY. You are talking now, and I am answering, about most unusual conditions. I am not talking about ordinary trade.

Senator MALONE. I think we are headed for some unusual conditions, if you will pardon my thinking so.

Secretary HUMPHREY. Well, that might be.

Senator MALONE. I think there are some people in other parts of the world who do not have our best interests at heart, and I will just ask this question, for information in the record:

How do they secure these dollar holdings? When we give them money under the Marshall plan or any other plan—they have changed the name so many times of the giveaway program, to keep people from knowing exactly what they are doing, that even I have difficulty in keeping track of it. I think it is mutual security now; it was ECA awhile following the Marshall plan.

But when they get this money as a gift, or a so-called loan, which they never pay back, can they buy dollars with that? That represents dollars, does it?

Secretary HUMPHREY. Well, that takes—you see, those things take many forms. A good deal of it is in goods. Of course, where it is in goods, is is not in dollars.

Senator MALONE. When they take it in dollars, however——

Secretary HUMPHREY. Some of it is in dollar credits for the purpose of buying goods, and those dollars then would be used for specific purposes.

Senator MALONE. It does not matter why you give it to them. When they get their little hot hands on it, is it a dollar balance?

Secretary HUMPHREY. Well, I am just trying to tell you. It may or may not be. A great deal of it is in goods and not in dollars at all.

Senator MALONE. That is another question, is it not?

Secretary HUMPHREY. No; it is not.

Senator MALONE. Then how much of it is in goods?

Secretary HUMPHREY. I will get the figures and tell you, but it is a lot of it that is in goods, and there is part of it that is in actual money. And when it is in actual money, then it goes into their money, into their dollar balances.

Senator MALONE. Then when we give them cash it is a part of their dollar balance. Let us go back to 1947 and 1948 when we started all this funny business—which, by the way, I have never voted for, and I am a little proud of that record.

Will you then get me, if you know, the amount of money we have given them in cash under these appropriations? First was the Marshall plan. I do not think Marshall understood what was in his speech, but the head of the British Government took the ball on the first bounce, and in 30 days he told us what it was going to cost us, do you remember that? You remember that, do you not?

Secretary HUMPHREY. No; I do not.

Senator MALONE. I will refresh your memory.

Starting with the Marshall plan and going right on through, you might tell me, too, if you have all this business straight, how many billions have we sent abroad or appropriated for the different nations, and to whom and who got it. I would just like for you to complete that record.

Secretary HUMPHREY. I am not suggesting we go into it.

Senator MALONE. You mentioned it. You digressed on it.

Secretary HUMPHREY. That is not a Treasury function. That is these others.

Senator MALONE. You did not hesitate to digress and tell me that it was not all in cash.

Secretary HUMPHREY. That is right, and it is not.

Senator MALONE. You would not go into the Federal Reserve Board, so if this is not your business, you had better keep out of it; and if it is, you had better answer me.

Secretary HUMPHREY. I am trying to answer the best I can.

Senator MALONE. Then I want you to give me the answer.

Secretary HUMPHREY. It is partly in goods and partly in money.

Senator MALONE. I want the record to show that the cash we give them is part of their dollar balance—it is going to help all of us, from the time we started the Marshall plan, how much Congress has appropriated which went to these tricky institutions, how much of that went to them in cash, how much of it went to them in goods.

It is not what they are supposed to do with it, because I know they do not follow through. It is what went to them in cash, and how much went to them in goods.

Will you just kindly give me that information for the record?

Secretary HUMPHREY. Yes; I think we can get that.

Senator MALONE. All right.

(When the following was subsequently submitted by the Secretary it was further discussed. See p. 508.)

INTERNATIONAL COOPERATION ADMINISTRATION,
OFFICE OF THE DIRECTOR,
Washington, D. C., July 15, 1957.

Hon. GEORGE M. HUMPHREY,
Secretary of the Treasury.

DEAR MR. SECRETARY: The following information is provided in response to the questions concerning foreign-aid transactions asked of you by Senator Malone at the meeting Monday, July 8, of the Senate Finance Committee's investigation of the financial condition of the United States.

The Senator inquired as to the total aid provided. The records of the agency show that obligations and expenditures under the mutual security program from its inception in April 1948 to March 31, 1957, have been as follows:

	Obligations	Expenditures
Total	$40,502,015,783	$37,969,596,053
Military assistance	18,590,233,321	17,365,254,810
Economic and technical assistance	21,911,782,462	20,604,341,243

Senator Malone then inquired as to how much of this assistance was provided to the country in the form of cash. Aid has been rendered under the mutual security program by the Department of Defense and ICA and predecessor agencies through a number of different procedures, and in a variety of changing categories. The records of the agency are not set up to identify, in each instance, a cash transfer as such. The great majority of all aid is provided through direct shipment of goods, or the providing of services. However, in an effort to comply with Senator Malone's request for cash transactions from the inception of the program, the following tabulation of transactions which might be considered of a nature comparable to a cash transfer has been compiled, although in fact some of them represent reimbursements to the aided government for procurement of goods which they undertook in full conformity with ICA regulations:

Cash transfer type obligations, Apr. 1948–Mar. 31, 1957

[Thousands of dollars]

Total	$2,126,909
France (to help finance the cost of war in Indochina)	775,930
European Payments Union (EPU) capital fund	361,622
Greece (EPU)	152,729
Vietnam	151,478
Iran	135,671
Israel	119,671
Coal Steel Community	100,000
United Kingdom (EPU)	91,885
Laos	83,812
Turkey (EPU)	68,900
Austria (EPU)	45,000
Cambodia	12,000
Iceland (EPU)	11,150
Jordan	8,000
China (Taiwan)	4,060
Libya	3,000
Bolivia	2,000

Many of these transactions occurred in the early days of the Marshall plan in connection with settlement of European Payments Union balances. The large obligation for France to assist in financing the war in Indochina occurred in 1954.

Yours very sincerely,

John B. Hollister.

Senator Malone. Now to come back to the question I asked you: The amount they take in cash, is that the dollar balance that you are talking about?

Secretary Humphrey. That would go into their general dollar balances.

Senator Malone. For which they could demand payment?

Secretary Humphrey. That is right. It would all get into the pot, but there would be that many more dollars that they would have, at least temporarily, in their international balances.

Senator Malone. What it means is, we are dividing our wealth with them to that extent; is that not right? Whatever money we give them is a division of wealth.

Secretary Humphrey. Yes, I think so.

Senator Malone. If you were to give me a thousand dollars today without a note or a promise to pay back, you would be dividing your wealth to that extent.

Secretary Humphrey. In that sense, I think that is correct.

Senator Malone. Well, that is the only sense I know. Horsesense.

Secretary Humphrey. Well, I think if I gave you a thousand dollars, I probably would be expecting you to do something that would be beneficial to me.

Senator Malone. That may be. But you would be giving the money.

Secretary Humphrey. Maybe you would do it or maybe you would not, but I would be hoping you would do it.

Senator Malone. That is right, but I would not be promising to do anything.

Secretary Humphrey. Well, I think probably you would be indicating something that you would do.

Senator Malone. And I was your friend, but I might not be tomorrow if you did not continue to give me the cash.

Secretary Humphrey. There might be a change of conditions.

Senator MALONE. They generally change.

Secretary HUMPHREY. I do not know.

Senator MALONE. I am talking about individuals. Is it not human nature that they cross over to the other side of the street when the debt gets beyond their ability to pay?

Secretary HUMPHREY. Sometimes.

Senator MALONE. Nations are not any different.

Secretary HUMPHREY. They are aggregations of individuals.

Senator MALONE. That is correct.

But you do say we give them, to the extent they take the money in cash, that is a dollar balance?

Secretary HUMPHREY. That is right. It goes into their dollar balances, and would increase their dollar balance at least temporarily, by that amount.

Senator MALONE. I understood you to say a while ago, and this intrigues me, they could not take these dollars and buy gold.

Secretary HUMPHREY. Not unless we were willing to sell the gold. As long as we are willing to sell the gold, they can.

Senator MALONE. But you have been willing, up to now, to sell gold to foreign nations.

Secretary HUMPHREY. Foreign banks, central banks.

Senator MALONE. Central banks.

Secretary HUMPHREY. That is right.

Senator MALONE. And there is no reason you know of now, unless you have an extreme upheaval like a war or national emergency, which would stop you from doing that?

Secretary HUMPHREY. I would think that probably would be right.

Senator MALONE. In other words, then, if they present it tomorrow, the money, cash on the barrelhead, for the $9.108 billion, you see no real reason why you would not give them the gold?

Secretary HUMPHREY. I think that would only be as the result of some upheaval.

Senator MALONE. I did not ask you what you thought about it. I asked you if you would see any reason why you would not sell them the gold.

Secretary HUMPHREY. I just answered that. I think that would be the result of some upheaval that would probably make us——

Senator MALONE. George, you and I are better acquainted than that, and I am only asking you a question.

Secretary HUMPHREY. I do not doubt, if we had $9 billion presented to us tomorrow, there would be some reason for it that would make us look for quite a while whether we wanted to sell that much gold or not. We do not have to sell it.

Senator MALONE. You do not have to let them have it?

Secretary HUMPHREY. No, sir; we do not.

Senator MALONE. What would you give them?

Secretary HUMPHREY. We would give them dollars. That is all they have here.

Senator MALONE. You would just give them a printed dollar?

Secretary HUMPHREY. That is all they have got here.

Senator MALONE. Just like you would give me. I could not get any gold. An American citizen cannot get any gold.

Secretary HUMPHREY. No.

Senator MALONE. You do not have a policy of giving us gold.

Secretary HUMPHREY. No.

Senator MALONE. But you do have a policy of giving it to foreign central banks.

Secretary HUMPHREY. For balancing a trade account.

Senator MALONE. In other words, in a normal balance of trade-dollar balances.

Secretary HUMPHREY. In a normal trade balance in the normal conduct of trade, they can draw on dollars and come to the Treasury and ask to buy gold with it, and we will accept it.

Senator MALONE. Then if they presented a billion dollars, that would not excite your suspicion, and you would send it?

Secretary HUMPHREY. I do not know what the amount would be. If it was normal course of trade, it would not excite our suspicion.

Senator MALONE. Then something would have to excite your suspicion?

Secretary HUMPHREY. That is right.

Senator MALONE. And you would have to change your policy.

Secretary HUMPHREY. For some reason, we would have to revise our policy of selling gold.

Senator MALONE. Who fixes that policy?

Secretary HUMPHREY. Well, it is the determination by the Treasury, along with all of our other fiscal policies.

Senator MALONE. Congress has nothing to do with it?

Secretary HUMPHREY. I think Congress could have if they wanted to.

Senator MALONE. Well, there are a lot of things Congress could do but have not. They have transferred most of their constitutional responsibility to commissions and boards and even to foreign nations.

Secretary HUMPHREY. Let us get the Gold Reserve Act. I think Congress passed the law which authorized the Secretary of the Treasury to handle normal transactions in this way. Let us get the Gold Reserve Act.

Senator MALONE. Did it in this act say "normal transactions"?

Secretary HUMPHREY. Well, I will find out. Let us look at it and see.

This is the section that has to do with it. It is section 3699 of—this particular section is section 9 which is section 3699 of the Revised Statutes.

Senator MALONE. What date of revision?

Secretary HUMPHREY. This is the Gold Reserve Act of 1934, this particular bill.

Senator MALONE. Is that the one that took all of the gold away from the American citizens?

Secretary HUMPHREY. I think so.

Senator MALONE. Made it a penitentiary offense to have a $5 gold piece in your pocket; is that it?

Secretary HUMPHREY. Here is what it says.

Senator MALONE. Was that the act?

Secretary HUMPHREY. This is the Gold Act.

Senator MALONE. That will go down in the history books, that one.

Secretary HUMPHREY. Well, it is in the congressional records.

Senator MALONE. And the Congress that passed it.

Secretary HUMPHREY. Yes, sir.

The Secretary of the Treasury—then this is quoted—

may sell gold in any amounts, at home or abroad, in such manner and at such rates and upon such terms and conditions as he may deem most advantageous to the public interest, and the proceeds of any gold so sold shall be covered into the general fund of the Treasury; *Provided, however, that* the Secretary of the Treasury may sell the gold which is required to be maintained as a reserve or security for currency issued by the United States only to the extent necessary to maintain such currency at a parity with the gold dollar.

Senator MALONE. That certainly is very interesting.

Would you explain that system as to just what you think you can do under this section? Can you sell gold at a higher price or at a lower price than the $35 an ounce?

Secretary HUMPHREY. I think we could.

Senator MALONE. Maybe we are finding out something.

Secretary HUMPHREY. Well, maybe you ought to read your own laws. [Laughter.]

Senator MALONE. You are not fooling, my friend. It is time the Senators and the Congressmen of the United States read their own laws and digested them and knew what they really mean. I will join you in that advice.

Secretary HUMPHREY. Well, it is a long act.

Senator MALONE. It really is, and I do not suppose anybody has read it for 25 years anyway.

Secretary HUMPHREY. Yes, let me see, it is 1934.

Senator MALONE. Nobody has read the Constitution of the United States for 24 years as far as I know. It is the hardest thing to buy downtown. You have to send down and wait until they dig it out of the archives.

Secretary HUMPHREY. I see no limitations.

Senator MALONE. You think you could sell gold for $37 an ounce, or you could sell it for $75 an ounce if you wanted to?

Secretary HUMPHREY. I do not see limitations here. I do not think there are limitations in this law.

Senator MALONE. Do you know of anything that would affect it, any other act?

Secretary HUMPHREY. Well, I think that we would not do it.

Senator MALONE. I am not so sure of it. You are not going to stay there, and maybe the people we know will not stay there very long if they keep this up. I think the people of the country are going to take a hand in this one of these days, and it is not far off. They cannot yet believe that the Congress would do the things they have done.

Secretary HUMPHREY. Well, you are the people who can change it.

Senator MALONE. I represent some of them, and that is the reason why I am questioning you this morning.

Secretary HUMPHREY. You can change it if you like; yes.

Senator MALONE. And in the most friendly manner I want you to know——

Secretary HUMPHREY. Well, I am sure of that.

Senator MALONE (continuing). Because the folks are entitled to know what you know about these manipulations, before you leave.

Secretary HUMPHREY. I think there is no limitation here, Senator.

Senator MALONE. You think you could sell gold at $40 an ounce?

Secretary HUMPHREY. I could sell it——

Senator MALONE. Whatever the traffic could bear?

Secretary HUMPHREY. I could sell it at a different price if that was desirable. I think that I would want to check with the International

Monetary Fund about it. This, of course, is all—all of this is with the approval of the President. This says:

"The Secretary of the Treasury, with the approval of the President," which precedes all of this.

Senator MALONE. Could you sell it at a lower price under those conditions?

Secretary HUMPHREY. I do not see any limitation in the law itself here on price.

Now, under the arrangements with the International Monetary Fund there might have to be changes in other situations to do it, but I do not see anything in this law here that limits it.

Senator MALONE. That is about the only act that affects the gold and the international payment of dollar balances; is it not?

Secretary HUMPHREY. That is the basic act.

Senator MALONE. But you are sure that no American individuals can own any gold lawfully?

Secretary HUMPHREY. Yes, sir.

Senator MALONE. No one but foreign governments could buy it from our Government, the Treasury?

Secretary HUMPHREY. That is right, for balancing trade accounts.

Senator MALONE. Would there be any reason why you could not fix a different price for balancing trade accounts?

Secretary HUMPHREY. We can sell gold, as you know, for the trade, and all that sort of thing.

Senator MALONE. How much?

Secretary HUMPHREY. Well, those regulations are fairly broad.

Senator MALONE. Can you get more than the $35 more or less?

Secretary HUMPHREY. We can sell for all sorts of commercial activities, and things of that kind.

Senator MALONE. For what price?

Secretary HUMPHREY. We would sell at the same price.

Senator MALONE. $35?

Secretary HUMPHREY. Yes.

Senator MALONE. Could you sell it for more if you wanted to?

Secretary HUMPHREY. I see nothing in here in this law that limits the price.

Senator MALONE. More or less than $35?

Secretary HUMPHREY. Nothing here that limits it.

Senator MALONE. What happens to this gold that you sell for commercial purposes? Is there anything to keep them from making certain articles and sending them any place in the world?

Secretary HUMPHREY. No, I think not.

Senator MALONE. Is there anything to keep them from melting the gold after they get it and making coins out of it in foreign countries?

Secretary HUMPHREY. They cannot make coins. Unless you mean foreign countries?

Senator MALONE. Yes.

Secretary HUMPHREY. I think the foreign countries could make coins out of it.

Senator MALONE. It would be one way of making coins.

Secretary HUMPHREY. Yes.

Senator MALONE. How much gold has been sold commercially annually since that act was passed?

Secretary HUMPHREY. This is domestic industrial consumption? Well, here it is, I will read it for a period of years beginning—and I will read the nearest round figure; beginning with 1947——

Senator MALONE. Just make that a part of the record.

Secretary HUMPHREY. Yes.

1947—$49 million; 1948—$45 million; 1949—$109 million; 1950—$98 million; 1951—$69 million; 1952—$96 million.

Senator MALONE. What is it the last couple of years then, make that a part of the record?

Secretary HUMPHREY. In 1953 it is $75 million; 1954, it is $44 million; 1955, it is $45 million.

Senator MALONE. 1956?

Secretary HUMPHREY. I do not have 1956 on here.

Senator MALONE. Well, then, you might just make it all a part of the record.

Mr. Chairman, if you will allow that to be made a part of the record.

The CHAIRMAN. Without objection, it will be made part of the record, at the point where it is requested.

(The document referred to follows; see also page 509.)

Sale of gold by the mint to United States industry and net industrial consumption of gold by United States industry, 1947–55

[Millions of dollars, at $35 per fine ounce]

Calendar year	Sales by mint [1]	Net consumption [2]	Calendar year	Sales by mint [1]	Net consumption [2]
1947	44.8	48.9	1952	68.4	96.4
1948	38.0	45.0	1953	55.8	75.0
1949	78.7	108.8	1954	29.5	44.4
1950	80.8	97.8	1955	24.7	45.5
1951	67.5	69.5	1956	23.0	(3)

[1] Includes gross sales by mints and assay offices and does not include return of scrap gold to monetary use.
[2] Not only includes sales by mints and assay offices but also sales by private refineries, less return of scrap.
[3] Data are collected from numerous private firms, so that figures for 1956 are not yet available.

Senator MALONE. Who makes the decision on whether or not to sell gold; who would make it, providing a sudden demand for this gold results; but first, I think we had better have the record show just what this demand has been over a few years, foreign demand.

Secretary HUMPHREY. What we have sold?

The sheet which I presume you would like to have for the record——

Senator MALONE. Yes, I would.

Secretary HUMPHREY. I will just read the last of it. It shows the purchases and the sales and the net purchases which exceeds sales for the period 1934 to the first half of 1957.

Senator MALONE. Then, I would ask that that be made a part of the record.

Secretary HUMPHREY. I will just read a few.

Senator MALONE. Mr. Chairman, I ask that it be made a part of the record.

The CHAIRMAN. Without objection, it will be made part of the record.

(The document referred to follows; see also pages 489 and 516.)

United States gold transactions with foreign governments, central banks, and international institutions, 1934–57

[In millions of dollars at $35 per ounce]

Calendar year	United States purchases	United States sales	Net purchases [1]	Calendar year	United States purchases	United States sales	Net purchases [1]
1934	1,147	24	1,123	1947	2,962	98	2,864
1935	1,854	125	1,729	1948	1,692	182	1,510
1936	1,150	14	1,136	1949	784	541	193
1937	1,601	427	1,174	1950	72	1,797	−1,725
1938	1,752	140	1,612	1951	1,250	1,175	75
1939	3,267	263	3,004	1952	725	331	394
1940	4,156	144	4,012	1953	4	1,168	−1,164
1941	986	463	523	1954	106	433	−327
1942	346	486	−140	1955	19	88	−69
1943	32	795	−763	1956	523	243	280
1944	50	1,373	−1,323	1957 [2]	665	5	660
1945	396	857	−461				
1946	901	180	721	Total	26,390	11,356	15,03[illegible]

[1] Positive figures represent net purchases; negative figures, net sales.
[2] January to June 30.

Secretary HUMPHREY. I will just read, I will say I start with 1954 just to illustrate. In 1952 we bought $725 million and we sold $331 million.

Senator MALONE. You are talking about millions?

Secretary HUMPHREY. Yes, for a net gain of $394 million.

Senator MALONE. In millions of dollars?

Secretary HUMPHREY. Yes, sir.

Senator MALONE. Does that include the commercial gold you sell?

Secretary HUMPHREY. This is United States gold transactions with foreign governments, central banks, and international institutions.

Senator MALONE. Yes. Then it would exclude the commercial?

Secretary HUMPHREY. That is right. In 1953 we bought $4 million and we sold $1,168 million for a minus——

Senator MALONE. You sold $1.3 billion?

Secretary HUMPHREY. $1,168 million for a net sale of $1,164 million.

Senator MALONE. Yes.

Secretary HUMPHREY. In 1954 we bought $106 million, we sold $433 million, for a net loss of $327 million.

In 1955 we bought $19 million, we sold $88 million, for a net loss of $69 million.

In 1956 we bought $523 million, we sold $243 million for a net gain of $280 million.

The first half of this year we bought $665 million, we sold $5 million, for a net gain of $660 million.

Senator MALONE. There seems to have been no hesitancy when there was $1 billion more sent abroad than you bought.

Secretary HUMPHREY. That was one year.

Senator MALONE. Yes.

Secretary HUMPHREY. That is right.

Senator MALONE. Now, suppose they did demand $3 or $4 billion, enough to excite your suspicions.

Secretary HUMPHREY. Over the period here there is, of course, a large net gain.

Senator MALONE. Yes. But my question is, suppose your suspicions were aroused by a $3 or $4 billion demand; could you yourself make the decision not to sell it to them or not to let them have it for the dollar balance?

Secretary HUMPHREY. Of course, I would not do it alone.

Senator MALONE. Could you?

Secretary HUMPHREY. I think that I would finally make the recommendation after studying the thing.

Senator MALONE. But you can make the decision?

Secretary HUMPHREY. I would make the recommendation to the President, which would be the final decision.

Senator MALONE. Well, my question would then be answered, yes, you do make the final decision?

Secretary HUMPHREY. No, the President makes the final decision, but I make the recommendation to him upon which he acts.

Senator MALONE. And if he did not take it, why, you would quit anyhow, so what it means is that you would recommend it, that is it, is it not?

Secretary HUMPHREY. Well, it might or might not be.

Senator MALONE. The President is the only one who stands between you and the decision?

Secretary HUMPHREY. That is correct.

Senator MALONE. Congress has nothing to do with it.

Secretary HUMPHREY. Congress delegated that authority.

Senator MALONE. Now, if you did not make this decision against it, then, they could have $9,108 million, any time they wanted it?

Secretary HUMPHREY. I could, according to the law, I could authorize the sale of that, or I could withhold the sale of it.

Senator MALONE. But if you did not make the decision against it, it would be transferred to you, Europe or wherever the balance is held?

Secretary HUMPHREY. That is correct, I think.

Senator MALONE. Now, the question of foreign, total foreign, dollar holdings, that is another figure here of $16,246 million which, I assume, includes the $9,108 million, is that right?

Secretary HUMPHREY. That is right.

Senator MALONE. The difference there would be roughly $7,138 million, whatever it is?

Secretary HUMPHREY. That is right.

Senator MALONE. Who owns that gold? Who owns that balance?

Secretary HUMPHREY. Private holdings.

Senator MALONE. In what way do they differ from the regular foreign official holdings?

Secretary HUMPHREY. Well, these are dollar balances of the private individuals in United States banks.

Senator MALONE. Does it have to be in United States banks?

Secretary HUMPHREY. Well, I think it is all in United States banks. It is dollar balances.

Senator MALONE. Well, the dollar balances, the dollars they might demand for currency, are not necessarily in domestic banks of the foreign official holdings; are they?

Secretary HUMPHREY. Well, these are not foreign officials. These are foreign individuals.

Senator MALONE. I understand that, but is it necessary for them to be in banks here? Could they not be in a bank in Europe?

Secretary HUMPHREY. I do not know.

Senator MALONE. Could you find out for us?

Secretary HUMPHREY. I do not know. The money would be here I think—the obligation would be here.

Senator MALONE. The obligation is here, but not necessarily the money. Is that it?

Secretary HUMPHREY. I do not know. I think the credit——

Senator MALONE. I will ask your expert there. He seems to know.

Secretary HUMPHREY. The credit would be a credit here.

Senator MALONE. He seems to know. Ask your expert.

Secretary HUMPHREY. The credit is here. The dollar credit has got to be here.

Senator MALONE. But any money we may have given them might be in foreign banks might it not, for which they could demand the gold?

Secretary HUMPHREY. These are private individuals. These are not countries. We are not giving money to private individuals.

Senator MALONE. I understand. I am trying to learn, you understand?

Secretary HUMPHREY. I am trying to help you.

Senator MALONE. You said you did not know?

Secretary HUMPHREY. We are talking now about private individuals, not about governments.

Senator MALONE. But they are not necessarily private American individuals?

Secretary HUMPHREY. No, they are foreign private individuals.

Senator MALONE. They are foreign, private individuals.

Secretary HUMPHREY. That is right.

Senator MALONE. And the credits——

Secretary HUMPHREY. They would have dollar balances they could draw here.

Senator MALONE. But their dollar balances might not necessarily be dollars for which they would receive the gold, if they were to demand it——

Secretary HUMPHREY. They would not receive the gold.

Senator MALONE. Let me finish my question.

If it were transferred to central foreign banks it could be demanded. The dollars are not necessarily in domestic banks now. They could be in Europe or Asia.

Secretary HUMPHREY. They have got to be somewhere. You have got to get somewhere to get the dollars.

Senator MALONE. Well, they have the dollar balances——

Secretary HUMPHREY. Whether they have a credit in a London bank, and a London bank has a credit in a New York bank, it all gets back to here

Senator MALONE. Well, it does if they are going to demand it. But when we give the dollars they pile up dollar balances we have appropriated——

Secretary HUMPHREY. We are not giving any dollars to individuals. These are individuals.

Senator MALONE. When our dollars go through the individuals to nations, is there not some way of interchanging these dollar holdings from individual to a central bank over there?

Secretary HUMPHREY. Yes, and that bank would have a credit here.

Senator MALONE. That is right. Well, that was going to be the next question. You have answered it.

The next question is how long would it take them, the individuals, transfer it to a government central bank over there which could demand it here?

Secretary HUMPHREY. Well, I do not know. There are all sorts of varying restrictions.

Senator MALONE. Shenanigans, I know that.

Secretary HUMPHREY. I could not answer that.

Senator MALONE. Well, could you get me the answer?

Secretary HUMPHREY. It would be different probably in each country.

Senator MALONE. That is all right. We are dealing with a lot of countries and supporting most of them.

Secretary HUMPHREY. We can check it up.

Senator MALONE. Will you do your best?

Secretary HUMPHREY. Yes. For how many countries?

Senator MALONE. All of them which we are helping to support.

Secretary HUMPHREY. All of them?

Senator MALONE. All of them we support. You know our star boarders. You have the list, do you not? [Laughter.] That is the best way I can put it. I visited all of them.

Secretary HUMPHREY. I understand what you mean.

Senator MALONE. I visited every country in the world, Mr. Secretary. I did not go for social purposes. I went to see what they manufactured, what they produced and how they are doing it. And how high on the hog they are eating as a result of the money we are giving them and who gets the money.

I was interested to see if the little folks got any of it, and I never yet met one who did.

Mostly, the effect of giving this money is to hold the government in power that gets it, is it not?

Secretary HUMPHREY. Well, I would not undertake to answer that.

Senator MALONE. No, I expect you would not. There are a lot of things I do not think you are quite satisfied with, otherwise you would not be leaving us here in the lurch, so to speak.

Secretary HUMPHREY. I am leaving for entirely different reasons, Senator.

Senator MALONE. I understand, and I sympathize with your movement. The facts are though that within a very reasonable time these individual dollar—dollar balances—holdings can be transferred to the nations' central bank holdings, dollar balances.

Secretary HUMPHREY. I will check that and let you know, because I am not sure.

Senator MALONE. I understood you to say it could be done.

Secretary HUMPHREY. I do not know, but I will check it and make sure what can be done about it.

Senator MALONE. Well, you think it can be done?

Secretary HUMPHREY. I will check it and make sure and then I will tell you.

Senator MALONE. Well, my next question hinges on your answer. I want to know the total foreign holdings, including the $9,108 million plus the more than $7 billion equaling in all the $16,246 million, is that right, that is what you gave me earlier, your man Friday gave me that answer anyway?

Secretary HUMPHREY. That is right.

Senator MALONE. Well, now, if that money can be transferred through their machinations and various juggling that goes on in Europe and Asia so that it is all central bank dollar balances gold can be demanded, realizing and sympathizing with your stand that you alone, you and the President, can refuse to pay them, but you do not do it, your policy is to give it to them, then theoretically $16,246 million of dollar balances is in Europe or Asia for which they could demand gold?

Secretary HUMPHREY. Well, I am going to check that and let you know.

Senator MALONE. What is your impression?

Secretary HUMPHREY. You see the two identical questions go together, and I will have to check it.

Senator MALONE. What is your impression? You have been there 3 years, 4 or 5 years?

Secretary HUMPHREY. I will check it and see just what it is. I do not want to answer it without checking.

(When the following was subsequently submitted it was further discussed. See pp. 487, 509:)

The conditions under which private residents of foreign countries may hold and transfer dollar balances are determined by the laws and exchange regulations of these countries. These laws and regulations are extremely complex, vary considerably from country to country, and are changed from time to time by particular countries. The same conditions are not necessarily applied to all types of dollar holdings by their residents.

The details of the regulations affecting dollar balances are summarized in the Eighth Annual Report on Exchange Restrictions (1957) of the International Monetary Fund. (The report referred to is filed with the committee.)

The following list of countries include those in which dollar receipts from exports must generally be transferred to the monetary authorities, or to banks subject to control by the monetary authorities.

Austria	France	Nicaragua
Belgium	Greece	Norway
Brazil	Iceland	Pakistan
Burma	India	Paraguay
Cambodia	Indonesia	Peru
Ceylon	Iran	Philippines
China (Taiwan)	Iraq	Portugal
Colombia	Ireland	Sudan
Costa Rica	Italy	Sweden
Denmark	Japan	Thailand
Ecuador	Jordan	Turkey
Egypt	Laos	Union of South Africa
Ethiopia	Libya	United Kingdom
Finland	New Zealand	Vietnam

From information available from the International Monetary Fund, the regulations of the following countries prohibit private citizens from holding gold:

United Kingdom (and British overseas possessions, except Hong Kong)
Ireland
Union of South Africa
Denmark
Norway

Senator MALONE. The next question is, Mr. Chairman, how long are we going to be here? It is lunch time.

The CHAIRMAN. I would suggest——

Senator MALONE. I think he could come with these answers tomorrow.

Secretary HUMPHREY. I would rather come this afternoon.

The CHAIRMAN. We cannot meet this afternoon. There may be an afternoon session tomorrow. The committee will recess until 10 o'clock tomorrow.

(Whereupon, at 1 p. m., the committee adjourned, to reconvene at 10 a. m., Tuesday, July 9, 1957.)

INVESTIGATION OF THE FINANCIAL CONDITION OF THE UNITED STATES

TUESDAY, JULY 9, 1957

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

The committee met, pursuant to recess, at 10:05 a. m., in room 312, Senate Office Building, Senator Harry Flood Byrd (chairman) presiding.

Present: Senators Byrd, Kerr, Anderson, Gore, Martin, Flanders, Malone, Carlson, Bennett, ~~and Jenner~~.

Also present: Senator Goldwater; Robert P. Mayo, Chief, Analysis Staff, Debt Division, Office of the Secretary of the Treasury; Elizabeth B. Springer, chief clerk; and Samuel D. McIlwain, special counsel.

Senator KERR (presiding). I want to put a very brief statement into this record before the session formally opens.

I am in receipt of a telegram from the Honorable Raymond Gary, Governor of Oklahoma. His message brought me some very important news and information which is of significance to this hearing and to the Congress.

He advised me that there was a resolution protesting high interest rates, passed unanimously by the recent governor's conference at Williamsburg, attended by 45 governors.

Even at this late date I regard this as news because it has been but scantily recognized in the Washington press. Despite the current spotlight on fiscal policies, the Washington newspapers for some strange reason have practically ignored this urgent appeal by the Nation's governors to the Congress and to the President, to alleviate this additional burden on the taxpayers of America.

Upon receiving the Governor's wire and knowing that I had not seen it in the Washington press, I asked the Library of Congress to make adequate research to be certain whether or not the Governor's resolution had been publicized here. I have a letter here confirming that with one small exception, it has not.

I want to express my deep gratitude to Governor Gary for his telegram. It is great significance to this investigation because it sets forth specifically the financial crisis facing State and local governments and the consequent added burden of taxpayers, as the result of soaring interest rates.

Since his protest is in line with the resolution passed by 45 governors, I am sure that in every other State, both government and private industry are in similar difficulty trying to meet the requirements of an expanding population and the necessities of normal progress.

This "hard money policy" is obviously exacting a penalty on necessities instead of a brake on inflation.

I would like to have the telegram and the letter from the Legislative Reference Service of the Library of Congress inserted in the record, and it is my purpose to discuss this matter further on the floor of the Senate today.

(The documents referred to are as follows:)

JULY 8, 1957.

Hon. ROBERT S. KERR,
United States Senate, Washington, D. C.:

Increased interest rates are causing a slowing down in the industrial program of Oklahoma. High interest rates are causing an increase in taxes upon the people of this State because of higher interest rates they have to pay on school, county and municipal bonds. In 1955 the people of this State adopted a constitutional amendment allowing them to vote twice as much building bond levies as they had been able to vote prior to that time for school building bonds. The reason for this is to allow the people themselves to take care of school building needs. And since that time, millions of dollars on school building bonds have been floated. Interest rates continue to climb and we find ourselves struggling under a heavy tax burden principally because of increased interest rates. The toll road program in this State has been brought to a standstill principally because of high interest rates. The following is a resolution adopted by the Governor's conference recently at Williamsburg:

"As a result of expanded requirements, the State governments, the local governments and school districts are being pressed to make unprecedented capital expenditures. These accelerated needs for funds have resulted in the issuance of billions of dollars in bonds. These bonds have been floated at higher and higher interest rates, thus increasing amortization costs. Therefore, the forty-ninth annual meeting of the Governor's conference suggests that the President of the United States and the Congress take cognizance of this additional burden on the taxpayers of America with a view to alleviating this burden."

We appreciate very much the stand that you are taking in support of a program to bring about a more reasonable interest rate for the people of this Nation.

RAYMOND GARY, *Governor of Oklahoma.*

THE LIBRARY OF CONGRESS,
LEGISLATIVE REFERENCE SERVICE,
Washington, D. C., July 9, 1957.

Hon. ROBERT S. KERR,
United States Senate, Washington, D. C.

DEAR SENATOR KERR: We have looked in the Washington Post, the Washington Star, and the Washington News for articles and editorials about the governors' conference resolution notifying the Eisenhower administration of the governors' attitude toward the tight-money policy and its effect on financing school-building construction. The only article that really mentions that phase of the subject is the one in the Washington Post, June 27, page 2, which we are sending.

Sincerely yours,

ERNEST S. GRIFFITH, *Director.*

Senator MARTIN. Mr. Chairman, I would like to say at this point in the record that this resolution had a very extensive play in the newspapers of Pennsylvania, and there was editorial comment by many of the papers of Pennsylvania, and they discussed it from the standpoint of what inflation is costing the various State governments, and what the increased cost of interest was for the various governments.

I did not see anything in any of the Washington City papers.

Senator KERR. The Senator from Nevada.

Senator MALONE. Thank you, Mr. Chairman.

STATEMENT OF HON. GEORGE M. HUMPHREY, SECRETARY OF THE TREASURY—Resumed

Senator MALONE. There were a couple of questions remaining unanswered yesterday, Mr. Secretary. Did you bring the answers this morning?

Secretary HUMPHREY. We do not have them. The ones you wanted, the tables and things, we will have, and we will bring them.

Senator MALONE. Yes.

One question was whether or not the holders of dollar credits, private holders, in foreign nations could, through the transfer to their governments or central banks, demand the gold, the same as the governments.

Secretary HUMPHREY. That is being looked up. It varies, I think, in various countries, according to what their own central bank's relations are with their own citizens, and we are checking that carefully and I will bring that answer.

Senator MALONE. But you do not yet have the answer?

Secretary HUMPHREY. I do not; no.

Senator MALONE. I understood you yesterday to say, and I have your table here, that there was approximately $9.108 billion of foreign official short-term holdings on which these foreign governments could demand the gold.

Secretary HUMPHREY. On the official holdings, that is correct.

Senator MALONE. You also said——

Secretary HUMPHREY. That is, it is foreign governments and international funds combined. The foreign governments were about $7.5 billion, as I recall it, and the international funds were the balance, and the two of them total $9 billion.

Senator MALONE. $9,108 million.

Secretary HUMPHREY. 108; that is correct.

Senator MALONE. And they can demand the gold?

Secretary HUMPHREY. That is correct.

Senator MALONE. I also understood you to say that we might refuse to give them the gold.

Secretary HUMPHREY. We do not have to sell the gold unless we want to.

Senator MALONE. You have already sold it, but you do not have to deliver it.

Secretary HUMPHREY. Oh, no, we have not sold it.

Senator MALONE. They have the dollar credits, and I understand from your testimony that it is customary to deliver gold when demanded.

Secretary HUMPHREY. We have dollars out, and our obligation is to return dollars. Now, we can sell gold if we wish.

Senator MALONE. Are they under the impression they can get gold?

Secretary HUMPHREY. I think so.

Senator MALONE. What gave them the impression?

Secretary HUMPHREY. Because we have been selling gold to those accounts.

Senator MALONE. What position would we be in if we suddenly refused to settle in the usual manner?

Secretary HUMPHREY. Well, I do not know. It has been done many times, by various countries around the world under varying sets of circumstances. I think if, just out of a clear sky, with no apparent reason for it of any kind, we did it, it would cause a good deal of comment as to, what is this all about?

Senator MALONE. Would it cause a depreciation in the value of our currency?

Secretary HUMPHREY. I do not think so, necessarily.

Senator MALONE. In exchange?

Secretary HUMPHREY. I do not know whether it would or not.

Senator MALONE. Some experts claim that it would. We have not denied it, have we?

Secretary HUMPHREY. I think it would depend wholly upon the circumstances under which it was done.

Senator MALONE. Have we ever denied the delivery of gold for dollar balances when it was requested?

Secretary HUMPHREY. I think it would depend wholly on the circumstances.

Senator MALONE. But have we ever denied any such delivery?

Secretary HUMPHREY. Not that I know of. You mean in the last few years? No.

Senator MALONE. I really meant over as long a period as the record shows, have we ever done that?

Secretary HUMPHREY. We have only been in this situation since 1934.

Senator MALONE. We only denied our own people the right to own gold since 1933, but did we ever deny the right of foreign nations to demand payment in gold?

Secretary HUMPHREY. Well, I could not tell you that; whether, back in some of the previous wartimes, we did or not, I would not say. It might well have been in previous times we have had some restrictions.

Senator MALONE. You are aware, are you not, of the fact that our dollar sometimes is quoted well below the Canadian dollar? What is the cause of that situation?

Secretary HUMPHREY. Well, the cause of that is that there is so much demand for investment in Canada. There is so much money, American money, United States money, being spent in Canada in the developments up there, that the exchange, Canadian exchange, has gone to a premium of a few cents on the dollar. Prices have gone up in Canada, too.

Senator MALONE. Could it be that they handle their currency in a more businesslike way? That is, they do not give the taxpayers' money away in big chunks; would that have anything to do with it; would it?

Secretary HUMPHREY. Well, I suppose that might have something to do with it, but I think the real primary cause is that there is so much money moving that way.

Senator MALONE. There must be a reason for what some people call a flight of currency. We had it in our direction for a long time when our tax and tariff structure seemed to be favorable.

Do you think our tax structure has anything to do with the flight of currency or investments in foreign nations?

Secretary HUMPHREY. I do not think anybody could say, Senator, that it did not have something to do with it. I cannot point to particular instances, but I certainly would not say that there were not instances where people had made foreign investments or had sought shelter some way or other, some other place, because of our large taxes.

Senator MALONE. An investment in Canada or in some of the low-cost labor countries, with our markets available to them through the free trade policy is very profitable and enticing to foreign and American capital. We used to have a duty, which article I, section 8, provided, which took the profit out of foreign low wages at the water's edge and evened the domestic and foreign wages.

Now, with the duties or tariffs practically dispensed with, a division of American markets with the foreign nations of the world is the administration policy. The use of their low-wage labor and escape from American taxes is the incentive for the flight of American capital. Do you not think that these factors might influence the evident flight of capital, American capital, to foreign nations?

Secretary HUMPHREY. I think it would very definitely influence a movement of American capital, provided the country in which you had the lower labor rates and the additional market, offered reasonable protection to foreign capital invested there.

The deterrent, of course, to a movement, is the fact that in so many places of the world, you are running great risks of losing your capital if you go there.

Senator MALONE. Confiscation or socialization?

Secretary HUMPHREY. That is right.

Outside of that, there would certainly be pressure to move.

Senator MALONE. How much capital, American capital, is invested in foreign nations now? Do you have any way of knowing?

Secretary HUMPHREY. No, I do not know. There are large amounts, of course.

You just take the oil business alone, and there are large amounts.

Senator MALONE. Well, you include the foreign countries now, like Japan, where the wages are 13, 15 cents an hour, there is a flight of textile capital there, is there not?

Secretary HUMPHREY. I do not know.

Senator MALONE. You have no way of determining these things?

Secretary HUMPHREY. No, I could not tell.

Senator MALONE. The Department of Commerce has continually promoted these investments abroad, have they not?

Secretary HUMPHREY. I think the whole Government has promoted American investments abroad.

Senator MALONE. And the executive branch of our Government has promoted lower duties or tariffs and the decisoin of the American market with the foreign nations for 24 years has it not?

Secretary HUMPHREY. Well, of course, our reciprocal trade arrangements do reduce duties, have reduced duties.

Senator MALONE. The actual reduction of—first it was 50 percent, was it not, reduction in duties, across the board?

Secretary HUMPHREY. I believe that is right.

Senator MALONE. And then another 50 percent, which would mean a total of 75 percent reduction, actually; is that about right?

Secretary HUMPHREY. I believe that there was authority to negotiate reductions up to 50 percent.

Senator MALONE. An additional 15 percent reduction was provided in 1955 and does not the inflation we discussed yesterday actually lower fixed duties?

Secretary HUMPHREY. It does, relatively. It does not lower the exact amount, but it is relatively lower on the total price of the article, a lower percentage.

Senator MALONE. Yes.

In other words, if you had a product—and I think this is important in the flight of capital—if you had a product which had a 5-cent-a-pound duty, and the price was 20 cents a pound, that would be a 25 percent duty.

Secretary HUMPHREY. That is right.

Senator MALONE. But if, then, the price rose to 50 cents a pound because of inflation——

Secretary HUMPHREY. Or a dollar.

Senator MALONE (continuing). It would be 12½ percent.

Secretary HUMPHREY. That is right.

Senator MALONE. Therefore, there are two ways of reducing that duty or tariff which was originally designed to make up the difference in wages and standard of living abroad, and the labor cost and cost of doing business here, and the chief competing country on each product.

Secretary HUMPHREY. That is right.

Senator MALONE. So you think that would be conducive to a flight of capital from the United States?

Secretary HUMPHREY. If other conditions did not deter it.

Senator MALONE. I agree with you.

Canada has been more conservative in her handling of her finances and in protecting her markets through protection of the workingmen and investors with duties or tariffs and other methods than we have, have they not?

Secretary HUMPHREY. I think you would say yes.

Senator MALONE. I am sure you would. I have investigated it very thoroughly, and as a matter of fact we are the only nation in the world today that does not protect its workingmen and investors—the jobs and investments of its people.

Secretary HUMPHREY. I think, by and large, there are some things not as good, but by and large their taxation system and their handling of their affairs has been very good.

Senator MALONE. Yes. They have not yet reached the point where they think they have to divide their wealth with the rest of the nations, have they?

Secretary HUMPHREY. To some extent, but not to the extent that we have, I think.

Senator MALONE. They are repaid, even though the mother country, England, I remember, wanted to buy grain on the cuff—Canada waited until we gave England the cash to pay for the wheat. Canada gave their miners a bonus of about $6 an ounce for the production of gold, and sold it to us for $35, and then everybody made money.

You think that the incentive in Canada for American investments has had a lot to do with the Canadian dollar being worth more than the American dollar?

Secretary HUMPHREY. I think it is because of the American investments, very largely, the development of their natural resources up there, that has moved a great deal of American money up there.

Senator MALONE. Yes. And you believe that the commonsense attitude they have taken in their government's fiscal policies, and in conserving their resources for Canada, and not distributing cash throughout the world, has had something to do with the flight of American capital?

Secretary HUMPHREY. I think it certainly has influenced people to look toward Canada rather than elsewhere in the world, for the same sort of things.

Senator MALONE. Yes.

Now, are there not quite a lot of investments going into other nations in Asia and Europe perhaps for the same reason, that once the investments are made they protect their investors and workingmen in their jobs and investments with duties or tariffs and import and exchange permits.

Secretary HUMPHREY. Well, I think, Senator—I am not sure of this, but I think that the main incentive is the development of natural resources that are found elsewhere in the world, notably oil and other minerals, and that that accounts for the largest part of the investment abroad.

Senator MALONE. I think you are absolutely right. But we have, generally speaking, the same opportunity for investment here, but the labor cost is so much higher, and the cost of doing business is so much higher because of our higher standard of living costs.

As a matter of fact, we pay more in industrial insurance and social security on each workingman in America than they do in wages in many of these countries, as you know. That is a fact; is it not?

Secretary HUMPHREY. I think that is so.

Senator MALONE. So, as a matter of fact——

Secretary HUMPHREY. Of course, you do have this: That you find, as you go around the world, that while a good many of the wage rates are low, the productivity is also low. The disparity, of course, is not quite as great as just the wage rates.

Senator MALONE. We call it effective wages in the engineering business, when you talk about a comparison of wages.

But is it not also a fact that that was so in the past with their primitive methods; but when the American investors put in their own American machinery and take about 3 to 7 percent of trained American workingmen to train those low-cost workers, is it not a fact that production is just as efficient in many cases?

Secretary HUMPHREY. There are many places in the world where you get good operating experience.

Senator MALONE. That is a fact in Japan, of course, and when the American textile machinery is installed by American capital, probably the Japanese work is more effective. Could that not be true?

Secretary HUMPHREY. Well, you get good operations.

Senator MALONE. Very good.

Secretary HUMPHREY. That is right.

Senator MALONE. I have been in all of these nations and personally inspected a good part of this industrial development.

For example, northern Chile, we hear many fine American professors and native persons with no experience saying we can compete with anybody with our up-to-date machinery and up-to-date methods, not realizing that the American machinery and methods are immediately available in any nation of the world where American capital goes. I find American machinery and our up-to-date methods, with

Americans training them, every place in the world where the capital is available.

In northern Chile, the Anaconda copper plant, it will perhaps be news to some people, but the most efficient copper refinery in the world is in Chile, because it is the last one.

Secretary HUMPHREY. That is right. The last one is always the best, or it ought to be.

Senator MALONE. The last one is always the best wherever located; is that not it, George?

Secretary HUMPHREY. It ought to be, or somebody ought to be fired.

Senator MALONE. Is that not it, George, the last one is always the best?

Secretary HUMPHREY. That is right.

Senator MALONE. Then to blow up this idea permanently that we can compete with anybody on an even basis because we here invent the method—because it is men like you and me they send ahead of them, is it not, when they think they have a good investment, to find out whether it is good?

Secretary HUMPHREY. I do not know. [Laughter.]

Senator MALONE. I think it is. I have met you in several foreign countries. The only competitive difference is the cost of labor and cost of doing business here and in the chief competitive country on each product.

There is a news item in the Post this morning that H-bond sales show a 38 percent slump. There are more of these bonds being turned in than sold.

Do you have any comment to make on that situation?

Secretary HUMPHREY. Well, we are curtailing the H bonds, you know, and as they would come in, why, we pay them off.

Senator MALONE. Well, are they coming in faster than you are selling them?

Secretary HUMPHREY. We are curtailing them. We are trying to curtail them.

Senator MALONE. You are trying to get them all in?

Secretary HUMPHREY. Wait a minute. Maybe I have said the wrong letter.

Senator MALONE. Well, there is no one can keep track of the letters if you cannot, George.

Secretary HUMPHREY. J's and K's are the ones that we are not selling any more. H's we are selling.

Senator MALONE. But there are a good many of them being turned in, more than you are selling?

Secretary HUMPHREY. That is right. In the first 6 months of this year, E and H bond sales amounted to $2,314 million while redemptions amounted to $2,781 million. The excess of redemptions over sales was around $500 million.

Senator MALONE. What would you ascribe the reason to be for that situation?

Secretary HUMPHREY. Well, it could be a number of reasons. It could be uses for money, it could be interest rates, it could be a number of reasons.

Senator MALONE. What interest do they bear?

Secretary HUMPHREY. They have moved up, you see; we just moved them up here. In February of this year they went from 3 to 3¼.

Senator MALONE. It says in this report:

> Redemptions of series E and H bonds during the January–June period totaled $2,781 million, up 14 percent over corresponding redemptions of $2,437 million for 1956."

There must be some reason for it, I suppose. You have no particular reason for it except that the people just need the money?

Secretary HUMPHREY. Either need the money, or the interest rates. They would either invest their money some other place, or something of that kind—switch it.

Senator MALONE. Do you think some other investment would be better than a Government bond?

Secretary HUMPHREY. It would not be better, but they might be perfectly willing to take a chance on something else which would pay them more interest. Or they might switch into other governments.

Senator MALONE. Has the situation changed in Government bonds over 10 years ago, 15 years ago, when you used to sell a 10-year maturity bond for $750 on a $1,000 bond, and at the end of the 10 years the purchasing power of the $1,000 was less than the purchasing power of the $750 when he invested it? We really take the money away from investors through inflation.

Secretary HUMPHREY. Well, the purchasing power of the dollar has changed, of course, Senator, quite substantially but not so much during the past 4 years. Now, in the last few months, as has been brought out here before, there has been an increase in prices, in the cost of living, and in other prices, and that has moved up more in the last 6 months than it did in 4 years.

But still, over the whole 4 years, the change over the 4 years is still very much less than it was in the preceding 15 years.

Senator MALONE. Well now, is that one of the reasons you moved the interest up, so that would not be true, so that if you bought a bond now and the depreciation of the currency continues, that you would get back at least as much purchasing power at the end of 10 years or 5 years, whatever the term of the bond, as you put into the bond to start with?

Secretary HUMPHREY. No. We moved the interest on the bond up to make it more nearly in line with current rates being paid elsewhere. But the thing that is moving interest up is the excess of the demand for money over the supply, or for credit more than the supply, which is pushing the interest rate up competitively.

Senator MALONE. And, as you explained yesterday, what you try to do is meet the market demand for return on the investment.

Secretary HUMPHREY. That, we hope, is anti-inflationary.

Senator MALONE. So you try to fix the rate so the bonds will sell?

Secretary HUMPHREY. We hope that that is retarding inflation, inflationary pressures, and I believe that it is.

Senator MALONE. We hear a good deal about money invested in the United States from nations like Switzerland, where they have bank accounts which do not identify the real owners.

What do you know about that report?

Secretary HUMPHREY. I do not know much about it. I have read in the paper about some; in some of these proxy fights, I noticed that they thought they had some method rigged up by which they could buy securities without telling who it was, or something of that kind. I do not know much about it.

Senator MALONE. It is not necessary for you to know anything about that as Secretary of the Treasury of the United States?

Secretary HUMPHREY. I do not think so.

Senator MALONE. It does not affect your business?

Secretary HUMPHREY. I do not think so. Relatively few, isolated transactions, I think.

Senator MALONE. Do you know if it is possible for money to be invested, transferred to the United States through numbers, as the newspapers report, so that the individual owners of the money are not disclosed and are not subject to American law and taxes?

Secretary HUMPHREY. I do not know.

Senator MALONE. Who would know about that?

Secretary HUMPHREY. Well, I suppose the banks through which it is done would be the——

Senator MALONE. The Federal Reserve banks would know?

Secretary HUMPHREY. I would not think the Federal Reserve would really know. It might. But it would be, I would think you would probably find, the banks through which the transactions were carried on with their correspondent banks.

Senator MALONE. Would our income tax people know about that?

Secretary HUMPHREY. Well, if something developed which looked as though it was being used for the avoidance of taxation, why, I think they would be interested to try to trace it up.

Senator MALONE. What do Americans and foreigners take money to Switzerland for? It is pretty well known that nearly all of these dictators and people who may have to make sudden moves for political purposes have a lot of money deposited in the banks in Switzerland.

What would keep an American citizen, we will say, who owned money which had never been disclosed, from depositing it in a Swiss bank and investing it in this country under a number?

Secretary HUMPHREY. I suppose you could.

Senator MALONE. That would be getting pretty close to your business in the income tax field, would it not?

Secretary HUMPHREY. Well, that would not necessarily mean that he would not be paying his taxes. But if it was being used in some way as a tax dodge, then, of course, the Internal Revenue Bureau would be very interested.

Senator MALONE. Suppose he had the money in thousand-dollar bills in which you were so much interested a few years ago, and deposited it in a Swiss bank and transferred it to this country under a number, income tax had never been paid on this money.

Of course, the business he goes into, he would pay taxes, but would that escape paying income tax on this money that he shipped to Switzerland?

Secretary HUMPHREY. Well, it should not.

Senator MALONE. How would you identify it if you do not know anything about it?

Secretary HUMPHREY. Well, I think——

Senator MALONE. How would you find it?

Secretary HUMPHREY. If there is anything there, you would immediately start an investigation to try to follow it up.

Senator MALONE. Has any such investigation been started?

Secretary HUMPHREY. I cannot tell you. That would be in the Internal Revenue.

Senator MALONE. You do run this income-tax business, do you not?

Secretary HUMPHREY. Yes; but I cannot tell you all of the investigations they have.

Senator MALONE. You could not find out for us what they are doing in regard to this money which is reported to escape taxation by coming in under a number from a Swiss bank?

Secretary HUMPHREY. I could find out. I could find out; yes.

Senator MALONE. Would you do that for us?

Secretary HUMPHREY. Yes; I will. Would it not be better, though, to have the income-tax people come and talk to you about it?

Senator MALONE. Well, it would; but, after all, he works for you.

Secretary HUMPHREY. Well, Senator, we have got 90,000 people working in the Treasury Department now. I do not know what they are all doing.

Senator MALONE. You do not have 90,000 people reporting to you?

Secretary HUMPHREY. I have people who run different departments of the Treasury, and try to get competent people to do it. And, if they do a good job, why, I let them do it. I do not try to run it for them.

Senator MALONE. Well, you do not have 90,000 like the head of the Income Tax Bureau, do you?

Secretary HUMPHREY. Do not have what?

Senator MALONE. You do not have 90,000 people like the head of the Income Tax Bureau, do you?

Secretary HUMPHREY. No, not heads of departments.

Senator MALONE. How many heads do you have?

Secretary HUMPHREY. I suppose there are 40.

Senator MALONE. Well, you do get reports from them and you do call them in once in a while, do you not?

Secretary HUMPHREY. I certainly do. I do not follow their day-to-day activities.

Senator MALONE. Well, that was not what I asked. Would you call him in and ask him to give you the answer to this?

Secretary HUMPHREY. Yes, I can find out what they are doing.

Senator MALONE. All right.

(The material referred to was read into the record at p. 512.)

Senator MALONE. We abolished the gold standard. Congress did in 1933 under that pressure from a popular president. It was a left-handed move, apparently, because we still maintain or say we maintain the amount of gold—25 percent now, reduced from 40 percent?

Secretary HUMPHREY. That is right.

Senator MALONE. Behind the currency.

Secretary HUMPHREY. That is right, and deposits.

Senator MALONE. But no one in America can have possession of it but you.

Secretary HUMPHREY. That is right.

Senator MALONE. Representing the United States.

But it is available to foreigners, is it not?

Secretary HUMPHREY. To foreign governments.

Senator MALONE. To foreign governments.

Secretary HUMPHREY. That is right.

Senator MALONE. And to those foreign individuals, if they transfer their holdings to the Government.

Secretary HUMPHREY. To the extent that they can do it that way.

Senator MALONE. Yes.

In other words, about $16.25 billion worth of it altogether.

It would be interesting, or it is interesting, then, to know just how much gold we own.

Secretary HUMPHREY. We own—I can give you that figure exactly.

Senator MALONE. Well, we have it already. But the reason we have tried to arrive at this is because, since there is 25 percent of gold supposed to be behind our currency, it is interesting to know how much of it we own, is it not?

Secretary HUMPHREY. We own, are you saying?

Senator MALONE. Yes.

Secretary HUMPHREY. Yes; we do. It is interesting to know, and I think that we gave you that figure.

Senator MALONE. Yes; you did, and it is less than $6.5 billion that you actually own if these individuals can demand the gold through a transfer to their central governments; and you are getting me that answer. You have not gotten it yet.

Secretary HUMPHREY. I have told you, Senator, as plainly as I can, we do not have to sell any gold we do not want to sell.

Senator MALONE. Well, let us go over that again.

Suppose they do make a demand and they have this implied promise. They do have the promise that they can get gold.

Secretary HUMPHREY. I do not think they have a promise. They have a practice.

Senator MALONE. What do they have?

Secretary HUMPHREY. They have a practice.

Senator MALONE. A what?

Secretary HUMPHREY. It is a practice.

Senator MALONE. It is a practice.

It is a practice for persons to pay their debts in this country. If one man owes another $100, it is a practice to pay it, if he wants to keep his reputation for honesty, is it not?

Secretary HUMPHREY. That is right.

Senator MALONE. Now, it is a practice for us to pay our debts—the dollar balances in gold, and you said a while ago you do not know any time that we ever refused to deliver the gold for a dollar balance.

Secretary HUMPHREY. No; I do not happen to know of any. I would not say, as I told you before, that there were not times before. I do not know.

Senator MALONE. You would not want to be the first one to do that, would you?

Secretary HUMPHREY. It would all depend on the circumstances. I would not hesitate at all, if the circumstances were such that that was the proper thing to do.

Senator MALONE. Describe the circumstances under which you would do that.

Secretary HUMPHREY. Well, if we had a World War, would be No. 1.

Senator MALONE. Suppose it were demanded now?

Secretary HUMPHREY. If we had a world upheaval of some sort, why, you would immediately, I think, declare some moratoriums.

Senator MALONE. Well, there is no world upheaval now. Suppose the demand was made now. Would you refuse?

Secretary HUMPHREY. Not in ordinary transactions; I certainly would not.

Senator MALONE. In other words, you would not refuse unless there was a world upheaval that would justify, in your opinion, keeping the gold here?

Secretary HUMPHREY. And, as I said yesterday, I do not think you would—I think you have to put your two things together. I do not think you are going to get any demand for all of this gold unless you do have circumstances in the world which are different than they are today.

Senator MALONE. I would not think you would have the demand, because I think they would judge this would be the safest place for them to store it.

Secretary HUMPHREY. I think that is what most people in the world think.

Senator MALONE. But as long as it belongs to them, even a depositor in a bank can demand his money.

Secretary HUMPHREY. It does not belong to them. It belongs to us.

Senator MALONE. The bank owns the money, but if the depositor demands it, he can get it, can he not?

Secretary HUMPHREY. He can unless there is a moratorium.

Senator MALONE. Well, that is the privilege of a nation—I remember in 1947, my first year in the Senate, I made a rather extended trip through Europe. I wanted to see our star boarders there, and see how they were living, and what they were manufacturing, and how they were paying and treating the help.

And I found hundreds of millions of pounds of English currency in several nations in what they call blocked English currency—they owned it but could not use it except in purchases from England. So the English pound depreciated.

Secretary HUMPHREY. That is right.

Senator MALONE. But the English credit was not good, either, at that time. I remember, that was before I came here, the year before I came here, was it $3,750 million that we gave England to bolster their currency? We said that would be the last, of course, but we have continued to give them cash and groceries.

Secretary HUMPHREY. There was a British loan made of something over $3 billion.

Senator MALONE. $3,750 million; was it not a loan that turned into a gift?

Secretary HUMPHREY. That was about 10 years ago, as I remember it.

Senator MALONE. Well, it must have been 12, because I have been here 11 years.

Secretary HUMPHREY. Twelve; well, that might be.

Senator MALONE. Well, anyway, we gave them the money, but they still blocked their currency.

I found a banker in Italy, the Bank of America, was slowly going nuts, I remember; I talked to him, because he thought he was in pretty good financial shape coming out of World War II, but he suddenly found that his English pounds were blocked, and he was broke.

Secrtary HUMPHREY. That is right.

Senator MALONE. And the only way he could do any business was, if he bought something from England, he could use the pounds, but he could not use them any other way.

Secretary HUMPHREY. That is right.

Senator MALONE. Their credit was not very good. We were bolstering their money on the world market through gifts in 1946. We are still bolstering the credit of England in 1957.

Who is going to bolster our credit on the world market if we refuse to pay our debts?

Secretary HUMPHREY. I do not know.

Senator MALONE. I think that is a rather interesting answer. I do not know, either.

The difficulty is, in this Uncle Santa Claus business, the United States does not have any uncle.

We now understand this gold business pretty well, if we find now whether or not these private owners, who have $7 billion or $7.5 billion throughout Europe and Asia, can, by transfer to their central governments which can demand the money—that is, that the governments can demand it.

That would mean, then, you would have less than $6.5 billion of your own gold in the Treasury to meet the 25 percent of the $27.5 billion of currency in circulation.

How much silver do we have in the Treasury?

Secretary HUMPHREY. According to the June 28 daily statement, there is $2,439 million.

Senator MALONE. Of silver bullion in the Treasury?

Secretary HUMPHREY. That is right, including silver dollars; there is also $70 million silver bullion in the general fund.

Senator MALONE. What was the Silver Act of 1934? The Gold Act was in 1933, I believe; is that correct?

Secretary HUMPHREY. The original gold-law change was a rider to the agricultural adjustment bill, the original gold change in 1933.

Then, in 1934, they passed the Gold Act.

Senator MALONE. Making it illegal for an American to own gold, but protecting the foreigners' right to own secure American gold.

Secretary HUMPHREY. January 1934.

Senator MALONE. When was the Silver Act passed? There was a Silver Act that required a certain percent of silver purchased against the gold, and you could then issue silver certificates.

Secretary HUMPHREY. Well, I do not know. I cannot tell you that.

Let us see if we have it.

Well, this Silver Act authorized the Secretary of the Treasury to purchase silver and to issue silver certificates. It was approved on June 19, 1934, at 9 p. m.

Senator MALONE. Since that time, you are supposed to purchase a certain percentage of silver, are you not? What was the act? Will you explain it for the record?

Secretary HUMPHREY. No, I cannot.

Senator MALONE. What are you supposed to do under the act?

Secretary HUMPHREY. Well, I do not know.

Senator MALONE. That is a very frank answer. And I do not know what you are doing.

Secretary HUMPHREY. Well, I think we had better get the people who handle it and have them come and tell you about it.

Senator MALONE. Could you not get the answer?

Secretary HUMPHREY. Yes, I can get it. I can get the ones whose job it is to handle the detail of this. I do not handle the detail of this, and I do not do it.

Senator MALONE. No. I would not expect you to.

What I would like to have answered, then, is, on what basis do you purchase silver, on what basis under the original act of 1934, and as amended?

Secretary HUMPHREY. I would suggest, Senator, that probably the best way to save your time the most would be to get the people who actually do this, the Director of the Mint, who runs all this part on the purchase of the metals and actually handles them, and I think he would be the one who could probably save you a lot of time.

Senator MALONE. I do not know him, and as far as I am concerned, he has no responsibility whatever, so I would like very much if you would simply get it for me, and under your own testimony give us the answer to the question I asked. And that is: Under what principle do you purchase silver? How much silver you have in the Treasury at this time, which you have already answered.

Secretary HUMPHREY. Yes, I told you that.

Senator MALONE. How it varies, and under what conditions. And then answer the question as to the silver certificates issued against this money, and what part of the silver certificates, what kind of silver certificates, can you present at a bank and get the silver for it?

You cannot get silver, I understand, for all of the silver certificates in circulation. So make that division for me.

Secretary HUMPHREY. We will do that.

Senator MALONE. And explain the act, as to what it means in the purchase of silver, the price for which it is purchased, and the details of how it is coined and used as money.

Secretary HUMPHREY. If you will just write that out for me, I will see that those answers are prepared and presented to you.

Senator MALONE. Yes. I would appreciate that.

(The information referred to was read into the record at p. 512.)

Senator MALONE. In this matter of metal backing for the money, when you go far enough back into the history of money, what was was the reason for the gold and silver to be adopted as a basis for the money system? Do you have any ideas on that now?

Secretary HUMPHREY. That was before I was in the Treasury. [Laughter.]

Senator MALONE. You have had to learn some things, have you not, that happened before you came into the Treasury?

Secretary HUMPHREY. I wonder, sometimes. [Laughter.]

Senator MALONE. There are many people who question whether you have learned it or not. But I do not. I think you have, and I ask you a question, and I do not think it is funny.

Secretary HUMPHREY. Well——

Senator MALONE. It is pretty hard for me to joke, George, about the way this money system has been handled in the last 24 years. It is not funny to steal through inflation more than one-half of the savings, insurance, and pensions of the people of our Nation.

Secretary HUMPHREY. Well, Senator, you asked me a question going way back to, I suppose, earliest time.

Senator MALONE. Do you have any ideas on it?

Secretary HUMPHREY. No.

Senator MALONE. Well, then, why was it continued? Do you have any ideas on that?

Secretary HUMPHREY. Why do we continue now?

Senator MALONE. No. Why was the metal backing—gold and silver base continued up until 1933?

Secretary HUMPHREY. I can tell you what we are doing now.

Senator MALONE. What are you doing now, and what do you want to do?

Let me ask you that question——

Secretary HUMPHREY. Yes.

Senator MALONE (continuing). That is not going to be funny, and that is, what would you do now to establish a sound currency? We have established already, through your testimony, that we have a managed currency that you and the Federal Reserve bank manage. They can determine how much money is in circulation and establish the stock market margin, and you can determine the interest rate.

Now it is a manipulated currency.

Secretary HUMPHREY. No.

Senator MALONE. It is a managed currency.

Secretary HUMPHREY. I cannot determine interest rates.

Senator MALONE. Well, you just testified yesterday you could and do.

Secretary HUMPHREY. No. I testified yesterday that I could not. I testified that I met market conditions, and I——

Senator MALONE. That is right.

Secretary HUMPHREY (continuing). And I fixed the rates on the bonds we sold, and on nothing else.

Senator MALONE. That is right. You fixed the interest rate.

Secretary HUMPHREY. On the bonds we sell. And that is not determining interest rates.

Senator MALONE. On Government bonds.

Secretary HUMPHREY. On Government bonds, yes, sir. That is not fixing interest rates.

Senator MALONE. It is fixing interest rates.

Secretary HUMPHREY. Well, it is just the way you can fix the interest rates on what you will pay or on what you will sell.

Senator MALONE. Let me ask you another question. I know from your testimony that you fix the interest rate so the bonds will sell on the market. Does the interest rate on Government bonds affect interest rates on normal private transactions?

Secretary HUMPHREY. Certainly they do. They are part of the general market, and they are an important part, a very important part.

Senator MALONE. As a matter of fact, just about control it now, with about $290 billion of them out on the country.

Secretary HUMPHREY. They are a very important part of the general market.

Senator MALONE. All right, let's get down to fundamentals.

Then you do fix the interest rate on Government bonds.

Secretary HUMPHREY. We do.

Senator MALONE. And it does vitally affect the interest rate on private money.

Secretary HUMPHREY. That is right, they are a part of the general market.

Senator MALONE. All right. Let us get away from that for a moment.

We have established, then, that you and the Federal Reserve Board manage the currency, that is, you fix the interest on Government bonds and the Federal Reserve does determine the amount of currency in circulation. They create more money when they (the Board) believe that there should be more money in circulation, and they withdraw it when they believe there should be less money in circulation.

Secretary HUMPHREY. And they have other powers that can affect the extent of credit.

Senator MALONE. That is correct.

And the two of you together manage the currency of the United States, and its price on the open market, do you not?

Secretary HUMPHREY. No, I do not think so. I think the Federal Reserve——

Senator MALONE. What you do vitally affects every other business transaction.

Secretary HUMPHREY. That is correct.

Senator MALONE. All right.

Now, let us get away from that and the funny business.

What would you do if you now wanted to establish a sound money and get away from inflation, undue inflation, and have a sound money basis in the United States of America, and you had the authority to do it tomorrow, to write the bill that Congress might consider? What would you suggest?

Secretary HUMPHREY. I would do exactly what I am trying to do and have been trying to do for 4 years.

Senator MALONE. But you would not change anything?

Secretary HUMPHREY. I would try to handle my budget, make further improvements in the budget. I would try to run the country on a proper fiscal basis. I would attempt to do all the things that we have been attempting to do, and I would hope to do them a little better.

Senator MALONE. But you would still have a managed currency?

Secretary HUMPHREY. I would still have a managed currency if you want to call it that. I believe it is better to have it that way than in any other way.

Senator MALONE. Then you would not change anything we have been doing for 24 years, except just try to manipulate it a little better?

Secretary HUMPHREY. No, I did not say that. I said I would try to do better the same things we have been trying to do for the past 4 years.

Senator MALONE. But you would not change the basis of this system?

Secretary HUMPHREY. I would not change the basis of what I have been trying to do for the past 4 years.

Senator MALONE. I am not talking about—you see, there are many things which happened before you came here.

You would not change the Gold Act of 1933 and 1934? You would not change anything? You would not try to establish a metal basis for money?

Secretary HUMPHREY. I would not go back to a metal base for money today, no, sir.

Senator MALONE. I am not confining it to today. What day would you go back, if you would?

Secretary HUMPHREY. I do not know whether the day is coming or not. It may come. There may be sufficient stability develop in the world so that you would want to go back to a metal base, but I would not want to do it under present conditions.

Senator MALONE. What you want to do now, you want to follow the remainder of the nations of the world who have, all of them have, managed currency, India has managed currency, Germany has a managed currency, they all have managed currency. So you will follow their lead.

Secretary HUMPHREY. I am not following their lead. I am following the laws that we have in this country, which I believe are proper laws, and I believe are working very well.

Senator MALONE. And you would not change them?

Secretary HUMPHREY. I would not change those laws, not at this time.

Senator MALONE. That is a great piece of information that is going to be interesting to a great section of our public, that our present administration believes that a managed currency is exactly what we need, without a metal basis for it at all.

Secretary HUMPHREY. Not at this time.

Senator MALONE. What would you do with the 25 percent gold requirement for our currency? The law now requires that you have 25 percent gold, 25 percent of the currency in circulation, behind the currency, does it not?

Secretary HUMPHREY. That is right.

Senator MALONE. What is it for? What good is it in our system if Americans cannot possess gold?

Secretary HUMPHREY. I would have it, and I would continue as we are with our gold transactions in international trade. I would continue doing the same things we are doing, and I think that we are doing them properly.

Senator MALONE. Well, you would be shortchanging some of these foreign countries if they asked for the gold representing their dollar balance and you refuse to give it to them, and you say you can and would under certain conditions.

Secretary HUMPHREY. Well, I said under special and certain conditions.

Senator MALONE. That would be a war.

Secretary HUMPHREY. That is right.

Senator MALONE. But if we do not have a war as such, an upheaval, you would pay them in gold.

Secretary HUMPHREY. That is correct.

Senator MALONE. But if we do not have the excuse of such a great upheaval or war for which to base a refusal, I think you are going to find that at least $16 billion of your gold belongs to somebody else under your own statement.

Secretary HUMPHREY. Well, I do not think so, but——

Senator MALONE. Let us go back to your statement here. I do not know what you mean by this. It was sent by your "man Friday," Mr. Burgess. You apparently never sign a letter—at least to me. I sign my letters to you.

But under this setup, it says: "Foreign official short-term dollar holdings." As you and I understand it, they hold that many dollars for which they can demand gold—you have said that it is customary to pay in gold. I understood that to be your testimony yesterday.

Secretary HUMPHREY. Well, I have gone all over it, and I will make the same answers today that I made yesterday, and again in an hour from now that I made an hour ago.

Senator MALONE. Some of them have been very interesting and I am sure will be interesting to the country.

Secretary HUMPHREY. Good.

Senator MALONE. And that is, that you can refuse to give the gold to these people simply because you have the title to it and they do not have the title, but it takes an upheaval to cause that refusal. That is right, is it not?

Secretary HUMPHREY. We can buy or sell gold.

Senator MALONE. And you are selling, and you testified——

Secretary HUMPHREY. We are buying and selling, both.

Senator MALONE. And you testified yesterday——

Secretary HUMPHREY. I told you the amounts.

Senator MALONE (continuing). With $35, a foreigner can buy gold and keep it.

Secretary HUMPHREY. I told you the amounts we did buy and sell, yesterday.

Senator MALONE. And the $9.108 billion is the credit they had.

Secretary HUMPHREY. It is a dollar balance.

Senator MALONE. It is a dollar balance for which they can expect gold. That is right.

Secretary HUMPHREY. They can expect gold as long as we continue selling it.

Senator MALONE. But if——

Secretary HUMPHREY. Senator, I cannot say this—you say it any way you like. I have told you what we are doing, and why we are doing it. Now, I can keep repeating it and repeating it, but I am not going to answer questions that you propose in words that you choose to select, which gives a different impression.

Senator MALONE. I am not selecting any words for you to use in your answer, but I am asking you questions to clarify the record and getting very peculiar answers to some of them. Clever too.

Secretary HUMPHREY. Well, that may be.

Senator MALONE. So I am going to ask this one again, and let the record show it today:

The $9.108 billion that the foreign governments own in dollar balances, they expect to be paid the gold for it, do they not?

Secretary HUMPHREY. Those are the short-term obligations of foreign governments and international institutions, and we expect to settle those balances in gold.

Senator MALONE. The total foreign dollar holdings are about $16¾ billion, leaving over $7 billion in private holdings, which, of course, can be transferred to foreign government holdings.

Secretary HUMPHREY. Under varying conditions, and I am going to get you those varying conditions you have asked for.

Senator MALONE. Yes, you are going to get those varying conditions. You do not have them now?

Secretary HUMPHREY. I do not.

They are in a good many countries, and they vary from country to country.

Senator MALONE. That is right.

Now, if the $16 billion plus is owed by us in gold, unless we see fit to refuse to give them the gold, which would not be following the customary practice, it means then, what we have left that we actually own if we followed the customary practice of paying dollar balances in gold would be less than $6.5 billion, would it not?

Secretary HUMPHREY. That is the difference between the figures that you have just added up.

Senator MALONE. Yes. That is right.

I have a table here, furnished also by the United States Treasury, and signed by Mr. Burgess, Under Secretary, which gives a breakdown of the nations which own this gold.

Austria, $305 million. Presumably, Austria could get the gold.

Mr. Chairman, without going further into this business, I ask that these two tables, one which shows the United States gold stock, monetary gold reserve requirements, and foreign dollar holdings, 1934–57, be made a part of the record.

The CHAIRMAN (presiding). Without objection, so ordered.

Senator MALONE. That is table I.

I ask that table II, foreign dollar holdings, March 31, 1957, in millions of dollars, by nations, be made a part of the record.

The CHAIRMAN. Without objection, so ordered.

(The tables referred to are as follows:)

TABLE I.—*United States gold stock, monetary gold reserve requirements, and foreign dollar holdings,*[1] *1934–57*

[Millions of dollars]

End of period	United States gold stock	United States monetary gold reserve requirement	Total foreign dollar holdings	Foreign official short-term dollar holdings
1934	8,259	3,116	670	(2)
1935	10,125	3,984	1,301	(2)
1936	11,429	4,458	1,623	(2)
1937	12,790	4,604	1,893	(2)
1938	14,591	5,543	2,158	(2)
1939	17,800	6,738	3,221	(2)
1940	22,042	8,238	3,938	(2)
1941	22,761	8,631	3,679	(2)
1942	22,739	10,409	4,205	2,244
1943	21,981	12,287	5,375	3,320
1944	20,631	14,645	5,597	3,335
1945	20,083	10,919	6,883	4,179
1946	20,706	10,780	6,480	3,518
1947	22,868	11,341	7,116	4,094
1948	24,399	11,938	7,718	4,701
1949	24,563	10,795	8,226	4,566
1950	22,820	11,045	10,197	5,148
1951	22,873	11,758	10,173	5,189
1952	23,252	12,092	11,719	6,239
1953	22,091	12,187	12,739	7,296
1954	21,793	11,847	14,019	8,540
1955	21,753	12,009	15,230	8,834
1956	22,058	12,120	16,447	9,497
March 1957	22,406	11,761	16,246	9,108

[1] Includes holdings of international institutions.
[2] Not available as of May 29, 1957.

TABLE II.—*Foreign dollar holdings Mar. 31, 1957*

[Millions of dollars]

Europe:	
Austria	$305
Belgium	152
Czechoslovakia	1
Denmark	82
Finland	64
France	432
Germany, Federal Republic of	1, 777
Greece	178
Italy	893
Netherlands	126
Norway	171
Poland	4
Portugal	123
Rumania	1
Spain	35
Sweden	228
Switzerland	912
Turkey	14
U. S. S. R.	1
United Kingdom	1, 175
Yugoslavia	14
Other Europe	421
Total Europe	7, 109
Canada	1, 931
Latin America:	
Argentina	138
Bolivia	25
Brazil	233
Chile	92
Colombia	190
Cuba	384
Dominican Republic	78
Guatemala	74
Mexico	418
Netherlands West Indies and Surinam	70
Latin America—Continued	
Panama, Republic of	$118
Peru	82
El Salvador	41
Uruguay	76
Venezuela	376
Other Latin America	147
Total Latin America	2, 587
Asia:	
China mainland	38
Formosa	69
Hong Kong	58
India	81
Indonesia	145
Iran	40
Israel	35
Japan	912
Korea, Republic of	108
Philippines	250
Thailand	168
Other Asia	414
Total Asia	2, 313
Other countries:	
Australia	93
Belgian Congo	42
Egypt	60
Union of South Africa	62
All other	145
Total other countries	402
International	1, 954
Grand total	16, 246

Senator MALONE. It shows here in the table that the United Kingdom, for example, has $1.175 billion in dollar balance.

Now, there was another question on which you were going to give me some information. It maybe that I am mistaken. Perhaps you answered it. That is, the money that we give these nations, whether it is Marshall plan, ECA, or mutual security, whatever it is, just so it is dollars, that adds to the dollar balance of that nation for which they could demand the gold?

Secretary HUMPHREY. That is correct, if it goes to the nation——

Senator MALONE. Yes. In cash.

And then, as we have already——

Secretary HUMPHREY (continuing). In dollars. That is what I said. I said if it went in dollars, that then it added to their dollar balance, and it does.

Senator MALONE. For the record, about $70 billion in gifts and various other arrangements have gone to these people over the last 10 to 12 years.

Secretary HUMPHREY. Well, that is subject to division, as we said yesterday——

Senator MALONE. That is right. Some of it was in groceries.

Secretary HUMPHREY (continuing). Between goods and dollars.

Senator MALONE. That is right.

Secretary HUMPHREY. We are now talking about dollars.

Senator MALONE. That is right. It is subject to division between goods and dollars. The dollars add up to dollar balances and for that they can demand gold.

Now, apropos of this gold standard, I have introduced two bills; S. 1775 providing a free market for gold, and S. 1897, for a gold standard, a gold base for our currency. I have had your answer, of course, officially through Mr. Burgess, that you do not favor either one. You have testified that you want to continue the managed currency.

S. 1897 is a bill to return to the gold standard, and I have the report to the Senate Finance Committee on this bill. It is signed by Mr. Burgess, and the letter reads:

> This is in reply to the letter of your committee dated April 22, 1957, requesting the views of the Treasury Department on S. 1897, a bill to provide the United States with a gold standard and redeemable currency, and to correct other defects in the monetary system of the United States.
>
> The effect of the bill, S. 1897, would be to establish a redeemable gold coin standard in the United States at the present parity of the gold dollar which is equivalent to one thirty-fifth of an ounce of gold.
>
> The United States is now on a form of international gold bullion standard in which gold is freely bought from and sold to foreign governments and central banks at the official price of $35 per fine troy ounce for the settlement of international balances.

That you and I have covered very thoroughly, I think, yesterday and now today.

Secretary HUMPHREY. That is right.

Senator MALONE. He does not say, however, here that they can refuse to send the gold to them, but you have explained that very thoroughly.

> The United States Government also purchases newly mined domestic gold and sells gold domestically for legitimate and customary industrial, professional and artistic uses at the official price. A gold reserve equal to 25 percent of the note issue and deposits of Federal Reserve banks is required by law. However, private citizens are not at present permitted to redeem United States currency for gold to be held as a store of value.
>
> In the light of existing political and economic uncertainties in many parts of the world—

that must have been what you meant when you said you wanted to stay on a managed currency as long as things were upset.

Secretary HUMPHREY. I said under present conditions; I would not make any other recommendation.

Senator MALONE (reading):

> the Treasury Department does not feel that it would be desirable for the United States to return to a program of internal redemption of currency by gold payments at the present time. A greater measure of economic stability should be established throughout the free world and the principal foreign currencies freed from existing restrictions and made convertible with each other before it would be appropriate to return to gold redemption.
>
> For these reasons, the Treasury Department would not favor the enactment of S. 1897.
>
> The Department has been advised by the Bureau of the Budget that there is no objection to submission of this report to your committee.

Mr. Chairman, I ask that the bill introduced, and the letter, be made a part of the record at this time.

The CHAIRMAN. Without objection, the insertion will be made. (S. 1897 follows:)

[S. 1897, 85th Cong., 1st sess.]

A BILL To provide the United States with a gold standard and redeemable currency, and to correct other defects in the monetary system of the United States

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That this Act shall be cited as the "Gold Redemption Act of 1957".

SEC. 2. The standard money unit of the United States shall be the dollar consisting of fifteen and five twenty-firsts grains of gold nine-tenths fine. Gold shall be freely coined and issued upon demand in any amount not less than $100. The smallest denomination of gold coins shall be $10. All other denominations of gold coins shall be of such size as the Secretary of the Treasury shall find desirable to meet public demand. All gold coins shall be nine-tenths fine, and the weight of each coin shall be fifteen and five twenty-firsts grains multiplied by the face value of such coin.

SEC. 3. Nothing in this Act shall be construed to change, or authorize any change in, the size, weight, or fineness of the present lawful silver coins.

SEC. 4. All provisions of law authorizing the President to alter the size, weight, or fineness of gold and silver coins are hereby repealed.

SEC. 5. The mint charges for assaying and coining gold and silver, and the limits of tolerance, and the alloys in gold and silver coins, shall be those in effect in 1932.

SEC. 6. Standard gold coin, gold certificates, silver dollars, silver certificates, and United States notes shall be full legal tender.

SEC. 7. Fractional silver coins shall be legal tender only up to $10. Five-cent pieces and 1-cent pieces shall be legal tender only up to 25 cents.

SEC. 8. Bank notes and Treasury currency in the process of retirement shall have the quality of legal tender only for purposes of presentation to banks and the United States Treasury and its fiscal agents for redemption at face value.

SEC. 9. That part of section 43 of title III of the Act of May 12, 1933, as amended by Public Resolution Numbered 10, approved June 5, 1933, providing that all coins and currencies of the United States shall be full legal tender, is hereby repealed.

SEC. 10. All money of the United States, including money issued by banks, shall be maintained on a parity with the standard gold dollar by freedom of exchange at face value with standard gold bullion or coin at the United States Treasury.

SEC. 11. Lawful reserves of not less than 25 per centum shall be held against their deposits by the Federal Reserve banks. Such lawful reserves shall consist of any or all of the following gold bullion, gold coin, gold certificates, silver coin, silver certificates, minor coin, and United States notes.

SEC. 12. Lawful reserves of not less than 25 per centum shall be held against Federal Reserve notes issued by Federal Reserve agents to Federal Reserve banks. Such lawful reserves and the 5 per centum redemption fund held against Federal Reserve notes shall consist of standard gold bullion, or gold coin, or gold certificates, alone or in any combination.

SEC. 13. Federal Reserve notes shall be receivable for all debts, public and private, but they may not be counted as reserves against other notes or deposits of issuing banks.

SEC. 14. Federal Reserve notes shall be redeemed in gold bullion, or gold coin, or gold certificates on demand at the United States Treasury or at any Federal Reserve Bank.

SEC. 15. Every obligation now existing or hereinafter created containing provision for the payment thereof in gold dollars shall be considered an obligation to pay in gold dollars of the weight and fineness specified in this Act.

SEC. 16. The President shall not suspend payment in gold on any obligation heretofore or hereafter entered into except as specifically authorized by Act of Congress.

SEC. 17. The following sections of the Gold Reserve Act of 1934 are hereby repealed: Sections 2, 3, 4, 5, 6, 7, 8, that portion of section 9 following the phrase "as to him may seem expedient", 10, 11, 12, and 13.

SEC. 18. All laws or parts thereof which are inconsistent with the provisions of this Act are hereby amended or repealed.

SEC. 19. This Act shall take effect one year after the date of enactment.

Senator MALONE. The bill would simply return to the gold standard with the $35-an-ounce gold, and would be freely interchangeable and held by American citizens once more, under this bill. Foreigners would have no advantage over American citizens.

And, as I understand it, you have no objection to, and favor, the present method of paying the dollar balances in gold to foreign nations, and that the foreign nations can buy gold from us at the $35 price, buy gold from them at the $35 price if it is offered, and that the only people in the world who are prohibited from buying gold from the United States Treasury and holding it in their possession are the American people.

Is that true?

Secretary HUMPHREY. I believe in going on just as we are, in the ordinary course of trade.

Senator MALONE. Did I make a correct statement?

Secretary HUMPHREY. I answered it.

Senator MALONE. Well, you did not answer my question. I will say it again.

Secretary HUMPHREY. I said I believe in going on just as we are, in the ordinary course of trade.

Senator MALONE. That means, then—I am going to say it again so that you must understand it—that any person, any government in the world that has $35 of American money can buy gold and have it in their possession, as far as we are concerned, except an American citizen.

Secretary HUMPHREY. In the ordinary course of trade.

Senator MALONE. Well, in any other way. It is against the law. You can put a man in jail for owning gold here in America, can you not?

Secretary HUMPHREY. No. You are talking about other governments.

Senator MALONE. No; I said our own citizens.

Secretary HUMPHREY. We will not sell gold to other citizens. We sell gold in international—we transfer gold to settle international balances, sell gold to settle international balances, in the regular course of trade with other central banks.

Senator MALONE. Any foreign central bank that has $35 in American money can get an ounce of gold.

Secretary HUMPHREY. That is correct, in the ordinary course of trade.

Senator MALONE. And they can sell it, and do sell it, to their own citizens at any price they can get. That is their own business.

Secretary HUMPHREY. That is their own business, and they do it in varying ways and in varying degrees.

Senator MALONE. That is right. But their citizens do own gold; I mean they can own gold.

Secretary HUMPHREY. In some places they do, and do it in different ways.

Senator MALONE. Do you know of any other nation which does not allow its citizens to own gold?

Secretary HUMPHREY. I do not know. That is one of the things you asked me to look up, and that is the same thing you asked. You want to know what restrictions there are between individuals and their central banks in a list of countries, and I said we would get that prepared and give it to you.

Senator MALONE. I think this adds a little to it: If there is any nation in the world today which does not allow their own citizens to own gold except the United States of America.

Secretary HUMPHREY. That will appear on the list.

Senator MALONE. All right.

(The information referred to was subsequently submitted and inserted in the record at the point of original request. See p. 461.)

Senator MALONE. I introduced another gold bill. I have the report here. The bill introduced, the second bill introduced, was S. 1775, for a free gold market.

There are many people who believe you can go back on a gold standard at $35 an ounce. I do not know. Of course, you thoroughly expressed the position of the administration. There is no desire to change it in any case, and, as a matter of fact, any change would be opposed.

But to find out what the real price of gold should be—as a matter of fact, in South Africa, I was there in 1947, they would like very much a free market for gold, but for us to retain our $35-an-ounce guaranty to buy any gold offered at that price.

In every nation I visited, they were talking about $60 or $70 gold, but when I tried to find out how much gold it would require to absorb the market above $35 an ounce they were very reticent; my conclusion at the end of the trip was that it would not take a very great volume of gold to soak up that extra market above $35 an ounce.

But it seemed to me that the only way to find out was to establish a free market. So in April, April 1, I introduced S. 1775, a bill which would permit a free market for gold.

The letter the committee received from Mr. Burgess on this bill—the reason, as I stated, for introducing such a bill was because, if it hit its level, $30 or $40 or whatever it was, or $50, then we would have some idea of what the price ought to be if we did go back on a gold standard. The letter:

MY DEAR MR. CHAIRMAN: This is in reply to the chairman's letter of April 2, 1957, requesting the views of the Treasury Department on S. 1775, a bill to authorize private transactions involving the sale, acquisition, or holding of gold within the United States.

That, Mr. Chairman, would allow our own citizens to deal in gold just the same as foreigners deal in gold, no restriction on American private citizens.

The effects of the bill, S. 1775, would be to create in the United States a free market for newly mined gold in which the price would be prevented from dropping below $35 an ounce, to allow the exportation of such gold to other world markets and to prohibit the sale of gold by the United States for industrial use or in any free market for the purpose of depressing the price. This would involve a second, unofficial price for gold which would fluctuate at variance with the official price, depending upon the demand for a relatively small amount of new gold production.

The Treasury Department is opposed to the enactment at this time of legislation which would have the effect of creating variable prices for gold in terms of the dollar in domestic and foreign markets. We believe that the adoption of any such proposals would tend to undermine confidence in the currency and thus would be a step away from a sound monetary policy.

The Department has been advised by the Bureau of the Budget that there is no objection to the submission of this report to your committee.

Mr. Chairman, I ask permission to have this letter, along with the bill, made a part of the record.

The CHAIRMAN. Without objection, the insertion will be made.

(S. 1775 follows:)

[S. 1775, 85th Cong., 1st sess.]

A BILL To authorize private transactions involving the sale, acquisition, or holding of gold within the United States

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That, notwithstanding any other provision of law, gold in any form, mined subsequent to the enactment of this Act, within the United States, its Territories and possessions may be melted, smelted, concentrated, or otherwise treated so as to prepare it to be sold, or held and stored as is, or has been customary with gold, and it may be bought, held, sold, or traded upon the open market within the United States, its Territories and possessions for any purpose whatsoever without the requirement of licenses and it may be exported without the imposition of duties, excise taxes, the requirement of licenses, permits, or any restrictions whatsoever.

SEC. 2. Gold imported into the United States after the date of enactment of this Act may be held, bought, sold, or traded upon the open market within the United States, its Territories and possessions, for any purpose whatsoever and may be exported without the imposition of duties, excise taxes, the requirement of licenses, permits, or any restrictions whatsoever.

SEC. 3. All gold held or bought by the United States Treasury, or mints, or assay offices, or by the Federal Reserve banks, shall be construed to be monetary gold. Such gold shall not hereafter be sold for commercial use or for the arts, and such gold shall not hereafter be sold by the Treasury or by the Federal Reserve banks (or for the account of either), directly or indirectly, in any free gold market in the United States, its Territories or possessions, for the purpose of depressing such market and thereby lessening the price and value of gold: *Provided,* That the United States Treasury shall purchase as monetary gold any gold mined after the date of enactment of this Act in the United States, its Territories or possessions, which is offered to it for sale at the rate of $35 an ounce.

Senator MALONE. The purpose of the introduction of the bill was simply to determine what the price of gold would be on a free market.

Do you know—I think I asked you before, this morning—do you have any method of determining or do you know or do you keep account of the amount of American capital invested in foreign countries?

Secretary HUMPHREY. We have some information about it.

Senator MALONE. Would it be proper to ask you the question——

Secretary HUMPHREY. I think probably the most accurate information about it would be in the Department of Commerce.

Senator MALONE. Well, I think it would.

Secretary HUMPHERY. I think that is——

Senator MALONE. I have had a little difficulty in my correspondence with the Department of Commerce. They seem reluctant to give us the detailed information.

Let me ask it in another way, then: Any gold or any money transferred to a foreign country for any purpose, do you have any record of it, gold shipments?

Secretary HUMPHREY. Of gold between central banks, between governments?

Senator MALONE. Yes.

Secretary HUMPHREY. Yes; we could tell you that.

Senator MALONE. You would have a record of it.

Is it a record which would add to our record here, if you could give us the record of those shipments?

Secretary HUMPHREY. Over how long a period?

Senator MALONE. A reasonable period, whatever you could do, 5 years.

Secretary HUMPHREY. Yes; we will get it for 5 years.

Senator MALONE. All right.

(The information referred to was subsequently submitted and inserted in record at place of original request. See p. 457.)

Senator MALONE. I think I asked you already if this large investment, this movement of American capital to foreign countries—and I understand it has reached right close to $40 billion now—if that is any indication of instability of our Government or methods of financing.

Secretary HUMPHREY. You did ask me that, and I replied that I did not think that was certainly a primary purpose or moving influence: that I thought it was to do business in additional markets or to develop natural resources elsewhere, or to gain additional markets for the sale of goods.

Senator MALONE. Where do we have gold stored besides Fort Knox?

Secretary HUMPHREY. I said I would give you a list of the places.

Senator MALONE. Yes: I think you did. But you do not have it yet?

Secretary HUMPHREY. No.

(The information referred to at the place first requested on p. 446.)

Senator MALONE. I think you thoroughly answered the question that you think it is all right for foreign governments to be able to secure the gold, buy it from the United States and do anything with it they desire, put it in the hands of their private citizens at any price they can get.

But you do not believe the situation should be changed here? You do not believe our private citizens should be allowed to own it?

Secretary HUMPHREY. I have answered that question several times.

Senator MALONE. Yes. You do not believe that it should be done?

Secretary HUMPHREY. I have answered it several times.

Senator MALONE. Well, you answered it that you believe it should be just as it is now.

In balancing the amount of money that is supposed to be in circulation, do you know the principle which is used, either by the Treasury, if you happen to be consulted, or by the Federal Reserve Board, in determining the amount of money that ought to be in circulation?

Secretary HUMPHREY. Well, that, as I said the other day, is all, technically it is all part of the technical operation of the Federal Reserve System, and that is the thing that Mr. Martin is in charge of. I think that——

Senator MALONE. Yes. That is right.

Secretary HUMPHREY (continuing). You should inquire from him.

Senator MALONE. Do you know the limits, if there are limits, the latitude that he has in using his judgment as to the amount of money in circulation?

Secretary HUMPHREY. That is all part of his technical operation.

Senator MALONE. Now we have several international banks; we have the Export-Import Bank, we have the International Bank, the International Monetary Fund, the International Bank for Reconstruction and Development, and the International Finance Corporation all to encourage American investment abroad. Do you have anything to do with these banks?

Secretary HUMPHREY. Yes; I do.

Senator MALONE. What part of it do you supervise?

Secretary HUMPHREY. I am a representative on the bank and the fund, and we have other representatives, and I talk to them frequently about what they are doing.

Senator MALONE. What are these banks, what are the names of them?

Secretary HUMPHREY. Well, the Export-Import Bank is a creature of statute of this country, which is supplied with funds from the Treasury of this country under authority of the Congress.

The International Bank for Reconstruction and Development was created by an international agreement approved by a law, by an act of 1945—I will give you the act in a minute.

There are now, I believe, 60 countries, is it not? They have just added a few more—it may be 1 or 2 more, even. Countries are owners and participants. The act was approved on July 31, 1945. It is Public Law——

Senator MALONE. 1945, you say.

Secretary HUMPHREY. Public Law 171 of the 79th Congress (59 Stat. 512).

Senator MALONE. What other banks are there?

Secretary HUMPHREY. Well, those are the two banks.

Then there is the International Monetary Fund, which was created by the Bretton Woods Act, the same date, the same law, and there are the same number of countries that are members of that fund.

Senator MALONE. About 60.

Secretary HUMPHREY. Then there is the International Finance Corporation which was created just a couple of years ago while we were here. It was created by act approved August 11, 1955, and the act is Public Law 350 of the 84th Congress.

And that is an organization which is participated in by a number of countries, a lesser number than in the bank. They did not all come in. It is a lesser number, but it is still a substantial number, and it has been changing as new ones would come in. I cannot tell you exactly how many there are.

They all subscribed, as they came in, to its capital. It has capital of $100 million, and our share of it, as I recall it, is about one-third. We put up $35 million, 35 percent.

Senator MALONE. What is the World Bank?

Secretary HUMPHREY. That is the International Bank for—that is the long name.

Senator MALONE. That is the International Bank for Development?

Secretary HUMPHREY. That is right, Reconstruction and Development.

Senator MALONE. There are four of these institutions.

Secretary HUMPHREY. That is right.

Senator MALONE. The Export-Import Bank, how does it operate?

Secretary HUMPHREY. It operates through its own officers and its own board of directors. Mr. Sam Waugh is president of the bank. He has a board of directors, and he has an advisory committee, and they operate their institution on the clearing—there is a clearance provided by the NAC.

Senator MALONE. How much money do they have, and how do they get it?

Secretary HUMPHREY. Well, as I recall it, they were voted $5 billion.

Senator MALONE. And have been furnished additional sums since that time?

Secretary HUMPHREY. Well, they have the right to draw on the Treasury up to that amount, and they have not drawn it all.

Senator MALONE. How do they operate, what kind of operation do they specialize in?

Secretary HUMPHREY. Up to date, here is the last statement, up to date they owe us now, they owe the Treasury now, $1.204 billion.

Senator MALONE. In other words, they have drawn less than the authorized amount?

Secretary HUMPHREY. They have borrowed $1.204 billion from us.

Senator MALONE. Yes.

Secretary HUMPHREY. They have a borrowing authority of $4 billion. They also have a billion dollars of capital stock which was created in the original act. They have disbursed up to April 1 of this year—these figures do not quite check, because they are of different dates, I do not seem to have the exact dates here—up to April 1 of this year, they disbursed $4.840 billion in loans, and they collected principal of $2.441 billion.

Their net disbursements as of that date were $2.399 billion, and they owed the Treasury on June 30, this year, $1,204,535,559.79.

Senator MALONE. In other words, they have used or have paid out about half of the original capital. $1 billion was the original capital.

Secretary HUMPHREY. You see, the total original, taking the full drawing account, Senator, plus the stock, is $5 billion.

Senator MALONE. $5 billion; yes.

How many employees are there in the Import-Export Bank? First, how many offices, and how many employees?

Secretary HUMPHREY. I did not hear that.

Senator MALONE. How many offices, and how many employees?

Secretary HUMPHREY. They are located here. They have an office here in town.

Senator MALONE. Do they have any offices in foreign countries?

Secretary HUMPHREY. Do they have what?

Senator MALONE. Do they have offices in foreign countries?

Secretary HUMPHREY. I think they have a couple of traveling representatives. Whether they have offices or not, I am not sure.

Senator MALONE. Could you find out and let me know just where the offices are located, and the number of employees of this organization, for the record?

Secretary HUMPHREY. If you want me to do it. Of course, those bank people can tell you about their affairs.

Senator MALONE. Yes.

Secretary HUMPHREY. I do not——

Senator MALONE. I presume we will have them here.

Secretary HUMPHREY. Their employees or offices, or anything else, I have nothing to do with.

Senator MALONE. You furnish the money up to the amount authorized; $5 billion in this instance.

Secretary HUMPHREY. I furnish the money, and they do the business. They have their own Board of Directors.

Senator MALONE. What is the nature of their operation?

Secretary HUMPHREY. What is that?

Senator MALONE. What is the nature of their operation?

Secretary HUMPHREY. Their operation is for the purpose of assisting in the export and import of goods from this country. It is to assist America, both to export and import, and they make loans largely involved in either the financing of exports that are made in America and sold abroad, or for the financing of goods that are needed by America and purchased abroad.

Senator MALONE. They encourage American investments abroad. I do not want to make this complicated for you, but could you, without too much trouble, secure the headquarters of these people, if they do have them in foreign nations, and the number of employees they have?

Secretary HUMPHREY. Yes; I can get that. But why don't you ask the people that run these things? Why do you ask me about things that are somebody else's job to run?

Senator MALONE. I think you have a point there, except we will lose you one of these days. And you should have the information if you furnish the money.

Secretary HUMPHREY. I will be glad to help you any way I can, but I do not know why I should——

Senator MALONE. You do keep the record——

Secretary HUMPHREY (continuing). Get all the information about running somebody else's business.

Senator MALONE. I call it your business if you are financing them, and the taxpayers are really getting interested in these independent corporations, financed by them, to encourage American capital to be invested abroad.

Secretary HUMPHREY. Of course, they are interested, and I am interested, but that does not mean I run their offices or their employees or anything of the kind. I do not.

Senator MALONE. I understand that. My interest in them is to find out what they do, and why. In other words, we seem to be financing our own downfall—sending American capital to cheap-labor countries to compete with our own workingmen and investors.

Secretary HUMPHREY. They are available here; they are right here in town. Why don't you get them in and ask them?

Senator MALONE. This is an investigation, and you are the witness.

Secretary HUMPHREY. Yes. And I am asking why you do not get the witness who really knows.

Senator MALONE. I am asking whether you pay attention to the things you finance.

Secretary HUMPHREY. I don't check on the employees they have, or where they have them located, or how they solicit their loans. I do know what their general purposes are. I do know their general functions. I do know in general the kind of loans they make and how they operate.

Senator MALONE. My general line of questioning is to find out why we finance our competition—why we are going all out with taxpayers' money all over the world.

Secretary HUMPHREY. On this one, you should ask the Congress that created it.

Senator MALONE. Yes; I think they should understand what they are doing—they should have more information on what is going on, and that is what we are trying to get.

Secretary HUMPHREY. Then I would get the people who are doing it and ask them.

Senator MALONE. You have a point there, except that as long as you finance them, you ought to know something about it yourself.

Secretary HUMPHREY. I do know something about what is going on.

Senator MALONE. All right; put it in the record.

(The information referred to was subsequently submitted for the committee files in the Report to the Congress on the Budget Estimates for Fiscal Year 1958 of the Export-Import Bank and the Sixth-Month Report to the Congress, June 1956.)

Senator MALONE. Now we come to the International Bank for Development. What is the nature of this bank, and how much money do we furnish?

Secretary HUMPHREY. All right, I think much the same thing applies here, in that they have a board of directors, they have their own officers, they have their bylaws, they have a separate, independent institution. We are simply one stockholder in it.

Senator MALONE. I would say we are the chief one, are we not?

Secretary HUMPHREY. We are the chief one; yes, sir. We are the chief one.

Senator MALONE. You say there are about 54 countries?

Secretary HUMPHREY. What is that?

Senator MALONE. About 54 countries?

Secretary HUMPHREY. I did not hear that.

Senator MALONE. About 54 countries?

Secretary HUMPHREY. I think it is about 60. There have been 1 or 2—it was 54, and then they took in several more. The original act——

Senator MALONE. July 31, 1945, it was passed, you told me.

Secretary HUMPHREY. I gave you that. And that provided for subscriptions, the total amount of subscriptions provided for in the agreement approved by that act is $9.1 billion, of which the United States subscribed for $3.175 billion.

Senator MALONE. About 35 percent.

Secretary HUMPHREY. Now, part of that was to be paid in gold, and part of it to be paid, as needed, in the currencies of the countries involved.

Senator MALONE. What part of it in gold?

Secretary HUMPHREY. As I recall it, one-quarter.

Senator MALONE. Did all of the countries put in gold?

Secretary HUMPHREY. Wait a minute. That is the International Fund. Wait until I see here. The fund was a quarter. This is the bank. Two percent. The method of payment of subscriptions for shares:

> Payment of subscriptions for shares shall be made in gold or United States dollars and in the currencies of the members, as follows:
>
> Under section 5 (i) of this article, 2 percent of the price of each share shall be payable in gold or United States dollars and, when calls are made, the remaining 18 percent shall be paid in the currency of the member;
>
> (ii) When a call is made under section 5 (ii) of this article, payment may be made—

and it goes on with a lot or arrangements as to how payments shall be made in varying ways.

Senator MALONE. All nations pay in their currency?

Secretary HUMPHREY. The kinds of payments and all are specified in the agreement.

Senator MALONE. What percentage was to be paid in gold; 2 percent?

Secretary HUMPHREY. Two; that is right.

Senator MALONE. Does that apply to us only, or to all of them?

Secretary HUMPHREY. That is everybody; either gold or dollars.

Senator MALONE. Do you have a list of the countries, with the amount of money that they paid in, of this $9 billion?

Secretary HUMPHREY. I have the list they subscribed for. I would have to ask for how much they paid in to date.

Senator MALONE. Could we make that a part of the record?

Secretary HUMPHREY. Yes, sir.

(The information referred to appears on pp. 495, 496.)

Senator MALONE. What do they do? What is the nature of their business?

Secretary HUMPHREY. They can make loans in any member country for loans that they think are good, with reasonable prospects of repayment. They can make them to countries or they can make them to individuals, with the guaranty of the Government.

They cannot make loans without Government guaranties. Every loan they make has a Government guaranty on it. Those loans——

Senator MALONE. That is, the government, if they loan to an individual, we will say, in Scotland, then Scotland would guarantee that loan?

Secretary HUMPHREY. The United Kingdom would have to guarantee it.

Senator MALONE. If they made it to Austria, an individual in Austria, then Austria would guarantee the loan?

Secretary HUMPHREY. That is right. If they loan to a national of a country, the country of that national guarantees the loan.

Senator MALONE. Most of these countries, I suppose, are on our list that we give money to, which are members of it.

Secretary HUMPHREY. I would think probably.

Senator MALONE. Some of our star boarders.

Now, they can loan for any purpose, any purpose that they see fit?

Secretary HUMPHREY. That is about it.

Senator MALONE. That their board of directors or their president believes to be a sound loan?

Secretary HUMPHREY. Their board of directors.

Senator MALONE. We get——

Secretary HUMPHREY. It is primarily for the development of the country. You say "for any purpose." I do not think that is right. I think there are loans that they would not consider making at all, and should not. But they can make a rather broad list of loans that have to do with the reconstruction and the development of the countries with whom they are associated.

Senator MALONE. Do they make loans in the United States?

Secretary HUMPHREY. Could they?

Senator MALONE. Do they?

Secretary HUMPHREY. I do not think they do; no.

Senator MALONE. Then it is a setup entirely to assist foreign nations.

Statement of subscriptions to capital stock and voting power, June 30, 1956

Member	Subscriptions		Amounts paid—			Amounts past due	Subject to call to meet obligations of bank (note F)	Number of votes
	Shares	Amount (note I)	In United States dollars	In currency of member other than United States dollars (note B)	In noninterest-bearing, nonnegotiable demand notes (note B)			
Afghanistan	100	$10,000,000	$200,000	$1,800,000			$8,000,000	350
Australia	2,000	200,000,000	4,000,000	360,368	$35,639,632		160,000,000	2,250
Austria	500	50,000,000	1,000,000	1,837,479	7,162,521		40,000,000	750
Belgium	2,250	225,000,000	4,500,000	6,344,422	34,155,578		180,000,000	2,500
Bolivia	70	7,000,000	140,000	12,600	1,247,400		5,600,000	320
Brazil	1,050	105,000,000	2,100,000	18,900,000			84,000,000	1,300
Burma	150	15,000,000	300,000	52,200	2,647,800		12,000,000	400
Canada	3,250	325,000,000	6,500,000	53,201,264	5,298,736		260,000,000	3,500
Ceylon	150	15,000,000	300,000	32,997	2,667,003		12,000,000	400
Chile	350	35,000,000	700,000	6,300,000			28,000,000	600
China	6,000	600,000,000	9,340,000	1,080,000	106,920,000	$2,660,000	480,000,000	6,250
Colombia	350	35,000,000	700,000	6,300,000			28,000,000	600
Costa Rica	20	2,000,000	40,000	360,000			1,600,000	270
Cuba	350	35,000,000	700,000	63,000	6,237,000		28,000,000	600
Denmark	680	68,000,000	1,360,000	2,728,399	9,511,601		54,400,000	930
Dominican Republic	20	2,000,000	40,000	3,600	356,400		1,600,000	270
Ecuador	32	3,200,000	64,000	576,000			2,560,000	282
Egypt	533	53,300,000	1,066,000	95,940	9,498,060		42,640,000	783
El Salvador	10	1,000,000	20,000	180,000			800,000	260
Ethiopia	30	3,000,000	60,000	540,000			2,400,000	280
Finland	380	38,000,000	760,000	6,840,000			30,400,000	630
France	5,250	525,000,000	10,500,000	27,938,215	66,561,785		420,000,000	5,500
Germany	3,300	330,000,000	6,600,000	14,874,458	44,525,542		264,000,000	3,550
Greece	250	25,000,000	500,000	4,500,000			20,000,000	500
Guatemala	20	2,000,000	40,000	360,000			1,600,000	270
Haiti	20	2,000,000	40,000	10,800	349,200		1,600,000	270
Honduras	10	1,000,000	20,000	180,000			800,000	260
Iceland	10	1,000,000	20,000	180,000			800,000	260
India	4,000	400,000,000	8,000,000	721,800	71,278,200		320,000,000	4,250
Indonesia	1,100	110,000,000	2,200,000	198,000	19,602,000		88,000,000	1,350
Iran	336	33,600,000	672,000	60,480	5,987,520		26,880,000	586
Iraq	60	6,000,000	120,000	20,880	1,059,120		4,800,000	310
Israel	45	4,500,000	90,000	8,100	801,900		3,600,000	295
Italy	1,800	180,000,000	3,600,000	9,971,429	22,428,571		144,000,000	2,050
Japan	2,500	250,000,000	5,000,000	2,672,222	42,327,778		200,000,000	2,750
Jordan	20	2,000,000	40,000	15,410	344,590		1,600,000	270
Korea	125	12,500,000	250,000	2,250,000			10,000,000	375
Lebanon	45	4,500,000	90,000	810,000			3,600,000	295
Luxembourg	100	10,000,000	200,000	118,000	1,682,000		8,000,000	350

Statement of subscriptions to capital stock and voting power, June 30, 1956—Continued

Member	Subscriptions		Amounts paid—			Amounts past due	Subject to call to meet obligations of bank (note F)	Number of votes
	Shares	Amount (note D)	In United States dollars	In currency of member other than United States dollars (note B)	In noninterest-bearing, nonnegotiable demand notes (note B)			
Mexico	650	$65,000,000	$1,300,000	$11,700,000			$52,000,000	900
Netherlands	2,750	275,000,000	5,500,000	9,500,000	$40,000,000		220,000,000	3,000
Nicaragua	8	800,000	16,000	144,000			640,000	258
Norway	500	50,000,000	1,000,000	370,000	8,630,000		40,000,000	750
Pakistan	1,000	100,000,000	2,000,000	180,008	17,819,992		80,000,000	1,250
Panama	2	200,000	4,000	36,000			160,000	252
Paraguay	14	1,400,000	28,000	252,000			1,120,000	264
Peru	175	17,500,000	350,000	282,279	2,867,721		14,000,000	425
Philippines	150	15,000,000	300,000	1,200,000	1,500,000		12,000,000	400
Sweden	1,000	100,000,000	2,000,000	18,000,000			80,000,000	1,250
Syria	65	6,500,000	130,000	43,642	1,126,358		5,200,000	315
Thailand	125	12,500,000	250,000	52,500	2,197,500		10,000,000	375
Turkey	430	43,000,000	860,000	363,114	7,376,886		34,400,000	680
Union of South Africa	1,000	100,000,000	2,000,000	6,060,000	11,940,000		80,000,000	1,250
United Kingdom	13,000	1,300,000,000	26,000,000	33,170,000	200,830,000		1,040,000,000	13,250
United States	31,750	3,175,000,000	635,000,000				2,540,000,000	32,000
Uruguay	105	10,500,000	210,000	1,890,000			8,400,000	355
Venezuela	105	10,500,000	210,000	1,365,000	525,000		8,400,000	355
Yugoslavia	400	40,000,000	800,000	7,200,000			32,000,000	650
Total	90,805	9,080,500,000	740,850,000	284,286,606	798,303,304	$2,060,000	7,240,400,000	106,605

Secretary HUMPHREY. Well, the United States, so far as I know, has never made any application for a loan.

Senator MALONE. Did any individual ever make an application for a loan?

Secretary HUMPHREY. Guaranteed by the United States? Not that I know of.

Senator MALONE. Then it is an international setup to loan money for the development of foreign countries.

Secretary HUMPHREY. Well, up to date, their loans are all, I believe, foreign loans.

Senator MALONE. Yes.

Now, 35 percent of that money is put up by the United States taxpayers.

Secretary HUMPHREY. That is correct. That is, 35 percent was subscribed by them, and I will get you the list of what was paid in. I do not know.

They do have this right, and they have exercised it and they have made a good deal of progress with it: They have the right to sell their own obligations, that is, the Bank's own obligations, and——

Senator MALONE. Who is responsible for what they sell?

Secretary HUMPHREY. The Bank is.

Senator MALONE. But after that.

Secretary HUMPHREY. What do you mean?

Senator MALONE. Suppose they lost the money.

Secretary HUMPHREY. Well, they have to sell against their backlog of what they have, and they have sold quite a number of issues in various parts of the world. When they started out, the first were sold here in this country, but they have sold a number of issues in various places, and I think they have sold a couple of issues fairly recently where there was no American money went into it at all.

Senator MALONE. They sell it for foreign currency?

Secretary HUMPHREY. Well, they usually sell for the currency of this country, but I think they sold some in Switzerland, they have sold some for good currencies that are perfectly good to use.

Senator MALONE. Suppose they lost money, on these debentures or bonds—that is what they are, are they not?

Secretary HUMPHREY. Yes.

Senator MALONE (continuing). And they defaulted on them. Who would be responsible for them?

Secretary HUMPHREY. They would be responsible, their assets.

Senator MALONE. If their assets were exhausted, there would be no one responsible.

Secretary HUMPHREY. What is that?

Senator MALONE. If their assets were exhausted, there would be no one responsible. They would be bankrupt.

Secretary HUMPHREY. Of course, they would be bankrupt after they call in all of their assets, in which would be the full amount of their unpaid subscriptions.

Senator MALONE. Plus the $9.5 billion.

Secretary HUMPHREY. That is right.

Senator MALONE. In other words, all we could lose would be the 35 percent of the $9 billion.

Secretary HUMPHREY. We have no legal obligation in excess of that amount.

Senator MALONE. And it is a corporation, is it?

Secretary HUMPHREY. What?

Senator MALONE. It is a corporation?

Secretary HUMPHREY. Oh, yes.

Senator MALONE. And entirely separate, with a board of directors.

Secretary HUMPHREY. That is right. I think they have 60 governors.

Senator MALONE. 60, one from each country where the control rests?

Secretary HUMPHREY. I think so.

Senator MALONE. We might have the list of directors. Do you suppose we could get that from the International Bank itself?

Secretary HUMPHREY. They publish all their data. Yes, I will bring you their book.

Senator MALONE. It sounds like a very interesting organization to handle our money.

(The information referred to is as follows:)

Governors and alternates, June 30, 1956

Member government	Governor	Alternate
Afghanistan	Abdul Malik	Abdul Karim Hakimi.
Australia	Sir Arthur William Fadden	Sir Roland Wilson.
Austria	Reinhard Kamitz	Wilhelm Teufenstein.
Belgium	Henri Liebaert	Maurice Frere.
Bolivia	Augusto Cuadros Sanches	Fernando Pou Munt.
Brazil	Eugenio Gudin	Prudente de Moraes Neto.
Burma	U Tin	U Kyaw Nyun.
Canada	Walter E. Harris	A. F. W. Plumptre.
Ceylon	Stanley de Zoysa	R. S. S. Gunewardene.
Chile	Arturo Maschke	Felipe Herrera.
China	Peh-Yuan Hsu	Tse-kai Chang.
Colombia	Luis Angel Arango	Eduardo Arias Robledo.
Costa Rica	Angel Coronas	Mario Fernandez.
Cuba		Joaquin E. Meyer.
Denmark	Svend Nielsen	Hakon Jespersen.
Dominican Republic	Milton Messina	Eudaldo Troncoso Pou.
Ecuador	Luis Ernesto Borja	Guillermo Perez-Chiriboga.
Egypt	Ahmed Zaki Saad	Albert Mansour.
El Salvador	Catalino Herrera	Luis Escalante-Arce.
Ethiopia	Menasse Lemma	
Finland	Klaus Waris	Ralf Torngren.
France	Minister of Finance	Pierre Mendes-France.
Germany	Ludwig Erhard	Fritz Schaeffer.
Greece	Demetrios Chelmis	J. S. Pesmazoglu.
Guatemala	Gustavo Miron Porras	Gabriel Orellana.
Haiti	Clement Jumelle	Christian Aime.
Honduras	Guillermo Lopez Rodezno	Rafael Callejas H.
Iceland	Jon Arnason	Vilhjalmur Thor.
India	Chintaman D. Deshmukh	Benegal Rama Rau.
Indonesia	Ong Eng Die	Loekman Hakim.
Iran	Ali Asghar Nasser	Djalaleddin Aghili.
Iraq	Sayid Khalil Kenna	Mudhaffer Hussien Jamil.
Israel	David Horowitz	Martin Rosenbluth.
Italy	Donato Menichella	Giorgio Cigliana-Piazza.
Japan	Hisato Ichimada	Eikichi Araki.
Jordan	Hamad Farhan	Yacoub Iwais.
Korea	Yu Taik Kim	Young Chan Kim.
Lebanon	Andre Tueni	Raja Himadeh.
Luxembourg	Pierre Werner	Rene Franck.
Mexico	Antonio Carrillo Flores	Jose Hernandez Delgado.
Netherlands	J. van de Kieft	A. M. de Jong.
Nicaragua	Guillermo Sevilla-Sacasa	Alejandro Baca Munoz.
Norway	Arne Skaug	Carsten Nielsen.
Pakistan	Syed Amjad Ali	Vaqar Ahmed.
Panama	J. J. Vallarino	
Paraguay	Pedro A. Caballero	Julio C. Kolberg.
Peru	Fernando Berckemeyer	Emilio Foley.
Philippines	Miguel Cuaderno, Sr	Emilio Abello.
Sweden	N. G. Lange	A. Lundgren.
Syria	Husni A. Sawwaf	Adnan Farra.
Thailand	Serm Vinicchayakul	Puey Ungphakorn.
Turkey	Nedim Okmen	Sait Naci Ergin.
Union of South Africa	Eric Hendrik Louw	M. H. de Kock.
United Kingdom	Harld Macmillan	Sir Leslie Rowan.
United States	George M. Humphrey	Herbert V. Prochnow.
Uruguay	Nilo Berchesi	Roberto Ferber.
Venezuela	Jose Joaquin Gonzalez-Gorrondona, Jr	Alejandro J. Huizi-Aguiar.
Yugoslavia	Milentije Popovic	Vojin Gusina.

Executive directors and alternates and their voting power, June 30, 1956

Directors	Alternates	Casting the votes of—	Votes by country	Total votes
Appointed				
Andrew N. Overby	John S. Hooker	United States	32,000	32,000
Viscount Harcourt	David B. Pitblado	United Kingdom	13,250	13,250
Kan Lee		China	6,250	6,250
Roger Hoppenot	Maurice Perouse	France	5,500	5,500
G. R. Kamat	J. S. Raj	India	4,250	4,250
Elected				
Luis Machado (Cuba)	Jorge A. Montealegre (Nicaragua).	Mexico	900	4,475
		Cuba	600	
		Peru	425	
		Uruguay	355	
		Venezuela	355	
		Costa Rica	270	
		Dominican Republic	270	
		Guatemala	270	
		El Salvador	260	
		Honduras	260	
		Nicaragua	258	
		Panama	252	
Thomas Basyn (Belgium)	Hans Kloss (Austria)	Belgium	2,500	4,280
		Austria	750	
		Turkey	680	
		Luxembourg	350	
Mohammad Shoaib (Pakistan).	Ali Akbar Khosropur (Iran).	Pakistan	1,250	4,099
		Egypt	783	
		Iran	586	
		Syria	315	
		Iraq	310	
		Lebanon	295	
		Ethiopia	280	
		Jordan	280	
Jorge Mejia-Palacio (Colombia).	Alfonso Patino-Rosselli (Colombia)	Brazil	1,300	4,036
		Chile	600	
		Colombia	600	
		Philippines	400	
		Bolivia	320	
		Ecuador	282	
		Haiti	270	
		Paraguay	264	
P. Lieftinck (Netherlands)	A. Tasic (Yugoslavia)	Netherlands	3,000	3,945
		Yugoslavia	650	
		Israel	295	
Takeo Yumoto (Japan)	Boonma Wongswan (Thailand).	Japan	2,750	3,925
		Burma	400	
		Ceylon	400	
		Thailand	375	
Soetikno Slamet (Indonesia).	Carlo Gragnani [1] (Italy)	Italy	2,050	3,900
		Indonesia	1,350	
		Greece	500	
Jon Arnason (Iceland)	Torfinn Oftedal (Norway)	Sweden	1,250	3,820
		Denmark	930	
		Norway	750	
		Finland	630	
		Iceland	260	
Otto Donner (Germany)	H. W. Lueck (Germany)	Germany	3,550	3,550
L. H. E. Bury (Australia)	B. B. Callaghan (Australia).	Australia	2,250	3,500
		Union of South Africa	1,250	
Louis Rasminsky (Canada)	J. H. Warren (Canada)	Canada	3,500	3,500

[1] Temporary.

NOTE.—In addition to the executive directors and alternates shown in the foregoing list, the following have also served as executive director or alternate since June 30, 1955:

	End of period of service
Executive director: D. Crena de Iongh (Netherlands)	Sept. 30, 1955
Alternate executive directors:	
Martin T. Flett (United Kingdom)	Feb. 15, 1956
Richard L. Sharp (United Kingdom)	Mar. 25, 1956
V. G. Pendharker (India)	June 5, 1956
Julio E. Heurtematte (Panama)	Mar. 12, 1956
William Tennekoon (Ceylon)	Oct. 31, 1955
Felice Pick (Italy)	Jan. 20, 1956
Johan Cappelen (Norway)	May 3, 1956

Senator MALONE. Now the International Finance Corporation. How did we set that up?

Secretary HUMPHREY. Well, that was set up, that was established, to attempt to get, to supplement and assist in getting, private enterprise, including American private enterprise, to invest in and develop in foreign countries. The Corporation has just recently engaged in business.

It can make investments as well as loans. It can make secondary loans, it can make loans subordinated to other loans.

And the purpose is to attempt to see what can be done toward promoting investment in the world, particularly in those countries which are the lesser developed countries.

Senator MALONE. How much money is involved in this?

Secretary HUMPHREY. $100 million.

Senator MALONE. Who puts it up?

Senator HUMPHREY. We put up 35 percent of it, and the other subscribers will put up the rest, whatever it is.

A hundred million is the total prospective amount. Just how much of that is paid in, I am not sure, but substantially a large part of it is already subscribed.

Senator MALONE. Then we have invested, in all of these institutions, approximately $6 to $7 billion. There is on call for the Export-Import Bank $3 billion—35 percent of $9.1 billion, which would be——

Secretary HUMPHREY. $3.175 billion; is it not?

Senator MALONE. $3.175 billion; and $35 million in the International Finance, what we have invested——

Secretary HUMPHREY. We have more than that, because you forgot the fund. We also have an investment in the fund.

Senator MALONE. In the International Monetary Fund.

Secretary HUMPHREY. Yes.

Senator MALONE. How much do we have there?

Secretary HUMPHREY. The fund—the quota of these countries is for a total of $8,931,500,000.

Senator MALONE. $8.931 billion?

Secretary HUMPHREY. $8,931,500,000.

Senator MALONE. Now, that is for the entire fund?

Secretary HUMPHREY. That is the entire fund.

Senator MALONE. How is it subscribed?

Secretary HUMPHREY. Our quota, the United States quota of that is $2.750 billion.

Senator MALONE. Yes. $2.750 billion.

Secretary HUMPHREY. That is called for, a quarter in gold and three-quarters in currencies or obligations, as called.

Senator MALONE. Does that mean we have put up 25 percent of the $2.750 billion in gold?

Secretary HUMPHREY. $687,500,000 is in gold.

Senator MALONE. And the total, then, is $2.750 billion?

Secretary HUMPHREY. That is correct.

Senator MALONE. We have paid that in?

Secretary HUMPHREY. That is correct.

Senator MALONE. That would mean, then, between 11 and 12 billion dollars we have invested in these 4 institutions.

Secretary HUMPHREY. It would be—that is the limit of our liability. We have not that much in them. But——

Senator MALONE. You said you had paid in 35 percent of the $9.1 billion of the International Bank for Development.

Secretary HUMPHREY. No, no. I said that was our obligation.

Senator MALONE. Yes.

Secretary HUMPHREY. The amounts we paid in, you asked me to get for you, and I said I would get the amounts paid in by all the countries.

Senator MALONE. I think that is what we had better do.

I would like to know——

Secretary HUMPHREY. I gave you the total quota obligations of the members, and I said I would get you——

Senator MALONE. Yes, the total paid in and our total obligation.

Secretary HUMPHREY. You wanted to know how much each country had paid, and I said I would have to get you that, up to date.

Senator MALONE. Including our own.

Secretary HUMPHREY. Including our own, yes, sir.

Senator MALONE. Then the 4 institutions, we are liable for between 11 and 12 billion dollars?

Secretary HUMPHREY. Those are the total quotas, that is correct.

Senator MALONE. Yes.

That is for international development, generally speaking, all of this plan of spreading our own business throughout the world; that is what it is for?

Secretary HUMPHREY. Well, I think the purposes of the different institutions are different, as I explained to you. I told you about——

Senator MALONE. Yes.

Secretary HUMPHREY. I told you about the Ex-Im Bank and about the World Bank. And the Monetary Fund, really its purpose is to attempt to provide stabilization of currencies throughout the world. It is not just in the lending business like the banks are. Its purpose is to work with the various countries in the world to attempt to help to stabilize currencies and exchanges, and that was all a part of, it was all set up under, the Bretton Woods Agreements, and it has been carried out under the Bretton Woods Agreements ever since.

Senator MALONE. I suppose that is what we are giving this cash for, starting with the Marshall plan, is it not, and with ECA and Mutual Security?

Secretary HUMPHREY. Well, I think these——

Senator MALONE. And now with the four corporations to lend money to encourage American investments abroad?

Secretary HUMPHREY. These preceded the Marshall plan.

Senator MALONE. My question is, Have we not given this money generally to stabilize foreign currencies and to get them on their feet?

Secretary HUMPHREY. It was to help to stabilize and rehabilitate in the world, that is correct.

Senator MALONE. Yes.

Now, in that connection we have distributed nearly $70 billion in cash and groceries throughout the world.

Secretary HUMPHREY. That was the original intention.

Senator MALONE. That is about $60, to $70 billion; but this is $12 billion we are liable for in addition to the $60 or $70 billion we have given in cash and goods for which the taxpayers of this country have paid.

Secretary HUMPHREY. We would be liable for calls up to those amounts.

Senator MALONE. Yes.

Secretary HUMPHREY. Those are authorized.

Senator MALONE. In bringing this about, we have had several very interesting slogans and "catch" words that I would like to have your opinion on.

The "dollar shortage" a latch phrase invented by England starting with the $3¾ billion and continuing with the Marshall and other plans. They called it a loan. That is a very nice way to name money. I guess that is as good as any, because we never got repaid, anyway, do we?

Secretary HUMPHREY. Oh, yes, we have been paid some. I think the figures I just gave you on the Ex-Im Bank, we loaned nearly $5 billion, and we have already been repaid more than $2½ billion of it.

Senator MALONE. I had in mind that $3¾ billion to England. We gave them more money subsequently than we have ever been paid on that loan, have we not?

Secretary HUMPHREY. There have been some principal payments made on the British loan. They are relatively small. It was originally made, whatever it was, 12 years ago, somewhere in there, and there was a time when no payments were due except interest, and then interest and principal payments were due, and there have been principal and interest payments—it is a 50-year loan, so the principal payments are not very large.

It is a level-payment plan. The principal component goes up as the interest goes down.

Senator MALONE. Yes.

Generally speaking, we give them more money as we go along than they give us in return on any debt; is that not about right?

Secretary HUMPHREY. Well, I do not believe I could say that, offhand.

Senator MALONE. I guess there is no doubt about it, because they get a good part of the Marshall plan, more, perhaps, than they will ever pay on the $3¾ billion.

I would like to ask you what this dollar shortage is we talk about.

Secretary HUMPHREY. There is no dollar shortage, that I know of, today.

Senator MALONE. What is your definition of it? What was it when Congress was allegedly making it up? We still are appropriating this money for some reason.

Secretary HUMPHREY. For a dollar shortage?

Senator MALONE. What was that, $2.9 billion? What was the amount we just authorized?

Secretary HUMPHREY. For what?

Senator MALONE. For foreign nations; mutual security.

Secretary HUMPHREY. You mean that which is before the Congress at the present time?

Senator MALONE. We just authorized about $3 billion for gifts to foreign nations.

Secretary HUMPHREY. That is for a variety of things. The largest part of it is military. It is for military, the largest part of that is military goods.

Senator MALONE. But there was quite a little money involved for gifts; was there not?

Secretary HUMPHREY. Yes; there was.

Senator MALONE (continuing). To send to these nations?

Secretary HUMPHREY. There are several hundred million dollars involved.

Senator MALONE. Yes.

What is that for?

Secretary HUMPHREY. Some of that money is spent for goods.

Senator MALONE. Some of it is sent in money?

Secretary HUMPHREY. That is right.

Senator MALONE. What is it for, if not to make up that dollar shortage?

Secretary HUMPHREY. Senator, I respectfully request you to get these people who run these things. I do not run that.

Senator MALONE. I know that. I asked you about this dollar shortage we have talked about here for about 10 years. We talked about the British dollar shortage, and these other nations.

How do you define that?

Secretary HUMPHREY. Well, there was an imbalance in payments, and they wanted to buy more goods here than they had dollars to pay for them.

Senator MALONE. The same way I do, generally.

Secretary HUMPHREY. Yes.

Senator MALONE. If I want to buy more goods than I have dollars to pay for I have the same trouble.

Secretary HUMPHREY. Yes; anybody can get a dollar shortage easy.

Senator MALONE. Is there not another way, however, a second way, that a nation can have a dollar shortage, by fixing a price on its money and dollars higher than the market price, and is that not customary?

Secretary HUMPHREY. To do what? I do not understand.

Senator MALONE. They fix a price in dollars on their currency higher than the market price, and naturally have a dollar shortage since no one but a misguided Congress will buy it?

Secretary HUMPHREY. Well——

Senator MALONE. You know, nearly every nation in the world fixes a price on their money in dollars higher than the market price—England does that continually.

Secretary HUMPHREY. I do not see what you mean. I do not know how that would——

Senator MALONE. I will explain it.

They had their pound valued at $4.03 for a long time.

Secretary HUMPHREY. Yes.

Senator MALONE. Traders were buying it in the open market at Shanghai at $2.60 when I was there in 1948. So, naturally, it was not worth the $4.03 the English placed on it and no one, no international bankers or no international exporter or importer, was paying this $4.03. They had their agents in the open market in the world centers picking it up for what it was actually worth, and spending it in any part of the world. The Congress, however, was paying the full $4.03 fixed on their currency for trade advantage.

In September of 1949 England lowered the price of the pound in dollars to $2.80. It is not worth $2.80 on the free exchanges of the world.

Do you not remember the dollar shortage slogan?

Secretary HUMPHREY. I remember that, but it would be a little hard to buy dollars with pounds at official rates.

Senator MALONE. Well, I should think so.

But our Congress made up the difference with the Marshall plan, ECA and mutual security. That was the dollar shortage. The Congress was suckered in with the American taxpayers money. The Congress would make the so-called dollar shortage up at that rate.

Secretary HUMPHREY. We have not done anything like that for the last 4 years, that I know of.

Senator MALONE. We are still doing it of course, through mutual security, the recent $3 billion.

Secretary HUMPHREY. There has not been any dollar shortage that I know of.

Senator MALONE. You just testified, whether there is a dollar shortage or not, we are going to give hundreds of millions of dollars in cash to certain foreign nations.

Secretary HUMPHREY. Well now, I do not know just what you mean by that.

Senator MALONE. We just covered that phase of it.

Secretary HUMPHREY. You mean the foreign aid bill?

Senator MALONE. Yes. There will be millions of dollars in cash going to foreign nations out of the $3 billion just authorized.

Secretary HUMPHREY. There will be some cash.

Senator MALONE. What are we doing it for?

Secretary HUMPHREY. There will be goods and services, and there will be military supplies.

Senator MALONE. I understand that. Let us confine it to cash.

Secretary HUMPHREY. There will be some cash.

Senator MALONE. Why do we give them cash?

Secretary HUMPHREY. What?

Senator MALONE. Why do we give them cash?

Secretary HUMPHREY. I do not know. I really do not run that.

Senator MALONE. I do not vote for it because it is hoax on Congress and the American taxpayer. [Laughter.]

We had another slogan very interesting to me, and that was the "Trade, not aid" slogan Mr. Butler initiated about the time we were running for office in 1952, I am talking about our national administration.

Would you have any idea how that worked out, or did you ever hear it?

Secretary HUMPHREY. Oh, yes, I heard it, and it was a slogan that lasted for a little while, but then I have not heard anything about it for 3 years, I guess.

Senator MALONE. You have heard nothing further because Congress did exactly as he demanded. We gave them free trade, and then continued to give them aid, so it should have been "Trade and aid." The slogan was successful just as the dollar shortage was successful for our "star boarder" nations.

The newspapers swallowed the bait and began to harangue Congress to extend the Free Trade—1934 Trade Agreements Act—which it did in 1955—extended it to June 1958. So 34 competitive foreign nations continued to regulate our foreign trade and national currency at Geneva. They will continue until June 30, 1958, when Congress will, I believe, refuse to extend the act further—and will regain their constitutional responsibility to regulate foreign trade and the national economy.

You do know 34 foreign competitive nations are fixing the duties or tariffs at Geneva now, do you not?

Secretary HUMPHREY. I have heard of that meeting.

Senator MALONE. Have you heard it authoritatively?

Secretary HUMPHREY. The Treasury has nothing to do with that.

Senator MALONE. The Treasury only collects what duties are left, after Geneva gets through lowering them; is that it?

Secretary HUMPHREY. That is right.

Senator MALONE. What part of the customs, what part collected through the customs, what percentage of our income comes from customs, do you know?

Secretary HUMPHREY. I can give it to you. It is a relatively small part.

Senator MALONE. It is getting smaller, too, is it not?

Secretary HUMPHREY. No; I would not say that.

Senator MALONE. Getting smaller in proportion to the amount of goods imported.

Secretary HUMPHREY. Well, over a period of years, it has. But recently, I do not know that it has. In fact, I think—about $700 million.

Senator MALONE. $700 million?

Secretary HUMPHREY. It would be about 1 percent of the revenue, or something like that.

Senator MALONE. How does that compare to prior years?

Secretary HUMPHREY. Well, it is a little up, I think. The nearby prior years were somewhat lower.

Senator MALONE. The imports are up on the lower duties?

Secretary HUMPHREY. I think that is right. I think we are—our dollars are up and our gross goods are up.

Senator MALONE. Yes. The cheap labor goods we import in competition with our own.

Well now, to finish this line of questioning on these four organizations that are financed by our taxpayers' money to encourage American capital to invest abroad. I note we do put up the bulk of the money compared to population. You testified that we are doing this to expand American investments abroad, is that what we are doing it for, and to expand the production of these foreign nations?

Secretary HUMPHREY. Well, this was all originally started, I think—of course, that was long before I was here or had anything to do with it.

Senator MALONE. I know. We established a new one while you were here.

Secretary HUMPHREY. What?

Senator MALONE. We established a new one.

Secretary HUMPHREY. The last one was for the purpose of attempting to expand foreign investment, private investment, so that it will be private money which will go rather than Government money.

Senator MALONE. The Government corporations are set up to encourage American capital to go into foreign nations, is that it?

Secretary HUMPHREY. That is right, private money.

Senator MALONE. In other words, that is what our Government is trying to do?

Secretary HUMPHREY. That is right. It is trying to encourage the development of American private enterprise abroad as well as at home.

Senator MALONE. Yes. We have established a free-trade policy—inflation to price us out of foreign markets and Government corporations to encourage American capital to go into foreign nations to furnish their market and import goods here.

Mr. Chairman, we are supposed to be on the floor, are we not?

(Off the record.)

The CHAIRMAN. We will adjourn until 10 o'clock tomorrow morning.

(Whereupon, at 12:05 p. m., the committee recessed, to reconvene at 10 a. m., Wednesday, July 10, 1957.)

INVESTIGATION OF THE FINANCIAL CONDITION OF THE UNITED STATES

WEDNESDAY, JULY 10, 1957

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

The committee met, pursuant to recess, at 10:05 a.m., in room 312, Senate Office Building, Senator Harry Flood Byrd (chairman) presiding.

Present: Senators Byrd, Anderson, Gore, Martin, Williams, Flanders, Malone, Carlson and Bennett.

Also present: Robert P. Mayo, chief, analysis staff, Debt Division, Office of the Secretary of the Treasury; Leland Howard, Assistant Director of the Mint; Elizabeth B. Springer, chief clerk; and Samuel D. McIlwain, special counsel.

The CHAIRMAN. The committee will come to order.

STATEMENT OF HON. GEORGE M. HUMPHREY, SECRETARY OF THE TREASURY—Resumed

Secretary HUMPHREY. I have, Mr. Chairman, and Senator Malone, a lot of these things you asked for, and would you like me to hand them in now, or——

Senator MALONE. Then, Mr. Secretary, if you would just identify the question and the answer as you go along, I think that will be satisfactory.

Secretary HUMPHREY. That is what I would do, and just identify what the things are.

Senator MALONE. Then we could, in a brief or summation in which I intend to submit for the record, discuss such data in its proper place.

Secretary HUMPHREY. I will just hand these, if I may, to the reporter.

Senator MALONE. As you identify the question for which they are submitted.

Secretary HUMPHREY. As I identify them.

You requested on Monday or Tuesday several items.

The first item, you asked for a table showing the decline in the purchasing power of the dollar using 1934 as 100 cents, and this table has that tabulation in the right-hand column.

Then it also shows, just for your convenience, the consumer price index with 1947 to 1949 as 100, and the 1939 dollar as 100. We put those in because we thought it would be convenient, since those other things have been referred to.

But the column you asked for is the last column on the right.

The CHAIRMAN. The table referred to will be inserted in the record at the proper place where it was requested (see p. 418).

Secretary HUMPHREY. You then asked for a list of the dates on which the principal nations went off the gold standard, and here is a document showing the period from 1929 on through 1936, listing practically all the important countries in the world, and the dates on which they went off the gold standard.

Senator MALONE. Mr. Chairman, these will be made a part of the record at the proper point in the record as we proceed?

Secretary HUMPHREY. These are all part of the record, as I understand it.

The CHAIRMAN. They will be made a part of the record at the appropriate place where it was requested. (See p. 420.)

Secretary HUMPHREY. That was item 2. Item 3, you asked for a statement showing the changes made by Congress in recent budgets as the budgets were proposed, and here is a statement, item 3, which shows the estimated budget, and then the appropriations, and then the difference between the appropriations and the proposals presented.

The CHAIRMAN. It will be placed in the record at the proper place where it was requested. (See p. 428.)

Secretary HUMPHREY. Item 4, you asked for the location of the gold balances, where we had them, and item 4 shows the amounts and the locations where those amounts are, in six places.

The CHAIRMAN. It will be placed in the record at the proper place where it was requested. (See p. 446.)

Secretary HUMPHREY. Item 5, you asked for something that we have not yet been able to get. It is part of the work of the ICA, and we have asked them to supply it for us, and we have not yet received it from them. That is the detailed amounts of contributions or payments, or whatever they may be called, by this country to foreign countries over the entire period, and how much of that was in cash and how much was in goods.

We just have no data in the Treasury to supply that in any way, so we have asked the Department which has it to please supply it.

Senator MALONE. Will they supply it within a reasonable time? That part of the Mutual Security funds devoted to cash payments and material, including military?

Secretary HUMPHREY. Well, we have asked them to do it as soon as they can.

Senator MALONE. I would like to make it a part of the record at the proper point, as requested.

Secretary HUMPHREY. We want to make it a part of this record.

Senator MALONE. Yes.

Secretary HUMPHREY. We have no means of supplying it except to ask them.

The CHAIRMAN. It will be placed in the record where it was requested. (See p. 450.)

Item 6, you asked for the amount of gold sold by the Government for industrial purposes, and we have here a statement which shows the amount of sales by the Mint for industrial purposes; and their estimates, in the right-hand column, of the total consumption of gold for that purpose in this country.

The CHAIRMAN. It will be inserted in the record at the proper place where it was requested. (See p. 456.)

Secretary HUMPHREY. Item 7 is another item we are unable to furnish. We have not the data in our own office. We are seeking it from the International Monetary Fund, and we will attempt to supply it from there.

You asked for two items of information relative to the relationship between foreign citizens and their governments with respect to their rights to make transfers of dollar balances to central banks and into gold. (See p. 461.)

Senator MALONE. And then the central bank being able to demand the gold from us for dollar balances as in the case of foreign nation dollar balances.

Secretary HUMPHREY. That is right.

Senator MALONE. Is that the answer that you have in your hand?

Secretary HUMPHREY. No; I do not have the answer. We are asking for that. We do not have that, and I am asking for that, and what the conditions are.

You see, the regulations in each country are different, and we are seeking to get that.

Of course, at the present time, I think you want to keep in mind that under present conditions and at this time, dollars are more desirable to almost everybody in the world than the currency of their own country.

When a citizen has a dollar balance in this country, goes to his central bank and wants that transferred, wants to transfer that dollar balance to the central bank, what he gets for it is the currency of his own country. So that he winds up owning currency of his own country instead of a dollar balance, and the central bank then would get the gold.

There is almost no place in the world today where the citizen of a country would rather have the currency of his own country than he would the dollar balance, so the citizen of the other country does not get our gold, Senator. The citizen of the other country gets a balance in the currency of his own country, and he transfers to his central bank a right to draw dollars.

Senator MALONE. Well, now——

Secretary HUMPHREY. Then the bank gets the gold.

Senator MALONE. You are aware that in many of these nations, and I cannot tell you if there are exceptions, when a citizen of a country or even a temporary citizen of the country, meaning, of course, someone there doing business, acquires a dollar, through trade or otherwise, he is required within a certain limited time, very short time, as a matter of fact, in most cases, to turn that dollar in to the central bank of that country, and to take the money of that country in exchange for it at the rate of exchange set by the central bank.

You are aware of that fact?

Secretary HUMPHREY. That is right. But he does not get gold. He gets exchange of the country he lives in.

Senator MALONE. That is exactly right. No country pays in gold. But Bolivia, for example in Bolivia, and I just mention it——

Secretary HUMPHREY. That is right.

Senator MALONE (continuing). Because it is an example of South American countries, when I was there, I believe it with within 30 days you had to turn in the dollar to the Bolivian central bank and are paid in bolivianos.

Secretary HUMPHREY. That is right.

Senator MALONE. The bolivianos, the central bank will pay to the owner of the dollar was set at the rate of 500 bolivianos for $1. The American dollar on the street was then worth 1,700 bolivianos. So, of course, they keep two-thirds of the value the first go-round.

Only the Congress of the United States will not up that difference called in that popular catchword, "dollar shortage." But, nevertheless, the citizen of that country, or anyone acquiring a dollar, was required to turn in that dollar. The value is continually manipulated to take all the traffic will bear.

It would be very interesting to me, if you know or have any method of finding out, how these people, these citizens of these countries, are able to acquire dollar balances and not turn them in to the central bank of that country, in the first instance.

Secretary HUMPHREY. There are some countries—the reason this is taking so long and it is difficult to do this is because every country is different.

Senator MALONE. I think it is very important that the record show it.

Secretary HUMPHREY. We will get that. We have asked the International Monetary Fund for this information, and I think we will get for you quite a lot of information about it.

One thing I want to make clear is this: In glancing at the record, it looked as though there was an impression that a citizen, somehow or other, would turn in his dollar balance and get gold for it. That is not the fact, that we know of, any place.

Senator MALONE. I was under no such impression. I have inspected every nation in the world during my 11 years in this distinguished body—and have written two reports on the Western Hemisphere—and am now preparing the same type of report on the Eastern Hemisphere. If you will review Senate Report 1627, 83d Congress, and Senate Document 83, 84th Congress, you will be entirely disillusioned and I might say well informed on what is happening to the United States of America.

Secretary HUMPHREY. What the citizen gets in lieu of a dollar balance is a balance in the currency of his own country.

Senator MALONE. The money printed by his own country, and at the exchange that the central bank of that nation alone established.

Secretary HUMPHREY. At the exchange set at the time.

Senator MALONE. The rate established by the foreign country always favors that nation and short changes the United States.

Secretary HUMPHREY. Whatever it is, and often the official is much less desirable than the black market.

Senator MALONE. If you could—you said something about 70,000 employees down there, there might be 1 of them who could get this information for us, and with no particular rush, because this hearing will consume some time, I assume through the year—add to that information the nations which do have a definite law or ruling that such dollar must be turned into the central bank within a limited time.

Secretary HUMPHREY. That require them to turn them in?

Senator MALONE (continuing). That require that a dollar, when it is acquired by a citizen to be turned into the central bank at a rate of exchange fixed by that government.

The rate fixed never has any relation to the world market rate.

Secretary HUMPHREY. We are seeking, Senator, to get you all the information there is about the relationship between a citizen and his country with respect to dollar balances.

Senator MALONE (continuing.) To be turned in at a certain time, and take the money of that country at the exchange set by that country. Our citizens—and I believe most members of the Senate and the House are completely isolated from this indispensable information.

Secretary HUMPHREY. In many countries, or several countries at least, by law they are required to do that. They have no choice. They have got to do it.

Senator MALONE. I mentioned that at the start.

Secretary HUMPHREY. So we will get you all of the information we can.

Senator MALONE. Yes. That is very good.

Secretary HUMPHREY. But I just want to correct any impression there might be, if there should be any, that a citizen could manipulate a dollar balance so that he, himself, can get gold. That he does not do.

Senator MALONE. My impression is this, with these countries, that almost anything can be done by the crowd currently in power in that country.

So we would leave it to the imagination as to whether an individual with dollar balances was strong enough to get the gold that the government received. In my opinion, in many cases they can do it. But there is no doubt that the individuals can get their dollar balances turned into nation dollar balances.

Secretary HUMPHREY. By law—the detail will be shown if there is any such place.

Senator MALONE. Yes. That information is vital to this hearing.

As a matter of fact, I think in one of these reports, Senate reports, either in Senate Report 1627 of the 83d Congress, or in Senate Document 83 of the 84th Congress which the Interior and Insular Affairs Committee made on the Western Hemisphere, I think in most cases it is noted there that it is changeable, and we would like to get it officially.

Secretary HUMPHREY. They change them frequently. That is another one of the problems. You do not know from 1 week to the next exactly what the rules are going to be.

Senator MALONE. That is true. The central bank in each case, and the men who are temporarily in charge of the government, have vast powers. That is one of the reasons that the United States always loses.

Secretary HUMPHREY. That is right.

Senator MALONE. Dictatorial powers.

In most cases, I found in foreign countries it was not necessary for the legislative body to act at all. The present dictator, or whatever he happened to be called, could make these changes in exchange value, and in most cases the price set on their money in terms of the dollar was so much higher than any actual market value, there was no resemblance. But the Congress accepts it and the differences are made up in cash or goods.

Secretary HUMPHREY. That may be.

Senator MALONE. So if you will just take your time, and get that information, it will be helpful to have it for the record. The only real answer is to return to the metal standard and insist upon value for value in money exchanges. That cannot be done through a managed currency.

Secretary HUMPHREY. We will get it.

(The information referred to was requested at p. 461.)

Secretary HUMPHREY. Now, item 8. You asked what we were doing, in the Income Tax Department, about checking up on foreign accounts; and, with your permission, I will just read this, it is short. (Requested on p. 473.)

The Internal Revenue Service is constantly seeking out income taxable in the United States which is received through numbered or other foreign accounts in which the true beneficial interest may not be revealed. In the international area, as in all other tax enforcement areas, a basic problem facing the Service is to devise effective methods for obtaining accurate information as to the taxpayer and the amount of his income.

Three major steps relating to this problem have recently been taken.

One was the inclusion of provisions for exchange of information in tax treaties with various countries.

The second step was the recent establishment of the International Operations Division of the Internal Revenue Service, with headquarters in Washington, and the centralization in that division of primary responsibility for the Service's operations abroad. This division now has agents stationed abroad.

The third significant step was the Treasury's request last year to the Congress for legislation which would make applicable to citizens abroad the same filing requirements that are now applicable to residents of the United States. Such legislation would not change the nonresident citizen's tax liability, but would require him to render an accounting, taxwise, by filing annual returns the same as all other citizens. This legislation is now pending before the Committee on Ways and Means.

I had forgotten that when we were talking about it yesterday. I had forgotten we had made that request. But that is one of the requests we made of the Ways and Means Committee.

Now item 9. You asked for a statement with respect to silver purchases. (Requested on p. 477.) I have that statement and, with your permission, I will read that into the record, or I will present it. How would you like it? Would you like it read, or just presented?

Senator MALONE. I think if you will just read it into the record.

Secretary HUMPHREY. Read it into the record.

Recent laws rel[illegible]ve to the purchase of silver can be divided into several that relate to the purchase of newly mined domestic silver and the one that has been applied to the purchase of foreign silver and domestic secondary silver.

Beginning in 1933, newly mined domestic silver was at first produced under the presidential proclamation of December 21, 1933. Such purchases continued under subsequent proclamations and at various prices until July 6, 1939, when a statute was enacted authorizing the purchase of newly mined domestic silver. The present statute under which newly mined domestic silver is acquired is the one passed on July 31, 1946. These acts make it mandatory that the Director of the Mine purchase all silver which he is satisfied is of newly mined domestic origin and was produced within the required period of time specificed by the acts.

The present price for newly mined domestic silver, which has been in effect since July 31, 1946, is $1.29 plus per ounce, less 30 percent deduction for seigniorage, leaving a net return to the depositor of 90½ cents.

The act of June 19, 1934, known as the Silver Purchase Act, declared it—

> to be the policy of the United States that the proportion of silver to gold in the monetary stocks of the United States should be increased, with the ultimate objective of having and maintaining, one-fourth of the monetary value of such stocks in silver.

Foreign silver and domestic secondary silver have been purchased under this act, which provides that—

> the Secretary of the Treasury is authorized and directed to purchase silver, at home or abroad, * * * at such rates, at such times, and upon such terms and conditions as he may deem reasonable and most advantageous to the public interest.

2,048,490,530.48 ounces of silver have been purchased under the Silver Purchase Act, and 836,315,680.46 ounces of newly mined domestic silver——

Senator MALONE. How many ounces of silver have been purchased?

Secretary HUMPHREY. 2,048,490,530.48 ounces of silver have been purchased under the Silver Purchase Act, and 836,315,680.46 ounces of newly mined domestic silver have been purchased through May 31, 1957.

Senator MALONE. Is that a part of the 2.048 billion, or is that in addition?

Secretary HUMPHREY. That is the total that has been purchased.

Senator MALONE. The 2,048 billion——

Secretary HUMPHREY. Would be a part of the other.

Senator MALONE (continuing). Is all of it, and the 836 million is a part of it?

Secretary HUMPHREY. The 2 billion plus the 800 million would make the total.

Senator MALONE. 2,480 million, plus the——

Secretary HUMPHREY. It is 2,048 million.

Senator MALONE. Yes. But that 2.048 billion——

Secretary HUMPHREY. The 2.048 billion is to be added to the 836 million, if you want to get all the silver that has been purchased.

Senator MALONE. That is what I wanted the record to show.

Secretary HUMPHREY. That is right.

The ratio of silver to total monetary stocks on April 30, 1957, was 15.5 percent.

Senator MALONE. What is the ratio that you are supposed to reach? You are supposed to buy silver until it reaches a certain ratio. What is that ratio?

Secretary HUMPHREY. This says the policy of the United States is that the proportion of silver to gold in the monetary stocks of the

United States should be increased, with the ultimate objective of having and maintaining one-fourth of the monetary value of such stocks in silver.

Senator MALONE. That would be 25 percent, or the ratio of 1 to 4.

Secretary HUMPHREY. That is right.

The Treasury now has on hand, June 30, 1957, 1,806,471,668.9 fine ounces of silver bullion valued at $2,279,592,675.76 and $229,700,021 in silver dollars.

As of June 30, 1957, there were $2,410,452,981 in silver certificates outstanding, all redeemable in silver, and all backed by silver bullion and silver dollars.

Senator MALONE. I would ask you, is that value of $2,279,592,675.76 the value of the silver at $1.29, or the value of it at 90½ cents?

Secretary HUMPHREY. Is that after the seigniorage or before it? Is that coined value or is it—is that after or before seigniorage?

Mr. HOWARD. The majority of it is at $1.29, only 7 million ounces at 72 cents. We have two types of silver. One is silver which has been revalued and placed up in the assets section backing silver certificates. That is $1.29.

Then we have, in the general fund of the Treasury what we call free silver, silver that is available for coinage of our subsidiary coins, for sale to the public, and also to revalue back of silver certificates. That is carried at cost value, and that is about 72 cents an ounce, and there are about 97 million ounces of it.

The CHAIRMAN. Will you identify yourself?

Mr. HOWARD. I am Leland Howard, Assistant Director of the Mint.

Senator MALONE. This silver was purchased, then, before the silver law, the Silver Act of 1934?

Mr. HOWARD. The Silver Purchase Act. It is usually referred to as the act passed June 19, 1934.

Senator MALONE. Yes. This silver, then, must have been purchased, much of it, prior to that time.

Mr. HOWARD. No, sir. The figures that we gave you were 2 types, 1 purchased under that act and 1 purchased under the various proclamations and the 2 acts covering newly mined domestic silver.

Senator MALONE. What are they, and why could you purchase silver under those acts?

Secretary HUMPHREY. Those are the two that I gave you, you see.

Mr. HOWARD. Sir. I did not get that question.

Senator MALONE. You should know exactly what you are doing over at the mint. Under what act or order do you purchase silver under the 90½ cents?

Mr. HOWARD. Under the Newly Mined Domestic Silver Act of July 31, 1946.

Senator MALONE. What does that say you must do?

Mr. HOWARD. That says that we are to accept silver from the miner. It is a mandatory act, if we are satisfied that it was mined within—it has to be delivered to us within a year after the month in which mined. And if we are satisfied it is newly mined, then we purchase it, if it is offered to us.

Senator MALONE. At what price?

Mr. HOWARD. It is a net return to the depositor of 90½ cents an ounce.

Actually, the law reads that it will be \$1.29 an ounce, which is the monetary value of a dollar, a silver dollar, less 30 percent seigniorage.

Senator MALONE. Where does the 72 cents an ounce come in?

Mr. HOWARD. In buying silver, we do not have to revalue except up to cost. That means that under the Newly Mined Silver Act, every time we buy an ounce of silver, we revalue 0.7 of that ounce at \$1.29, and we have 0.3 of an ounce down in the free silver at cost value, and that is one way it happens.

Another way that it comes about is, during the war period we lent silver from this account, and that is now returning into this account, that is lend-lease silver.

Senator MALONE. Has all that silver been returned?

Mr. HOWARD. Not all of it. Most of it is in the process of being returned. The Dutch have returned 52 million out of the 56 million that they got. They will return the other 4 million within the next few months.

The British have returned 88 million, all of theirs.

The Australians have returned 11 million, all of theirs.

The Indians are in the process of returning, and have transferred title to, the remainder of all they owe, which was 172 million ounces.

And the Pakistanis have agreed to return what they owe, which was 53 million ounces.

Senator MALONE. Why do we not, without taking the time now, just submit a table showing the status of this loans silver: First, the sale of the silver for use by foreign countries, and domestic, also, and the status of the return.

Secretary HUMPHREY. We will file that.

Senator MALONE. Yes. I think it will save the time of the committee, and just to clear the record.

(The information referred to is as follows:)

Lend-lease silver transactions (fine ounces), as of June 30, 1957

	Silver transferred from Treasury to lend-lease for account of foreign governments	Silver returned and taken into Account of Treasurer of United States	Silver being returned	Silver to be returned
1. Australia	11,773,093.09	11,773,093.09		
2. Belgium	261,333.33	261,333.33		
3. Ethiopia	5,425,000.00			5,425,000.00
4. Fiji	196,363.63	196,363.63		
5. India	172,542,107.00	3,263,211.01	169,278,895.99	
6. Netherlands	56,737,341.25	52,405,914.44	4,331,426.81	
7. Pakistan	53,457,797.00		53,457,797.00	
8. Saudi Arabia	22,347,430.85			22,347,430.85
9. United Kingdom	88,073,878.21	88,073,878.21		
Total	410,814,344.36	155,973,793.71	227,068,119.80	27,772,430.85

Senator MALONE. You value this, then, the \$2 billion—the entire value of the silver is carried there in the Treasury as what you paid for it, not the \$1.29—the value when you stamp it into dollars?

Mr. HOWARD. No, sir. The silver back of the silver certificate is the same as if it were in a silver dollar. There is approximately 0.77 of an ounce of silver back of each silver dollar. There are 371¼ grains; that is roughly 0.77 of an ounce.

When we put bullion back of a silver certificate, we put the same amount that we would put in a silver dollar, so the backing of our silver certificates consists of silver bullion and silver dollars.

Senator MALONE. So, then, it is valued at $1.29 an ounce?

Mr. HOWARD. It is valued at $1.29.

Senator MALONE. So the point I would make for the record is that when you buy it at 72 cents an ounce, or you buy it at 90½ cents an ounce, when you stamp it into a silver dollar or stamp it into a silver certificate for which silver is deposited, then you value it up to $1.29 an ounce.

Mr. HOWARD. That is correct.

Senator MALONE. The Government makes 38½ cents on each ounce.

Mr. HOWARD. Seigniorage of 30 percent.

Senator MALONE. "Seigniorage" is simply a word to represent the difference between the purchase price and the actual price by law?

Secretary HUMPHREY. It is the difference between the metal price and the monetary price.

Senator MALONE. And the monetary price. The Government makes 38½ cents on every ounce of silver used for money.

In other words, when you stamp a silver dollar—and I always carry a couple of them——

Secretary HUMPHREY. I have one of them, too. I will match you. [Laughter.]

Senator MALONE. My whole point is, after all the argument about this business, and to keep the record straight, that the price of silver by law is $1.29 when it is used for money, just as gold is worth $35 an onuce when it is used for money.

Secretary HUMPHREY. That is right.

Senator MALONE. Of course, we do not use it for money now. It is just a theatrical term as far as American citizens are concerned.

Secretary HUMPHREY. You have got one extra dollar, anyway. [They matched dollars and Malone won.] [Laughter.]

Senator MALONE. Is that right?

Secretary HUMPHREY. I think so.

Senator MALONE. Do you have something further to present?

Secretary HUMPHREY. Yes, sir.

Item 10—that was all item 9.

This is item 10. You asked for United States transactions with foreign governments, central banks and international institutions on the purchase and sale of gold, and here is the statement which shows the purchases and sales of gold.

The CHAIRMAN. The table will be placed at the proper place in the record where it was requested. (See p. 457.)

Secretary HUMPHREY. Item 11, you asked for information on the Export-Import Bank, who they were, who their officers were, where their offices were, how many people they had, and so forth, and I will present to you the report to the Congress, the last report, for January and June 1956 of the Export-Import Bank, which has every bit of data in it with respect to that.

And particularly, you asked how many offices they had abroad, how many people they had in them; and the answer is, They have none.

As I said the other day, they have some people who travel abroad, but that is detailed in here. But they maintain no foreign offices.

Senator MALONE. I think that might be accepted as a part of the record, not in the transcript, but just as a part of the record, for the committee.

The CHAIRMAN. Without objection, it will be made a part of the committee files.

Secretary HUMPHREY. Here is 11-B—that was 11-A. Item 11-B also has further data for the fiscal year, their budget and estimates for the fiscal year up to 1958.

The CHAIRMAN. Without objection, it will be made a part of the committee files.

Secretary HUMPHREY. The next item is item 12, in which you asked for a list of the nations which own stock in the International Bank for Reconstruction and Development, together with the amounts they have actually paid in, and relating the activities of the bank, and I would like—it just happened that in the paper this morning, in the New York Times this morning, there is an article directly in line with what we were talking about yesterday, the testimony yesterday, with respect to the source of funds for this bank.

Senator MALONE. That is the International Bank?

Secretary HUMPHREY. This is the International Bank, the World Bank.

Senator MALONE. That is interchangeable, World Bank or International Bank, it is interchangeable?

Secretary HUMPHREY. That is it.

This article is headed:

"World Bank To Borrow 100 Million in Frankfurt.

"Largest Loan Outside the United States Is Placed With West German House—Debts To Rise Above One Billion."

Then the article goes on, and it is relatively short, but it is right pat on what you and I were talking about yesterday, and I will just read it:

A West German bank, the Bank Deutscher Laender of Frankfurt-am-Main, has agreed to lend $100 million for 1 to 3 years at 4¼ percent interest.

Senator MALONE. That is American money we gave the Germans and that they are now lending to the International Bank and charging 4½ percent interest.

Secretary HUMPHREY. What is that?

Senator MALONE. That is American money they are lending.

Secretary HUMPHREY. I do not know what it is, whether it is dollars—the German money is good, you know, in exchange today.

Senator MALONE. I know, but that is American dollars.

Secretary HUMPHREY. It would be dollar equivalent; whether it is dollars or dollar equivalent, I do not know. [Reading:]

Four and one-fourth percent interest to the International Bank for Reconstruction and Development (World Bank).

The private placement is the third and largest issue of World Bank dollar obligations placed entirely outside the United States.

Senator MALONE. Dollar money—money we have previously given them.

Secretary HUMPHREY. It is a dollar obligation.

Senator MALONE. It is dollar money that the German bank is lending to the World Bank.

Secretary HUMPHREY. Yes. [Reading:]

As evidence of its indebtedness the World Bank will issue notes dated July 11, 1957. Of the total, $40 million will mature in 1 year and $80 million each in 2 and 3 years.

Interest will be payable semiannually, with the first payment due January 11, 1958. Payments of interest and principal will be made at the Federal Reserve Bank of New York.

The transaction is the third sale of World Bank obligations this year. Two previous issues were offered publicly through United States investment houses, $100 million of 4½ percent 20-year bonds in January and $100 million of 4¼ percent 21-year bonds in April.

Previous placements outside the United States included $50 million of World Bank dollar bonds with investors in 23 countries in September 1954, and a $75 million issue of World Bank dollar bonds placed with investors in 22 countries in September last year.

Total outstanding obligations of the bank, giving effect to the new borrowing, will amount to about $1,135 million. They will consist of $935 million of United States dollar bonds and the equivalent of $200 million of bonds denominated in Swiss francs, Canadian dollars, sterling, and Netherland guilders.

The World Bank was established to provide and facilitate international investment for increasing production, raising living standards, and helping bring about a better balance in world trade.

Since it began operations in 1946 it has made more than 166 loans totaling $3,006 million, net of cancellations and refundings, in 44 countries and overseas territories.

The 60 member—

I said yesterday it was 54; these others have been taken in recently—

The 60 member countries of the bank are its stockholders, and the money the bank lends is provided partly by them. The bank derives additional funds by selling its own bonds and other borrowing in the capital markets of the world.

Senator MALONE. That is very interesting to me. I noticed the dispatch this morning. I read it in three different papers. The fact that a German bank of West Germany, where we are sending hundreds of millions of dollars, sending hundreds of millions of dollars in gifts over a period of years, is now loaning it back to the central bank, mostly financed by American taxpayers, and getting 4½ percent interest on it. It is a very interesting development, and I think our taxpayers would do well to understand what they are reading that we give the money to them as a gift to be loaned back to us at 4½ percent interest.

Secretary HUMPHREY. Well, of course, we are not doing——

Senator MALONE. And then they loan it back to us and get interest on it.

Secretary HUMPHREY. We are not doing it now.

Senator MALONE. We were, and I think it is a very interesting development. We have also given foreign nations most of our gold in the same manner. I do not want to load you down, because you put a good deal of stuff on other people that you think are coming before the committee, but if it would not be too much trouble for 1 of your 70,000 employees, how much money have we given Germany in the last 10 years?

Secretary HUMPHREY. I do not know. That, again——

Senator MALONE. I do not know either, but it has been considerable.

Secretary HUMPHREY. That, I presume, would be in Mr. Hollister's field, that you are talking about.

Senator MALONE. I suppose it would, and we will get it.

But it has been much more than a hundred million dollars, probably that amount multiplied by many times, and now they are loaning money back to one of our corporations and getting interest on our money, the taxpayers' money. Then this corporation is encouraging American capital to go into foreign countries, including Germany—the Germans are good businessmen, maybe we should hire a few of them.

Secretary HUMPHREY. You requested a list of the nations that own stock in the International Bank, together with the amounts they have actually paid. Item 12 is their 11th annual report and it has full information in it as to the——

Senator MALONE. I do not care about digging out that full information. I do not have the time to do it.

Secretary HUMPHREY. What is the page number? I am told it is page 64. It is listed in detail, and would you just like us to tear out page 64?

Senator MALONE. Tear it out and put it in the record.

The CHAIRMAN. Without objection, it will be inserted in the record at the place it was requested. (See pp. 495, 496.)

Secretary HUMPHREY. Page 64. That is item 12.

Senator MALONE. What is the date of that report, now?

Secretary HUMPHREY. That is the 11th annual report, the last that we have. The date is right on here.

You wanted the Board of Governors, the Governors and their alternates, pages 73 and 74, the Executive Directors, so those two sheets will be submitted. That is the subscribing members, the Governors and their alternates, the Executive Directors and their alternates of the World Bank.

Senator MALONE. May that be made a part of the record, Mr. Chairman?

The CHAIRMAN. Yes. It will be made a part of the record at the place requested. (See pp. 498, 499.)

Senator MALONE. How many Directors are there in this bank? This is the World Bank you are talking about? International Bank?

Secretary HUMPHREY. That is right.

I believe there is a Director—well, I do not know, some of these countries have combined. We could add them up here and see.

Senator MALONE. That are 60 countries, just approximately.

Secretary HUMPHREY. These are the Governors, that is, one for each country.

Senator MALONE. Yes, about 60 Governors.

Secretary HUMPHREY. Yes. And the Directors here, we can count them up.

How many are there? Sixteen, and they are listed here, showing the countries that they represent.

Senator MALONE. Do we have a Director on the bank?

Secretary HUMPHREY. Yes.

Senator MALONE. One?

Secretary HUMPHREY. We have one Director.

Senator MALONE. Out of 16?

Secretary HUMPHREY. That is right.

Senator MALONE. Then the point of all this that I wanted to make yesterday was that the 16 Directors, of which we are 1, and of 60 Governors that control the 16 Directors, expend the money of the World Bank.

Secretary HUMPHREY. You vote in proportion to your interest.

Senator MALONE. The voting power is in proportion to your interest?
Secretary HUMPHREY. That is right.
Senator MALONE. In other words, we have one-third of the votes?
Secretary HUMPHREY. That is right, whatever the proportion is.
Senator MALONE. As to who we lend money to?
Secretary HUMPHREY. It is proportioned.
Senator MALONE. Why do we not have more Directors on the Board?
Secretary HUMPHREY. I do not think there is any occasion to have them.
Senator MALONE. Any time they vote, our man votes one-third of the votes; is that it?
Secretary HUMPHREY. That is correct.
Senator MALONE. They have two-thirds of the votes?
Secretary HUMPHREY. Various other countries. Nobody has two-thirds.
Senator MALONE. Well, the foreign countries.
Secretary HUMPHREY. We vote our interest.
Senator MALONE. And it is just like a corporation, if we have so many shares——
Secretary HUMPHREY. That is right.
Senator MALONE (continuing). We have 35 percent of the shares——
Secretary HUMPHREY. That is right.
Senator MALONE (continuing). And we vote them.
Secretary HUMPHREY. That is right.
Senator MALONE. And they have the remainder of 65 percent.
Secretary HUMPHREY. Whatever their interest is, they vote.
Senator MALONE. And they vote their shares.
Secretary HUMPHREY. That is right.
Senator MALONE. So the loans would be made to foreign nations in accordance with the majority vote?
Secretary HUMPHREY. That is right.
Senator MALONE. Does that end the list?
Secretary HUMPHREY. No. I have 1 or 2 more.
Now, on item 18, Monday, I think it was Monday, we were discussing the authority to buy and sell gold, and at what price, and I have an exhibit here which I will read.

This is "Authority of the Secretary of the Treasury to change the price of gold," item 18.

Sections 8 and 9 of the Gold Reserve Act of 1934 authorize the Secretary of the Treasury—with the approval of the President in case of purchases—to purchase and sell gold at such rates and upon such terms and conditions as he may deem most advantageous to the public interest.

In 1945, pursuant to the Bretton Woods Agreements Act, Public Law 171, 79th Congress, the United States by this act of the Congress accepted membership in the International Monetary Fund. The articles of agreement of the fund provide that each member shall communicate to the fund a par value for its currency, which thereafter may be changed only as provided in the Articles. The par value for the dollar communicated to the fund by the United States was the same as the then existing gold value of the dollar, namely, $15\frac{5}{21}$ grains of gold $\frac{9}{10}$ fine, or \$35 per fine troy ounce, which had been established by Presidential proclamation of January 31, 1934, issued under the authority of section 43, title III, of the act of May 12, 1933, as amended. Section 5 of the Bretton Woods Agreements Act provides that a change in the par value of the United States dollar declared to the fund shall not be proposed or agreed to without authorization by Congress by law.

Article IV, section 2, of the articles of agreement of the International Monetary Fund provides:

> The fund shall prescribe a margin above and below par value for transactions in gold by members, and no member shall buy gold at a price above par value plus the prescribed margin or sell gold at a price below par value minus the prescribed margin.

The fund has prescribed a margin of 1 percent above and below the par value for purchases and sales of gold. Accordingly, the United States has an obligation under the articles not to purchase gold at more or sell gold at less than $35 plus or minus 1 percent so long as the par value of the dollar declared to the fund remains unchanged.

I think, Mr. Chairman, that completes, with those two exceptions, all the things we were asked to furnish; and those, we have asked others than ourselves to get, and we will supply them, Senator, just the minute we can get them delivered to us.

Senator MALONE. I thank you for that information.

While we are on the matter of the law with regard to the price of gold, does the Secretary of the Treasury or the President have any authority to make a change in the gold content of the dollar, or the price of gold without action by Congress?

Secretary HUMPHREY. I think not.

Senator MALONE. If you will check that and make that a definite answer, I will appreciate it.

Secretary HUMPHREY. That is what I just stated, right here, so long as we are members of the fund.

Senator MALONE. Well——

Secretary HUMPHREY. Now, if the act—you set a pretty complicated legal question here, Mr. Senator, and I do not know. We might have to ask for an opinion of the Attorney General, perhaps.

But if the act covering our association with the fund were repealed by the Congress, then exactly where we would be left, whether that would reinstate the Gold Act, the previous Gold Act, or not, I am just not certain.

Senator MALONE. In other words, it might reinstate the Gold Act. It would give the President again the power to change the gold content of the dollar.

Secretary HUMPHREY. I think it is a purely hypothetical question, because if these acts were repealed, certainly it would be covered in the act of repealer, so that——

Senator MALONE. I would not have too much confidence in that situation. I have been here 11 years, you remember, and Congress often passes these so-called emergency acts without thoroughly understanding their far-reaching consequences.

I would appreciate it very much if you would, if it is necessary, submit—there is no rush about this, because this hearing will go on for some time—but to make it a part of the record, and ask the Attorney General, if you think it is necessary, if you are unable to answer it yourself, for an opinion whether or not it would restore the power to the President to change the gold content of the dollar or raise the price of gold.

Secretary HUMPHREY. Now, which are you saying? Are you talking about the gold content of the dollar, or are you talking about the price at which we can buy and sell gold? Because they are not the same thing.

Senator MALONE. They are the same thing as far as the value of the gold per ounce is concerned. I am asking you if the repeal of the act by which we became members of the international fund—would restore the power—and you will pardon me if I get some of the designations wrong, but the international fund is what it is called, is it not?

Secretary HUMPHREY. That is right.

Senator MALONE (continuing). If we withdrew from membership in the international fund, does that restore the power of the President to change the gold content of the dollar or change the price of gold per ounce?

Secretary HUMPHREY. We will get an opinion for you.

Senator MALONE. Will you do that, and get it for us at your convenience?

Secretary HUMPHREY. I will get you an opinion.

(The information referred to is as follows:)

With regard to the question whether repeal of the act by which the United States became a member of the International Monetary Fund would restore the power of the President to alter the gold content of the dollar or the power to buy gold at a price other than $35 an ounce, the General Counsel of the Treasury has advised as follows:

"The repeal of the Bretton Woods Agreements Act, by which the United States became a member of the International Monetary Fund, would not restore the power of the President to alter the gold content of the dollar. Under the act of June 30, 1941 (Public Law 142, 77th Cong.), this power expired completely on June 30, 1943, prior to the enactment of the Bretton Woods Agreements Act.

"The repeal of the Bretton Woods Agreements Act would fully restore the power to buy gold at a price other than $35 an ounce. The Bretton Woods Agreements Act affected, but did not repeal, section 8 of the Gold Reserve Act of 1934, which provides: 'With the approval of the President, the Secretary of the Treasury may purchase gold in any amounts, at home or abroad, with any direct obligations, coin, or currency of the United States, authorized by law, or with any funds in the Treasury not otherwise appropriated, at such rates and upon such terms and conditions as he may deem most advantageous to the public interest; any provision of law relating to the maintenance of parity, or limiting the purposes for which any of such obligations, coin, or currency, may be issued, or requiring any such obligations to be offered as a popular loan or on a com-competitive basis, or to be offered or issued at not less than par, to the contrary notwithstanding. * * *'. Repeal of the Bretton Woods Agreements Act would leave section 8 in full force. The same reasoning would apply to section 9 of the Gold Reserve Act, relating to sales of gold."

Senator MALONE. That ends the requests?

Secretary HUMPHREY. That is right.

Senator MALONE. What are there left?

Secretary HUMPHREY. Two items. There is the information which has to come from Mr. Hollister's organization, and the information on the Monetary Fund.

Senator MALONE. On the conversion of the private ownership of gold to Government ownership, and then—the cash going to foreign nations.

Secretary HUMPHREY. We are dependent on others to furnish that, and we will get it as soon as we can.

Senator MALONE Yes.

I note in this table, "Consumer prices and the purchasing power of the dollar 1913 to date," which is a very fine table, and I hope it corresponds to other tables we have referred to from time to time, in 1934 the dollar, assumed to be worth a dollar in purchasing power, in 1933 would have been worth $1.034; that at the present time it is worth 47.8 cents.

Secretary HUMPHREY. You see, that will vary. Your value today will vary a few cents, dependent upon which year you pick for 100. If you pick one year for the 100 and bring your table down, you come to one figure. If you pick another year for 100, you will come to another level.

Senator MALONE. We were talking about the 24-, 25-year period since we began to tamper with the dollar. I thought it best to have that kind of a table.

The question arose about the estimates the White House sent to Congress, and the actual appropriations.

I note in the 84th Congress, there were $73,208 million plus recommended, and $73,041 million plus were appropriated.

And we come down to—go back to the 79th Congress, 1st session, $71,175 million plus was recommended; $69,780 million was appropriated.

I have no time to figure out the percentage now, but it is very close; the Congress followed the White House very closely.

Mr. Secretary, I have been disappointed that we are referred to so many agencies for the economic policy of the United States. It seems, of course, naturally, that we are getting further and further away from the Treasury, further and further away from the Congress, in the regulation of these matters.

It may be that it is not fair to expect you to understand the entire economic structure of the United States when you are not directly charged, apparently, with anything but keeping our bonds sold to get enough money to operate the Government.

Secretary HUMPHREY. To pay the bills.

Senator MALONE (continuing). To finance Congress for their splurges in foreign countries and elsewhere. I sympathize with you, even in that small amount of authority you have left.

Secretary HUMPHREY. I appreciate that very much. [Laughter.]

Senator MALONE. You are getting this information as to whether or not the private owners of dollar credits can demand gold through manipulation through their own government, as the foreign governments themselves can demand it——

Secretary HUMPHREY. Well now, Senator, I cannot get you that information——

Senator MALONE. I have not finished.

Secretary HUMPHREY (continuing). Because I do not know just how they manipulate such transfers.

Senator MALONE. I have not quite finished.

Secretary HUMPHREY. You assume the laws and regulations can be violated by manipulation. Mostly the executive heads have the power. I can tell you what the requirements of foreign governments are.

Senator MALONE. I do not think it would be a violation. I have been in all these countries, and I say generally there is a certain group of men running the country. The dictator is a figurehead in most cases but has great powers. And when you come to exchanging private money for government money, I think it can be done in many of them very easily.

Secretary HUMPHREY. I can tell you what the official rules are. I cannot tell you what they do under the table.

Senator MALONE. I am about to ask you a question, if I may finish it:

Now, in the event they do have ways of transferring the private holdings to Government holdings, then the custom is to pay the Government holdings, and then in that event the whole $16 billion, $16.25 billion, of credits, both private and foreign government, would fall within the custom of demand and payment, would it not?

Secretary HUMPHREY. I believe that the dollar balances could be transferred to governments or central banks.

Senator MALONE. That is right. And then customarily, it has been customary to meet dollar balance in gold payments to that extent?

Secretary HUMPHREY. Then to the extent it was used in the ordinary course of trade, we would, if we continued our present practice, sell gold for those dollar balances.

Senator MALONE. Yes.

If that is true, whether you actually sent the gold, if you thought it was an emergency, you have it in your power, you testified yesterday, to refuse payment in gold.

Secretary HUMPHREY. We do not need to sell gold.

Senator MALONE. It is customary to meet those balances——

Secretary HUMPHREY. In the ordinary course of trade, we would do so.

Senator MALONE. But if you judged it was not in the ordinary channels of trade, or there was an emergency, then you would refuse to sell the gold?

Secretary HUMPHREY. That is right.

Senator MALONE. But in any event, those credits would be there, would they not?

Secretary HUMPHREY. The dollar balances would be there.

Senator MALONE. It has been customary to meet them in any ordinary circumstances.

Secretary HUMPHREY. That is correct.

Senator MALONE. If you did meet them, then, this $16.25 billion, and with your $22.4 billion in the various depositories, then would you have the 25-percent balance in gold that the law requires we have in the Treasury behind the $29 billion of money in circulation?

Secretary HUMPHREY. Senator, I cannot tell you anything different than I told you yesterday and I told you the day before, in answer to exactly the same question.

Senator MALONE. It was not the same question.

Secretary HUMPHREY. I cannot conceive of having that amount of request for purchase of gold in the ordinary course of trade. By just plain arithmetic, if it should occur, and if we did sell, then we would have a deficit. If that amount of gold was sold abroad, then by just plain arithmetic you can see for yourself there would be a deficit in the monetary supply.

Senator MALONE. In the required amount.

That is a good answer, and I appreciate it, Mr. Secretary.

Some of these things may seem very simple to you, but to me and others, who are trying to understand it and trying to make a record, it is not so simple.

Secretary HUMPHREY. I think, to be just fair, that from my point of view it is a very misleading assumption.

Senator MALONE. Well, it may be misleading to you, but to me, if you owe the money, whether you pay it or not in a customary method, and if you did refuse to pay it—there have been countries in many cases, and practically all the countries do refuse to pay it, but when they do refuse their currency is not worth anything or much less, on the market.

Secretary HUMPHREY. Well, that is not true, I do not think. There is a lot of currency where there have been restrictions at one time or another——

Senator MALONE. I would like to have you explain that, if it is not true.

Secretary HUMPHREY. There are many countries where there have been restrictions of one kind and another, and where there are today restrictions of one kind or another. In fact there are many countries which have restrictions of some kind, and their currency is not worthless.

Senator MALONE. Yes, they have done that but, of course, their currency is not worth anything on the world market—or a lot less than face value, when you come right down to it.

There are only two ways, are there not—I would like to ask you this question—that there can be fair exchange between countries, and that would be either on a metal standard where the money you give them in exchange for their money represents the same number of grains of gold or ounces of silver, or when you buy their money you buy it at the world market price at the world market value? Are those not the only two ways in which you can get a fair exchange, fair to the United States of America?

Secretary HUMPHREY. What you are trying to do is to exchange goods and services.

Senator MALONE. Of like value.

Secretary HUMPHREY. That is right. And what you are trying to do is to have a simple and easy medium of exchange for goods and services.

Now, the more that medium fluctuates in value, the more difficult it becomes to exchange the goods and services. The more stable that medium of exchange is, the more the exchange of goods and services is facilitated. But you can do it either way.

Senator MALONE. But you have to have, in order to have a fair exchange—and that was what money between nations always amounted to when they were on the gold standard, or on some standard that people understood—that if you exchange a dollar for a pound note, a number of dollars that represented a pound note, in the old days before you went off the gold standard you got the same number of grains of gold or the same ounces of silver in each case. In other words, you did not lose or gain.

Secretary HUMPHREY. That is right, with respect to the value in gold, the value in gold as compared to the value in goods and services.

Senator MALONE. That is right.

Secretary HUMPHREY. But the value of gold itself could change with respect to the value of goods and services.

Senator MALONE. Through inflation. You must be entirely familiar with the way we are trading now. You set a certain method, a certain tariff or a certain duty, or you set a certain condition on trade, and immediately a foreign nation you are trading with changes the value of their currency in terms of the dollar, and upsets the whole thing, do they not?

Secretary HUMPHREY. Well, you have to adjust for it.

Senator MALONE. But you do not adjust for it. That is what I am trying to tell you. We do not adjust for it.

What we do is to take their money at what they say it is worth, and then Congress makes up the difference, and they call that a dollar shortage.

You never had any idea that $4.03 represented the value of the British pound for several years before they changed it to $2.80, did you?

Secretary HUMPHREY. Well, in the market place, Senator, in the exchange of goods and services, the prices of goods and services adjust pretty rapidly in changes to the value of the currencies.

Senator MALONE. But if we insisted on it, and insisted on a fair trade of currencies on the metal standard of other world market prices of currencies we could get a fair trade. But we have not been doing that for about 20 years. In other words, when the $4.03 in 1948 was fixed on the pound—it was still the price of the British pound, I walked up to a Shanghai bank and paid $2.60 for the pound.

The way you did it, you took a dollar and got the $6 plus in Hong Kong dollars, and then you went down to another window and paid $6 in Hong Kong money for a British pound which amounted to $2.60, and got the pound, and you could spend it any place in the world, because it was a free market.

I said that on the Senate floor when I came back. Nobody paid any attention to it, and I guess they do not yet. So it is not worth $2.80 now. You can buy it at Shanghai under the $2.80 notably about $2.25 and spend it any place in the world, and you can take all other nations' money and do the same thing.

So the United States of America are still picking up the check—charging it up to our taxpayers.

I do not want to launch into this thing, but I am going to read you something here which may be very interesting to you, and if you have a fault to find with it, I would like very much if you would tell me about it.

This is from Senate Document 83, 84th Congress, published July 28, 1955, by the Senate of the United States, under Senate Resolution 271, and there is a statement here on page 11:

> After several centuries of complete realization by nations and international traders that money exchange and international trade must be based upon the gold or silver content or the free exchange market value of the nations' currencies—but in 1931 the world embarked upon a financial false-front campaign through the simple expedient of destroying the only common standards of value that money ever had—gold and silver. We followed England off the hard money standard in 1934.

Within a nation, money or the medium of internal exchange is worth whatever that nation stamps upon the paper or metal. The price level of its goods will reflect relative domestic value.

That is exactly what you said. You said if the dollar was worth twice as much as it is, the goods would go up a hundred percent. That is just about what would happen.

However, whenever that nation, or a citizen thereof, offers such money to another nation, or a citizen of another nation in exchange for goods or the money of that other nation—it is necessary to offer value for value, either in gold or silver content, or the free and uncontrolled exchange markets of the world.

Do you agree with that?

Secretary HUMPHREY. I think your goods have got to be priced to meet the competition wherever they are sold.

Senator MALONE. Well, that is another subject entirely. If you are going to exchange money you must get whatever represents the same number of grains of gold or ounces of silver in exchange or you are shortchanged.

Secretary HUMPHREY. Well, I know, but——

Senator MALONE. If you are going to exchange money, it must be on a value basis.

Secretary HUMPHREY. You exchange money for the purpose of moving goods and services, that is all. And you readjust your prices on your goods and services to fit, if you get disparities in your money.

Senator MALONE. You are exactly right in that statement. But it has nothing to do with what I am asking.

What I am saying to you is, if you are going to exchange one money for another, if you are going to exchange our money for bilivianos, then you either have to take it at the market value, 1,700 at the time I was there, not 500 that they said it was worth, or the paper they gave you would have to represent the gold and silver value as our money we exchanged.

Secretary HUMPHREY. You have to agree on some value at which you will trade, or you do not trade. There is no more difference in trading money than there is in trading horses.

Senator MALONE. I disagree with you, because we trade with them on their basis, which means a profit to them.

Secretary HUMPHREY. Well, you can trade with me on a horse on my basis if you want to, but that is up to you as to whether you do it or not.

Senator MALONE. We do not have the horse sense evidently to demand that kind of a trade. We lose on every trade, because we lose on the value of their currency. We make up the balance and call it a "dollar shortage."

Then to continue:

When any nation then arbitrarily fixes the value of its money in American dollars higher than the world-exchange free market value, or the gold or silver content, no nation or trader will pay the fictitious value so there immediately develops what London bankers were quick to term a "dollar shortage," to cover the false-front value of their currency.

This "dollar shortage" obtains unless and until either an outside source such as the American taxpayer makes up the difference, or the fixed value is ignored and the relative value on the world-exchange free market is adopted.

The United States has been drawn into a mass of world organizations all persuasive to making up that difference in the real and false values of foreign currencies through the World Bank, the Export-Import Bank, the International Cooperation Administration, or through direct appropriations by the Congress.

And, Mr. Chairman, without reading this, I will just ask that the remainder of it be inserted in the record. It is very short.

The CHAIRMAN. Will the Senator identify the document?

Senator MALONE. Senate Document 88, 84th Congress, under Senate Resolution 271.

The CHAIRMAN. Is it signed, and, if so, by whom?

Senator MALONE. It is a Senate document, and it was prepared by the Senate Interior and Insular Affairs Committee.

The CHAIRMAN. Did the members of the committee sign the report?

Senator MALONE. The members of the subcommittee signed the report and presented it to the committee which presented it to the Senate in accordance with Senate Resolution 271, and it was printed as a Senate document.

The CHAIRMAN. Who was on the subcommittee?

Senator MALONE. The subcommittee was made up of seven members. Senator Murray is the chairman of the committee at this time. There were seven members, I am sure.

The CHAIRMAN. It is a report, then, of the subcommittee?

Senator MALONE. Yes, to the committee; which was presented to the Senate and published under Senate Resolution 271.

The CHAIRMAN. My questions were for the purpose of the record.

Senator MALONE. That is right. I would just like to have it made a part of the record.

(The material referred to is as follows:)

Boiled down this is international socialism at its worst—an averaging and leveling of the standards of living of the world through a division of our wealth.

Our living standard being the highest in the world, there is no place for us to go, under this share-and-share-alike system, but down.

This desire on the part of the rest of the world is natural. This desire on our part is incredibly stupid.

FREE TRADE AND DISHONEST CURRENCY

Our Nation cannot long survive this free-trade and dishonest-currency method of the division of its wealth with the nations of the world.

The objective of many well-meaning people going along with these policies is impractically idealistic—free immigration and one-world citizenship, with world peace at the end of the rainbow.

Unfortunately a continuation of these policies can well result in the wrecking of the economic system of the United States, the only Nation that can spearhead the defense of the Western Hemisphere.

Senator MALONE. Upon reading the record this morning, I thought another question would be necessary, but in answer to my question yesterday you said that you would continue the same type of currency, the managed currency, and would not change it if you had the right. I think I asked you that question.

The CHAIRMAN. You did not request that the entire report be printed in the record; only that part the Senator read?

Senator MALONE. Just the remainder of that statement.

The CHAIRMAN. Without objection.

Senator MALONE. Will you read what I just said there?

The CHAIRMAN. I beg your pardon.

(The question was read by the reporter.)

Senator MALONE. You modified that statement, "until there was a more settled economic situation throughout the world."

Secretary HUMPHREY. In a greater stabilization, I think.

Senator MALONE. Yes; I think that was it.

Secretary HUMPHREY. I certainly would not do it today.

Senator MALONE. Then I want to ask one further question: Providing this more stable situation occurred sometime in the future, then would you have an idea of establishing a metal base or a gold standard, commonly called, for the money, and returning to it?

Secretary HUMPHREY. It is pretty hard to judge just what conditions can develop in the world, with the great changes that have taken place. If it could be done, if conditions should get to a place where it could be done and it could be quite generally done, I think it might be desirable to do so.

I think it might help to be a stabilizing influence.

Senator MALONE. You would want it generally adopted by the other nations at the same time? Is there any other method that could be used, except to juggle our money right along with theirs, that would tend to stabilize the currency, except the metal standard?

Secretary HUMPHREY. Well, I do not think necessarily that we have to juggle our money along with others. I think the greater stability we can develop for our own money, the better the whole world would be, including ourselves.

Senator MALONE. But until there was a more settled condition in the world, if I understand what you are saying, you want the authority to do just what you are doing, that is, you fix the interest rate to fit the market and the Federal Reserve Board continues to judge the amount of currency in circulation and to regulate the stock market margins.

Secretary HUMPHREY. I think we are better off to handle our affairs as we are now doing, than in any way I know of. If I knew of a better way, I would suggest it.

Senator MALONE. I knew you would. That is the reason I asked you.

Secretary HUMPHREY. That is right.

Senator MALONE. In other words, we must manage our currency and manipulate the amount in circulation in accordance with the judgment of the Federal Reserve Board, and handle it, manage it, a managed currency, until this stable condition occurs throughout the world, or enough of it so that you think you could go back to a stable currency?

Secretary HUMPHREY. I think we are better off as we are than in any way I can think of at the present time; yes, sir.

Senator MALONE. There have been certain times over the years, have there not, that nations have gone back to a gold standard without depending on any other nations?

Secretary HUMPHREY. Yes; I think so.

Senator MALONE. I was very much interested in your answers yesterday, because I know each answer you make comes from the inside out. I credit you with that integrity.

Secretary HUMPHREY. That is right.

Senator MALONE. And therefore, I looked up some of the exceptions. England adopted the gold standard in 1816. They reached a full gold standard in 1821, without waiting for other nations to join in the enterprise.

I suppose maybe you have looked over the history of some of these monetary manipulations. You have been in there 5 years now. You know about that.

Secretary HUMPHREY. No; I do not. I did not know about it.

Senator MALONE. We returned to the redemption in 1879, without waiting for any other nations to make their money redeemable.

Secretary HUMPHREY. That is right.

Senator MALONE. You know that?

Secretary HUMPHREY. Yes; I do.

Senator MALONE. We adopted the gold standard legally in 1900, without any attention paid to the other major nations, whether they were on the gold standard or not. You are familiar with that; are you not?

Secretary HUMPHREY. Yes.

Senator MALONE. Then I did not quite get the connection as to why we had to wait on other nations which have been known throughout history to manipulate their currency or to go on or off the gold standard, or whatever they might happen to be on, whatever was of immediate advantage to them.

I respect your answer, but I still question the procedure.

And then I come to the Federal Reserve. We will wait, as you suggest, to ask certain questions of them, but I suppose that when we created the Federal Reserve, in 1913, from there on the United States Secretaries of the Treasury have not taken any responsibility except what you have rightfully accredited to them, but it seems that a member of the Cabinet who is charged with the economic policy, or must be a part of it, or at least always has been, would understand what was happening in all departments that affected the economic structure of the country, and do their best to answer the questions.

That, of course, is entirely up to you, and I am just giving you one more chance here so that there would not be any question about it.

You think we had better just wait for all these other questions until we get the Federal Reserve Board here.

Secretary HUMPHREY. I think that is right, Senator. I think, so far as the technical operation of the Federal Reserve Board and their responsibility is concerned, you would save a lot of time and it would be better to get it from them.

Senator MALONE. Time, of course, is important, but I think we are going to have plenty of it here this summer, from the way the debate (civil rights) looks on the floor now.

I did want to know, however, and I did want to ask you the question one more time: The Federal Reserve Board does determine the amount of money in circulation?

Secretary HUMPHREY. The amount of currency in circulation?

Senator MALONE. Yes.

Secretary HUMPHREY. They can regulate it, yes, by their operations.

Senator MALONE. Do you know the latitude they have?

Secretary HUMPHREY. No, I do not.

Senator MALONE. And you do not know the policy or the principle upon which they determine the amount of money, currency, that should be in circulation?

Secretary HUMPHREY. I think it is better to get their operations from them.

Senator MALONE. I am very much interested in your personal reaction to some of these things, and I will ask you again, and I want you to know that much of this is for my own information, and to build a record so that men who have not spent their lives in this particular category could have some idea of what is going on.

Do you have an idea that a currency redeemable in gold would provide the people of the Nation with a means of protecting their savings against a government that might, during a certain period, go off the beam by appropriating more money than they could collect or more than they should and scattering it throughout the world, for example, in a central banking system? Do you think that would protect the savings of the country a little better than the method we are using now?

Secretary HUMPHREY. I think it would all depend upon conditions. I do not think it would under present conditions.

Senator MALONE. Well, we seem to have preserved it, with these central banks of other nations, and that means for foreign people, we have kept the promise with them, as you have testified, under any normal conditions, they can get the gold for a dollar balance secured through cash gifts, the same kind of a dollar for which our people are refused gold.

That is true; is it not?

Secretary HUMPHREY. Well, I think I would just like to say once more, I have said it many times, I do not know just how a foreign individual buys our gold. We do not sell gold to foreign individuals.

Senator MALONE. You sell the gold to the nations for dollar balances?

Secretary HUMPHREY. There may have been ways you found to do it when you were over there that I do not know about, or that are available. But our gold transactions take place with foreign countries and central banks in ordinary trade relationships.

Senator MALONE. Well, you do sell gold for industrial purposes to foreigners, do you not?

Secretary HUMPHREY. Yes, but that is not what we are talking about.

Senator MALONE. Is it a different kind of gold?

Secretary HUMPHREY. Oh, no. It is for different purposes.

Senator MALONE. Do you follow through to see if they use it for industrial purposes in foreign nations?

Secretary HUMPHREY. I think it has reasonable surveillance, yes.

Senator MALONE. But you do sell gold to the foreign nations themselves?

Secretary HUMPHREY. We do.

Senator MALONE. Who, in turn, can sell it to anyone?

Secretary HUMPHREY. In the ordinary course of trade.

You do sell it to foreign governments, and know not what they do with it; is that right?

Secretary HUMPHREY. When we sell industrial gold?

Senator MALONE. No; for any purpose.

Secretary HUMPHREY. We sell industrial gold for industrial use.

Senator MALONE. When you sell gold to a foreign government, do you know what they do with it? Do you have any idea what they do with it?

Secretary HUMPHREY. When we sell gold to a foreign government?

Senator MALONE. Of course you do not.

Secretary HUMPHREY. You asked about industrial gold and I told you we tried to keep a reasonable surveillance to see that industrial gold was used for industrial purposes.

Senator MALONE. A different question entirely. It has no relation to industrial gold, and I asked you whether you had any idea what a foreign government does with the gold when you sell it to them.

Secretary HUMPHREY. No. I said when we sell gold to a foreign government, it is their gold.

Senator MALONE. That is right. They can sell it for $70 an ounce.

Secretary HUMPHREY. That is right.

Senator MALONE. Or they can sell it to another individual or another government, or whatever they want to do with it.

Secretary HUMPHREY. It belongs to them.

Senator MALONE. I do not remember that you said that before in the record.

Secretary HUMPHREY. Well, I have said it now; and if you asked me before, I said it then.

I would like to ask you if you know or have methods of determining how foreign investments are handled in this country through complicated organizations with headquarters in other countries, with money invested, dollars invested, in this Nation? Do you know whether there is any way of avoiding a tax on property or earnings that are earned by a foreign corporation in this Nation, invested through Switzerland or through Liberia or other nations?

Secretary HUMPHREY. I would not, of course, undertake to say that nobody ever violated the tax laws. We do try in such ways as we can to see that people who owe money, who owe Federal taxes in this country, pay them——

Senator MALONE. Yes. But suppose it comes from a foreign country—ownership unidentified.

Secretary HUMPHREY (continuing). Wherever they are located, and I read you this morning a proposal that we had made for an act of Congress which we thought might be helpful in helping us to accomplish that.

Senator MALONE. If there is an organization in Liberia or Nassau or in Canada or in Greece or in any other nation, and their headquarters are there, and they invest money here in institutions, the ownership designated by number, do they pay the regular taxes? Is there any method by which they can be avoided, that you know of?

Secretary HUMPHREY. There is not any method that they can avoid it that I know of. If there were, I would try to catch it. I would be proposing a change of the law to Congress to permit us to catch them.

Senator MALONE. I am talking legally, of course.

For instance, we read of ships being purchased and run under another flag based in another nation, purchased by people who are in this country or by some people who are not residents of this country, and then they hire crews, cheaper labor crews, and pay no taxes.

Is there any legal method that you know of that this money can be invested in this country, foreign money but it is dollars, as we have discussed this morning, and not pay taxes?

Secretary HUMPHREY. If it is invested in income-producing properties here in this country——

Senator MALONE. Yes. Property or stocks.

Secretary HUMPHREY (continuing). There isn't any way I know of; no. I would think we could collect the tax from the income producer here.

Senator MALONE. And there is no way you know of for a business in Canada, with headquarters in Canada, with money invested here, whether it be in any business or stocks, whether it be in the liquor business or otherwise, where they pay the taxes in Canada and do not pay the taxes here?

Secretary MALONE. You mean if they had income-producing property in this country?

Senator MALONE. Yes. Property in this country under maybe a foreign corporation.

Secretary HUMPHREY. I think the income-producing property in this country would have to pay the tax.

Senator MALONE. Now, the customs and duties are collected by your office.

Secretary HUMPHREY. That is right.

Senator MALONE. And you carry out and put into effect any duties or tariffs or any regulation of trade in that regard?

Secretary HUMPHREY. We try to comply with whatever the laws are.

Senator MALONE. The Tariff Commission is a part of your organization?

Secretary HUMPHREY. The what?

Senator MALONE. The Tariff Commission is a part of your organization?

Secretary HUMPHREY. Oh, no. We have nothing whatever to do with the Tariff Commission.

Senator MALONE. Just the collection of customs?

Secretary HUMPHREY. That is all. We just collect the customs that are charged.

Senator MALONE. For a good many years, about 145 years, we had established a method of regulating trade and the national economy, as the Constitution directs which provides a duty or tariff under article 1, section 8, to regulate our foreign trade through levying duties or tariffs, did we not?

Secretary HUMPHREY. That used to be our principal source of revenue.

Senator MALONE. That did not last very long; did it? That was in the early stage.

Secretary HUMPHREY. That went quite a while.

Senator MALONE. About when did we get away from depending on the duties for revenue?

Secretary HUMPHREY. Well, various duties and excise taxes were our principal source of revenue until we got an income tax, and that was 1913.

Senator MALONE. The principal source.

Secretary HUMPHREY. That was the only place we could get any money. Until, you see, we had an income tax, excises and customs were about all we had.

Here it is, from 1789 on.

Senator MALONE. For a while, we did levy duties and tariffs for revenue but not for revenue only. The duty or tariff always acted as an evener of foreign and domestic wages—and the cost of doing business here and in competing countries for another purpose, did we not?

Secretary HUMPHREY. Well, until—the only source of revenue the country had until 1913 were excises and duties, and things of that kind.

Senator MALONE. The duty or tariff acted as a computation for revenue and protection until 1934, when we did change it entirely, did we not, in the matter of protection of our workingman and investors in their jobs and investments.

Through the 1934 Trade Agreements Act Congress stopped the adjustment of the duties or tariffs for the purpose of making up the difference in wages and the cost of doing business here, and in the chief competitive nation on each product and transferred that constitutional responsibility of Congress to the Executive (the President) with full authority to transfer that responsibility to Geneva, Switzerland, where it now resides.

Secretary HUMPHREY. It was in 1934, the reciprocal trade——

Senator MALONE. In 1934, we passed an act which transferred the constitutional responsibility of Congress to regulate foreign trade and the national economy, to the President, with authority to transfer it any place that he might choose, under the auspices of any organization he might set up.

Secretary HUMPHREY. I believe that was the date.

Senator MALONE. Yes.

Now, in 1947, the President of the United States transferred that authority to Geneva under the auspices of the General Agreement on Tariffs and Trade.

Secretary HUMPHREY. Well, I do not know that I can say that, but——

Senator MALONE. Well, it is there now, under 34 nations, under the General Agreement on Tariffs and Trade, and they are now systematically reducing our tariffs and duties under multilateral agreements in accordance with an act of Congress; is that not right?

Secretary HUMPHREY. Well, again, Mr. Senator, you are asking me questions that I think I am not qualified to answer.

Senator MALONE. You are just charged with collecting the duties or tariffs?

Secretary HUMPHREY. I am not concerned with the making of the tariffs. I am concerned with collecting the money.

Senator MALONE. With the collections of customs.

You are concerned, you were concerned with the bill sent up here last year by the White House which lowered the duties or tariffs through the simple expedient of changing classifications.

Secretary HUMPHREY. The bill last year, I am very concerned with, because that was customs simplification, to try to help us in our collection.

Senator MALONE. That is what they called it. A simplication of customs laws, but the resulting changes in the classifications were a general lowering of certain duties or tariffs.

Secretary HUMPHREY. I am asking to see just what our experience on that is.

Senator MALONE. Yes; I would like for you to get that information, if you would.

Secretary HUMPHREY. Yes. I told you the other day I would get that. I will get a little record of our experience so far as we can judge it.

(The information referred to follows:)

TREASURY'S EXPERIENCE UNDER THE CUSTOMS SIMPLIFICATION ACT

The most important provision of the Customs Simplification Act of 1956 (Public Law 927, 84th Cong., 2d sess.) is section 2, relating to the valuation of imported merchandise subject to ad valorem duties. This section provides that articles valued under existing law at foreign or export value, whichever is higher, shall be valued, under the Simplification Act, solely on the basis of export value and makes other lesser changes in valuation methods. An exception to the application of the new standards is made for those imported articles which the Secreary of the Treasury finds would sustain an average decrease in valuation of 5 percent or more under the new valuation provisions when compared with their treatment under existing law. The new provisions of this section do not become effective until the Secretary of the Treasury has published the final list of his findings on such items as provided for in section 6 (a) of the act.

Since the passage of this legislation the Treasury Department and its Bureau of Customs have been preparing with great care the preliminary list of imported articles which would sustain such decreases in valuation. It is anticipated that this preliminary list will be ready for publication in the near future.

Pursuant to the act, the preliminary list must be published first, followed by a 60-day period during which suggestions may be made by interested parties for additions to the list. Thereafter, the final list will be published and section 2 of the act will become effective. Since the new valuation procedures provided in section 2 have not been put into effect, the Treasury Department has had no experience under them.

Other provisions of the Customs Simplification Act of 1956, of lesser importance, have gone into effect and are operating very satisfactorily.

Senator MALONE. Mr. Chairman, without pursuing that any further, I will have something to say about it in the summation for the record, if it meets with your approval.

Your answer to the question that you would not change our system of managed currency, I think is understood well in the record now. But I would like to read to you a resolution passed by our own Republican State Central Committee in the State of Nevada on the matter of the regulation of our foreign trade and national economy in Geneva, Switzerland, under the auspices of the General Agreement on Tariffs and Trade (GATT) by authority of the 1934 Trade Agreements Act.

It says:

The Republican Party of the State of Nevada strongly advocates the return to constitutional government by adopting the following principles which have been the basic tenets of the Republican Party since its inception more than a hundred years ago.

We believe the Republican Party must advocate a free market for gold, with removal of all restrictions upon its purchase, sale and ownership, and a return to the traditional hard money standard using gold or silver certificates redeemable in their respective metals.

As I understand your testimony now, you believe that there may be a chance to return to the gold standard at the proper time when there are more stable world conditions.

Secretary HUMPHREY. I would not rule it out.

Senator MALONE. What is that?

Secretary HUMPHREY. I would not rule it out.

Senator MALONE (reading):

We believe the Republican Party must urge the Congress of the United States to resume its constitutional responsibility of regulating foreign commerce through the adjustment of duties, imposts and excises, through its agent, the Tariff Commission, and allow the so-called Reciprocal Trade Act which transferred such responsibility to the President to expire in 1958. And we believe the Republican Party should urge Congress to respect the rights of the individual States in all those matters which have been historically matters of State concern.

As I have understood you very thoroughly now, you are for return to the gold standard whenever conditions may justify it, world conditions; that you are not concerned with the second part of the resolution, that is, a return to the constitutional method of regulating the duties, imposts and excises, that we call tariffs.

That is what I understood, that you are not concerned with it.

Secretary HUMPHREY. What I said was, Senator, I would not rule out the possibility of returning to the gold standard under proper conditions.

Senator MALONE. Yes.

And then, in the matter of regulating foreign trade in the national economy, do you believe we ought to return to the method of the protection of the American working men's jobs and investments here, or should we continue to distribute the investments and jobs throughout the world?

Secretary HUMPHREY. That is a subject, Senator, which, as Secretary of the Treasury, does not come within my jurisdiction.

Senator MALONE. I understand that it does not. I had hoped to get some ideas from you before you left the Treasury, because I have a very high regard for your conception of what Government and the economic structure of this country ought to be.

About the returning to States rights and stop building up the strong central government that was started about 24 years ago, and apparently we are still continuing it, would you want to express yourself on that subject?

Secretary HUMPHREY. I have said many times, Senator—and I am perfectly glad to express myself on it—I think we should be extremely careful about this tendency to have the Federal Government take on all of the difficulties of, not only individuals, but other subdivisions of Government.

I think that it is a thing which should be guarded against all the time.

Senator MALONE. I agree with you. Not only guarded against, but repeal a few acts which are already on the books, Mr. Chairman, I will include as a part of my summary the action of the 10 Western States on the 1934 Trade Agreements Act, which met in Salt Lake City on May 4, 1957, make the resolution a part of the record.

Senator MALONE. Mr. Chairman, I will ask that a resolution passed by the Young Republicans of the 48 States on June 21 and 29, 1957 on the subject of foreign trade be made a part of the record at this point.

I ask that that resolution be inserted in the record.

The CHAIRMAN. Are there any objections? Is there any objection to making the insertion which the Senator from Nevada desires?

If not, it will be inserted.

(The resolution referred to is as follows:)

IMMEDIATE REVIEW OF TARIFF LEGISLATION

We know that behind the shield of our collective defense arrangement, there must be growth and development or that shield will be a paper one. We support the administration in its advocacy of trade policies which promote the interchange of goods to mutual advantage. Under no condition, however, should such an interchange of goods be to the detriment of our American industrial, mining, processing, and developing segments of the economy, ending with a resultant loss in operation and income to both employer and employee. Furthermore, we call for an immediate review of tariff legislation to bring relief to hard-hit American industries.

CONGRESS TO RETAIN CONTROL

We believe effective control over foreign trade and the trade agreements program should be retained in the Congress.

Senator MALONE. Mr. Chairman, I have asked permission to insert in the record here as a part of my statement, a closing summary on the 3 days' examination of the Secretary of the Treasury.

That ends my cross-examination of the Secretary of the Treasury, and I appreciate, Mr. Secretary, your willingness to help us complete this record.

The CHAIRMAN. Without objection, the Senator's concluding statement will be inserted in the record.

(The summary statement subsequently submitted follows:)

SUMMARY

Abraham Lincoln, in referring to what he regarded as a preconceived plan, once said:

"We cannot absolutely know that all these exact adaptations are the result of preconcert. But when we see a lot of framed timbers, different portions of which we know have been gotten out at different times and places and by different workmen, and when we see these timbers joined together, and see they exactly make the frame of a house or a mill, all the tenons and mortises exactly adapted to their respective places, and not a piece too many or too few—in such a case, we find it impossible not to believe that all worked upon a common plan or draft drawn up before the first blow was struck."

A PRECONCEIVED PLAN

Mr. Chairman, there is little doubt that there was a preconceived plan to divide the wealth (markets and cash) of this Nation among the nations of the world, and to make us dependent upon foreign nations across major oceans for the critical minerals and materials without which we cannot fight a war or live in peace.

In 1933, this Nation followed England off the gold standard and adopted a managed currency which could only result in inflation and the pricing of this Nation out of the world markets. The following year the Congress passed the 1934 Trade Agreements Act (so-called reciprocal trade) which transferred to the President this constitutional responsibility of Congress to regulate foreign trade and the national economy and gave him full authority to place it in the hands of competitive foreign nations at Geneva, Switzerland where it now resides. At Geneva these nations are now dividing our markets among themselves and thereby causing unemployment here and making us dependent upon them for important critical materials necessary for our security while we are living on a war economy.

In 1946 the $3¾ billion loan to England, the Marshall plan in 1948, succeeded by ECA and mutual security, started a direct division of the wealth program. Our Secretary of State now testifies it must be permanent. Under this plan more than $60 billion has been transferred to foreign nations.

The continental modification of the Constitution by treaty—as, for example, the Status of Forces Treaty—and these modifications altogether have finally taken form as a plan for the destruction of the United States through amending the Constitution without submitting it to the people as has been guaranteed by that document.

The plan constitutes international conspiracy for socialism at its worst. It can only result in complete international social and economic control of the United States of America, together with a severe curtailment of our established wage living standards. The Secretary of the Treasury has testified that he represents only one part of the plan.

WAGES—INSURANCE—PENSIONS—SAVINGS REDUCED BY INFLATION

A continued managed currency means a continued inflation. Continued inflation means a continued reduction in wages, insurance, pensions, and savings through reduction in purchasing power of the dollar.

As President Lincoln well said:

"In such a case we find it impossible not to believe that all worked upon a common plan or draft drawn up before the first blow was struck" to internationalize the social and economic structure of the United States.

George Washington, relative to tactics of evading the Constitution, said in his farewell address that:

"If in the opinion of the people, the distribution or modification of the constitutional powers be in any particular wrong, let it be corrected by an amendment in the way which the Constitution designates. But let there be no change by usurpation for though this, in one instance, may be the instrument of good, it is the customary weapon by which free governments are destroyed."

The Constitution plainly says in article I, section 8, that:

"Congress shall have the power—to coin money, regulate the value thereof, and of foreign coin—"

On December 23, 1913, the Congress passed the Federal Reserve Act, setting up the Federal Reserve Commission and transferring to that body and to privately owned banks the management of the Nation's currency.

THE SECRETA[illegible]RS A MANAGED CURRENCY

The Secretary of the Treasury, Mr. Humphrey, testified that he favored the continuation of the managed currency system and that the Federal Reserve Commission had the power to determine the amount and kind of currency in circulation. It could also fix the stock-exchange margin.

Congress' only recourse would be to amend or cancel the Federal Reserve Act.

The Secretary testified: That he had the power to fix the rate of interest to be paid on Government bonds, which influenced the interest to be paid on private funds and bonds; also that foreign governments can secure our gold through dollar balances, for $35 per ounce and sell it on the open world market for any price they can get.

The Secretary further testified: That he would not change the present "managed currency" system regulated under the Treasury and the Commission, as long as the unsettled international situation prevailed.

Since troubled times have been the established condition in Europe and Asia for centuries, the situation is not likely to change.

The record, however, is that a strong nation has always led in establishing a sound currency and that weaker nations have followed their example—the United States in 1879 and 1900 and England in 1916.

Regardless of that record the Secretary still maintained that we should retain our presently managed currency.

DUTIES OR TARIFFS

The Constitution is explicit in article I, section 8, that:

"The Congress shall have the power to lay and collect taxes, duties, imposts, and excises * * * to regulate Commerce with foreign nations, and among the several states * * *."

During the prolonged crisis the Congress passed the 1934 Trade Agreements Act and transferred to the President its constitutional responsibility to regulate our national economy and foreign trade and, with it, gave him the full authority to transfer that responsibility to Geneva, Switzerland, where at this time 34 foreign competitive nations, through multilateral treaties under the GATT (General Agreement on Tariffs and Trades) are dividing the American markets among themselves through multilateral trade treaties under the GATT (General Agreements on Tariffs and Trade) organization.

GOLD OWNED BY UNITED STATES AND IN OUR POSSESSION

The Secretary of the Treasury testified that we have stored in various depositories in this country, including Fort Knox, $22,406 million in gold.

A statement from the Treasury specified that $16,200 million of dollar credits are owned by foreign nations and individuals—and that it is customary to honor these dollar credits of foreign nations in gold when presented for payment.

It is generally known that the individually owned dollar credits can be readily converted to nation-owned dollar credits and, therefore, subject to redemption by gold payments.

The Secretary testified that he can, of his own volition, refuse gold payments for foreign-offered dollar credits but that, in the absence of an international emergency, such as war, that the effect on the foreign exchange of the American dollar would be depressing.

Further testimony showed that if all foreign dollar credits were honored by gold payments in the customary manner we would then have $6.2 billion of gold remaining in the United States Treasury to back the $27.4 billion of outstanding currency. This is not up to the required 25 percent by law.

THE GOLD STANDARD

Mr. Chairman, on April 1, 1957, I introduced Senate bill 1775, which provides, in part:

"That notwithstanding any other provision of law, gold in any form, mined subsequent to the enactment of this act, within the United States, its Territories, and possessions may be melted, smelted, concentrated, or otherwise treated so as to prepare it to be sold, or held and stored as is, or has been customary with gold, and it may be bought, held, sold, or traded upon the open market within the United States, its Territories, and possessions for any purpose whatsoever without the requirement of licenses, and it may be exported without the imposition of duties, excise taxes, the requirement of licenses, permits, or any restrictions whatsoever."

Then on April 16 I introduced Senate bill 1897 which provides in part:

"All money of the United States, including money issued by banks, shall be maintained on a parity with the standard gold dollar by freedom of exchange at its value with standard gold bullion or coin at the United States Treasury."

SECTION 336—THE 1930 TARIFF ACT

The 1934 Trade Agreements Act as extended expires in June of 1958. If it is not renewed then, Congress automatically resumes its constitutional responsibility to regulate foreign trade and the national economy and the American workingmen and producers will be back in business. Section 336 of the 1930 Tariff Act headed "Equalization of Costs of Production" states:

"If the Commission finds it shown by the investigation that the duties expressly fixed by statute do not equalize the difference in the cost of production of the domestic article and the like or similar foreign article when produced in the principal competing country, the Commission shall specify in its report such increases or decreases in rates of duty expressly fixed by statute (including any necessary change in classification) as it finds shown by the investigation to be necessary to equalize."

DUTIES OR TARIFFS

Mr. Chairman, on January 7, 1957, I introduced Senate bill 28, which if passed would return the regulation of our foreign trade and national economy to the Tariff Commission, an agent of Congress, under the 1930 Tariff Act.

Under the heading "Declaration of Policy," the following language is to be found in section 1 of my Senate bill 28.

"DECLARATION OF POLICY

"SECTION 1. It is declared to be the policy of this Congress—

"(a) to facilitate and encourage trade with foreign nations on the basis of fair and reasonable competition.

"(b) to maintain an investment climate through the principle applying equally to the whole country.

"(c) to provide necessary flexibility of import duties thereby making possible appropriate adjustments in response to changing economic conditions.

"(d) to assure the accomplishment of these objectives by returning to the provisions of the Constitution (art. 1, sec. 8) in the control over American import duties now subject to international agreements."

On page 8 of the bill, in subparagraph (2) of subsection (b) of section 3, the Commission is authorized and directed, among other things—

"(2) to prescribe, upon termination of any foreign-trade agreement, that the import duties established therein shall remain the same as existed prior to such termination, and such import duties shall not thereafter be increased or reduced except in accordance with this act."

It is also provided, in subparagraph (1) of section 3 (b), that the Commission is authorized and directed—

"(1) to terminate as of the next earliest date therein provided, and in accordance with the terms thereof, all the foreign-trade agreements entered into by the United States pursuant to section 350 of this act."

That is to say, the 1930 Tariff Act.

Section 4 (a), under the heading "Periodic Adjustment of Import Duties," provides as follows:

"PERIODIC ADJUSTMENT OF IMPORT DUTIES

"SEC. 4. Title III, part II, section 336, of the Tariff Act of 1930 is hereby amended to read as follows:

"'SEC. 336. PERIODIC ADJUSTMENT OF IMPORT DUTIES.—

"'(a) The Commission is authorized and directed from time to time, and subject to prescribe and establish import duties which will, within equitable limits provide for fair and reasonable competition between domestic articles and like or similar foreign articles in the principal market or markets of the United States.'"

Mr. Chairman, Senate bill 28 would broaden the Commission's scope to allow it to compensate for a foreign nation's manipulation of currency in terms of the dollar and its general maneuvering for trade advantages that are detrimental to the United States.

It will be noted that the spirit of fair and reasonable competition is the objective of the regulation, not a high nor a low duty or tariff. The objective is a tariff continually adjusted in a spirit of fair and reasonable competition, to take the profit out of the cheap foreign labor at the water's edge and then, only when any nation approached our American standard-of-living wages, can free trade with that nation be automatic and immediate.

The common objective is free trade. The problem is how to attain that creditable ambition without destroying our own standard of living.

Congress is our legislative body. It cannot shift the responsibility. The Constitution distributes the powers among the three branches of government. It is no defense for Senators and Congressmen to say that the President recommends specific legislation or that propaganda has wrongly influenced public opinion. Legislative decisions are theirs alone to make.

ENCOURAGING AMERICAN INVESTMENTS ABROAD

Under the 1934 Trade Agreements Act, as extended to June 1958, the 34 foreign GATT nations based at Geneva continue to divide between themselves the American markets. This encourages American capital investments abroad.

The American-owned foreign production plants not only produce for foreign consumption, but their low-living-standard labor produced products are imported here, under the lowered duties or tariffs.

The Secretary testified that the Import-Export Bank, entirely financed by American taxpayers up to $5 billion, is to encourage the export of American plant capital to the low-wage foreign nations through low interest long term loans.

He further testified that the International Monetary Fund, the International Bank for Construction and Development, and the International Finance Corporation all are set up with the avowed objective of encouraging American capital to move into the foreign cheap-labor countries not only to furnish their markets but to import the low-cost labor product to compete with the product of our higher standard-of-living wages and the higher cost of doing business in this Nation.

We are committed up to $5 billion for the Import-Export Bank. We are also committed for 35 percent of the financing of the other 3 organizations. The three are independent corporations managed in each case by a board of directors and the control rests with the foreign nations' board members.

All of these corporations are in addition to the International Cooperation Administration (mutual security) which doles out the $4 billion to $5 billion annually appropriated by Congress for gifts of cash and goods to foreign nations.

THE PATTERN LEADS TO INTERNATIONAL SOCIALISM

The entire pattern, from the abandonment of the gold standard in 1933, the passage of the Trade Agreements Act in 1934, the transfer to Geneva in 1947 of the constitutional responsibility of Congress to regulate our foreign trade, and the inception of the four corporations to encourage American capital to invest in foreign, low-wage-standard nations, the mutual security giveaway program, is to distribute American markets and dollars among the lower wage living standards European and Asiatic nations.

It all adds up to international socialism in its worst form. The United States is the only producing nation in the world today that does not protect its own workingmen and investors by a duty or tariff, by import and exchange permits, or both.

Free trade will only become feasible when the flexible duty or tariff (provided in art. I, sec. 8 of the Constitution) is adjusted on imports to take the profit out of foreign sweatshop labor at the water's edge. Then such foreign nations would allow their wage standards of living to increase, create a market within their own borders, and the common objective of free trade would be reached automatically.

RESOLUTIONS—FOREIGN TRADE AND NATIONAL ECONOMY

Mr. Chairman, it has long been my conviction that it is necessary for men of like mind on sound currency, foreign trade, and the national economy to work through their own political parties and then join forces on the floor of Congress.

Accordingly, I quote the resolutions by the Nevada Republican State Central Committee in December 1956, the 10 Western States Republican Conference in May 1957, and the Young Republican 48-State Conference in June 1957, from the Congressional Record.

(The Nevada Republican State Central Committee, December 15, 1956—In the Senate of the United States, Wednesday, February 27, 1957)

"Mr. MALONE. Mr. President, on December 15, 1956, the Republican State Central Committee met in Fallon, Nev., and passed the following resolution reaffirming the three basic principles of government embodied in the Constitution of the United States:

" 'The Republican Party of the State of Nevada strongly advocates the return to constitutional government by adopting the following principles which have been the basic tenets of the Republican Party since its inception more than 100 years ago.

" 'We believe the Republican Party must advocate a free market for gold, with removal of all restrictions upon its purchase, sale, and ownership, and a return to the traditional hard-money standard, using gold and silver certificates redeemable in the respective metals.

" 'We believe the Republican Party must urge the Congress of the United States to resume its constitutional responsibility of regulating foreign commerce through the adjustment of duties, imposts, and excises, through its agent, the Tariff Commission, and allow the so-called Reciprocal Trade Act, which transferred such responsibility to the President, to expire in 1958.

" 'We believe the Republican Party should urge Congress to respect the rights of the individual States in all those matters which have been historically matters of State concern.' "

(The Republican regional conference, 10 Western States, May 3-4, 1957—In the Senate of the United States, Wednesday, May 15, 1957; 10 Western States, May 4, 1957)

"Mr. MALONE. Mr. President, on May 4, 1957, the Republican regional conference, at Salt Lake City, Utah, including the States of Arizona, California, Idaho, Montana, New Mexico, Nevada, Oregon, Utah, Washington, and Wyoming, unanimously passed a resolution urging the Congress of the United States to 'allow the 1934 Trade Agreements Act to expire in June 1958.'"

"Mr. President, I ask unanimous permission to include in the Record, as a part of my remarks, the resolution passed by the Salt Lake City conference.

"There being no objection, the resolution[1] was ordered to be printed in the Record, as follows:

" 'FOREIGN TRADE AND THE NATIONAL ECONOMY

" 'Whereas 34 foreign, competitive nations are sitting in Geneva, Switzerland, regulating our foreign trade through multilateral trade agreements under the auspices of the General Agreement on Tariffs and Trade; and

" 'Whereas this distribution of our foreign trade between such foreign competitive nations is being carried on under the 1934 Trade Agreements Act, as extended (so-called reciprocal trade); and

" 'Whereas, under this act, more than $30 billion of American capital has been invested in such foreign low-wage standard-of-living nations to compete in American labor and investors in the textile, livestock, mining, crockery, glass, precision instrument, machine tool, chemical and electrochemical, and several hundred other fields: Therefore be it

" '*Resolved*, That the 10-State Republican regional conference, including the States of Arizona, California, Idaho, Montana, New Mexico, Nevada, Oregon, Utah, Washington, and Wyoming, urge the Congress to resume its constitutional responsibility of regulating foreign trade and the national economy through the adjustment of the duties, imposts, and excises (art. I, sec. 8) through its agent, the Tariff Commission, and allow the 1934 Trade Agreements Act to expire in June 1958.' "

(The Young Republican National Federation, June 20-22, 1957, in the Senate of the United States—Young Republicans National Federation Convention, platform—foreign trade—June 20-22, 1957)

"Mr. MALONE. Mr. President, the National Convention of the Young Republican National Federation, representing the 48 States of the Union, was held in Washington on June 20-22, 1957.

"Mr. President, I ask unanimous consent to have printed at this point in the Record a resolution relating to foreign trade, which is a part of the platform of the Young Republican National Federation for 1957 and 1958.

"There being no objection, the resolution was ordered to be printed in the Record, as follows:

" 'IMMEDIATE REVIEW OF TARIFF LEGISLATION

" 'We know that behind the shield of our collective-defense arrangement, there must be growth and development or that shield will be a paper one. We support the administration in its advocacy of trade policies which promote the interchange of goods to mutual advantage. Under no condition, however, should such an interchange of goods be to the detriment of our American industrial, mining, processing, and developing segments of the economy, ending with a resultant loss in operation and income to both employer and employee. Furthermore, we call for an immediate review of tariff legislation to bring relief to hard-hit American industries.

" 'CONGRESS TO RETAIN CONTROL

" 'We believe effective control over foreign trade and the trade-agreements program should be retained in the Congress.' "

YOUNG REPUBLICAN OFFICERS FOR 1957-58

John Ashbrook, chairman, Johnstown, Ohio
Jerri Kent, cochairman, Johnson, Tenn.
Fred L. Dixon, treasurer, Washington, D. C.
Roseann Biwer, secretary, Waukesha, Wis.
Sally Liston, assistant secretary, Phoenix, Ariz.
Homer Jackson, auditor, Birmingham, Ala.

[1] The word "resolution" was stricken in the adoption by the conference.

YOUNG REPUBLICAN NATIONAL FEDERATION—REGIONS BY STATES AND TERRITORIES

Region I: Maine, New Hampshire, Vermont, Massachusetts, Rhode Island, Connecticut.
Region II: New York, New Jersey, Pennsylvania, Delaware.
Region III: Virginia, Kentucky, District of Columbia, Maryland, West Virginia.
Region IV: South Carolina, Georgia, Florida, Tennessee, Puerto Rico.
Region V: Ohio, Indiana, Illinois, Michigan.
Region VI: Alabama, Louisiana, Mississippi, Arkansas, Texas, Canal Zone.
Region VII: Missouri, Nebraska, Kansas, Iowa, Oklahoma.
Region VIII: North Dakota, South Dakota, Minnesota, Wisconsin.
Region IX: Alaska, Oregon, Washington, Idaho, Montana.
Region X: California, Nevada, Arizona, Hawaii.
Region XI: Utah, New Mexico, Wyoming.

OTC AND ITO

The Organization for Trade Cooperation (OTC) now before the Ways and Means Committee of the House and the Finance Committee of the Senate is a successor to the International Trade Organization (ITO) rejected by the Congress in 1951.

It is a "trick" bill. If approved, Congress would approve the regulation of our foreign trade and the national economy by the 34 foreign competitive nations at Geneva under the General Agreements on Tariffs and Trade. If Congress does not approve it, the Geneva regulation continues under the 1934 Trade Agreements Act as extended to June of 1958 and now in effect.

CONGRESS REGAIN ITS CONSTITUTIONAL RESPONSIBILITY

Congress can regain its constitutional responsibility to regulate foreign trade and the national economy through allowing the 1934 Trade Agreements Act to expire in June 1958.

THE CONTEST

The contest is between the American workingmen and investors working for American wages and paying American taxes, as opposed to the international investor paying the foreign low-standard-of-living wages and no American taxes.

The Congress can stop inflation and return to honest money through a reorganization of the Federal Reserve System.

The Congress can stop amending the Constitution by treaty or executive agreement (such as the Status of Forces Treaty) by the simple expedient of withholding approval or by the adoption of an amendment to the Constitution prohibiting such procedure.

By proper future legislation Congress can stop the usurpation of the rights of the States.

It is high time that the Members of Congress in both the Senate and the House take a long look at the 24-year picture that they have built through passing so-called emergency legislation a piece at a time (as Abraham Lincoln so aptly said more than 100 years ago "all * * * exactly adapted to their respective places") thereby destroying the Constitution and with it the United States of America.

Secretary HUMPHREY. Thank you, Senator.

The CHAIRMAN. Have you finished your examination?

Senator MALONE. I have finished.

The CHAIRMAN. Senator Anderson will be the next Senator to interrogate the Secretary.

Is it now the pleasure of the committee to recess until 2 or 2:30? What time would be more convenient, Mr. Secretary?

Secretary HUMPHREY. Any time suits me.

The CHAIRMAN. The committee will recess until 2 o'clock.

Secretary HUMPHREY. At 2 o'clock. Thank you very much.

(Whereupon, at 11:45 a. m., the committee recessed to reconvene at 2 p. m., of the same day.)

AFTERNOON SESSION

Present: Senators Byrd (chairman), Kerr, Frear, Anderson, Gore, Martin, Williams, Flanders, Carlson, Bennett, and Jenner.

The CHAIRMAN. The committee will come to order, and the chair recognizes Senator Anderson.

Senator ANDERSON. Mr. Secretary, I am going to try to keep my questions in some sort of order. I want to get to interest rates, but first of all I wanted to ask you a little bit about the cooperation between business in trying to hold down inflation, and this rise in the price of steel naturally is right in my mind.

With reference to these anti-inflationary policies, the President and you have commented that cooperation of business and labor is indispensable in the fight against inflation. And I was interested in an editorial that appeared in the New York Herald Tribune on Wednesday, July 3.

Without reading all the editorial, I would be happy that you take a look at it. You know what it is, and it pointed out that since 1946 the labor costs of steel have risen by 80 percent, and this includes both the rise of productivity and the rise of wages, but the rise in the price of steel has been 115 percent. The rise of sales is 100 percent, and profits before taxes have gone up from $89 million to $848 million.

The Herald Tribune suggests that the makers of steel lost a wonderful opportunity to deal with inflation. They think they should have absorbed this recent increase in wages.

Do you think that is a possible way of starting a control of inflation or is it an impossible one?

Secretary HUMPHREY. Well, I think, Senator, you would have to know a whole lot more about the circumstances, the detail of the circumstances than I do to know whether and to what extent wage advances and labor advances can be absorbed by a company when they are made.

Now, of course you have to take into account, if you go back to—those figures started, as I recall, at what was the 1940——

Senator ANDERSON. 1946.

Secretary HUMPHREY. 1946; yes.

Senator ANDERSON. It is just a 10-year period, and labor costs have gone up only 80 percent, but the cost of product has gone up 115 percent, and profits have gone up from $89 million to $848 million before taxes.

Secretary HUMPHREY. Well, I suppose 89 million for an industry like that is a pretty low amount, and there is a great lot of talk, and I think, I am sure there is some substance to it, that costs of expansion have gone up, costs of replacements and expansions have gone up.

We have been approached by a great many different industries, among them the steel industry—very concerned about the cost over and above the amount collected in depreciation for the renewal of plant and equipment. And I think there are just so many things that have to be taken into account that you would have to know pretty much the detail of any particular business and any particular change to comment very intelligently on it.

I would not have the information to be able to comment on any particular advance, either wage or price advance, as to whether the advance was justified.

Senator ANDERSON. But, Mr. Secretary, the steel industry is so basic to all of these other inflationary rounds that it did seem like a wonderful opportunity to put some sort of control on it.

At a later time, I am going to refer to some profits that have been made, not that I am opposed to profits. I try to make them in my own business and expect everybody else to do the same thing. But a profit that jumps from around $90 million to $350 million before taxes is quite a jump.

To look at it from another way, the New York Times had an item on June 28, that in 1939 United States Steel's profit before taxes was 18 cents an hour for each hour worked by an employee, and for 1957 the figure was $1.80. And after taxes the rise was from 10 cents to 90 cents. Does that not indicate that the steel industry might have been one that could have absorbed this increase?

Secretary HUMPHREY. Well, as I say, as I said before when I was asked about it, I have not been in the steel business for 4½ years and I just cannot tell you.

Senator ANDERSON. Well, let us get into the question of interest. You have been in that regularly for the past 4½ years.

Secretary HUMPHREY. I have been regularly in that one.

Senator ANDERSON. You have stated before there has been a rise in the rates of interest.

Secretary HUMPHREY. That is right.

Senator ANDERSON. I do not want to thresh over old grain and I will not go over this table out of Business Week which shows the rises in all groups, but we will admit there has been a rise in interest.

Secretary HUMPHREY. That is correct.

Senator ANDERSON. Whose responsibility do you think that is?

Secretary HUMPHREY. I do not think it is a matter of responsibility. I think it is a matter of fact. It is a matter of the operation of conditions. I do not think it is any one person or group of people that have done it. I think it is a matter of conditions.

Senator ANDERSON. I remember a professor of sociology far enough back when I was trying to study it who when asked the cause of something, would trace it back to uncaused cause, the cause that did not have any cause. But this interest rise is not something that has no cause to it.

Secretary HUMPHREY. This has a definite cause.

Senator ANDERSON. Yes.

Secretary HUMPHREY. The reason for the rise in interest rates is that there is more demand for money than there has been a supply of money to satisfy the demand.

Senator ANDERSON. Well, now——

Secretary HUMPHREY. More people want to spend more than they have, and they seek to borrow it from others.

Senator ANDERSON. Has the Federal Reserve by raising its rediscount rate been at all responsible?

Secretary HUMPHREY. I think they have contributed in this way. As we said the other day: the Federal Reserve does not fix interest rates but by influencing the expansion of credit or trying to limit the expansion of credit, it automatically works back into interest. They could not do it all alone, because just affecting the supply would not make the change in interest rates. You also have to consider the demand. The demand comes from the public, the public generally, all over, and, there, a very widespread demand has been in existence, and that is one of the problems of prosperity. It is one of the problems of confidence, confidence in the Government and confidence in the country.

And as that confidence grows and becomes more widespread, more people want to spent more money, and wanting to spend more than they have, they want to borrow more. And then, if the Federal Reserve somewhat limits the amount of available supply, you immediately get a lot of bids for it and the cost rises.

Senator ANDERSON. Now, within the last year, from April 1956 to April 1957, there has been an increase in adjusted demand deposits in commercial banks of about a billion dollars, or roughly 1 percent, as compared to a rise in the gross national product of 6 percent. Would you not agree that this very small increase in the supply of money is the result of Federal Reserve policy.

Secretary HUMPHREY. I think probably it certainly is contributed to by Reserve policy.

Senator ANDERSON. Therefore if the supply of money did not grow as fast as the advance of the gross national product, the Federal Reserve has had something to do with it.

Secretary HUMPHREY. I did not mean to say for a minute they had not something to do with it. They have had something to do with it. To the extent they have limited the supply, they have very definitely had an effect.

Senator ANDERSON. I am happy to see the senior Senator from Oklahoma come in, because I wanted to quote him. In reply to Senator Kerr, you disclaimed any responsibility on the part of the Treasury for higher rates.

Is it not true in 1953 when you increased the rate of interest on your bonds to 3¼ percent, which was a rate considerably above the going rate, that this had an effect on the going rate of interest?

Secretary HUMPHREY. Yes, and I do not think I ought to say the Treasury has no effect upon interest, because it has. The Treasury as a borrower, the Treasury as a seeker of credit, and a seeker of loans, adds to the aggregate of the demand.

Senator ANDERSON. It would seem perfectly obvious if the Treasury issues one-third of all securities, and is accountable for one- third of the country's debt, that it is bound to have an influence on the market.

Secretary HUMPHREY. It does have.

What I meant, and I do not recall the exact sentence you referred to, but what I meant was this: That the Treasury tries very hard not to lead the market. The Treasury tries not to make the market. The Treasury tries to follow the market.

Senator ANDERSON. You understand, Mr. Secretary, if I misquote Senator Kerr it is inadvertent on my part. We are both trying to get the result from it, and I am not sure I quoted him with absolute accuracy but I did the best I could.

Now, in your statement you referred to the fact that the rate of interest had risen about four-tenths of 1 percent over a period of 4 years on these Treasury issues.

Is that the significant factor? Is the significant fact the one that the increased cost on the Treasury, once all of the securities have to be refunded at going rates, is going to be tremendously more?

Secretary HUMPHREY. No; I think the significant fact is to watch the trend as it develops—because what rates the total refunding will be at, nobody nows. It may be at one rate and it may be at another.

I think all you can do, with any accuracy at all, is to go along as you are, and you can estimate a trend. But I think that everybody will agree that nobody can guess what the interest rates will be before all of the refunding is accomplished. That is many, many years.

Senator ANDERSON. I am only thinking, Mr. Secretary, that I try to run a little insurance company when I have time and, if I see a curve that indicates the frequency of accidents is going up and the cost of the claims are steadily rising, I conclude I may be in for some trouble.

Secretary HUMPHREY. That is right, and I think the same thing would be true there. But you do not project that curve on for 50 years and then say that is what we have got to get ready for.

Senator ANDERSON. No, but I look far beyond this current year; if I am going to stay in business, I have to.

Secretary HUMPHREY. I think that is right.

Senator ANDERSON. The 91-day Treasury bill market in 1954 was 0.94.

Secretary HUMPHREY. That is right.

Senator ANDERSON. 1955, 178. 1956, 2.62.

Secretary HUMPHREY. That is right.

Senator ANDERSON. A week ago, it was 3.48, and I believe Monday the average was about 3.15; it was down some.

Secretary HUMPHREY. Something like that.

Senator ANDERSON. This, of course, is the low season for demand, after the June 15 taxpayments.

Secretary HUMPHREY. That is right.

Senator ANDERSON. But the problem is: Where is it going when the demand for lots of extra money comes in, and do you not anticipate that rate is going to be quite high?

Secretary HUMPHREY. Well, your trend is up. You have a perfectly good reason to project that trend forward to some extent. I do not know. As I said to Senator Kerr in talking about this, I do not know just how long this total pressure is going to continue.

I think you would be very foolish to say, or anyone would be very foolish to say, that you have definite evidence of a turn or a change. On the other hand, as I said to Senator Kerr, there are some indications that might lead you to believe that the change is not too far away.

Senator ANDERSON. Well, we are both guessing as to what lies ahead.

Secretary HUMPHREY. That is right.

Senator ANDERSON. But it does seem you are not going to see any low-priced finances as long as a man can take a 90-day bill and get 3¼ percent on it.

Secretary HUMPHREY. I think you are not going to see it as low as it was at some times in the past.

Senator ANDERSON. Now, the rise in the rate of interest is supposed to cut investment, is it not, Mr. Secretary?

Secretary HUMPHREY. Cut investment?

Senator ANDERSON. Yes.

Secretary HUMPHREY. I would not think so. I think it would stimulate it.

Senator ANDERSON. Why would you get a rise in interest rates if it was not designed to sort of slow down and halt inflation?

Secretary HUMPHREY. It is to slow down activity. It stimulates savings.

Senator ANDERSON. But it is not supposed to cut investment?

Secretary HUMPHREY. Well, over a period; yes. Over a longer period, it will.

Senator ANDERSON. Now, investment rose $16.6 billion from 1952 to 1956——

Secretary HUMPHREY. That is right.

Senator ANDERSON. Or one-third.

Secretary HUMPHREY. That is right.

Senator ANDERSON. So that the rise in interest rates did not slow down investment, did it?

Secretary HUMPHREY. Well, there is always a lag in all of these things, you see. You picked out a period of growing confidence, a growing feeling of security, and a growing feeling of belief that we are going to have a sounder financial situation than we have had, that conditions are going to be more favorable. We have had a lessening of war fears during the period, and I think that the whole thing—these last 4 years have all been a period of growing feeling of confidence and expansion, and that, in itself, has brought about a demand for more money. And also, if there had been an unlimited supply of money, why, that confidence would have generated an even greater expenditure.

Senator ANDERSON. On new plant and equipment, the rise was about $8.6 billion, or more than a third, in those 4 years.

Secretary HUMPHREY. Yes.

Senator ANDERSON. And from the first quarter of 1956 to the first quarter of 1957, the rise was at the rate of about 13 percent. But residential construction is down 7 percent in the 4-year period and 18 percent from the peak. Would that indicate that the money has been pouring into plants and equipment and away from housing?

Secretary HUMPHREY. I think that is right. I think that is exactly what has happened.

Senator ANDERSON. The National City Bank has a publication which I read, which comes to me from another source out in my country, the First National City Bank monthly letter for June, and I notice on page 63—

tightness in the supply of money and credit and the rise in interest rates hit the home-building industry harder than most other lines.

Secretary HUMPHREY. I think that is true.

Senator ANDERSON. You would agree, then?

Secretary HUMPHREY. I think that is so. It is operative there more rapidly because home building does not take as much preliminary work, it does not take as long in planning, and does not take as long in development as building a plant or a factory. In other words, the commitment in plant expansion has to be done over a longer period than it does in home expansion.

Senator ANDERSON. Now, in the discussion that took place with Senator Smathers and Senator Long, I believe you took the position that reduced housing is anti-inflationary and how that would check in with the fact that higher prices are due to shortages; if we reduce our housing, do we not tend to develop a shortage and thereby increase the cost of living, and does it not become inflationary?

Secretary HUMPHREY. Well, Senator, these things, so many of these things work both ways. If the housing were to continue on to new peaks all the time, after you reach a very full use of men and materials, and then you crowd on for even more, why, your pressure is much greater upon your prices. Now, to the extent that that is slowed down, there are not as many goods available as there otherwise would be, and to that extent it may seem inflationary. But, as I have said right along, I think that the deflationary aspects of it are much stronger than the inflationary aspects.

Senator ANDERSON. If you had succeeded in cutting investments, would it have been a successful policy?

Secretary HUMPHREY. Well, I think it may be successful if it begins to level off now in some of these lines that have been going ahead so rapidly, particularly heavy-industry expansion. If that begins to level off, I think this policy will have proved its worth and will be successful. And I think that then you will see that prices all along the line will begin to stabilize more.

Senator ANDERSON. But not if it results in scarcities, would it?

Secretary HUMPHREY. Not if it results in scarcities. But I just cannot picture its resulting in scarcities.

Senator ANDERSON. Mr. Secretary, I want to quote from an article written by Mr. W. L. Smith, an economist, that appeared in the American Economic Review, 1956, page 605, and I am going to give you a copy of it because I have been on the other side of the table as a witness and it is awfully hard to follow the man who is asking questions sometimes. I want to read it and get some of your comments. He says:

> Of course, there can be little doubt that a restrictive monetary policy, applied with sufficient vigor, can exert a potent restraint on aggregate expenditures. If the brakes are applied violently, however, serious disturbances in the market for long-term Government and corporate securities are likely to result. This happened, for example, in May and June of 1953 without having a great observable effect on expenditures.

I am going to stop there and say, do you agree that a disturbance in the market of long-term Government and corporate securities has resulted?

Secretary HUMPHREY. Has resulted from what?

Senator ANDERSON. From applying the brakes.

Secretary HUMPHREY. From restrictive monetary policies?

Senator ANDERSON. Yes.

Secretary HUMPHREY. I think there has been a marked effect in the securities markets; yes.

Senator ANDERSON. Then, he says:

> There appears to be a legitimate basis for the fear that if powerful monetary restraints are applied rapidly enough to check increasing expenditures within a short period of time they may be so disrupting to the capital markets as to cause a severe collapse of expectations and precipitate a decline in economic activity.

Do you think we have reached a point where that might result?

Secretary HUMPHREY. I do not think so. But I go along entirely with the thought here which gets right back to my old simile of driving a truck down the icy hill. You have got to apply that brake and ease it and apply it and ease it, and if you overdo it, it is disastrous; and if you underdo it, it is disastrous, because you will not stop by the time you get there.

Senator ANDERSON. Mr. Secretary, I though you would agree with the sentiment in this, because the professor is at Ohio State University and I assume that is——

Secretary HUMPHREY. I knew it must be some very intelligent fellow. [Laughter.]

Senator ANDERSON. Then, he says:

> If they are applied gently and gradually, on the other hand, they will effectively check increasing expenditures only after the liquidity of banks and other economic units has been gradually worn down. Before this point is reached a significant rise in prices may already have occurred.

Would you agree there had been a significant rise in prices?

Secretary HUMPHREY. Well, I think the rise in prices in recent months is significant; yes. And I also think that the liquidity of the banks is not as great as it was.

Senator ANDERSON. Can you quote me any period in our American economic history where we had over an extended period of time such large increases in the rate of interest that we have avoided a substantial decline?

Secretary HUMPHREY. I do not think I can, Senator, right off the bat. I might try to study it out and see. I do not have anything of that kind in mind.

I think, however, just generally, that as I said the other day, the only way we can avoid substantial difficulties in this country from time to time, when you get an overabundance of enthusiasm, is to try to control it on the upside as well as on the downside. If you let the up side run wild, I believe you are not going to be able to prevent the downside from being more severe than you would hope it would be.

Senator ANDERSON. Well, I certainly am no economist, as you well recognize.

Secretary HUMPHREY. Neither am I, so we are in good company.

Senator ANDERSON. And I am no predicter of what might happen. At one time, trying to find out where agricultural prices might be going after the war, I made some charts which I thought were very interesting. They were to me, at least. But certainly this building up of interest rates has, I thought, generally preceded something that I termed a decline. I do not care to use the term depreciation, or things of that nature. But in 1873, we had very high interest rates and some troubles. We built up to a peak in 1893, and then we had some railroad bonds that reached 4.1 percent, but the commercial rate got up to 7.67. Then it dropped down right after we had some difficulties.

In 1907, the interest rates on railroads got high again, very much higher than usual, and the commercial rate got to 6.66 and then we had real trouble.

In 1920, I get to ground that I am familiar with, and there the interest rates on railrods got up to 5½ percent on ordinary good bonds, and 7½ percent in commercial paper. It does not take very much straining for me to remember that every bank in my home community but one closed, and they kept that one open almost by force of arms.

The customary practice for farmers in our part of the world at that time was when they threshed the grain on your farm, they deposited checks in their bank. And we did not know until it was all over with how many banks we had deposits in until we were advised that they had failed. We got notice from the receivers saying "You have got so much on deposit in this closed bank." And therefore I remember that one period very well. We had very high interest rates and then had this very great difficulty.

I am also old enough to remember we had some difficulties in 1929 when railroad bonds got up to 4.6 percent, with a commercial rate of 5.85, and we had a lot of trouble. Then interest rates dropped down afterward. And when I hear that a utility out in the West that got its money for about 3.4 percent 2 years ago had to pay 6.1 percent the other day, I asked myself if this pattern is not conclusive or if you know of any period in American economic history when we have had that great rise in interest rates without paying off in declines or depreciations or financial difficulties.

Secretary HUMPHREY. Well——

Senator ANDERSON. If you can find one, I wish you would supply it for the record.

(The information requested is as follows:)

INTEREST RATES AND ECONOMIC DECLINE

The great demand for borrowed funds which in the past has preceded important economic declines has typically been reflected in a marked rise in interest rates. In each of the five instances cited by Senator Anderson, interest rates were carried far above the levels now prevailing, as is indicated by the following comparison of short-term rates:

Year and average rate in highest month—4- to 6-month commercial paper

1873	17.00
1893	10.14
1907	7.33
1920	8.13
1929	6.25
1957 (July 10)	3.88

There have been at least two notable instances since the late 1890's when a rise in interest rates to peak rates considerably above the present levels have not been followed by a significant decline in business.

In 1899, for example, the 4- to 6-month rate reached a peak of 7.38 percent in December, but manufacturing production in 1900 averaged slightly higher than the 1899 level, and in 1901 it rose to a new record. (Production data are based on the National Bureau of Economic Research index of physical output for manufacturing industries.)

In 1902, the 4- to 6-month rate reached a peak of 6.98 percent in October, the highest since 1899. Manufacturing production averaged somewhat higher in the following year, and showed no more than a moderate temporary recession in 1904.

In 1899, for example, the 4- to 6-month rate reached a peak of 7.39 percent in September 1914. This was followed by a substantial rise in manufacturing production in the following year, but it was aided in part by war orders.

Secretary HUMPHREY. I will, and I am perfectly ready to admit that it can be overdone, that you can overdo it, that if you go back—you and I remember from our personal experience about the same periods. If you go back a little bit beyond that, you come to those periods before the time of the Federal Reserve Board and where just the natural tightness of the money got so great that it forced a collapse.

Now, I do not know, I do not think, that anybody or any group of people are wise enough or all-seeing enough to know how to completely manage an economy of 165 or 175 millions of people. I think the forces at work in an economy of that size are so sizable and the ramifications are so great that there is no group of people who are going to be able to encompass all of the difficulties, all of the problems, that they are going to be so wise that they will know exactly what to do to handle the affairs of the whole, of all of these people.

So that I do not believe that this Government is going to just be able to hold a hand on the lever and just manage this thing right to a gnat's eyebrow all the time. I do not think that can be done. I think you are going to have movements back and forth. You are going to have enthusiasms that grow and enthusiasms that wane. But I do think that when enthusiasms are great, and enthusiasms grow, if they can be somewhat restrained, that they will not drop to such depths when they begin to lose their enthusiasm or when their fears arise as they will be if those enthusiasms have gone way too far.

Now, about all I see that the Federal Reserve Board or the Government, in its policies, or anyone else can do, is to try to—Bill Martin has an expression which I think is a very illustrative one: It is, "Lean against the wind." And I think that if in our policies we can lean against the wind when necessary, and can be wise enough not to lean against the wind when conditions change, we will help stabilize the economy. However, we must be courageous enough to lean against it when people do not like it and be wise enough to reverse it, when necessary, before it gets too late. I think that that is the best chance we have to try to level out these ways of enthusiasm and fears that affect millions of people.

Senator ANDERSON. I think the only difference between Bill Martin and me is that I leaned against the wind in 1929 and it took me a long time to get back on my feet.

Secretary HUMPHREY. Well, you leaned too long.

Senator ANDERSON. Well, I probably did, but I took the finest advice I could take, invested in nothing that was dangerous and it all went away just as fast as the investments of people who were plain foolish.

Secretary HUMPHREY. That is correct, and that is why there is nobody so wise who can guess this thing correctly.

Senator ANDERSON. One of the best men I know had to pay a double assessment on his bank stock in the early twenties, and when he went into his safe deposit box to get his bonds to pay the assessment, he found a note he had written to his wife—they both happen to be still alive—and he said "Nellie, never sell your stock in such and such a bank. It will take care of you in your old age."

Secretary HUMPHREY. That is right. It busted a lot of people.

Senator ANDERSON. He had to sell all of the bonds they had. I have been through 1 or 2 little fires, and I am disturbed when I see interest rates going up as rapidly as they now are and have seen what has happened every time they have done so, so far as I know.

Secretary HUMPHREY. Well, you and I have been through the same ones.

Senator ANDERSON. You came out of it much better than I did.

Secretary HUMPHREY. We both have had the same experience. [Laughter.]

Senator ANDERSON. Now, you say that the former Secretary of the Treasury, who, as you say, passed on to you a mess but you recognize that messes can also be passed on to others, gave you a warning on this. I just want to call your attention to it. It is on page 111 of the 82d Congress, 2d session, the hearing on monetary policy, volume I, page 111. And just so that you will have it in front of you, I am going to hand that to you.

This copy I want back, because the copies are a little hard to find, I have discovered.

But Secretary Snyder says:

> The impossibility under present conditions of measuring in advance the effect of a general restrictive credit policy means that sudden and severe declines in the market prices of Government securities may be produced by what was intended to be a moderate degree of credit restriction.

Has there not been a severe decline in the market price of Government securities?

Secretary HUMPHREY. Well, I think you would say it was quite a decline.

Senator ANDERSON. And he said, "This provides a strong reason for caution."

Secretary HUMPHREY. I certainly agree with that.

Senator ANDERSON. Well, that is good. I am glad that one word that we got out of the previous administration was a good word.

Then, I quote from him:

> Sudden and severe declines in the market prices of Government securities might be shocking to public confidence. They might be embarrassing to many financial institutions owning large portfolios of Government and other high-grade securities, particularly those with small amounts of stockholders' capital relative to total assets.

Has that been somewhat true?

Secretary HUMPHREY. I think that at any time when your equity in your business is relatively small, you get nervous quicker than you do when you are in a little better balance between equity and debt.

Senator ANDERSON. Well, it is not just——

Secretary HUMPHREY. That is true whether you are an individual or a company.

Senator ANDERSON. When you are extremely small either, because on the 6th day of June there was a call, that came later than that, but there was a call for the condition of the banks in this country effective June 6.

I file away all the statements from banks in which I have a very slight interest, and I notice that this call came out for the condition on June 6. That is the first time in 40 years, Mr. Secretary, that there has been a call on a date in June, other than—I will take that back. That is the first time in 40 years that there has not been a call as of June 30. John Skelton Williams made one on June 20 in 1917, when we were just getting into war. Do you know any reason why this call came on June 6?

Secretary HUMPHREY. I do not have any reason at all. I do not know. However, Ray Gidney would be the one who would do it and I will ask him.

Senator ANDERSON. Well, I just wondered if it had any relationship to this passage from Secretary Snyder I have just been reading, that this decline in the market price of Government securities might be embarrassing to many financial institutions owning large portfolios of Government securities.

Secretary HUMPHREY. No; you mean you would make a call on the 6th instead of the 30th?

Senator ANDERSON. Yes.

Secretary HUMPHREY. No; there is no such reason; I am sure of that. I have not asked Mr. Gidney.

Senator ANDERSON. I am sure there is no connection between these two items, but I read Business Week and other publications—I am not trying to advertise one publication, but I read as many as I can—and I have found on page 96 of Business Week for July 6 a little item that says:

> $80 million of "paper losses" were recently discernible in the Government bond holdings of New York's giant First National City Bank. But President Howard C. Shepherd isn't worried—because most holdings mature in 5 years or less—

But in the next column there is an advertisement by a whole group of bond houses: The First Boston Corp., Morgan Stanley & Co., Harriman Ripley & Co., Kuhn, Loeb, and so forth, offering 2 million shares of First National City Bank stock at $60 a share. That is about equivalent to taking care of the losses in Government securities. And I wondered if you felt there was any connection between this problem we have had with Government securities.

Secretary HUMPHREY. I would be amazed if there were. Of course, I do not know what they are doing, but I would be amazed if there were.

Senator ANDERSON. Well, the American Banker had some items about it. "Surprise call of June 6 issued by three agencies." And they had an editorial on page 4 of the issue of July 2, "Call for statements as of June 6. What is behind it?" And there is a good deal of speculation. Was this call made without consultation of the Treasury, with the Treasury?

Secretary HUMPHREY. Oh, yes. He would not, Ray Gidney would not ask me about making a call. That is standard——

Senator ANDERSON. The Treasury is a pretty heavy depositor, a pretty heavy borrower, a pretty heavy everything.

Secretary HUMPHREY. But that is standard practice.

Senator ANDERSON. I tried to say it is not standard practice, it is the first time in 40 years.

Secretary HUMPHREY. I do not know why he did it a few days different, and I will ask him and find out.

If, Senator, I feel pretty sure, there was some very express reason for the change, he certainly would have asked me something about it.

Senator ANDERSON. Well, there might have been large withdrawals for income-tax purposes coming on the 15th, of course.

Secretary HUMPHREY. Of course there are large withdrawals on June 15.

Senator ANDERSON. The American Banker speculates about the window dressing practices.

Secretary HUMPHREY. There are, of course, large withdrawals on the 15th, and there is a shift, a big shift of funds on June 15.

Senator ANDERSON. I do not know whether banks are bothered by this at all. I only say to you that I have a very, very small insurance company that I try to look after, and we do not have a single piece of security in our portfolio that is below what we paid for it, except Government bonds, and there are a great many people who are considerably confused by the Government bond market decline.

Something was said here awhile ago about restoring faith and various things. It is going to take a long time to restore faith in these things we call Government bonds we have always been recommending to everybody for a long, long time.

Secretary HUMPHREY. Well, Government bonds have been at these prices before.

Senator ANDERSON. But not to the pleasure of the investor.

Secretary HUMPHREY. No; it never is to the pleasure of any investor when a security goes down. But if you have securities, you know that they will go up and they will go down. They go both ways.

Senator ANDERSON. But these are not growth securities. They are not things that you expect to have increase. If I go buy a growth stock, I expect to gamble, but when I say to my wife, "You put your money in Government bonds, you never have to worry," and then she begins to ask me questions, it not only confuses me but it confuses her as to the wisdom her husband has when he gives her financial advice and she has reminded me of that in the last few weeks.

Secretary HUMPHREY. I do not believe I would change my advice to anyone as to the worth of the security of a Government bond.

Senator ANDERSON. Well, let us go on to a comment that was made by Mr. Elliott Bell, the editor of Business Week, as to whether there is any danger in this policy or other measures. He was asked by Wright Patman at a hearing the Congress was having on monetary policy—I think I can find you his reply, if you want it.

It is Monetary Policy, 1955–56, hearings in December of 1956. His letter is there at page 40, and I am going to read a couple of paragraphs out of it. It is a letter to Mr. Patman in small type:

> Question. First, assuming that, at any particular time, economic forces are recognized and accepted as predominantly inflationary, warranting thereby some measures of restraint on the supply of credit, what type of borrowers should get the available credit and, under our present system, who actually does get it? In other words, what form of machinery should we look for rationing the curtailed supply?

Mr. Bell answered it, but would you want to answer that question?

Secretary HUMPHREY. I do not know what Mr. Bell said. I have not——

Senator ANDERSON. That would not affect your answer.

Secretary HUMPHREY. No; I do not think it would.

Senator ANDERSON. I will be glad to read Mr. Bell's answer. I thought it was a very good question.

His answer was:

> Except in time of war or extreme national emergency, I would not favor any overall system of rationing credit.

Would you go that far with him?

Secretary HUMPHREY. I think that you have got a serious problem and I do not know just what to do about it. I do not believe in—I have never seen an arbitrary rationing system that I thought would work practically. Yet I do think that just to let nature take its course—which is what we do, which we have done, and it is the only thing up to date that I know of that we can do, that works at all—it does create some hardships, some greater hardships in some places than in others.

Now, how you could alleviate to some degree those special hardships, I do not know. We have given a lot of thought to it and I have not been able to think of anything that I think would work in practice.

You would like to have the hardship as evenly distributed as possible over everybody, and only by having it, having some hardship, will it work at all, because unless there is a hardship it means that everybody has all they want, and then you really have not restricted it. The restriction is entirely ineffective. So, if a restriction is to be effective at all, it must be that somebody does not get all he wants.

Now, what you want to do is to have that somebody just as wide a group of somebodies as you can possibly have and not have it fall harder on one than another, and yet I frankly do not know of any way to accomplish that purpose.

I think to try to even it out, there are some things we can do. One of the objectives of the small-business loans is to try to help in that direction. I think there are things of that sort that could well be given consideration and thought, to try to ease off the undue hardships, not to relieve the hardship, because you have got to have hardship, but to try to even the hardship out as nearly as fairly as possible.

Senator ANDERSON. Now, Mr. Bell said, if I may continue with his letter:

> My objection to the present tight-money policy—

of course, he is referring to the one in 1953—

> My objection to the present tight-money policy is that it does in effect provide a discriminatory rationing of credit by making credit difficult to obtain in certain areas such as housing, municipal financing, and small business, while it places very little restraint upon large corporations.

Would you agree with that statement?

Secretary HUMPHREY. I think, as I said before, Senator, I think that it does take effect and it has taken effect more in building, small building, and residential building, than it has in large capital construction, because of the fact that the former is done over a shorter period, planned over a shorter period, and the financing is provided for over a shorter period. So that we have had quite a demonstration, this experience that housing has been more affected than capital expenditure, the figures demonstrate that.

I think, however, that that is a matter of timing, and a matter of lag, rather than a matter of substance. I think you will get it along the line, the rest of the line, and I think it is on the way now.

Senator ANDERSON. Would you agree with the second part of his theory, that the large corporations have very little restraint placed upon them?

Secretary HUMPHREY. No, I would not agree with that. I think that it is just as—I do not know just what is small and what is large.

But in my experience, I know your worries grow with what you have to worry about.

Senator ANDERSON. But not in financing at a time like this.

Secretary HUMPHREY. I am not sure.

Senator ANDERSON. Well, I think the record of offerings over the last year will show that the problems have been much easier for large corporations.

Secretary HUMPHREY. As a rule, a corporation gets large because it is better managed than one that continually stays small.

If you and I start out together, both small, as most of these things have done, and yours grows and mine stays small——

Senator ANDERSON. We better reverse the assumption.

Secretary HUMPHREY. Over a period of 20 years, you will have managed your business better than I did mine. And it is largely due to your better management that you are larger than I am 20 years hence. And you will have provided in four financing more elasticity than I have in mine, and to that extent this will not, when credit does tighten, this will not be as hard on you as it is on me. I do not think you can get away——

Senator ANDERSON. I am not going to take time to do it, but I think you can introduce a lot of figures to indicate that the relatively large corporations have had a much easier time financing than the smaller groups and individuals.

Secretary HUMPHREY. I think that is true in many cases, because I think the larger corporations have been better managed, they have had more elasticity, they have been better prepared than a good many of the smaller ones.

Senator ANDERSON. Now, to read on, he said—I am not going to stop on this one:

> Credit restraint, as I see it, is justified merely as a means to an end. That end is the prevention of a runaway boom in the economy that could lead to a subsequent collapse. Accordingly, my approach to the problem would be as follows: First, when there is a predominantly inflationary condition, overall measures of restraint should be applied but they should include not only quantitative credit restriction but also appropriate fiscal measures, including refunding of the debt from short-term to long-term obligations, restraint of Government expenditures and tax measures.

The Chairman is very greatly interested in restraint of Government expenditures and tax measures, and we all are. But what about this problem of refunding of the debt from short-term to long-term obligations? Has the trend not been just the reverse?

Secretary HUMPHREY. That is good work if you can get it.

Senator ANDERSON. Well, I say, has not the absolute reverse been the situation?

Secretary HUMPHREY. Under the conditions that he outlines here, that he suggests, you just cannot do it. You cannot sell just what you want to sell. You have to sell what somebody is going to buy. And when you get into conditions of this kind, you have to sell something that somebody will buy, and there is nobody who wants to buy that particular kind of goods at that particular time.

Now, it may be that—it may be, looking back on it, Senator, that we should have done what you just criticized a minute ago, and done it in spite of criticism, because many times the right thing in the end is the one that is most criticized at the moment.

Maybe in spite of the criticism we should have led the market 3 years ago a little more than we did. Maybe we should have repeatedly done it. By putting out long-term issues at the higher market rates, we could have sold them, and maybe we should have done that and moved this thing faster in that way, and sold more of those long-term securities.

We did not think it was wise at the time. I am not sure now that we were not right. But there was that possibility that could have been indulged in.

We did not do it, and as we moved into this greater period in the swing here, the desire to buy that sort of security declined until today I doubt very much if you could sell long-term 50-year bonds in any substantial amount at most any reasonable price. And I think it would be very foolish indeed to try.

Like I said to Senator Kerr, it is like trying to sell fur-lined underwear in July. It is not the right time to do it.

Senator ANDERSON. Then, his concluding sentence in that first paragraph is:

This overall restraint should be supplemented by selective credit controls directed toward particular areas of the economy which appear to be advancing at too rapid a pace.

Have we tried any selective controls?

Secretary HUMPHREY. No, and I am opposed to that. I just do not believe that—I said a minute ago, I just do not believe there is any group of men who are so smart that they can tell everybody in America what to do and be wiser than the great bulk of our people who are actuated by an incentive free choice system.

I believe with all my heart in an incentive free choice system. I believe it is what has made this country. I believe it is what gives the initiative, the push, the drive, the daring. It is daring that people have to have to go on and expand in this country and make it what this country is.

I do not believe there are bureaucrats or business people or anybody else who can come down here and get super-knowledge by sitting in Washington. They have to get out and run their own business.

So, I just do not think you can run this economy entirely from Washington. I think Washington has a place. I think it can do some things, and try hard to do them properly, but I do not think you can do the whole job here, and I would much rather trust the American people to limit within some reason their borrowings and decide how much is proper expansion and how much is not, than I would have to have somebody here in Washington sit in and put some arbitrary controls on what you can do.

Senator ANDERSON. I would only remind you that every time we have landed in trouble we have landed in trouble exactly doing what you are now talking about, letting people go along.

Secretary HUMPHREY. I think that is wrong.

Senator ANDERSON. And sometime we ought to avoid disaster, should we not?

Secretary HUMPHREY. We ought to do everything we can, and that is what we are doing now. That is why we have this policy; we are trying our best to avoid greater difficulties, to minimize difficulties.

I do not know that some difficulties can be avoided over a long period of time, but I think you can, by the proper use of judgment and a sufficient amount of flexibility and watching what you are doing and not getting arbitrary and rigid, but responding to conditions, I believe that you can exercise some aid to lessen the swings either way.

Senator ANDERSON. Merely because of the suggestion he makes, I am going to take Mr. Bell's second question. He said—the question was:

> What policies or institutional setups should we have, if any, to insure that certain social demands for schools, housing, highways, and so forth, do not get lost in the scramble for the relatively scarce credit resources?

His answer was:

> This is the type of question that needs to be examined by a national monetary commission such as I have suggested. It is clear to me that by congressional action in the past we have accepted as national policy the proposition that certain types of economic activity, such as housing, represent a social good that entitles them to special consideration not accorded to other types of economic activity. It is a fact, however, that many conservative-minded people do not recognize that such national policies exist and see no reason why housing, for example, should get any special consideration in a period of credit stringency. Such people can see nothing wrong in the fact that a veteran may not at the present time be able to get a GI mortgage to finance the purchase of a $12,000 home, while a big corporation has no trouble in borrowing millions of dollars to set up a new finance company. Before we can have appropriate policies or national setups to protect these social demands, we need, I think, a clear statement of what our national policies are.

His main suggestion is there ought to be some sort of a national monetary commission. Do you believe that anything of that nature would be of any use to us?

Secretary HUMPHREY. Well, I do not think I could categorically say no, but I just do not believe it does much good to add commission on commission on commission. You already have down here now advising on economic policy and trying to handle economic policy, you already have, I do not know how many sets of people, beginning with your good selves.

Senator ANDERSON. I am going to go——

Secretary HUMPHREY. And going on to the Economic Advisers and to the Federal Reserve Board, and Treasury, and I do not know how many places.

Senator ANDERSON. I am going on to the question of intermediaries in a little while, but in the whole field of intermediaries there is absolutely no correlation between any policy you might lay down or the Federal Reserve Board might adopt. The intermediaries go right ahead and act contrary to the express policy of the Federal Government.

Therefore, there might be some need for a correlating agency, it would seem to me.

Secretary HUMPHREY. Well, I do not know——

Senator ANDERSON. We will come to that when we get to intermediaries.

Secretary HUMPHREY. Yes.

Senator ANDERSON. I have another publication which Johnston, Lemon & Co. send me as one of their occasional customers. It is called the Fortnightly Review. It is issued by a great many publications, but this one is dated New York, June 25. It was prepared by Carl M. Loeb, whom you and I would recognize as a very competent person.

Secretary HUMPHREY. That is right.

Senator ANDERSON. There is a paragraph that is headed, "Fancy Yields," and I want to break it in two parts and read to you the first two sentences first. It says:

> Tight money made for a bond market rather close to a state of demoralization. The Treasury had to pay 3.40 percent on its weekly sale of bills, the highest since 1933, and 0.40 percent above the prevailing discount rate of the Federal Reserve Board.

My question is: If the Federal Reserve Board is really in control of the situation and is imposing a dear money policy, why does it allow the 3 percent discount rate to lead while the market rate has soared way above this?

Secretary HUMPHREY. Well, as I said to Senator Malone, I think the technicalities of operation of the Federal Reserve Board are much better discussed by Mr. Martin than by me. That is strictly within his province, and it is part of his operation.

I do not——

Senator ANDERSON. But in your prepared statement, did you not have quite a little to say about the Federal Reserve System, and things of that nature?

Secretary HUMPHREY. In my prepared statement, I said that they operate independently from the Treasury.

Senator ANDERSON. Why are they not a fit subject for discussion now?

Secretary HUMPHREY. It is a subject of discussion. All I am saying is that I think to that question, you would get a better answer from him than from me.

Senator ANDERSON. Ordinarily, the discount rate is above the Government bill rate, is it not?

Secretary HUMPHREY. It has been.

Senator ANDERSON. Ordinarily——

Secretary HUMPHREY. It has been ordinarily, for the last—for some time.

Senator ANDERSON. Ordinarily it is, yes.

Secretary HUMPHREY. Yes.

Senator ANDERSON. And now we have a situation where the discount rate is below the 90-day bill rate.

Secretary HUMPHREY. That is right.

Senator ANDERSON. Is that not a phenomenon in fiscal agent matters in this country?

Secretary HUMPHREY. I do not think necessarily so.

Senator ANDERSON. Is it not of some interest to the Treasury in what it may do to Treasury rates?

Secretary HUMPHREY. It is of a lot of interest, and——

Senator ANDERSON. Does it not complicate your policy or your desire to have long-term financing?

Secretary HUMPHREY. No, I do not think so.

Senator ANDERSON. You do not?

Secretary HUMPHREY. No, I do not think so; not at all.

In fact, I think that as far as the Treasury's financing is concerned we are better off the way we are than we would be with an increase in the rate.

Senator ANDERSON. Then I will read on:

Some borrowers delayed projected security offerings because of mounting interest costs and sticky market acceptance. Southern Bell Telephone, an American Telephone subsidiary, had to pay 4.9 percent on a new debenture issue rated AAA, and Michigan Consolidated Gas, which in November 1955 had been able to raise money at 3.4 percent had to shell out 6.1 percent on an offering of $30 million of first mortgage bonds rated A.

And then there is this sentence:

As the Treasury will be in the market fairly constantly this summer, both for new cash and refinancing, the worst may be yet to come.

Do you think the worst is yet to come?

Secretary HUMPHREY. If by "worst" you mean somewhat higher rates than we have seen in the past, I think that may be. I would not characterize it as the "worst." I think the very things you are reading are the best illustration I know of to cite why your statement of a few minutes ago or your thought of a few minutes ago was not correct.

This is indicating that big companies, as well as little companies are affected, that this policy is restricting big companies as well as little companies. It is making it more difficult, and as things get sticky, some of them do not sell at all; and as the price goes up, others retire.

As that happens, and as some of this industrial construction declines—and it does not have to be a big decline, it can be a relatively small decline—that is going to release people to build houses, it is going to release materials to build houses with, it is going to release labor and materials for other things to go on in an orderly way, without increasing the costs in those other areas.

If, at the same time that all of this high construction is going on, and carpenters are at work in building big capital improvements, the housing business also booms and they try to get the carpenters to leave the big capital improvements and go to build a house, the price of the house as well as the price of the capital improvement are both going to go up.

And when the battle is for materials, in those places the materials will cost more and the net result will be that our prices will just rise up out of sight.

Senator ANDERSON. But we went through the question of shortage of materials. We do not have a shortage of materials, do we?

Secretary HUMPHREY. We are over that now, I believe, and that is one of the reasons why I have said right along, I think this is taking hold. I believe that the policies are beginning to operate.

If, getting back to what you read to me just a minute ago, if this had been slammed on harder, it would have worked quicker, but it might have been much more difficult. Maybe you could not have handled it as well.

You have got to take it easy. You have got to let it move slowly. You have got to have these lags come into the economy. And if the lags do not come a piece at a time, if they all come at once, then you are in a lot of trouble.

If you can have the lags and have them just a piece at a time, you will adjust out of your troubles instead of having to pitch out of your troubles.

Senator ANDERSON. Mr. Secretary, in the last week or 10 days, the bond market has been moving up a little bit. How do you explain that?

Secretary HUMPHREY. I think it is a little easier. It may possibly be another one of those "swallows in the spring"; maybe it is just a little local move. Maybe we have had—as you, yourself, pointed out a minute ago, you have a big demand for money in the early part of June because of the tax, and all of these tax dates involve large transfers of funds around, and it may be just a little reaction from that.

It may be a lag in the float. Every now and then you get a lag in float, and that eases the situation.

On the other hand, it might possibly be of greater importance.

Senator ANDERSON. Well, you know there was some criticism during the Truman administration that it had put some pressure on the Federal Reserve to support the bond market a little bit.

Have you put any pressure on the Federal Reserve?

Secretary HUMPHREY. No, we have not.

Senator ANDERSON. Just 2 or 3 short comments here that are along the same line.

Business Week of May 11, 1957, said:

> Treasury not cooperating with the dear-money policy because cooperation would mean issuing a longtime security at very high rates of interest.

I believe you commented——

Secretary HUMPHREY. I do not know who said that, but I would like to see him sell some. There are a lot of things you can do in an article that you cannot do when you have got to get the money.

Senator ANDERSON. June 8—I am just reading these things because I have been trying to learn from these magazines which obviously should know more about it than I do.

Secretary HUMPHREY. Maybe some of them are just writers, you know.

Senator ANDERSON. Then June 8, it said:

> Sell short-term security at very high rates. This is inflationary. Sell long-term securities at high rates. This is deflationary. What is the Treasury to do? Apparently, this is a mess.

Do you agree there is some difficulty here as to what to do?

Secretary HUMPHREY. No, I do not think there is much difficulty. I think it is pretty clear what you can do and what you cannot. And, as I have said before, I never thought it very profitable to butt your head into a stone wall.

Senator ANDERSON. Would it be better to control credit in areas where it becomes excessive? You have said, I think, you do not like controls. But I am talking about consumer credit and real-estate credit.

Secretary HUMPHREY. It surely would, if you could. How you do it, I do not know. How you can say to a carpenter that, no matter what they offer him, he cannot work on putting window frames in an office building, but he can work on a house at less pay, and have him do it, I do not know.

I do not know how you do these things. You can do it in articles, but when you come to do it in practice, I do not know how you do it.

Senator ANDERSON. Well, did we not loosen up real estate credit a little bit?

Senator HUMPHREY. Yes, that is right.

Senator ANDERSON. Was that not inflationary?

Secretary HUMPHREY. No, I do not think so. At the time it was done, it was, I think, a very proper move.

And, as we said a minute ago, Senator, if there are practical ways, and I am hoping that perhaps in your discussions something will develop, maybe somebody will get some ideas that will prove practical to help to equalize the effect of restraint not to take off the restraint because then it would not work, you see, you must have the restraint and it must be effective but to help to create, to alleviate hardships a little and make it a little bit more fair.

If things can be done about that, I would be strong for them, if they are practical.

Senator ANDERSON. I wanted to ask what the significance was of the rise of the rate of interest. Is not the real significance, or at least the major factor, that the rise in the rate of interest cuts down the supply of money and brings about a redistribution of available supply?

Secretary HUMPHREY. That what?

Senator ANDERSON. Cuts down the supply of money and brings about a redistribution of the available supply of money.

We have touched on that once before as to whether it does, whether these high interest rates do not redistribute credit.

Is that not the chief significance of this higher rate of interest? Does it not redistribute credit?

I can only say that looking at the note case of a bank just a few days ago to see how things were coming, in almost every instance the officer of that bank would say, "Now we are going to cut that off, because we can get better credit than that. We can get somebody else to come in and ask us for that amount of credit."

Secretary HUMPHREY. I think to the extent that those people who have so managed their affairs that they are entitled to more credit will get credit longer than those people who run out of credit.

Now, over a period, anybody can run out of credit, but obviously when you have a restriction of credit, it is like anything else, the fellows who are entitled to it, who have so managed their affairs that they are entitled to it the longest, get it the longest.

Senator ANDERSON. But sometimes you have to start in business.

Secretary HUMPHREY. This does not necessarily have to do with starting and stopping in business. There are some little businesses which are far better heeled than some big ones, and some little ones that are far better managed than some big ones.

Senator ANDERSON. The temptation is, when you have got a chance to get a line of credit from a very large and well-organized concern, to say it is easier to do business with that than to take on a risk that does occur which has some problems in its growth.

Secretary HUMPHREY. I will not agree with that. I think there are many small well-managed businesses that you would take on much quicker than you would some of these doubtful big company credits.

I do not want to mention any names, but I could give you some names.

Senator ANDERSON. I do not, either, but I could tell you that some people who have been applying for credit who have difficulties are small firms.

Secretary HUMPHREY. There are a lot of people who can have difficulty with credit because they reach the limit of what they are entitled to.

Senator ANDERSON. Is it not true that the rise in the rate of interest and the reduced supplies of money, relatively speaking, has resulted in a redistribution of available supplies of credit in favor of the large corporation?

I think we dealt with that a moment ago.

Secretary HUMPHREY. Yes.

Senator ANDERSON. And in State and city governments you do not think it redistributes that way. Municipalities are having a very hard time; that is what I am thinking about. They had a hearing on this, and Arthur Levett, who is comptroller of the State of New York, pointed out that in the same town the average interest rate on school borrowing was 2.76 in June of 1956, and by November of that year it had gone up to 4.078.

And in 5 years the rate of interest on municipal bonds had gone up by 70 percent.

Do you not think that is a redistribution of credit?

Secretary HUMPHREY. Well, as I said a minute ago, I think, as it is restricted, it becomes more selective all the time, as to who is entitled to credit and who is not.

Senator ANDERSON. Mr. Secretary, do you think that Government bonds are being dumped a little bit at the present time?

Secretary HUMPHREY. Well, I do not know. We have watched—there have been a few days when it looked as though maybe the market was a little disorderly, but, by and large, it has been quite an orderly market.

Senator ANDERSON. Let me read you some more from Mr. Smith, who is a good Ohioan.

At page 597 of the American Economic Review, 1956, he says:

> The analysis outlined about seems to be illustrated by the course of events during the period from December 1954 through September 1955 when the Federal Reserve reduced its holdings of Government securities by $1.2 billion, member banks increased their borrowings by $500 million, and other factors outside the control of the monetary authorities combined to increase reserves by about $100 million. The net result was a decline of $600 million in aggregate member bank reserves.
>
> Despite the contraction of member bank reserves, commercial and savings banks expanded their loans by $8.9 billion from the end of December through the end of September. Commercial and savings banks reduced their holdings of Government securities by $7 billion.

Now, the net effect of all those transactions was a decline in the supply of money of about $2.3 billion, and a big share of it was accomplished by the sale of $7 billion of Government bonds by these commercial banks.

Do you not think that does result in complicating your problems?

Secretary HUMPHREY. Well, it certainly complicates our problems, Senator.

I wish heartily that we could alleviate our problems and let the problem fall on everyone else, but that does not work. We are borrowers, too, and when credit is tightened up on borrowers, it tightens up on us.

Senator ANDERSON. That is just what I wanted to hear you talk about, tightening up on credit, because I wanted to read you the next paragraph now. He said:

> Thus the banking system succeeded in expanding its loans by $8.9 billion, a 10.8 percent, in the face of a credit policy which produced a reduction of $600 million in member bank reserves and a reduction of $2.8 billion in the money supply.

So that you did not really tighten up credit, did you?

Secretary HUMPHREY. Oh, yes, just what I said in my paper, my original statement.

This credit has been expanding. There is not less credit. There has been an expanding credit. But it has not expanded as fast as it otherwise would have.

Senator ANDERSON. But I thought you just got through talking about tightening up on credit.

Secretary HUMPHREY. That is right.

Senator ANDERSON. How did you tighten up by expanding it?

Secretary HUMPHREY. Because we did not let it expand as fast as it would have expanded otherwise.

Senator ANDERSON. You reduced the rate of expansion, is that it?

Secretary HUMPHREY. That is right. That is what I said in my statement.

People talk about there not being credit and money. There is more credit and money than there ever was. But it has not expanded—the Federal Reserve has leaned against the wind, and it has not expanded as rapidly as it otherwise would have.

But it is not that the credit has been denied or that it is shut off or that it is reduced. Credit has expanded during this period. But it has not gone wild.

Senator ANDERSON. Well, from the end of 1954, the banks had increased their loans by $25 billion, and disposed net $14 billion of Government securities.

Insurance companies, despite rise of assets from December of 1954 to February of 1957 of $12 billion, disposed of $1.5 billion Government securities.

Secretary HUMPHREY. During that period, and I think they were being commended for it, they were taking on mortgages and helping building, they were making money available for building, and it was a building boom.

Senator ANDERSON. Then has the dear-money policy sort of sacrificed the Government to the expansion of business?

Secretary HUMPHREY. No, I do not think so. No. I think it has operated all around. It has operated on everybody. We are just part of the show.

Senator ANDERSON. With these higher rates of interests, savings declined, may we not conclude that the objective of increasing the rate of interest to get more savings has not been successful?

Secretary HUMPHREY. Savings are at a pretty high rate, as I recall it.

Savings in the——

Have you got the figures on savings here?

You see, savings have been going up pretty steadily here, and they are at a good high point here.

I will just read these. These are personal savings. Suppose I just take them for a few years and read them:

1950, $12.1 billion. Let me just be sure I am getting the years right here.

1950, $12.1 billion. 1951, $18 billion; 1952, $19 billion; 1953, $20 billion; 1954, $18 billion. I am reading the nearest round figure. 1955, $16.6; 1956, $21 billion.

We would like them higher, but they are pretty good.

Senator ANDERSON. Who gains from the higher interest rates?

Secretary HUMPHREY. Well, I had a table showing a large number of people, the distribution of large numbers.

It is difficult to say exactly, but I believe that there are more people, more individuals, who gain than lose.

I think the ones who pay interest are lesser in numbers than those who benefit from interest. But there are millions of people involved on both sides.

Senator ANDERSON. In these last 4 years, the interest payments have increased about 60 percent or 3 times as much as a gain in gross national product.

Secretary HUMPHREY. Yes.

Now, millions of people are on both sides of that equation.

Senator ANDERSON. That would indicate a pretty substantial redistribution of income, at least to that particular group?

Secretary HUMPHREY. Between these groups, they involve millions of people both ways.

Senator ANDERSON. Are you at all concerned over the effects of these rising rates of interest upon the position of large and small business?

Secretary HUMPHREY. Concerned, yes; alarmed, no.

We are back now again to the thing you and I were talking about just a few minutes ago, the relative burdens and how you try to smooth them out somewhat.

In numbers, of course, there are many, many more small businesses than there are large businesses.

In dollars, the large businesses pay much more interest than the small businesses.

In numbers of people involved, the small businesses are much more numerous than the large businesses, so you have many more people involved in the small business than you do in the large.

But I do not think there is anything yet that indicates that the disparities—I think you are concerned, and you ought to be and, as I said a minute ago, I hope that maybe this committee will come up with some ideas, but I do not think there is anything to be alarmed about.

Senator ANDERSON. I was just looking at the final report of the Select Committee on Small Business of the House of Representatives, and on page 67 it is noted that $57 million had been disbursed to small business by the Small Business Administration. That is a pretty small sum, of course, in view of the total amount of credits that are outstanding.

But on page 7 of the report—I jotted this down to be real accurate on it—it is noted that the number of firms declined in recent years relative to the rise of gross national product.

On page 15 it is noted that the ratio of profit to stockholders' investment rose from 10.3 in 1952 to 12.6 percent for all corporations.

But for the smallest corporations there was a decline from 9.3 to 5.5 percent, as compared to an increase from 11.8 to 14.6 percent for all corporations with assets over $100 million.

Secretary HUMPHREY. Well, Senator, I think those statistics, perhaps, are just a little misleading in this: that those are all ratios. This says that business declined. Now, it leads you to believe you have got a declining amount of business. That is untrue.

Senator ANDERSON. I am talking about profits.

Secretary HUMPHREY. You have more business than you ever had.

Senator ANDERSON. I am talking about profits.

The profits of small corporations declined from an average of 9.3 to 5.5 percent.

The profits of those corporations with over $100 million in assets went up from 11.8 to 14.6 percent, and I ask you if that does not indicate that the high interest rates are helpful to the big corporations and harmful to the smaller ones, are good for the strong and bad for the weak?

Secretary HUMPHREY. Well, I don't know. I do not know that the interest rates—whether it is the interest rates or competitive conditions; I do not know just what would be doing it.

Senator ANDERSON. I am willing to say that I do not know, but I am just wondering.

Secretary HUMPHREY. The interest may have contributed something to it; I would think it would. But I do not think that would be necessarily the motivating thing. I think that, as competitive relationships change, you find that competition will probably have more to do with it.

Senator ANDERSON. I am going to ask, Mr. Chairman, to just put into the record at this point—I cannot identify it right now, but I know I clipped it out of Life magazine, on the editorial page, a little column entitled "The Top 30 United States Companies—And How They Grew. Ranked by 1956 Sales."

It shows the net profits of General Motors as having gone up from $195.7 million in 1940 to $847.3 million in 1956.

Standard Oil of New Jersey is up from $123.8 million in 1940 to $808.5 million in 1956.

Gulf Oil has gone up from $22.1 million in 1940 to $282.6 million in 1956.

As a small-business man, I just wonder if the result of this somewhat tight money has not been that the strong get along better than the weak?

Secretary HUMPHREY. Well, now, Senator——

Senator ANDERSON. I do not say that—all right.

Secretary HUMPHREY. You are reading 10-year figures.

Senator ANDERSON. No; I am actually reading 16-year figures; I grant you that.

Secretary HUMPHREY. That is right. When you are reading 16-year figures, the interest rates changed relatively little in 13 out of those 16 years.

Senator ANDERSON. Yes; I would be the very first one to agree that——

Secretary HUMPHREY. So why would you say that interest had much to do with it?

Senator ANDERSON. I am only saying to you I have not had a chance to do it, but I can take these corporations over the last few years and the statistics developed by the House committee still remain correct, that the larger corporations increased their profits over 30 percent, while the smaller corporations had their profits dropped by 40 percent, and I say somewhere along the line tight money had something to do with it.

Secretary HUMPHREY. I agree with that. I think it had something to do with it.

The CHAIRMAN. Without objection, that will be inserted in the record.

(The document referred to follows:)

The top 30 United States companies—and how they grew—Ranked by 1956 sales

Corporation	Sales (in billions)		Net profits (in millions)	
	1940	1956	1940	1956
General Motors	$1.79	$10.7	$195.7	$847.3
Standard Oil of New Jersey	.82	7.1	123.8	808.5
Ford Motor Co.[1]	...	4.6	...	236.5
United States Steel	1.14	4.2	102.2	348.0
General Electric	.41	4.0	56.2	213.7
Socony Mobil	.44	2.7	36.4	249.5
Chrysler Corp.	.74	2.6	37.8	19.9
Swift & Co.	.77	2.4	11.1	14.0
Western Electric	.24	2.3	32.7	81.0
Gulf Oil	.27	2.3	22.1	282.6
Bethlehem Steel	.60	2.3	48.6	161.4
Texas Co.	.34	2.0	31.5	302.2
Armour[2]	1.40	2.0	16.2	14.6
Standard Oil, Indiana	.35	1.8	33.5	149.4
Du Pont	.35	1.8	86.9	363.4
Shell Oil	.25	1.6	15.6	135.8
Westinghouse	.23	1.5	18.9	3.4
Standard Oil of California	.17	1.4	22.4	267.8
Goodyear Tire	.21	1.3	10.8	62.4
National Dairy	.34	1.3	11.0	41.7
Union Carbide & Chemical	.28	1.3	42.2	146.2
International Harvester	.31	1.2	23.1	49.6
Republic Steel	.30	1.2	21.1	90.4
Sinclair Oil	.21	1.1	3.7	95.9
RCA	.08	1.1	9.1	40.0
Firestone Tire	.18	1.1	8.6	60.5
Douglas Aircraft	.06	1.0	10.8	33.2
General Dynamics[3]	.02	1.0	4.1	31.9
Procter & Gamble	.20	1.0	28.6	89.3
Phillips Petroleum	.11	1.0	11.5	95.2

[1] Ford does not know its 1940 figures.
[2] 1940 totals include Armour of Illinois and Delaware.
[3] Adjusted for mergers.

Senator ANDERSON. I will get off the subject of interest rates for a while, which is a relief, and get to the question of intermediaries, because these concern me, I assure you.

Does it do any good to keep the supply of money in check if the total activity of money increases still more?

Secretary HUMPHREY. Well, the relationship between volume and acceleration is a very difficult problem, and I am afraid I am not enough of a student to be very helpful in that regard.

Senator ANDERSON. I used to have a professor who talked a great deal about the velocity of trade.

Secretary HUMPHREY. That is right, volume and velocity.

I am just an ordinary businessman, and I know more about experience than I do from books.

Senator ANDERSON. Well, do you control the amount of lending done by the financial intermediaries, the savings banks, the insurance companies, the Government credit agencies, the pension funds, and the like?

Secretary HUMPHREY. You have mentioned an awful lot there.

Senator ANDERSON. I will take them one by one.

Secretary HUMPHREY. Yes.

Senator ANDERSON. Savings banks. Do you control the amount of lending done by the savings banks?

Secretary HUMPHREY. Does the Treasury?

Senator ANDERSON. Yes.

Secretary HUMPHREY. No.

Senator ANDERSON. Insurance companies?

Secretary HUMPHREY. No.

Senator ANDERSON. Government credit agencies?

Secretary HUMPHREY. Some we do not control, but we participate in the decision.

Senator ANDERSON. But do not control?

Secretary HUMPHREY. We do not control it; no. But we have representation on some of them, and we have consultation with them, and under the NAC we have a coordinating responsibility with some of them.

So that I would say that we had some effect upon the lending activities of most of the governmental agencies, but not all of them.

Senator ANDERSON. We will come to that later.

Secretary HUMPHREY. It may be rather intangible in some respects.

Senator ANDERSON. When Secretary Burgess was testifying he told us that the assets of commercial banks from 1952 to 1956 had increased 18 percent as compared with 30 percent for life insurance companies, 27 percent for mutual savings banks, and 90 percent for savings and loan associations.

Until the monetary system or the monetary authorities have some way to deal with these financial intermediaries, is not the restraining influence of commercial banks not going to be very great?

Secretary HUMPHREY. Well, it is definitely less than it would be if they all were subject to the same restraint.

Senator ANDERSON. If you have a credit policy that says, "We are going to try to restrict the operations of the commercial banks just a little bit, but the building and loan associations can go wild, and the life insurance companies can move into the field and lend $100 million to an industrial organization for a hundred years"——

Secretary HUMPHREY. It is obviously not as effective as it would be if they were all subject to the same operation.

Senator ANDERSON. Is it not true that in the years 1953 and 1955–56 while the Treasury and the Federal Reserve on the one hand were trying to establish a somewhat tighter money policy, that the Government credit agencies, on the other hand, were increasing the total supply of credit? There had been a steady rise in the total amount of credit by these Government agencies.

Is there any attempt made to coordinate the credit policies of the 20 or so Government agencies?

Secretary HUMPHREY. Yes, there is, Senator; but it is extremely difficult because of the independent approaches to the problem, largely in their authority from Congress, and I will cite to you the recent housing bill.

A request was made for an amount of money, and it was substantially increased by the Congress.

Some of the agricultural policies are adopted by the Congress with respect to that particular thing, and without regard to the overall aspects. I think that as long as that continues, you can have just what you indicated a minute ago, you can have piecemeal policies which are different from overall policies, because they are established by special acts of the Congress that cannot be coordinated.

Senator ANDERSON. That is exactly what I was trying to get to, Mr. Secretary.

I think it is possible for the Federal Reserve group to take a position that it would like to restrict credit a little bit, and then have that completely nullified by the operations of Government agencies themselves.

Secretary HUMPHREY. In some area by the passage of a law or an appropriation for some area that would be just contrary to what the other policy was.

Senator ANDERSON. That is why I asked you just a minute ago——

Secretary HUMPHREY. We see that happen.

Senator ANDERSON. That is why I suggested a moment ago that it might be desirable to have a monetary commission that did look at the overall effects of the policies. I realize it would be a very difficult thing to do.

Secretary HUMPHREY. Well, if the monetary commission, or whatever the group was, was really authoritative so that Congress would not pass laws that went contrary to whatever the policy was that was adopted, or that the Executive would not do things that were contrary, even perhaps a more effective clearinghouse might be desirable.

Senator ANDERSON. Mr. Secretary, I based what I had said on experience I had in a Government agency when I felt that during a period of great prosperity there should be some repayment of loans heretofore made——

Secretary HUMPHREY. Yes.

Senator ANDERSON (continuing). And found that we had 2 types of lending agency: 1, dealing in hard credit, and 1 dealing in soft credit.

Secretary HUMPHREY. That is right.

Senator ANDERSON. When I tried to restrict the hard credit a little bit and get some money into the till, the people in the soft credit agencies went out and neutralized all my work in very fine fashion.

Secretary HUMPHREY. I share your concern.

Senator ANDERSON. You cannot move in two directions at the same time and get very far with a policy.

Secretary HUMPHREY. Well, we often try. [Laughter.]

Senator ANDERSON. I just want to put in the record here that loans and investments of these Government agencies in fiscal year 1956 were $17.1 billion; in 1957 it was $18.4 billion; in 1958, $19.6 billion, a rise of 15 percent in the loans and investments.

But in the guaranties and insurance, which is equally important, it went from $51 billion in 1956 to $57.8 billion in 1957, to $65.5 billion in 1958, or a rise of 28 percent.

That is out of the 1957 budget, page 1106, and I tell you it is evidence that credit policy does not completely succeed.

Instead of asking you to comment, Mr. Secretary, I am going to ask, Mr. Chairman, if I can put into the record some quotations to indicate that the Treasury does not have statutory authority to coordinate and control the activities of the various Government agencies that insure loans to private domestic borrowers.

The CHAIRMAN. Without objection, so ordered.

(The quotations referred to follow:)

[From pp. 25, 26, 269, and 270 of vol. 1 of the 1952 full-scale investigation of monetary policy and the management of the public debt, before the Joint Committee on the Economic Report]

It will be noted from the data supplied in the answer to question 5 that the Treasury does not have statutory authority to coordinate or control the activities of the various Government agencies that lend and insure loans to private domestic borrowers. The policies and operations of these agencies are reviewed by the Bureau of the Budget in the formulation of the President's Budget each year and are subject to further review by the Congress in connection with its consideration of the budget. The heads of the lending, insuring, and guaranteeing agencies are responsible to the President; and the decisions which they make must be made in accordance with his policies, except, of course, where Congress has itself issued explicit policy directions for making or insuring loans. The heads of these agencies also frequently consult with the Treasury Department, as referred to in the answer to question 5, in connection with their financing matters (p. 25).

In carrying out their functions, the Federal lending agencies do not have responsibility for the general credit and monetary situation. Their common interest with the Federal Reserve rests in the fact that their activities may affect and be affected by the credit and monetary operations of the Federal Reserve System in carrying out its responsibilities for adjusting the supply, availability, and cost of money to the changing needs of the economy (p. 269).

The operations of Federal lending and guaranteeing agencies promote particular activities, which are regarded by the Congress as desirable or essential, and they are generally intended to do so in a way that puts available funds to more active use and stimulates economic activity. The policies of the Federal Reserve may at times make it easier or more difficult for these agencies, or the insured lenders, to raise funds.

Conversely, the existence of the demands of these agencies in the money market may at times interfere with or make difficult the carrying out of appropriate Federal Reserve policies.

No arrangements exist at present for cooperation between Federal lending agencies as a group and the Federal Reserve System on matters that affect credit and money. Under existing arrangements cooperation is on an individual agency basis through the informal, voluntary efforts of the responsible officials Such efforts have been actively encouraged by the Bureau of the Budget in it contacts with the agencies.

Senator ANDERSON. They do not really consult you, Mr. Secretary, these Government agencies that are lending money?

Secretary HUMPHREY. Well, some do, Senator; some much more than others.

One illustration is the Export-Import Bank and the World Bank. We have a Director on the Board of the World Bank.

On the other hand, there are others where we have a very small voice.

Senator ANDERSON. Well, in the hearing that the Committee on the Economic Report had on the public debt, pages 25, 26, 269, and 270—I am not going to go through all of them—but they said that no arrangements exist at present for cooperation between Federal lending agencies as a group and the Federal Reserve System on matters that affect credit and money.

Under existing arrangements, cooperation is on an individual agency basis through the informal, voluntary efforts of the responsible officials. Such efforts have been actively encouraged by the Bureau of the Budget in its contacts with the agencies. That is what they said.

Secretary HUMPHREY. Well, I would not think that was exactly right. Now, we do not control anybody. The Congress has seen fit to set up these things, and I approve. This is in no way critical.

They set up these independent agencies. Let us take the Fanny May. They set it up as an independent agency with full authority to go ahead and run their business.

We have powers or rights of consultation, and to the extent that we can influence through consultation and the passage of knowledge, and so forth, it is helpful.

But from the point of view of having any right to coordinate, we do not have it. But neither is it fair nor right to say that there is none.

Senator ANDERSON. Well, Mr. Secretary, I am going to change my request to put these in the record because what I have been reading from is the reply of the Secretary of the Treasury of the United States.

Secretary HUMPHREY. Yes.

Senator ANDERSON. His reply to a committee of the Congress.

Secretary HUMPHREY. Yes.

When was that made?

Senator ANDERSON. It was not your reply. It was prepared by another Secretary of the Treasury, but you and I would recognize that we depend upon staff officers in Cabinet responsibilities, and that obviously the same person who prepared that for Secretary Snyder would probably have prepared this sort of report for you.

Secretary HUMPHREY. I do not know. It may be—maybe things are a little different.

Senator ANDERSON. Well, it could be. But I have been over to the Department of Agriculture a few times since I left it, and the same general rules of organization still exist over there. The career people still have a good deal to say. The question was asked——

Secretary HUMPHREY. I do not think we are varying in our thoughts here very much. I do not for a minute contend we have any control.

I do, however, think it is not fair to say there is no attempt at coordination.

Senator ANDERSON. Well, question No. 6 before this Monetary Committee was:

> What additional authority of the Treasury Department with respect to the Federal Deposit Insurance Corporation and the Federal lending agencies would you consider desirable—

and so forth?

The question was answered in this fashion—the first was:

> It will be noted from the data supplied in the answer to question 5 that the Treasury does not have statutory authority to coordinate or control the activities of the various Government agencies that lend and insure loans to private domestic borrowers. The policies and operations of these agencies are reviewed by the Bureau of the Budget in the formulation of the President's budget each year and are subject to further review by the Congress in connection with its consideration of the budget.

The heads of the lending, insuring, and guaranteeing agencies are responsible to the President; and the decisions which they make must be made in accordance with his policies, except, of course, where Congress has itself issued explicit policy directions for making or insuring loans. The heads of these agencies also frequently consult with the Treasury Department, as referred to in the answer to question 5, in connection with their financing matters.

Secretary HUMPHREY. This is all I am talking about; that is exactly right.

Senator ANDERSON. But he says it has no statutory authority to control it in any way.

Secretary HUMPHREY. That is correct. We have no right to control them at all, except to persuade them as to what might be advisable policy. It is just what it says there.

I agree with that exactly as you read it.

Senator ANDERSON. I am glad to have you say that because I was sure you would. There has been no statutory change.

Secretary HUMPHREY. I think maybe we try to be persuasive, I will put it that way.

Senator ANDERSON. I am interested in this, Mr. Secretary, because I do not believe we will ever come into full control of attempts to regulate credit so that it does move gently up and down in a manner that does not dislocate our whole economy unless we have some control somewhere or something to say about these Federal lending agencies.

I read now from page 269.

Secretary HUMPHREY. I think you are pursuing a very worthwhile subject.

Senator ANDERSON (reading):

Federal lending agencies comprise more than 20 individual agencies that make credit available to specified types or to specified groups of private borrowers, either by lending directly or insuring or guaranteeing loans made by private financial institutions.

Altogether these agencies are responsible for a substantial volume of credit extension. There are outstanding loans and loan guarantees, and insurance, domestic and foreign, has increased at an average annual rate of \$5½ billion since 1946.

It has been moving along pretty rapidly in that direction.

Secretary HUMPHREY. That is right.

Senator ANDERSON. Would it not be better to have an improved integration of the depatments that are concerned with the disposal of credit? I do not want to put it all to you exactly, but Mr. Bell made some long statements on this when the monetary policy hearings were on, and it does strike me that——

Secretary HUMPHREY. I can say without any reservation that it is a subject well worthy of study.

Senator ANDERSON. Now, there has been in your statement a good deal about prosperity and the wide distribution of gains.

The distribution of income from 1941 to 1950 by the Department of Commerce showed a great improvement in distribution, with low-income groups improving their positions very substantially.

I have a table which, Mr. Chairman, I would like to put in the record at this point.

The CHAIRMAN. Without objection, so ordered.

(The table referred to follows:)

Average family personal income after Federal individual income tax liability, for quintiles and top 5 percent of consumer units ranked by size of after-tax incomes, 1941 and 1950

Quintile	1941: 1941 dollars	1941: 1950 dollars	1950 dollars	Percent increase in purchasing power from 1941 to 1950
Lowest	450	750	1,060	42
Second	1,040	1,730	2,360	37
Third	1,680	2,790	3,440	24
Fourth	2,430	4,030	4,690	16
Highest	4,940	8,190	8,880	8
Top 5 percent	9,070	15,040	14,740	−2
All incomes combined	2,110	3,500	4,090	17

It shows the average family personal income after Federal individual income tax liability, the lowest groups increased their purchasing power 42 percent from 1941 to 1950.

The second group, that is, the people who get from about $1,000 in 1941, and an average of $1,730 in 1950, in terms of previous dollars they made about $2,360. They increased 37 percent.

The next group increased 24 percent; the fourth group increased 16 percent, and the highest group of all had an average of $8,000 a year and increased only 8 percent.

Secretary HUMPHREY. Of course, that is after taxes.

Senator ANDERSON. Yes.

Secretary HUMPHREY. That makes a big difference.

Senator ANDERSON. Yes.

The top 5 percent of all the people in the country actually had a decrease of 2 percent because of very high tax rates.

Secretary HUMPHREY. I think a more illustrative comparison would be before taxes. But this is very valuable because this is what is left to spend.

Senator ANDERSON. Yes.

Have these conditions continued in the Eisenhower administration?

Secretary HUMPHREY. I have not such a table, but I will get one and present it.

Senator ANDERSON. I think it stayed at about the level, but there has not been any real growth in the last 4 years.

Secretary HUMPHREY. I just cannot answer, but we will try to prepare a table along exactly those lines and present it.

Senator ANDERSON. Thank you.

I will turn this table in, then, for the record and I will supply you, Mr. Secretary, a copy of it later. If I forget it, which I have been known to do, you remind me of it.

Secretary HUMPHREY. I will ask for it.

(The material referred to by Senator Anderson was prepared by the Department of Commerce and the Treasury has been advised that no estimate of this type has been prepared for either 1955 or 1956.)

Senator ANDERSON. Let me go to the maturities of the Government debt.

It has been your objective to increase the maturities of the Government debt. Is there any hope that you see of solving that problem in the near future?

I recognize the problem, and I do not bring it up critically.

Secretary HUMPHREY. We have discussed the difficulties of it.

Of course, there is one thing which has not been stressed that I want to mention, and that is that this is one of those cases where you have to keep running in order to stand still, because the calendar keeps moving on you, and the whole debt keeps getting a year nearer to maturity every year that goes by, so that if you just stand still you have made a lot of progress.

Senator ANDERSON. Yes. But——

Secretary HUMPHREY. That does not do you too much good. You ought to go much further than that, and your objectives should be to go further.

Senator ANDERSON. I hate to be quoting Business Week, but I find something material in that. I noticed in the June 29 issue on financial briefs, it says:

> Government debt of $83.5 billion falls due within the next 12 months. The biggest single maturity will be the first $12 billion of 2¾ notes due on August 1.

Now Mr. Secretary, that is just around the corner.

Secretary HUMPHREY. I am very much aware of that, Mr. Senator.

Senator ANDERSON. Have you any plans for this next headache?

Secretary HUMPHREY. We are doing a great deal of thinking and planning about it all the time that I am not here. [Laughter.]

Senator ANDERSON. I will try to turn you back to think some more as soon as I can. But I just read this paragraph in which it mentioned the new Secretary of the Treasury and it said he is inheriting a gigantic headache. If he continues selling short-term securities at whatever price he can, debt management will be an inflationary force. But if he attempts to stretch out the debt, the price he may have to pay for long-term funds may raise the entire interest rate structure to a level that would bring on a deflationary slide.

So I think we would all agree, would we not, that this question of maturities is a very urgent and important one?

Secretary HUMPHREY. It is an important problem and, as I said the other day, I do not want to in any way minimize it, minimize the problem.

It is a problem. I do not want to in any way minimize the fact that we did not make the progress we had hoped to make, or anything like it.

But this is a problem that is with you always, and there is no solving of this problem. This is just a problem that you move on as you can, and then just the passage of time keeps moving you right back to to where you were before.

So that you just are continuously, as long as we have this debt, with this problem; this problem will be with us in an acute stage.

Senator ANDERSON. Now, turning to the budget for just a few minutes, you have commented on the balanced budget.

Is it your belief that the current budget is balanced?

Secretary HUMPHREY. That what?

Senator ANDERSON. This current budget for 1958 is balanced?

Secretary HUMPHREY. That is for the year we are in right today?

Senator ANDERSON. That is right.

Secretary HUMPHREY. I believe it will be; yes, sir. I believe if estimates come out, it will be.

Senator ANDERSON. Well, it depends upon a postal increase?

Secretary HUMPHREY. Yes; partly.

Senator ANDERSON. Do you think that postal increase is going to be voted? Congress has been in session a good deal as of now.

Secretary HUMPHREY. Quite a while.

Senator ANDERSON. Is there any congressional adviser—and I am now looking at one who knows as much about it as anybody—has any congressional adviser told you that it is going to pass?

Secretary HUMPHREY. I am going to ask him.

Senator ANDERSON. He is too smart to predict. [Laughter.]

Secretary HUMPHREY. As you know, Senator, in these budgets there are ups and downs and various things, and I certainly would deplore the day that we did not feel that we could balance it.

Senator ANDERSON. Mr. Secretary, my question is not designed to be critical of your testimony with reference to the balanced budget. It is only that I feel that one of the very hard steps that we must take is to bring the budget in balance.

Secretary HUMPHREY. I agree.

Senator ANDERSON. And have some surplus. I am worried about it, and the only way we can possibly bring it in balance is by reducing expenditures.

Secretary HUMPHREY. I agree, and I could not agree more.

Senator ANDERSON. And, therefore, I was wondering if it was not important to point out that the budget is only tentatively balanced.

Secretary HUMPHREY. Very close.

Senator ANDERSON. But dangerously.

Secretary HUMPHREY. Too close.

Senator ANDERSON. But it could be somewhat thrown out of balance. If it is balanced, how do you account for the $1.7 billion in trust funds which do not appear in the budget for public-road expenditures?

Senator HUMPHREY. You see, that is not in on either side. That was deliberately kept out on both sides just so that it could not be used. The chairman has, I am sure of this, the chairman has this very firmly in mind because we worked very closely together on it. In fact, the chairman is responsible for getting this, I think, very wholesome provision in that we could not take an excess and credit it as a balance in a budget some year when we were going to have to spend it the next.

So that the road fund, as it now stands, I think, is a very healthy fund and a method of doing business.

It stands on its own feet. A credit cannot be used as a figure to help balance a budget of a preceding year, and if the funds run out the work stops.

Senator ANDERSON. What about the proposal that is now pending for this so-called lease-purchase arrangement on public buildings; isn't that largely an attempt to get around the budget by not having expenditures appear at the present time and spreading it over 25 years?

Secretary HUMPHREY. Well, that is following somewhat these practices that have been adopted in industry, and it is like personal credits and all those things. It is postponing the evil day.

Senator ANDERSON. I admit it. But it does seem to me if we are going to build a Federal building some place and it is going to cost $50 million, even though they put it on a lease-purchase arrangement, it might better show up in the budget. I admit it does not all get spent that first year.

What about the switch to guaranties in place of loans?

Secretary HUMPHREY. I personally am very much opposed to guaranties. I think that we ought to resist guaranties everywhere that we can.

When I was a very young man my father told me "You can put your name on the front of the check but not on the back." [Laughter.]

Senator ANDERSON. The National Tax Association had a bulletin by a Mr. Dirks, an economist, and I am sorry it is rather long, but I will try to read it:

> But the recent estimate of $2.8 billion for this year, which is shown on table 2, is, perhaps, deceptive in that it does not represent a real decline in aid operations, from the previous year, but only a shift in their financing from the Government (Commodity Credit Corporation) to the banking system in the amount of $1.2 billion.
>
> The further reduction in expenditures indicated for fiscal 1955 may prove illusory also.
>
> A leveling off of agricultural exports together with acreage limitations on wheat and cotton planting are expected to reduce price support operations only slightly, and the main reduction in dollar expenditures thus hinges on a fairly large turnover of funds previously invested in loans and commodities; if this should not materialize, larger disbursements or increased private financing will be required.
>
> In this connection it is to be noted also that the shift from Government to private financing represents a postponement rather than a reduction in the ultimate cost of price support operations for the Government.

That refers, of course, to a practice that you and I understood of things that took place in agriculture when some of these obligations were shifted out to banks instead of being held by the Government.

Secretary HUMPHREY. That is right.

Senator ANDERSON. Thereby the payments helped balance the budget, but really did not help improve our financial condition.

Secretary HUMPHREY. That is exactly right.

Senator ANDERSON. I am glad to have you agree with me because that is exactly the way I thought about it.

Then to continue reading:

> The decline in expenditures shown in the table for public works and housing between 1953 and 1955 reflects partly a drop of $800 million, or 80 percent, in reclamation and rivers-and-harbors projects, together with the transfer to private financing of over $700 million in housing mortgages and obligations previously financed by the Federal National Mortgage Association and the Public Housing Administration.
>
> Here, as in the case of agriculture, while the shift from Government to private financing is reducing expenditures as they are conveniently accounted, it evidently represents a different kind of reduction than that of the defense program, which involves a smaller consumption of real services and materials.

Secretary HUMPHREY. I think that is true, and yet that is quite different from the other.

Senator ANDERSON. Yes.

Secretary HUMPHREY. The housing financing going into private hands has a real prospect of permanence and liquidation, payment. To that extent it is a good and wholesome and proper operation.

Senator ANDERSON. The point I was trying to make was you do not balance the budget by merely failing to appropriate.

Secretary HUMPHREY. No. But, on the other hand, if housing can be financed privately instead of through the Government, you do not need to include the money in the budget that was privately supplied.

Senator ANDERSON. But each year now we have had expenditures a little bit higher than we had anticipated.

Secretary HUMPHREY. That is right.

Senator ANDERSON. And, therefore, we probably need to be pretty careful or we some time might find——

Secretary HUMPHREY. I certainly agree we need to be pretty careful.

Senator ANDERSON. All right.

In your statement you comment on the rise of taxes from $5 billion to $65 billion from 1939 to 1952—just to go to your statement for a minute. Would it not have been proper to point out that this increase was the result of war——

Secretary HUMPHREY. Oh, yes.

Senator ANDERSON (continuing). And would it not be also relevant to point out that during the same period, from 1939 to 1952, there was an increase in the gross national product from $91 billion to $345 billion or an increase in gross national product——

Secretary HUMPHREY. Those are both facts.

Senator ANDERSON (continuing). Four times the amount of the other?

Secretary HUMPHREY. Those are both facts.

Senator ANDERSON. Has there not been a substantial rise in payments of the Treasury, in the cash payments of the Treasury, all these years?

Secretary HUMPHREY. Senator Kerr asked something about that, and I did not quite get what it was.

Senator ANDERSON. I know he did, and I said I was not going to try to cover old ground.

Secretary HUMPHREY. I could not quite——

Senator ANDERSON. Let us just take these cash receipts and cash payments.

In fiscal year 1953—I wonder if I can find you a copy of that so you can follow it.

I do not guarantee this, Mr. Secretary. If this proves to be incorrect, I have no one to blame but myself, but the figures were not easy to work out.

In 1953 the cash receipts from the public were about $70 billion. That is on a calendar-year basis. I am sorry but I cannot find figures——

Secretary HUMPHREY. I know; we ran into the same trouble.

Senator ANDERSON. Cash payments to the public ran $76.2 billion on a calendar year basis.

I am on a fiscal basis in 1956; $77.1 billion cash receipts, $72.6 billion cash payments.

Secretary HUMPHREY. Yes.

Senator ANDERSON. The 1957 estimate, $81.7 billion in cash receipts; $78.2 billion in cash payments; and 1958 estimated is $85.9 billion cash receipts from the public; and $82.9 billion payments to the public.

Secretary HUMPHREY. Yes.

Senator ANDERSON. Are not these cash figures getting up pretty high, don't you think, because I know theer are trust funds and everything else in there.

Secretary HUMPHREY. They are high, there is no question about that. It is a terrific amount of money.

Senator ANDERSON. Do you not feel sometimes, Mr. Secretary, that the good old practice of running a day book, where you accounted for all the money you took in each day and all the money you spent each day, would be useful after a while to see how much we actually spend in this Government?

Secretary HUMPHREY. Well, our cash accounts do pretty nearly cover that. You mean——

Senator ANEDRSON. Our budget, we will say, is $71.8 billion.

Secretary HUMPHREY. That is right.

Senator ANDERSON. But we are going to take in $85.9 billion, because we are taking in money for social security——

Secretary HUMPHREY. You are taking in money for all these funds.

Senator ANDERSON. For all these extra funds, so the cash coming into the Federal Government is pretty large.

Secretary HUMPHREY. Of course, that is going to increase, Mr. Senator, as these funds grow.

Senator ANDERSON. There was one question that came up in your discussion with Senator Malone that I wanted to refer to. I am not sure that I had your question or your reply to his question correctly, but I thought I heard you say that the one and only objective of taxes was to raise revenue. Did I hear you correctly?

Secretary HUMPHREY. You certainly did, and only except I did not say "one." I said I thought that was the only objective.

Senator ANDERSON. Well, I said the one and only objective is to raise revenue.

Secretary HUMPHREY. That is right.

Senator ANDERSON. Don't you believe that there is some distributional effects of taxes besides the raising of revenue?

Secretary HUMPHREY. There are distributional effects, but they should not be objectives.

The objective of taxes, in my opinion, should be simply to raise, in the fairest proportion among the people in the fairest possible way to raise, the money the Government has to spend to pay its bills, and the tax system should not be used for other purposes to create reforms or to grant benefits or prejudices to one class or another or to hide subsidies or to do any of these other things.

Senator ANDERSON. A long time ago Adam Smith had a lot of other ideas.

Secretary HUMPHREY. The tax system, Senator, you know the tax system, the power to tax is the power to destroy.

Senator ANDERSON. Yes.

Secretary HUMPHREY. Through abuse of the tax system you can destroy any group, any class, any number of people, and you can abuse the tax system in the most terrible ways if you use it for anything but for the raising of funds as fairly distributed as possible to pay your bills.

Senator ANDERSON. I was in the House of Representatives when World War II started, and I recall quite well I proposed a scale of taxation—I was not on the Ways and Means Committee—which was far more severe than even the existing tax rates or the contemplated tax rates, on the ground that one way to control inflation was to siphon off as much of the excess money that people were getting in various construction jobs, and thereby prevent the impact of that money on our economy.

Therefore, I wondered if taxes are only used to raise revenue or ever used for public policy.

Secretary HUMPHREY. Now, wait, you are saying something quite different now. You are saying, Are they ever used or have they ever been? They certainly have, but, in my opinion, they should not have been.

Senator ANDERSON. I am willing to grant that I said something that you did not say. I was trying to get to what you do say.

You say they should not have been.

Secretary HUMPHREY. That is right.

Senator ANDERSON. You do not believe in using taxes to siphon off income, then?

Secretary HUMPHREY. I do not. I believe that the greatest abuses can grow under cover and in hidden ways, subsidies and all sorts of things.

Senator ANDERSON. Well, income taxes are not level. They are put on to redistribute money a little bit, are they not?

Secretary HUMPHREY. No; the basis upon which we have a graduated income tax is based on the fair distribution of ability to pay.

Senator ANDERSON. That is another way of saying redistributing it.

Secretary HUMPHREY. Oh, well, the effect is, but that is not the purpose. Here is the difference.

If you decide that you want to fairly apportion a tax burden of so many dollars over your population, and the 3 of us can pay and will pay different rates, that is a proper way to get a fair distribution among the 3 of us that we will agree is fair for us to pay.

But if you want to limit me or I want to limit you so that you just cannot have more than $2,000 of income, and I do it by putting a tax rate on you that will take it all away from you for the purpose of limiting you, because I think your activities are not a proper kind, or we do not like you or something of that kind, that is a completely wrong use, or to give the chairman a bonus because we want more apples grown. [Laughter.]

Senator ANDERSON. I am with the chairman. [Laughter.]

Secretary HUMPHREY. Now, that is wrong.

Senator ANDERSON. I have had some of his apples, and I am in favor of giving him another bonus.

Secretary HUMPHREY. Well, I would be for that one thing. [Laughter.]

Secretary HUMPHREY. But that is wrong, and I am going to illustrate it by a thing I have just been battling, that shows how easy it is to create a subsidy, a hidden subsidy, and that is the thing that the chairman and I have had such problems about—and that is rapid amortization.

Now, you can create hidden subsidies through the tax system. You can do all sorts of things in a hidden way, and they can be very vicious.

The minute you get off the track of raising money, that taxes are to raise money and for no other purpose, and that the only thing to do is to fairly apportion who you get it from, for the purpose of paying bills, and not for other purposes, you will get into a lot of trouble.

Senator ANDERSON. Well, I still feel it has certain other fiscal jobs to do.

Secretary HUMPHREY. It can have other effects, but you should not use it. You should not fall for it.

Senator ANDERSON. We will not go into that.

I want to be real sure I heard you, because if you want to only raise money——

Secretary HUMPHREY. I am sure you heard me.

Senator ANDERSON. You want to raise money for the Treasury——

Secretary HUMPHREY. That is right.

Senator ANDERSON (continuing). The easiest thing Congress can do is to come here and pass a manufacturers' tax or sales tax and raise all kinds of money.

Secretary HUMPHREY. That is right.

Senator ANDERSON. But it is an improper burden and a wrong burden. If you want to do a fiscal job it is an easy way to do it, and that is why I was concerned when you said the only thing about it was to raise revenue. I think it has a real important thing to do, and I think it has a real inflation job it can do.

Secretary HUMPHREY. I will not argue with you on that. I will argue that with you some other time.

Senator ANDERSON. Now, to come to inflation: Your statment concentrated on the problem of inflation for a long time.

We all agree, of course, that inflation is a pretty serious matter, and we should certainly do everything possible to contain it.

But is it not also true that one of the fruits of a small rise of prices is often a large rise in output? Would you not agree if we had a 1-percent rise in inflation and a 5-percent rise in output that this might be a desirable relationship?

Secretary HUMPHREY. I do not know how you would get that.

Senator ANDERSON. You do have it at times. We have had periods when you have had a little inflation and a large supply.

Secretary HUMPHREY. I would put it this way: I would rather have the rise in output without the inflation.

Senator ANDERSON. Well, was the record bad in World War II as compared with 1956 and 1957 on the rise in prices?

As Senator Long pointed out, those deficits were in the order of $75 billion in today's prices.

Secretary HUMPHREY. We can add them right up here.

Let me see, you would take 1946 through——

Senator ANDERSON. I am taking World War II. I am taking 1941 through 1945 or 1946.

Secretary HUMPHREY. I see; 1941 through 1945?

Senator ANDERSON. That is right. I think prices rose less than 5 percent or right around 5 percent for the year through those years.

Secretary HUMPHREY. That is right; 5.2, I think, was the average for the 5 years. Here it is right here: 5.2 was the average. There was 3.6 in the last year.

Senator ANDERSON. Last year?

Secretary HUMPHREY. Yes; 3.6 from May 1956 to May 1957.

Senator ANDERSON. So that small rise was not too bad a job when we had a $75-billion deficit, was it? We were hitting enormous deficits each year.

Secretary HUMPHREY. Oh, yes; that is right.

Senator ANDERSON. I just thought it was not too bad a job.

Have the financial assets of consumers risen very greatly in these recent years?

Secretary HUMPHREY. I do not know how to answer that.

Senator ANDERSON. The President's economic report shows that from 1946 to 1956 there was an increase in selected financial assets of consumers from $181 billion to $270 billion.

Secretary HUMPHREY. I suppose that means washing machines and gadgets of various kinds?

Senator ANDERSON. Yes.

Secretary HUMPHREY. Oh, savings? You mean liquid assets or physical assets?

Senator ANDERSON. Financial assets.

Senator BENNETT. What page is that in the report?

Senator ANDERSON. Page 112.

Secretary HUMPHREY. If it is in the report—this is what you read; here they are. They went from—what years were you speaking of?

Senator ANDERSON. 1946 through 1956.

Secretary HUMPHREY. $44.8 billion to $51 billion. That is currency.

Senator ANDERSON. The financial assets went from $181 billion to $270 billion.

Secretary HUMPHREY. I presume that is right. This is a long list here, we have not totaled it, but I have no doubt that is a correct addition.

Senator ANDERSON. I was only trying to point out that during the last 2 years of the Truman administration the savings were almost at the same percentage they have been during these last 4 years.

Secretary HUMPHREY. I think that is true.

Senator ANDERSON. We would agree with that?

Secretary HUMPHREY. Yes, they are. There is not much difference. During the Korean war period it was up a little but, as a whole, that is about right. They are coming right along in the trend.

Senator ANDERSON. I just want to spend a little time on these Government finances and the gross national product.

I think probably if you have the economic report, again, of the President, it is in the budget. These come from pages 1149 to 1151. I do not know just how to tell you to find them.

Secretary HUMPHREY. The budget or the economic report?

Senator ANDERSON. It is the budget.

Secretary HUMPHREY. The budget.

Senator ANDERSON. The gross national product, I want to take that for a minute in billions. Do you have a 1946 figure there? Let me give you a copy of this table. This is just brand new, and I have not even had a chance to check on these figures myself, and I know there are some changes we made in them.

But starting with gross national product in billions in 1946, it ran about $209 billion.

Then in 1952 it was $345 billion; in 1956 it was $412 billion; in 1958 you think it is going to be about $450 billion?

Secretary HUMPHREY. That is an estimate.

Senator ANDERSON. And the Federal budget receipts in billions, were $38 billion; in 1952, $64.8 billion; in 1956, $71 billion; and 1958, $78 billion.

Secretary HUMPHREY. Yes.

Senator ANDERSON. In percentage of gross national product, the receipts were 18 percent of the gross national product in 1946; the exact figure is 18.5.

In 1952 it is 18.8; 17.2 in 1956; and 16.4 in 1958.

Secretary HUMPHREY. They are gradually down.

Senator ANDERSON. Yes.

And the budget expenditures in billion, $41.1 in 1946; $70.7 in 1952; $67.2 in 1956; and $71.8 in 1958.

But the relation of budget expenditures to the gross national product drops from 19.7 percent to 16 percent.

The figure for 1956 should be 16.3 instead of the figure I have on there.

Secretary HUMPHREY. Yes.

These figures are correct, and they are interesting and illustrative, but you must keep in mind that on this theory you could just keep increasing your prices until you got expenditures down to practically nothing in relation to the inflated gross national product.

In other words, you just shove your prices up and your percentage goes down, and you really are not making any progress at all.

Senator ANDERSON. I am coming down to No. 5 category No. 5 on there, Mr. Secretary, which interests me a great deal.

I made a remark here one day about what Jesse Jones had said about the payment of the national debt.

Secretary HUMPHREY. What was that?

Senator ANDERSON. He said, "We will never pay it. We will just gradually inflate ourselves to where it is no burden."

Secretary HUMPHREY. Inflate ourselves out of it?

Senator ANDERSON. And I just call your attention to the fact that the national debt in 1946 was $259.5 billion; in 1952, $267.4 billion; 1956, $276.7 billion; and maybe now somewhere around $275 billion.

I am not going to argue. Maybe it is $270 billion, but what I am trying to point out is a relationship. In relation to the gross national product, the national debt was 124 percent in 1946; it was 77 percent in 1952; 67 percent in 1956; and only 61 percent in 1958.

Secretary HUMPHREY. That is right.

Senator ANDERSON. Do you feel that is probably the only way we are ever going to pay the national debt?

Secretary HUMPHREY. Well, I hope not. I hope that from time to time, and particularly at the time which I believe will come some day, when the world will be in a much more peaceful condition, when there will be much more feeling of security in the world than there is today, when there can be some rather substantial reductions in our expenditures for armaments and that sort of thing, I hope that in that day we will make some real reductions in our debt.

Senator ANDERSON. Well, now, does that not illustrate the fact, though, Mr. Secretary, that if we have a very large gross national product and pretty substantial earning power that we certainly should not go back and increase the national debt, should we?

Secretary HUMPHREY. That is right.

Senator ANDERSON. So when the Chairman comes and refuses to give you that $3 billion of extra loaning power, he will have strong support from all of us, will he not?

Secretary HUMPHREY. He has had strong support from me right from the beginning except for one thing: I do not want to stop paying the Senators' salaries. [Laughter.]

Senator ANDERSON. That, I must say, is a statesmanlike position.

Secretary HUMPHREY. Seriously, I believe in the debt limit. I believe in trying to live within it. I believe that the greatest struggle should be made to do so, and I think we ought to do it.

It is tough and it is hard, but I think it ought to be done, and I think it is a wholesome restraint on all of us.

Senator ANDERSON. May I come to category No. 6 now on that chart, Mr. Secretary.

Secretary HUMPHREY. I am not precluding, perhaps, the necessity for coming up here and saying that we have got to, perhaps, have a little more leeway.

Senator ANDERSON. I am sure the Chairman is going to be hard-hearted, and I am going to join him.

May I come to category 6, State and local government cash payments, in billions?

I would like to point out that these cash payments have gone from $9.5 billion in 1946 to $21.6 billion in 1952; $30.4 billion in 1956; and $34 billion estimated in 1958, which indicates a pretty substantial rise.

Might it not be that one of the ways that we have to worry about inflation is not only in the control of our Federal budget but in paying a little bit of attention to the rise in cost of government at State and local levels?

Secretary HUMPHREY. I am sure, very sure, you are right.

Senator ANDERSON. Well, we had something to say the other day about price levels.

What about the wholesale price level which gives an indication of the things to come in the increase of prices even more serious than the consumer prices in the last year?

Secretary HUMPHREY. Well, no, I think, perhaps, the wholesale prices were a little in advance.

Senator ANDERSON. A 6-percent rise in wholesale as against 4 percent in the general cost of living.

Secretary HUMPHREY. Wholesale prices are leveling off here. Your wholesale price of all commodities here is leveling off pretty well here. 1956, 114, and then it runs through these months, and I will just read some months over the past year: 113, 114, 115, 116, 117, 116.9, 117.2, 117.1, 117.5, 117.5.

So we have a good many months when it is fairly level.

Senator ANDERSON. Yes; but it also is a pretty good indication to keep your eye on it, is it not, the wholesale price level?

Secretary HUMPHREY. It certainly is.

Senator ANDERSON. I have not been in politics very much, have I, Mr. Secretary? You do not mind if I get in for such a few seconds?

Secretary HUMPHREY. If it is perfectly mutual.

Senator ANDERSON. It is not very bad.

The question came up several times in discussion with Senator Malone about using the 1939 dollar and he wanted you to use the 1934 dollar.

Secretary HUMPHREY. Our figures were all based on the 1939 dollar.

Senator ANDERSON. May I commend you for using the 1939 dollar, and encourage you to continue it?

The 1934 dollar was down during the difficulties of the depression, and if you use the 1934 dollar as against the present dollar, the current value does drop to 46 cents. But let me show you what you can do with figures.

Now, Mr. Hoover was President at one time, and consumer prices declined from 73.3 in 1929 to 55.3 in 1933.

Output declined 31 percent; unemployment increased by 11 million; so why not compare 1929, which was the year of great prosperity, with 1957, which is a year of great prosperity, and if you do we have a 62-cent dollar, not a 48-cent dollar, and it is, I think, a little more encouraging. I just do not want you to go to 1934.

Secretary HUMPHREY. I said this morning, Senator, you can get quite a lot of different answers by using sets of figures.

Senator ANDERSON. Yes. So I repeat that if you are going to use the period of prosperity, which is 1929, against 1957, we have today a 62-cent dollar.

Secretary HUMPHREY. There is no magic in any of them. I think myself that the 1939 figures are a good criteria to go by, but there is no magic in any of them.

Senator ANDERSON. In 1940, as you know, we were busy trying to construct camps and getting ready for a war we knew was probably ahead of us.

Secretary HUMPHREY. That is right.

Senator ANDERSON. As a result, the 1940 figures are not good, and 1939 figures are fair.

Is it not true that what is also important is the rise in output as against the rise in prices?

Secretary HUMPHREY. It is.

Senator ANDERSON. In 1956 prices rose 1½ percent, and the gross national product in stable dollars rose 2½ percent.

That is not a very good proportion in peacetime.

In the Truman administration, in 1948–52, there was a 10-percent rise in prices and an increase in output of 21 percent, and the rise in prices from April 1956 to April 1957 was considerably more than 1½ percent.

I am merely trying to express the hope in these hearings that we do not try to find too many political things, because the problem of controlling inflation is not confined to one political party, is it?

Secretary HUMPHREY. If your political arguments are as modest as that, I will waive my rights.

Senator ANDERSON. Thank you.

One final word. I tried to stay out of political discussions.

Secretary HUMPHREY. You certainly did.

Senator ANDERSON. Because I think this is very important.

Secretary HUMPHREY. You certainly did.

Senator ANDERSON. The last thing has to do—I was not here when Senator Smathers started questioning you about small business, but I did read what he had to say, and there was an admission by you that large corporations had obtained a large and increasing percentage of the business, an increase in percentage of war contracts, even where it is appropriate for small business to come in for it.

Did you not also say that mergers were justified even if undertaken for tax avoidance?

Secretary HUMPHREY. No. I said that mergers were justified even though some tax advantages did accrue as a result of them.

As a matter of fact, the law provides, as I recall it, that it cannot be done just for tax avoidance. It must be done for a business purpose.

Senator ANDERSON. Has the law been tightened any?

Secretary HUMPHREY. Yes, it was.

Senator ANDERSON. Have mergers been stopped anywhere where the object was tax avoidance? Do you know of a case where it has been?

Secretary HUMPHREY. I would check with the General Counsel of the Tax Division on that, but the design was to avoid, to limit—there was an effort at one time, and a perfectly legitimate effort, because it was the law, that you could just buy a big loss with nothing else, and it was thought that was not a fair or proper thing to do in that way, and yet it was also thought that it was fair and right to protect a group of stockholders who had gone through bad times, and who were coming up and had a good business to sell, to not take that right away from them in the event they sold their business.

So the law was tightened up, but it did not wipe out the opportunity to take a deductible loss.

Senator ANDERSON. I would only hope if you do find any case where a merger was stopped because the object was solely tax avoidance, you would list it because——

Secretary HUMPHREY. I will look for it.

Senator ANDERSON. I ran into an instance of a company that started to close its doors, liquidate completely, go out of existence, which was offered a very substantial sum of money for the privilege of letting somebody else take it over because it had a tax loss.

Secretary HUMPHREY. Yes.

Senator ANDERSON. And it ran into millions of dollars back in a certain period of its existence, and I wondered if a merger had ever been concluded solely for tax avoidance?

Secretary HUMPHREY. I will check and see.

The thing is tightened, and we will see if there have been some final decisions which have avoided it.

(See p. 658 for Secretary Humphrey's reply to this question.)

Senator ANDERSON. Mr. Chairman, I had another sheaf of questions, but I felt that the Secretary had been very patient with the committee, and I decided that the country would not learn very much by asking those extra questions, and I am going to stop my round.

Secretary HUMPHREY. I am very, very grateful to you.

The CHAIRMAN. The questions and the answers were very illuminating.

What is the pleasure of the committee? The Secretary has been on for 4½ hours.

Senator ANDERSON. I only stopped because I thought he might want to take a rest.

Senator CARLSON. Mr. Chairman, I assume I am next on the list according to my seniority here, and if the chairman does not insist. I would like to recess until tomorrow morning at 10 o'clock, and I will make one definite commitment, that I will not exceed over 40 or 45 minutes in my questioning.

The CHAIRMAN. The committee will recess until 10 o'clock tomorrow morning.

(Whereupon, at 4:15 p. m., the committee adjourned, to reconvene at 10 a. m., Thursday, July 11, 1957.)

INVESTIGATION OF THE FINANCIAL CONDITION OF THE UNITED STATES

THURSDAY, JULY 11, 1957

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

The committee met, pursuant to recess, at 10:05 a. m., in room 312, Senate Office Building, Senator Harry Flood Byrd (chairman) presiding.

Present: Senators Byrd (chairman), Kerr, Frear, Anderson, Gore, Martin, Flanders, Malone, Carlson, Bennett, and Jenner.

Also present: Robert P. Mayo, chief, analysis staff, Debt Division, Office of the Secretary of the Treasury; Elizabeth B. Springer, chief clerk; and Samuel D. McIlwain, special counsel.

The CHAIRMAN. The meeting will come to order.

The Chair recognizes Senator Carlson.

STATEMENT OF HON. GEORGE M. HUMPHREY, SECRETARY OF THE TREASURY—Resumed

Senator CARLSON. Mr. Secretary, I hope I do not take much of your time. You have been so generous with it up here, and you have been so very fine in testifying before this committee for several days, I think most of the questions have been asked, and probably those which I ask will be repetitious.

I was thinking probably we had reached the point of no return, but that is not your fault; that is our fault, if we cannot think of questions.

I do, this morning, want to get into the farm problem a little. I do not believe this record would be complete as we survey the entire economic structure, without getting the farm and the farm problems into it.

We have had a very fine discussion, and I think a thorough and exhaustive one, of labor, and corporations, and industry, and every other phase of the economic structure.

We have been saying around here, around this table, that the Treasury is in a mess. Well, the farmer is in a mess, too, and I am going to get your part of the statement into the record as a basis for my comments; I am going to quote from your first statement.

In your statement of June 18 before this committee, you stated, and I am quoting now:

> This growing prosperity has extended to nearly all segments of our society except the farmer. The postwar adjustment in farm income has only recently been reversed, with a small increase last year for the first time in several years.

Farm income per worker last year was $1,862, up $151 from 1955. Farm prices have been rising moderately in the last few months, and on May 15, were up 8 points above the level of a year earlier. The objective of this administration is to enable our farm families soon to share more fully in the record prosperity which characterizes the rest of our economy.

I want to ask you, Mr. Secretary, if you have any reason to believe that the farmers are going to more fully share in the record prosperity which characterizes the rest of the economy, in the very near future? Do you see anything that gives hope and encouragement?

Secretary HUMPHREY. Well, it is again, as in all the rest of it, Senator, extremely hard to try to look into a crystal ball and look ahead.

I think this turn which has taken place is certainly encouraging. It is something which is a turn in the right direction, and something which we have not seen before.

Whether there is a program that we now have which is going to be really effective in handling our farm situation, I do not know.

These great surpluses that we have hanging over our markets, and the accumulations of surpluses, are certainly a thing which gives you pause toward saying that we are definitely and fully on the road to complete change in the farm situation.

But, again, I must say that it is encouraging to have made a turn.

Senator CARLSON. I am also pleased that we have made this turn.

I am concerned, Mr. Secretary, about, first, in this increased-price period, inflationary period, I am going to call it, that the consumer, the housewife, is beginning to complain, and I know, because Mrs. Carlson complains when she goes to the store to purchase food products.

Secretary HUMPHREY. That is right.

Senator CARLSON. And that can have and does have a very important effect on the thinking of the consumers at least as far as the farmer is concerned. Most housewives, when they go to the store, think the farmer is getting rich on the prices that she has to pay for the goods.

And then the second thing is, as I see it, our citizens, our people, are becoming tax-conscious. If I am not mistaken, we are going to take about $4.5 billion out of the Federal Treasury for both direct and indirect payments to agriculture this year.

Secretary HUMPHREY. Between 4 and 5.

Senator CARLSON. Is that right?

Secretary HUMPHREY. It is between 4 and 5; yes, sir.

Senator CARLSON. And is that not about a billion dollars more than last year?

Secretary HUMPHREY. It has been going up.

Senator CARLSON. I am just wondering how long the taxpayers of this country are going to accept continued and increasing Federal appropriations for agriculture.

Secretary HUMPHREY. Well, I think your wonder is well taken, because it is a serious item, and that is why I have said I do not know what the answer is, I do not know what the answer to the farm problem is, and I am sure that there is no quick and ready and simple answer to it.

It is a problem which has grown up over a long period of years. All sorts of remedies have been tried. A good many of them, I think you might say almost all of them, of the remedies which have been tried, have simply left the situation a little worse rather than better.

And with these huge surpluses, to get back, to get the farmer back into a free price economy, is an extremely difficult thing.

Of course, our turnup in—we have been talking here for several days about the inflationary pressures of prices, and the turnup of price in relation to the dollar. And one of the principal elements in that turn of the last few months has been this increase in prices of food products; and it is the turnup in food prices, I think, that is the largest element of that.

Well, of course, that immediately is felt by the housewife, by all the housewives and by all the families, and they feel it promptly.

It is not all, of course, a turnup of farm prices. Farm prices play a part in it, but also, I think, we have to take into account the things that the American public today demands, the form in which our food is delivered to us, the packaging and the transportation, and all the things that we have.

You get fresh fruit from Florida in the Washington market every morning. They come from all over, and there is this terrific transportation problem.

And then it is all done up in cellophane and fancy packages.

Senator CARLSON. Frozen foods.

Secretary HUMPHREY. Or frozen.

And not only that, but it is put in packages. But all you have to do, as I understand it, is put it in the oven and turn the switch and your dinner is done.

Senator CARLSON. Of course, the processing and distribution and the retailing of these products is——

Secretary HUMPHREY. You cannot get that for nothing.

Senator CARLSON. That is correct.

And before we get through, I am going to submit some tables for the record which show the farmer's share of particular food items, such as bread and cereal and canned food, demonstrate that the farmer's share of the food dollar is a very small part.

Before we get into that, however, I do want to give you a table which I think is correct. Let us analyze this table which shows the farmer's share of the gross national product, and the farmer's share of the national personal income, in the years 1947, 1950, 1953, 1954, 1955, and 1956. I want it in the record.

If I read this table correctly, in 1947 we had a gross national product of $332.2 billion.

Secretary HUMPHREY. 232.

Senator CARLSON. $232.2 billion.

Secretary HUMPHREY. That is right.

Senator CARLSON. And in 1947, the gross farm income was $34 billion; or the farmer received 14.6 percent of the gross national product.

Then in 1950, we had $285.1 billion. The farmer received—that is gross national product. The farmer received $32.1 billion, or 11 percent, 11.2 percent, to be exact, just using round figures.

In 1953, the gross national product was $363.2 billion; the farmer's share $35 billion.

1954, $360 billion; $33.9 billion, nearly $34 billion, or 9 percent of the gross national product.

And in 1956, last year, the gross national product was $412.4 billion. The farmer's share was $83.9 billion, say $34 billion, or 8.2 percent of the gross national product.

This shows the ratio has gone from 1947 at 14.6 percent of the gross national product compared with gross farm income, to 8.2 percent. Now, that is what is happening to agriculture.

Secretary HUMPHREY. Well, are those figures really illustrative of difficulty, or are they illustrative of what is happening in America? Farm income, by and large, is based on production of food.

Senator CARLSON. Correct.

Secretary HUMPHREY. There is some farm production that goes into industry, but it is a relatively small percentage, and has not increased much over the past few years. So that, relatively, farm income is food production.

Now, our gross national product has gone up by virtue of the manufacture of all sorts of new products, manufactured products of all kinds, new things; so you go back to 1947 as compared to today, and many, many millions of dollars' worth of things made today were not made in 1947, articles that are in common use today which were not in use at all in 1947.

Your food requirements would go up about in relation to the increase in population, and perhaps even less than that, but through more efficient use and reduced spoilage, and all that, you might have your population increase and still not require quite as much food production per capita as you did, because of the better utilization of the food.

Your gross national product might go up very greatly by making B-52's and thousands of televisions and deep freezers and all kinds of things which were not in existence before.

So I do not think it indicates—that the fact the gross national product rises faster than the volume of farm production, I do not think is illustrative of farm injury.

Do you see what I mean?

Senator CARLSON. I catch your point.

But if you will notice, in 1947 the gross farm income was $34 billion; and in 1956, it was $33.9 billion or $34 billion, which shows that even with the increased population, it has not gone up. It is going back.

Secretary HUMPHREY. Well, it is about the same. It stayed just about the same, and it has changed but very little.

Senator CARLSON. Very little.

Secretary HUMPHREY. Except for a tiny fraction, it was the same each year.

Senator CARLSON. That is right.

Secretary HUMPHREY. Now, that means that there are more people eating, but evidently—maybe it could be through price, and maybe it could be through better using and less spoilage—the farm population would be serving better.

That is not comparable at all to the gross national product.

Senator CARLSON. These figures, however, I use here, I think are correct, which show that the farmer does receive less and less of the national personal income. Let us get to the second phase of that table. This deals with national personal income.

Secretary HUMPHREY. Yes.

Senator CARLSON. In 1947, the national income, personal income, was $197.2 billion. The net farm income was $17.1 billion, or 8.6 percent of the national income.

Then in 1950, $240 billion national income. The farmer received, not $17.1 billion, but $12.8 billion, or 5.3 percent.

I will not read those intervening years, but we get down to 1956, the national personal income now is $342.4 billion. The net farm income in 1956 was $11.5 billion, or 3.3 percent of the national personal income.

In other words, it went from 8.6 percent in 1947 to 3.3 percent in 1956.

Secretary HUMPHREY. Well, Senator, I do not want to disparage these figures in any way, but I do think it is only proper to point out that I do not think it illustrates what is happening to the farmer, either.

The farm population during this period has been declining.

Senator CARLSON. But it is 13 percent of the population of the Nation.

Secretary HUMPHREY. Yes; but it is declining.

Senator CARLSON. That is true.

Secretary HUMPHREY. And the industrial population is increasing.

Senator CARLSON. That is correct.

Secretary HUMPHREY. Now then, if there are just 3 of us, the chairman and you and myself, and we each get a third of the production, and then we bring in another Senator into our side of the picture, and he produces, and there are 3 of us producing goods on this side, and you are still just producing on your side, you may get just as much per capita yourself, but your share of the total has gone down by a quarter, has it not?

Senator CARLSON. That is right.

Secretary HUMPHREY. So that, as you stand still and as we add more producers and more earners to this side, the total goes up. Now, it does not mean you are getting hurt. You are still getting as much relatively as you got before, but you are going down.

I do not mean that these figures indicate that the farmer is getting relatively as much, but I do say that these figures do not quite fairly illustrate the fact of the discrepancy to the farmer.

Senator CARLSON. Well, the farmer——

Secretary HUMPHREY. Because, as the farmer goes down and the others go up, why, his share of the total is bound to be less, even though his individual share may be staying fairly constant.

Do you see what I mean?

Senator CARLSON. If the individual's share stays constant, Mr. Secretary, that is not sufficient.

Secretary HUMPHREY. I agree.

Senator CARLSON. Because the farmer is suffering from high labor costs, high machinery costs, taxes, interest, just like everybody else.

Secretary HUMPHREY. I am not trying trying to dodge the farm issue at all. I am simply pointing out I do not think these figures quite fairly represent what is happening to him, because it does not take into account the difference in the number of people that work in each of the jobs.

Senator CARLSON. I see your point there. But I do think it makes a real problem in this inflationary period when the farmer's income, even though there are substantially less—we are losing about 300,000, I think, a year from the farms to the cities, and this is a 10-year period—we still do have 13 percent of the population representing 4,800,000 farms.

And these 4,800,000 farms representing 13 percent of our population are trying to combat increased costs of the items I have mentioned, with the personal incomes of every other phase of the economy going up, and theirs, even if you say it is constant, is not sufficient.

Secretary HUMPHREY. Yes, I can appreciate, I am sure there are problems.

Senator CARLSON. I am not going to belabor that table any longer, but I did want it in the record.

(The table referred to is as follows:)

[Billions of dollars]

	Gross national product	Gross farm income	Ratio	National income	Net farm income	Ratio
			Percent			*Percent*
1947	232.2	34.0	14.6	197.2	17.1	8.6
1950	285.1	32.1	11.2	240.0	12.8	5.3
1953	363.2	35.2	9.7	302.1	13.4	4.4
1954	360.7	33.0	9.1	298.3	11.8	3.9
1955	390.9	32.9	8.4	324.0	11.6	3.6
1956	412.4	33.9	8.2	342.4	11.5	3.3

Senator CARLSON. I want to give you another table, not to discuss it at any length, but one of the problems of agriculture, Mr. Secretary, I think, is the efficiency of production.

This table shows in 1940 the farm output per man-hour was 69 points based on 100, 69 percent or 69 points.

In 1950 it was 112, and in 1956 it was 135.

In other words, the farmer, by his efficiency, is really hurting himself.

Preliminary figures indicate that total farm production on a physical basis reached a new record high in 1956, equivalent to 114 percent of the 1947–49 average. This represents an increase of 14 percent over the 1950 level and 20 percent over 1947. The biggest increase in output in the last few years has been in livestock and products, which last year stood at 123 percent of the base. Production of all crops remained unchanged at the 1955 level of 106 percent—a rate which was previously attained in 1948. The remarkable thing about this high level of crop production is the fact that it was harvested on the smallest acreage since the drought disaster year 1936.

This phenomenon of record output of crops and livestock on static or declining acreages has been an outstanding characteristic of postwar agriculture, and the answer is, of course, to be found in the persistent and long-term uptrend in yields—the old Gulliver's Travels story about 2 ears of corn and 2 blades of grass where only 1 grew before. This increase in yields of both crops and livestock becomes all the more notable when the steady decline in farmworkers is considered along with the lower acreage. The interplay of these forces is illustrated in the table below.

I would like to make this table a part of the record, Mr. Chairman.

The CHAIRMAN. Without objection, it is ordered.

(The table referred to is as follows:)

(1947-49=100)

	Crop production per acre	Livestock breeding units	Production per breeding unit	Farm output per man-hour
1940	88	95	92	69
1950	98	102	104	112
1956	106	106	117	135

Senator CARLSON. I want to briefly get into what is happening as to the amount of money the farmer gets of the commodities that are processed and retailed as food over the counter.

Food today, in terms of purchasing power, as far as the purchasing power of the consumer is concerned, is as cheap or cheaper than it has ever been in the history of this country.

The average factory worker today spends only 41 working hours to secure the food supply for his family for 1 month, while as recently as 1952 it required 51 hours.

The increased efficiency on the farms has been reflected to the consumer in great savings.

Retail food prices have increased 16 percent in the past 10 years, that is, 1947 to 1956, although prices received by farmers have declined 14 percent.

I have here a compilation of data by the Consumers Study Subcommittee, which was printed for the use of the Committee on Agriculture of the House of Representatives, and is dated April 15, 1957, so it is fairly recent.

These are the most recent figures that I could get.

I note here that retail food prices reached a peak in 1952, and then declined slightly in the following year.

Prices received by farmers reached their postwar peak in 1951, and then declined steadily until 1956, when farm prices stabilized. In 1956, retail food prices began to rise again.

In the latter period of 1956 and early 1957, prices received by the farmers recovered slightly from their postwar record low level, and the retail food prices increased even further.

There seems to be a tendency, when farm prices stabilize or at least increase a little, they get additional costs added to them, which is probably natural, but I do not think they come from having any effect on the farm sales of commodities.

The Agricultural Marketing Service of the United States Department of Agriculture makes monthly estimates of the farm value and retail cost of a typical "market basket" of farm food products purchased by an urban wage earner and clerical worker's family.

This statistical series indicates that the average worker's family paid 5 percent more and farmers received 17 percent less in 1956 for the same kinds and quantities of food purchased in 1947.

I appreciate you are not Secretary of Agriculture. You have problems, but I think he has more.

But I did want to get this in the record and, Mr. Chairman, I would like to put this statement and the table in the record at this point.

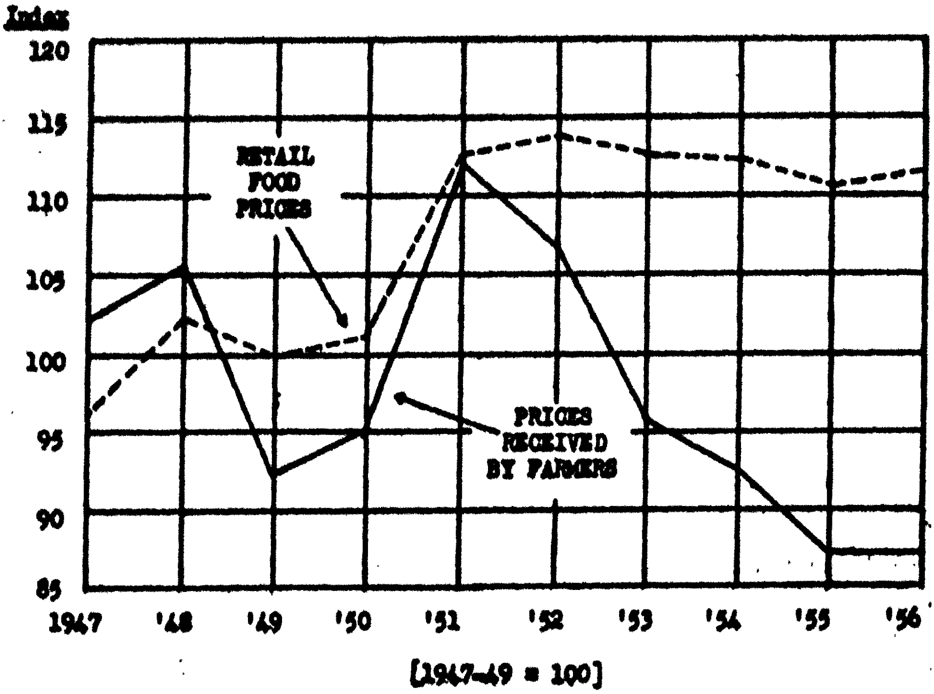
The CHAIRMAN. Without objection, it is ordered.

(The material referred to is as follows:)

RETAIL FOOD AND FARM PRICES, 1947–56

Retail food prices have increased 16 percent in the past 10 years although prices received by farmers declined 14 percent (fig. 1).[1]

FIGURE 1



Prices received by farmers and retail food prices, 1947 to date

[1947–49=100]

Date	Prices received by farmers	Retail food prices	Date	Prices received by farmers	Retail food prices
1947	102.0	95.9	1952	107.0	114.6
1948	105.9	104.1	1953	95.9	112.8
1949	92.5	100.0	1954	92.9	112.6
1950	95.1	101.2	1955	87.4	110.9
1951	112.2	112.6	1956	87.4	111.7

Source: Agricultural Marketing Service and Bureau of Labor Statistics.

Retail food prices reached a peak in 1952, then declined slightly in the following 3 years. Prices received by farmers reached their postwar peak in 1951 and then declined steadily until 1956. When farm prices stabilized in 1956 retail food prices began to rise again. In the latter part of 1956 and early 1957, prices received by farmers recovered slightly from their postwar record low levels and retail food prices increased even further.

The Agricultural Marketing Service of the United States Department of Agriculture makes monthly estimates of the farm value and retail cost of a typical "market basket" of farm food products purchased by an urban wage earner and clerical worker's family. This statistical series indicates that the average worker's family paid 5 percent more and farmers received 17 percent less in 1956 for the same kinds and quantities of food purchased in 1947.

[1] Prices received by farmers include prices of nonfood products, such as tobacco, cotton, feed grains, and forage crops.

Senator CARLSON. Now I want to discuss the table I have inserted as to how much the farmer's share is of the retailed food commodity. For instance, when the city family purchases bread—and this is quoting now from this document, which I assume to be correct, as the latest study I could find:

When city families purchase bread or prepared cereal products, they pay mostly for processing, packaging, and distributing the product—

which is what we have been discussing—

very little goes to the farmer for the raw product. For example, there is less than 3 cents' worth of farm-produced corn in a 22-cent package of corn flakes and only 4 cents' worth of wheat in a 28-cent package of soda crackers. The pound loaf of bread that sold at retail for an average price of 17.9 cents—

nearly 18 cents—

in 1956 contained wheat having a farm value of 2.6 cents.

Slightly over 2½ cents.

I might add, in 1956 farmers received only 2 to 3 cents for the sweet corn and peas in the cans which sold at retail for 18 to 22 cents. A can of tomatoes which retailed at 15 cents had 2.3 cents worth of tomatoes in it.

The farm value of meat products, for instance, percent change from 1947 to 1956, shows that the farm value declined 29 percent while the retail cost declined only 5 percent.

The farm value and retail cost of several cereal products in 1947 and 1956 is shown below.

That is shown in this table, and I want to ask, Mr. Chairman, that this table be made a part of the record.

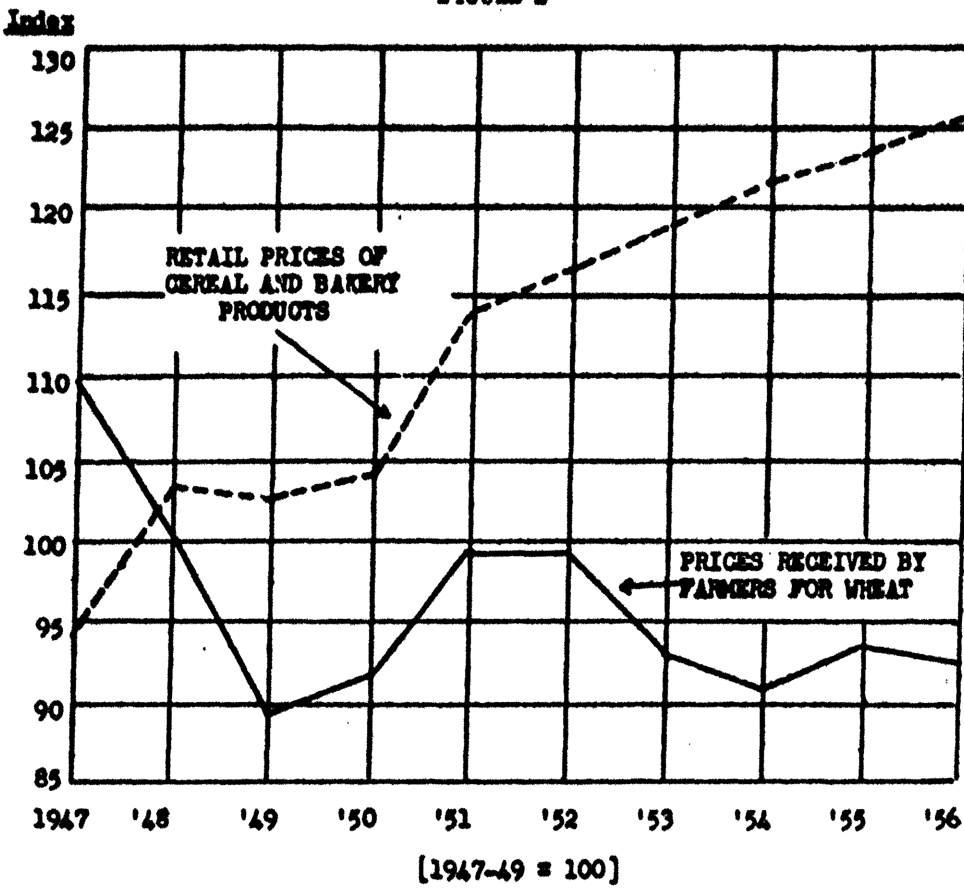
The CHAIRMAN. Without objection, it is ordered.

(The material referred to is as follows:)

FARM AND RETAIL PRICE OF CEREALS AND BAKERY PRODUCTS

The greatest divergence between the farm and retail prices in this 10-year period have occurred between the farm price of wheat and the retail prices of cereals and bakery products (fig. 2).

FIGURE 2



Average prices received by farmers for wheat, and retail prices of cereals and bakery products, 1947 to date

[1947-49=100]

Date	Average prices received by farmers for wheat	Retail prices of cereals and bakery products	Date	Average prices received by farmers for wheat	Retail prices of cereals and bakery products
1947	100.8	94.0	1952	99.1	116.8
1948	100.5	103.4	1953	93.0	119.1
1949	89.7	102.7	1954	91.1	121.9
1950	91.6	104.5	1955	94.4	123.9
1951	99.1	114.0	1956	92.5	125.6

Source: Bureau of Labor Statistics and Agricultural Marketing Service.

The farm price of wheat dropped 7 percent and the retail prices of cereals and bakery products increased 34 percent.

When city families purchase bread or prepared cereal products they pay mostly for processing, packaging, and distributing the product; very little goes to the farmer for the raw product. For example, there is less than 8 cents worth of farm-produced corn in a 22-cent package of corn flakes and only 4 cents worth of wheat in a 28-cent package of soda crackers. The pound loaf of bread that sold at retail for an average price of 17.9 cents in 1956 contained wheat having a farm value of 2.6 cents. The farm value and retail cost of several cereal products in 1947 and 1956 is shown below.

	Farm value		Retail cost	
	1947	1956	1947	1956
	Cents	*Cents*	*Cents*	*Cents*
Bread—1-pound loaf	2.9	2.6	12.5	17.9
Soda crackers—1 pound	4.3	4.0	24.7	27.6
Corn flakes—12 ounces	3.6	2.8	14.8	21.9
Rolled oats—20 ounces	6.0	4.4	14.6	19.3

The Agricultural Marketing Service estimates that the farm value of all ingredients used in the bakery products in their "market basket" declined 16 percent from 1947 to 1956 and the retail cost increased 31 percent.

Senator CARLSON. I hesitate to do this to you, Mr. Secretary, because you are up here to be interrogated, but I want to get these tables in the record.

Secretary HUMPHREY. They are very interesting tables.

Senator CARLSON. They are, really, and I did not want this record to be completed without getting some of them in.

I have another table, and it is taken from this same report, headed "Farm and Marketing Share of Food Expenditures, 1947–56."

The average city family spent about $1,500 for food in 1956. This compares with about $1,100 in 1950 and $1,000 spent for food by the average city family in 1947—10 years ago.

Surveys of consumer food expenditures made in 1947 and 1955 indicate that the average city family of 3.3 persons spent 32 to 33 percent of its income after taxes for food in each of those years. This is equivalent to about 30 percent of its income before tax payments.

Ten years ago, in 1947, the average urban family received an income of only $3,349, according to the Bureau of the Census. In 1950 the income of the average urban family had increased to $3,673 and in 1955 it was up to $4,840. The average city family's income before payment of taxes is unofficially estimated at $5,000 in 1956.

Of the $1,500 spent by the average city family for food in 1956, approximately $105 was paid to food importers and fishermen for imported foods and fish; and $465 of this $1,500 went to farmers for the farm-produced, unprocessed foods.

The balance, of $930, went to the industries which processed, transported, and distributed the foods to the retail purchasers. That is shown in the table below.

I could get into great detail, but I do not want to bore you with this because it is not your field, and you have been so kind; but I do want, again, Mr. Chairman, to put this in the record, if I may.

The CHAIRMAN. Without objection, it is so ordered.

(The material referred to is as follows:)

FARM AND MARKETING SHARE OF FOOD EXPENDITURES 1947–56

Of the $1,500 spent by the average city family for food in 1956, approximately $105 was paid to food importers and fishermen for imported foods and fish and $465 went to farmers for the farm-produced, unprocessed foods. The balance ($930) went to the agencies which processed, transported, and distributed the foods to the retail purchasers. Similar data for the 3 years—1947, 1950, and 1956—are shown below:

	1947	1950	1956
Average income of urban families	$3,349	$3,673	$5,000
Average expenditures for food and beverages	1,000	1,100	1,500
Estimated payments to importers and fishermen	50	66	105
Estimated payments to United States farmers	420	396	465
Estimated payments to marketing, transportation, and processing agencies	530	638	930

Of the $500 additional spent for food by the average city family in 1956 over 1947, $55 was paid to importers and fishermen for imported foods and fish, $45 went to farmers for farm-produced products, and $400 went to the various processing and marketing agencies which account for the so-called marketing margin. This indicates that of the $500 additional spent for food by the average family in 1956 over 1947, 80 percent found its way into the marketing margin and only 9 percent went to the farmers who furnished the consumers more livestock products and fewer potatoes and cereal products than 10 years earlier. The percentage increase in payments to each group in 1956 over 1950 and 1947 follows:

	Percentage increase in 1956 from—	
	1947	1950
Payments to importers and fishermen	110	60
Payments to United States farmers	11	17
Payments to processing, transportation, and marketing agencies	75	46

Senator CARLSON. We have, as I have mentioned before, many problems which affect agriculture and, in my opinion, are of vital concern, not only to the housewife and the consumer, but to the taxpayer.

What concerns me greatly is the fact that the farmer is the one who is caught in this inflationary period of rising prices. It is difficult to explain to the taxpayer that the farmer has to have some help if he is to be able to compete in this present-day economy of increased costs.

The improved standards of living in our country as a whole, with increased labor costs, increased farm machinery costs, and other costs which must be met by the farmer, require an increased farm income to meet these costs.

It is my personal opinion that the farmer will suffer more the effects from the recent steel increase in price than any other group, for the reason that his equipment is basically iron and steel.

A tractor or a disk, and all farm equipment, is primarily all iron and steel. This is adds greatly to farm costs.

It is easy for us to get the farm problem into politics. I speak as a politician myself. I have made many campaigns, and we have gone out and talked about rigid parity and talked about flexible parity, and I have often said that neither of them is going to solve the farmer's problem, but they make good campaign subjects. The present farm problem is deserving of the best counsel and advice that can be given by outstanding economists and students of agriculture.

I am wondering if you have any opinion as to how long our taxpayers are going to permit ever-increasing Federal expenditures for agriculture. Last year we voted $3.5 billion to agriculture, and this year $4.5 billion. I do not agree all of that is chargeable to agriculture. I think much of it should be charged to foreign aid and other relief programs, as it is a movement of surplus farm products under Public Law 480, and other public laws.

There are Federal funds for loans for price support. There are several intermediate agencies that the Government actually aids with direct appropriations and grants which accounts for the $4,500 million appropriated to agriculture.

How long can we expect the taxpayers to permit this increase without protest?

Secretary HUMPHREY. Well, judging from the evidences we have had this spring of public feeling about Government expenditures, I believe that all Government expenditures, not just farm expenditures but all Government expenditures, and, of course, that will particularly get back into things that are in the nature of subsidies, are going to be more scrutinized all the time, and more objected to all the time.

And I personally believe, as I have said many times, that our Government expenditures ought to be more carefully scrutinized all the time. So I think that your concern is probably justified.

Senator CARLSON. Well, Mr. Secretary, I did not want the record to be closed without getting some of these farm figures in, which are accurate figures, and I think they show the situation, which I believe is serious, in fact it is critical.

I am concerned about it, as I do come from an agricultural State.

There is a tendency to want to reduce prices on farm commodities. For instance, this year we have the loan support or price support out in Kansas of $2.06 a bushel on wheat. Next year it will be $1.78, unless the Congress changes it.

With 2.6 cents worth of wheat in an 18-cent loaf of bread, it does not make any difference whether wheat is $2.06 or $1.78 per bushel, as far as the consumer is concerned, but it does make some real problems on the farm.

I want to bespeak of you—your sincern concern about this when you get into civilian life, because I think you are going to feel it more there than you have in the Treasury. You are going to hear more directly from the farmers out there.

Secretary HUMPHREY. I think that is probably right.

Senator CARLSON. One more item, and then I am going to be through.

I did not want to let this session conclude without getting into housing. Everybody else has been into housing, and so I wanted to get into housing for about 2 minutes.

Recently, I read a survey completed by a national group in the home building field, the National Association of Home Builders, and they polled 500 of its better established members across the Nation and found, based on this survey—and I have a statement here which I want to make a part of the record—they found, based on this survey, that prices on new homes are up only 1 percent in 1957 compared with increases of 8 percent in 1956 and 11 percent in 1955.

If I have understood your testimony, and I have been here every day, I believe it has been your contention that, I do not say high interest rates, but high interest rates plus other costs have held back some construction, and probably have been helpful to the home purchasers.

Based on this table and this survey of the National Association of Home Builders, that would be correct, because the price has increased 8 percent in 1956 and 11 percent in 1955, and only 1 percent in 1957.

Secretary HUMPHREY. That would be further indication, another item to add to those we have already discussed that might indicate that this is beginning to be effective and take hold.

Senator CARLSON. That is one of the reasons I wanted to call this to the attention of the committee.

Now, the National Association of Home Builders, in this same survey, showed that the line was held on prices, and they state, of course, for two reasons: The purchaser becomes more selective, for one thing; and, secondly, it does cost more to finance the purchase and keeping of the home.

The typical new home in 1957 increased $200 this year, to $14,800, despite the increases that were reported by 88 percent of the builders for labor, 85 percent for land, 82 percent for materials, and 72 percent for promotion.

All these increases were taken care of, and yet they only added $200 to a house of $14,800.

Secretary HUMPHREY. That is very interesting.

Senator CARLSON. I should like to have this newspaper article regarding this survey made a part of the record, Mr. Chairman.

The CHAIRMAN. Without objection, it will be inserted.

(The article referred to is as follows:)

BUILDERS' SURVEY FINDS NEW HOMES' PRICE TAG UP 1 PERCENT OVER 1956

(By Hugh L. Morris)

Stabilized prices and a slackening pace in the upgrading of American homes appear to be important secondary effects of the decline in construction of homes.

That both are occurring is pointed up for the first time in separate surveys just completed by two national trade groups.

After polling more than 500 of its "better established" members across the country, the National Association of Home Builders says that prices on new houses are up only 1 percent in 1957 compared with increases of 8 percent in 1956 and 11 percent in 1955.

The National Association of Real Estate Boards surveyed 227 cities and reports that prices on used homes have firmed up but the turnover is slower because of the lack of new houses.

The NAREB says that the single-family used home built since 1940 is "strongly competitive" because land scarcity and rising costs have pushed up the prices of new houses at the same time that the tight mortgage money market has helped to reduce the volume.

It points out that new-home sales set off chainlike series of transactions. When there are fewer homes, there are fewer used ones sold with traditionally American "trading-up" sharply limited.

The NAHB survey says that the line was held on prices—the typical new home increased $200 to $14,800 this year—despite increases reported by 88 percent of the builders for labor, 85 percent for land, 82 percent for materials, and 72 percent for promotion.

Most of the difference was absorbed 2 ways: 74 percent of the builders claimed lower profits, and average floorspace was the same as in 1956—1,140 square feet—after 5 years' expansion.

The survey shows that 16 percent of the builders had private financing with minimum downpayments for 4½ percent GI home mortgages at 30 years, and 33 percent had similar financing at 25 years.

On 5 percent FHA financing, the comparable figures were 29 percent and 71 percent.

The NAHB reports that the prevailing terms on conventional loans were typically one-third down, 20 years at 5½ percent. It notes a slight easing from 6 months ago.

Senator CARLSON. Mr. Secretary, you have been most kind, and I certainly thank you.

Secretary HUMPHREY. I thank you very much, Senator.

The CHAIRMAN. Senator Douglas has yielded to Senator Gore, and the Chair recognizes Senator Gore.

Senator GORE. Mr. Chairman, in an effort to avoid repetition of the many, many questions which have been submitted to the distinguished Secretary of the Treasury, I have chosen to make a brief summary statement covering certain aspects of the problem, upon which, after I have made it, I will invite Secretary Humphrey to comment as he may wish.

At the very earliest minute I could get it from the mimeograph machine this morning, I sent a copy of this statement to Secretary Humphrey. I thought that was an act of courtesy to him.

And before going further, I wish the record to show, Mr. Chairman, that this committee has been favored almost daily during these long sessions with one of the most charming ladies ever to grace the Cabinet wives of the United States Government, Mrs. Humphrey, who is here today.

Secretary HUMPHREY. That is very nice.

Senator GORE. My first fundamental point—that was my warmup, Mr. Secretary. [Laughter.]

My first fundamental point of difference with the position of Secretary Humphrey, as taken before this committee, concerns the nature of the inflationary threat with which our country is confronted. There is no disagreement between us as to the consequences of inflation.

Perhaps some of my colleagues may recall the role I played in combating inflation, both before Pearl Harbor and after. The term "inflationist," by which, in his opening statement, Secretary Humphrey described all those who disagree with his policy, may fit some, but does not fit me.

Even so, there are some who, unfortunately and unwisely, consider it an utter impossibility to be in opposition both to inflation and to current governmental policies which allegedly are for the purpose of combating inflation but which have notably failed in this regard.

We have "true inflation," according to the weight of accepted authority, when an increase in the quantity of demand produces no further increase in output and therefore spends itself entirely in price increases.

I do not believe we are in such a period or such an economic state. On the other hand, it seems fair to conclude that Secretary Humphrey does think we have just such a classical inflationary condition.

Indeed, he said to this committee that further—

expansion of bank credit would merely have enabled more would-be buyers to bid up the price of the limited supply of goods and services.

As a further explanation of his understanding of the current situation, Secretary Humphrey stated that:

The reason that these inflationary pressures are on us now is because of the great prosperity which the country is enjoying at the present time. It is the

demand for building, it is the demand for goods, it is the demand for all sorts of things that are exceeding the supply.

The Secretary also agreed with the thumbnail summary of his views that this inflation "was caused by a bigger demand than productive capacity could supply."

Now, as the facts have been developed, no significant scarcity in goods and commodities has been revealed except in a very limited number of specialty items such as large structural steel shapes. On the contrary, surpluses of goods or of productive capacity to turn out more goods are in evidence almost everywhere we look.

The "limited supplies," as we have seen, are not in goods; but, rather, in money and credit. The "excessive" supplies, on the other hand, as we have seen, are not in money and availability of credit; but, rather, in goods and commodities.

Thus, Mr. Chairman, we have found our economic situation to be in sharp variance with the classical type of inflation which Secretary Humphrey has assessed and assumed the situation to be.

Then, I completely reject the position which Secretary Humphrey has repeatedly stated to this committee that the United States Government is, and should be, as helpless in marketing its securities and in managing the public debt as a local merchant "trying to sell a fur-lined overcoat in August."

Many of the hurtful consequences of such a concept and of such abandonment of responsibility have been developed during this hearing and are plain for all to see.

Now, Mr. Chairman, starting with these basic disagreements as to the nature of our problem and as to the capacity and responsibility of the Government to serve its fiscal necessities or to protect its fiscal integrity, disagreement on policy to cope adequately with the situation as it is, in contrast with what it has been assumed to be, is an entirely logical, if not unavoidable, consequence.

Even if we were, contrary to fact, in a period characterized by short supplies of goods, commodities, and services, and by excess supplies of money and credit, the economic policies now being pursued by this administration, admittedly of some value in such a situation, should only be used with restraint and discretion.

This would be true because of disturbing trends, both long-term and short-term, in our economy and our society which pose a basic threat to true free enterprise and reasonable equality of economic opportunity, to which I will later refer; and, also, because such policies, if badly organized or indiscriminately applied, tend to disarrange and often worsen desirable distribution of goods and fair distribution of income.

But, Mr. Chairman, when such policies are applied to the conditions as they are today, in sharp contrast to what they have been assumed to be, these policies are disclosed to be fallacious and hurtful because they create imbalance, not balance; instability, not stability; poorer, not better distribution; inadequate, not adequate economic growth and progress.

All this is true because these policies encourage rather than discourage the peculiar kind of selective price and income inflation combined with selective price and income deflation which continue to threaten our economy.

What we have, as I see it, is a highly selective, nonuniform price and income inflation. I know of no better example—though there are others—than the current inflation in the price of steel.

This, as the Secretary has acknowledged, will stimulate inflation of prices over a "wide area" of our economy.

A hardware merchant has told me that, immediately after the recent price increase of steel was announced, his wholesale supplier notified him that fencing wire would be increased $1 per bale to him.

This means higher prices for nails, hammers, saws, refrigerators, air conditioners, television sets, automobiles, plumbing fixtures, and down to such little things as metal compacts, lipstick containers, locks and keys, and to such big things as structural steel for buildings and highway and bridge construction.

Indeed, Mr. Chairman, our whole industrial economy has a strong metallic base. Our highly industrialized economy of today cannot exist without a constant supply of basic metals like iron, steel, copper and aluminum. The whole Nation is dependent for steel upon a very few tightly controlled large corporations.

This steel price increase has not been dictated by a depleted profit position in the steel industry. On the contrary, profits have been, and are, enormous. This inflationary increase in the price of steel has not been dictated by the classical inflationary condition of demand exceeding current productive capacity. The steel mills are currently operating at only about 80 to 90 percent of capacity, as we have seen. This price increase can hardly be blamed on competition in the steel industry.

What, then, is the reason for inflating the price of steel? Well, there is no mystery surrounding the reason for the increase in the price of steel.

The chairman of the board of United States Steel advised the stockholders at the annual meeting on May 7, 1956, that a projection of the financial needs of the company showed that they would need an additional $140 million. He then proposed to the stockholders that the method to use to get expansion capital "is by raising prices from time to time—as circumstances require and permit."

Similarly, the minutes of the Standard Oil Company of New Jersey for the meeting of the board of directors on December 13, 1956, showed that "for the first time in many years" the company was faced with the probability that they would have to use something more than internal financing to "cover replacements, modernization, and expansion."

However, as it inevitably turned out, this company was able to increase its prices to the extent that it was unnecessary for the company to resort to external financing.

This type of price inflation, primarily to finance expansion, is actually encouraged, not discouraged, by current Government policies. High interest rates and diminished possibility of competition, both created by current policies, encourage and invite big business concerns to finance their capital expansion and improvement in large part from inflated prices and consequent swollen profits.

In this way, Mr. Chairman, the public is unfairly forced to pay for the further concentration of the Nation's economic strength and wealth in big corporations, thus intensifying the growing threat to competition and equality of enterprise.

Thus, you see, like most other elements of inflation, it weeds upon itself.

The social injustice of this practices can be seen in the fact that the mass of our people are forced unfairly to pay higher prices for the products of big business, thus forced themselves to contribute to the further disparity of wealth and income between themselves and a comparative few who have large holdings in such corporate enterprise.

Because consumers are being made to pay unfairly for added plants and profits, through unfairly inflated prices and because of various tax concessions, these stockholders collect larger and larger dividends, and in addition can daily watch the rapid appreciation of their fortunes.

Steel is by no means the only example of such unfair gouging of the public by the big, the powerful, and the rich. Indeed, this is characteristic of our current economy and is encouraged and abetted by governmental policy.

According to the statistics from the Securities and Exchange Commission, corporations spent $35.1 billion in 1956 for expansion and improvement. Of this amount, only approximately $10 billion came from long-term borrowings or new stock issues.

The overwhelming proportion came from internal financing—inflated prices and swollen profits and depreciation reserves. Though expansion financed in part by profits may be sound practice, this extreme profiteering appears to me unconscionable.

This disturbing development is not only abetted by monetary policy, but possibly even more by tax policy, by appointments to and policies of regulatory agencies favorable, not to the public interest, but to the very interests which such agencies and personnel are supposed to regulate, and by other actions and policies of the administration which create what Secretary Humphrey described to us as "an improved climate for enterprise."

I find myself in agreement with both Secretary Humphrey and the new Secretary-designate, Mr. Anderson, that higher interest rates are both inflationary and deflationary.

It so happens, though, that the deflationary effect of higher interest rates is most effective in that portion of our economy in which we have the least amount of price and income inflation—or, in some instances, even deflation—and is most effective in that portion of our economy in which we have administered price inflation.

Though higher interest rates, as Secretary Humphrey has said, help one group of our people a great deal, as I see it they hurt most people severely.

Secretary Humphrey has repeatedly referred to action by the Government to hold interest rates down as "artificial," but has referred to action to increase interest rates as "natural." The fact is that one is as "artificial" as the other, both being the result of positive action by the Government.

Though we have heard much about the sale of Government securities "on the nose" at what the market will take, actually Government bonds have been deliberately sold at interest rates higher than necessary, thus placing an unnecessarily heavy burden on taxpayers for many years to come.

On yesterday, in fact, Secretary Humphrey, with characteristic and commendable candor, expressed the opinion that we might be better off if he had led the market "a little more than we did."

On yesterday, too, Secretary Humphrey jocularly remarked that we often try to go in two directions at once. That was in an exchange with Senator Anderson.

In all seriousness, that is exactly how governmental policies have been applied in some instances.

For instance, in 1953, the Government raised rediscount rates in the Federal Reserve System, thus increasing interest rates throughout the Nation's banking system and, in the same year, not only lowered reserve requirements, thus expanding credit, but also lowered by 33⅓ percent, margin requirements, thus stimulating speculation in corporate securities.

In fact, both reserve requirements and margin requirements are lower even today, as they have been during the past 4 years, than they were in January 1953, even though in the period from March 1955 to date, the rediscount rate has been increased successively 11 times, thus giving successive boosts in interest rates to the Nation's banking system, on installment credit and in the market place.

Thus, Mr. Chairman, it will be seen that interest rates have been increased primarily for the purpose of increasing income from interest.

The greatest artificiality of our age is the corporation. It is a fictitious person, but nevertheless a legal entity. I accept the necessity of a corporate entity. It has been very valuable in our economic development.

I do question, however, the unreasonable and unjustifiable favoritism toward income from corporate investment and other policies which, specifically, and in general, encourage the creation of corporations and unduly encourage investment and speculation in corporate stock.

The monetary and economic policies of the Eisenhower administration, labeled "antiinflationary," seem to me to miss the mark. They severely hurt, as already demonstrated, large segments of our population and economy, particularly those segments of our economy that are characterized by competition and multiplicity of small-business concerns, and those people who must borrow money or buy goods, homes, and automobiles on time.

Major sources of inflationary pressures in our economy, on the other hand, are augmented by, instead of repressed by, these policies.

The result, Mr. Chairman, is to make the big bigger, the rich richer, and to threaten the existence of a climate truly favorable to individual enterprise and equality of opportunity.

These trends have produced conditions in our country and attitudes on the part of Government officials, as well as on the part of many private citizens, which are unhealthy. We have found it possible, for instance, to repeal the excess profits tax, but we have not found it possible to increase tax exemptions for a child or an aged dependent.

We have not found it possible to return to the prewar policy of giving some preference in income taxation to income actually earned by human efforts, but instead we have gone so far in the opposite direction as to give a tax preference to unearned income from dividends.

We have given vast benefits through rapid tax writeoffs to bring about construction of more factories, even though existing productive capacity was by no means fully utilized, but we have not found it possible to pass a school construction bill.

We have given vast interest-free loans to big business to build plants, but programs to help people become homeowners falter and fail because of deliberate Government policy of forcing higher and higher interest rates on home mortgages.

In these ways, and in many others, Mr. Chairman, our Government is favoring material values over human values. This I challenge with all the sincerity of my being. I challenge it in whole and in part.

The resolution adopted by this committee is a broad one. It encompasses the whole economy, and is not limited, as some may have concluded, to monetary and fiscal policy.

I hope this investigation will be a searching inquiry into not only current monetary and fiscal policies, which are an important part, but only a part, of policies or lack of policies, action or lack of action, the responsibility for which is partly on this committee, creating the conditions which I have briefly described and which I view with alarm, but also tax structure, economic concentration, maladjustments of distribution, threats and impediments to free enterprise, and the whole economic fabric of our society.

Do you wish to comment, Mr. Secretary?

Secretary HUMPHREY. Well, Senator, as you have stated to the committee, you very courteously sent me a copy of this just as soon as you had it off the duplicating machine, and I had the privilege of reading it in the automobile as I came to the meeting.

I think this is a very full statement of your summarization of the discussion that has gone on here for the past 4 weeks, from your point of view. But I think it would be simply a duplication of effort to go back over the various facts and figures and discussion and points of view which have been brought out and discussed here for the past 4 weeks.

So that I believe the most progress—I think this is a very proper part of the record of these hearings; a very proper expression, from your point of view, of what you believe, conclusions you have a right to draw from what has gone by.

But I think it would not be profitable for anybody to go back and rehearse the record again with respect to it.

Senator GORE. Well, it was for the purpose of avoiding just such a repetition that I gave the summary statement. Of course, I would be pleased for you to make any statement you desire to make.

If you have no further comment, I will have a few questions which I think have not been answered.

Secretary HUMPHREY. Fine.

Senator GORE. From time to time, you have referred to "rolling readjustment," and "leveling off," and "rhythms" in our economy.

I would like to read a few excerpts from the Memoirs of former President Herbert Hoover. Then I will again afford you an opportunity to comment as you may wish.

The stock boom was blowing—

I am not, in fairness to the text, reading seriatim, but selecting sentences from a few pages.

The stock boom was blowing great guns when I came into the White House. I therefore resolved to attack the problem from several directions, in addition to securing cooperation from the Federal Reserve System.

To create a spirit of caution in the public, I sent individually for the editors and publishers of major newspapers and magazines and requested them systematically to warn the country against speculation and the unduly high price of stocks. Most of them responded with strong editorials. This had no appreciable effect, however.

Secretary of the Treasury Mellon and others at my request, issued repeated statements urging the public to convert their stocks into bonds and advising other forms of caution. This also had no effect.

My second line of attack, 6 weeks after my inauguration, was to request Mr. Henry M. Robinson, president of the First Security National Bank of Los Angeles, to go to New York, and to talk in my name to the promoters and bankers behind the market. But the New York bankers all scoffed at the idea that the market was not sound. They were certain this was a new era in which old economic experience did not apply.

A dispute arose between Governor Young of the Federal Reserve Board and important banks as to whether or not the discount rates should be raised as a brake on speculation. Governor Young contended that to raise the rate simply gave the banks larger returns by penalizing commercial business.

At one moment the Federal Reserve Board's action forced money rates for speculative purposes up to 20 percent per annum, but people who dreamed of 100 percent profit in a week were not deterred by an interest rate of 20 percent in a year.

Mr. Young actually demonstrated the futility of the idea upon which the Reserve System had been founded, that it could control booms. Control of interest rates could not stop them.

The Federal Reserve Board on August 6 finally increased the discount rate to 6 percent. It had no effect whatsoever on this Mississippi bubble. The stock market slump on October 29, 1929, came 7 months after I entered the White House.

When the inevitable black morning of their dream dawned, the exponents of the new era were surprised. Promptly we had a flood of reassuring statements to the anxious speculators from economists, bankers, the press, labor leaders. Charles E. Mitchell of the National City Bank announced that "the reaction had outrun itself."

The New York Times praised the soundness of the financial structure. Mr. Rockefeller, Mr. Morgan, Mr. Raskob, all announced that they were buying stocks.

I am not a pessimistic soul, but I was not impressed by all this optimism. The normal business cycle periodically must readjust disequilibriums which are a part of the rhythm of our growing free economy, but this was more than rhythms.

In view of this statement by the former President, that the raising of interest rates had no effect at all to stop the boom, or check the speculation in corporate issues, I wonder if you would be willing to indicate whether you think the higher interest rates imposed for the past 4 years have had an appreciable effect in that regard.

Secretary HUMPHREY. As I have said, Senator, a number of times, both in this hearing and previously, I do not believe that there is any single system or any pat way or easy way of controlling the whole economy from Washington.

I do not believe, and I think everybody must recognize, based on the experience that we all went through as outlined by you, that you read from the situation in 1929, that interest rates alone or Federal Reserve Board action alone can prevent a reaction if excesses have occurred in the economy of so great a nature that they, in turn, will force revisions through economic laws.

I think, as I have said yesterday and as I have said many times before, that we can in Government, the Government can, lean against the wind, the Government can attempt to discourage on the upside and encourage on the downside, and I think its efforts can be helpful, within limits.

I do not think they can be conclusive. I do not think any one of the things that can be done is particuarly effective unless it is joined in with others. I think that a sound financial position—a sound fiscal policy—must follow along.

I think control of Government spending is a very important element of this whole situation. I think the fact that we are spending so much money now for our security, that we are putting so much money into payrolls for the manufacture and production of goods which make no contribution whatever to the permanent capital of the country—and I am thinking of armaments and I am thinking of bombs, I am thinking of guided missiles, I am thinking of long-range bombing airplanes. We are putting billions of dollars into those things and into research for the further production or the improved production of those things, all of which goes into payrolls, goes into the spending stream, goes into the power of people to buy, and produces no goods whatever for the people to buy with the money that goes into that spending stream.

Now, I think that that situation, in and of itself, is a great inflationary pressure. It is going on in other countries of the world, and for pretty much the same reasons.

I believe that by leaning against the wind, by attempting to restrain excessive optimism at proper times, and to discourage excessive pessimism at other times, we can moderate swings. I hope we can do so, and by Government financing and better control, and continually improving Government control of expenditures, and ultimately a lessening of Government expenditures by substantial amounts, by some way or other in this world working out a more secure system so that so much of the world's effort is not directed to the production of goods which do not contribute to the living of the people, the armaments that I speak of, so that so much effort is not dissipated in that form but can be turned into the making of machine tools and the building of factories and the making of goods that people can enjoy currently, add to the capital of the country or to the living of the people. As that goes on I think we have, if we are wise and careful, and if we are flexible and do not get rigid in our positions, I think we have an opportunity to at least ameliorate swings, and I hope avoid any serious swings.

Senator GORE. Mr. Secretory, that is a very courteous and general statement of your views. I had hoped we could be a bit more specific, thus avoiding repetition of the fields that have been covered.

To come to a specific point: o what extent do you think corporations in positions of quasi-monopolistic suppliers are justified in financing plant improvement and expansion, the acquisition of assets, through higher prices?

Secretary HUMPHREY. Well, that is a very large and important question, and I think that——

Senator GORE. I think you will agree it is a question which has not been——

Secretary HUMPHREY. Raised here.

Senator GORE (continuing). Been raised here; yes.

Secretary HUMPHREY. That is right.

Senator GORE. And in the interest of conserving your time and the time of the committee, and my own, I am trying to steer clear of repetition.

Secretary HUMPHREY. I appreciate that, Senator, very much, and I will try to also steer clear of it.

I think the only simple answer to the question you ask is this: that if prices are raised to a point where you have an undue profit from the sale of goods, those prices, I would say, are too high and are improper.

If, however, the total profit that is made on the sale of goods is a reasonable profit, and that profit is only partially distributed to the stockholders of the company and partially withheld for the improvement of the property, I think that is a very fair and proper use of corporate functions.

Now, if the profit is reasonable for the owners of the business, they either can have it all, if the directors declare it as dividends, and they then have a proper return on their money, or they can have a lesser return on their money by a smaller dividend, and the balance that is retained can very properly then be used in the expansion of the business or the renewal or the improvement of the business and in the maintenance of the business for future development.

Senator GORE. I agree heartily with that general statement.

I believe it requires, however, in order to arrive at some meeting of the minds, some interpretation of what is undue profit and what is reasonable profit.

Secretary HUMPHREY. I think that is right.

Senator GORE. Excuse me?

Secretary HUMPHREY. I think that is right.

Senator GORE. Do you think that the profits are reasonable, or undue, in the case of the steel industry, in which the record, I believe, will show we have seen successive years of record dividend distribution, and also earnings retention?

Secretary HUMPHREY. Well, I think that whether they are reasonable or not would depend very largely upon the amount of money that is earned upon the capital invested, the percentage that is earned on the volume of sales, and such items as that.

I think that those measures are a fairer measure than a comparison whether one year is more than another or not. It may be that a lower year was unduly low, and that a new record earnings is just coming up to what is reasonable, or is maybe still relatively low.

I think that until you have the figures before you, which I do not have, to show what percent is earned on sales and what percent is earned on investment, it is very difficult to say whether a profit is too high or too low, or good or bad, just because it compares one way or another with a previous year.

Senator GORE. I think that is again a statement with which I fully agree. We have not yet arrived at either a definition or a positive difference in point of view with respect to the propriety of the profits of the steel industry and the price increases.

Do you think the $6 per ton increase in the price of steel was reasonable or undue?

Secretary HUMPHREY. Well, I was asked that the first day, Senator, of the hearings, and I said this: That I have been out of the steel business for 4½ years. I have been working for the Government for

4½ years, and I am not prepared or qualified to comment on the steel business.

Senator GORE. You profess no knowledge of the steel industry?

Secretary HUMPHREY. I will not go quite that far. [Laughter] But I will say I have no current knowledge.

Senator GORE. You have not paid any attention to earnings reports?

Secretary HUMPHREY. No; I have not.

Senator GORE. Company statements?

Secretary HUMPHREY. No; I have not received a company statement of our company since I have been here, except the annual statement that is published and distributed to the public.

Senator GORE. Well, maybe we can approach the problem a little more specifically.

Secretary HUMPHREY. And that is true of any business with which I am associated.

Senator GORE. Let us approach the problem a little more specifically and in another way.

Is there any particular meaning in fair and proper profits in the operation of the law of supply and demand when you are dealing with a monopoly supplier of a product which the Nation must have?

Secretary HUMPHREY. Of course, it is a little difficult for me to answer that, because you incorporate in it a condition that I think you have got to take into account. You say a "monopoly supplier."

Senator GORE. Make it "quasi."

Secretary HUMPHREY. I do not know just what "quasi-monopoly" is. I am sure that——

Senator GORE. Do you know what "monopoly" is?

Secretary HUMPHREY. I think I will put it this way, Senator: I think you and I, Senator, have quite different ideas about the degree of competition in the steel business, and in a lot of other businesses.

Senator GORE. I am not sure that we do.

Secretary HUMPHREY. I think they are pretty competitive.

Senator GORE. Well, let us see——

Secretary HUMPHREY. And always have been.

Senator GORE. Let us see——

Secretary HUMPHREY. Again barring the last 4½ years. They may have varied their practices. [Laughter.]

Senator GORE. I understand you profess no knowledge of the last 4 years, though I believe you did not exactly say that.

Secretary HUMPHREY. I did not quite say that.

Senator GORE. Do you think the other five principal steel companies will, within a matter of a few days or few weeks, be increasing their price of steel by $6 per ton?

Secretary HUMPHREY. I think they will approximate the same prices that the United States Steel Corp. has sold for, yes, and I think if they do not get as much for their product as their competitors do, they have a pretty stupid management, and I think it would be almost impossible to sell their goods if they tried to charge more.

Senator GORE. Well, will you please explain——

Secretary HUMPHREY. It is just kind of an automatic thing.

Senator GORE. Will you please explain just how competition brings about an identical price for steel by all six of the major corporations supplying the Nation's steel? How does competition bring that about?

Secretary HUMPHREY. I think the way price relationship is established is, in times of easy supply, the low man fixes the price pretty well—that is, the low man that can supply a volume; because it is pretty hard, when there is an ample supply of goods, if one producer is willing to take so many dollars for his product, it is pretty hard—until his product is all sold, at least—to have anybody else get any more.

You, as a buyer, if there are two of us come to you as sellers, and there is ample material available, and I quote $5 and my competitor quotes $10, why, I am going to get the business. And if my competitor wants to participate in the business, he is going to promptly revise his price down to $5 in order to meet mine, in order to try to participate in the business with you.

The opposite is true when there is a very short supply. When there is a short supply, as you bid up, then, for my steel or my materials of any kind, the price that I will take will fix what the other people have to take or else they just automatically read themselves out of the market.

So that the fellow who will take the lowest price for his product is the fellow who sets the market.

Senator GORE. Well, Mr. Secretary, again as a general statement I could agree with that. But will you please relate that, with your very limited knowledge of the steel industry, to the steel industry? When has there been a soft supply situation in the steel industry? Are we in such a situation now?

Secretary HUMPHREY. In some lines we are, and we have been.

Senator GORE. Is the current soft supply situation responsible for the condition which you just described, which prompts six steel companies to charge the exact same price for steel?

Secretary HUMPHREY. Well, as long as some fellow has it for sale, they will all come to about his price, as I say, because you ought to be a little ashamed of yourself if you cannot get as much as the other fellow, and you certainly cannot get more.

Senator GORE. You said, though, that in case of a soft supply situation, the price would be lowered to meet the competition of the low man.

Secretary HUMPHREY. That is right.

Senator GORE. When has that prevailed in the steel industry; not during the last 4 years, but prior to the last 4 years?

Secretary HUMPHREY. Well, I think ordinarily, it has always been about that. I think the fellow who will take the least for his product is the fellow who fixes the price?

Senator GORE. You think that is——

Secretary HUMPHREY. Until he is out of the market.

Senator GORE. Then how is it, Mr. Secretary, that now the man who fixes the highest price fixes the price?

Secretary HUMPHREY. Well, I am not sure that this is the highest price.

Senator GORE. You think there may be another——

Secretary HUMPHREY. I am not at all sure but that some of the other producers might have thought they ought to get more. In fact, I read in the newspaper some very severe comments by the president of the Jones & Laughlin Co., who is extremely critical of this, and he thought he ought to have $10 a ton more.

But it does not make any difference what he thinks; if the United States Steel Corp., is willing to take $6, or if somebody else is willing to take $6, until they are sold out he has either got to sit on the sidelines or meet the price.

Senator GORE. Well, now, let us analyze that a bit, Mr. Secretary. Are we now, with current production last week at 79 percent of capacity, according to the press report, in a soft supply situation in steel?

Secretary HUMPHREY. I think there is ample steel in some lines, and, as we pointed out the other day, it is short in others. They are not all the same.

Steel, you see, Senator, is a term which covers a wide range of articles——

Senator GORE. I understand.

Secretary HUMPHREY (continuing). And some articles can be in much greater demand than others.

Senator GORE. I am not referring to the specialty items.

Secretary HUMPHREY. And you cannot switch entirely from one to the other. It is not a thing, I mean, if you happen to be a little short of wire, you can just switch from bars into wire and say you have got more wire.

Senator GORE. Like you, I profess no special knowledge of the steel industry, but I was aware of that. [Laughter.]

Secretary HUMPHREY. I think that is common knowledge.

Senator GORE. It would have to be pretty common, I guess, to get down to my level in steel. [Laughter.]

But I would like to get you to relate your statement to the present situation. You say that when there is a soft supply situation, the low man fixes the price.

Secretary HUMPHREY. And when there is a tight situation, the buyer, the highest bidder of the buyers, fixes the price.

Senator GORE. All right.

Now, which situation is it, soft or tight, when United States Steel announces a $6 price increase and the other five play "follow the leader" in a matter of a few days, as you say you anticipate they will do?

Secretary HUMPHREY. I think, generally speaking, when you have 85 or 87 percent operation, that that is an easier situation. That is not a tight situation.

Senator GORE. Well, is it soft or tight, or in between?

Secretary HUMPHREY. It is a reasonably soft situation.

Senator GORE. So, then, when——

Secretary HUMPHREY. There is excess of capacity in many lines.

Senator GORE. So, then, when the situation is either tight——

Secretary HUMPHREY. It has been tight, you see. You are just swinging here—as we pointed out the other day, in the past 16 months we have gone from shortages in a good many lines to easier supplies in a good many lines.

Senator GORE. Then when the supply situation is tight, or reasonably soft, the price leader in both instances sets the price for all the companies?

Secretary HUMPHREY. No, not necessarily. When steel——

Senator GORE. I did not say necessarily.

Secretary HUMPHREY. When the commodity is short, the buyer is the fellow, because it depends on what the buyer will bid.

When it is easy, why, the low seller sets the price.

Senator GORE. You say it is a reasonably soft supply situation in the steel industry now.

Secretary HUMPHREY. That is right; and I would think today, under today's conditions, in many lines the lowest seller would set the price.

Senator GORE. Well, you said a few moments ago that you expected that all six concerns would meet the price announced by United States Steel.

Secretary HUMPHREY. That is right. And if they can sell their goods at that competitive price and get a reasonable operation, that will be the price.

If they find they cannot sell at that price, I would expect that you would see somebody else cut it lower and get some business.

Senator GORE. But as long as production——

Secretary HUMPHREY. As long as he can sell at his price, if you can get $6 for your steel, I am just a little ashamed of myself if I cannot sell equally with you and not get $6. But if I cannot, rather than shut down, I will take $5 and take some business, and that is the way it works.

Senator GORE. Do you really contend, Mr. Secretary, that the classical law of supply and demand operates now and does operate normally in the steel industry?

Secretary HUMPHREY. Well, it was operating very normally 4½ years ago.

Senator GORE. Well, I think that would require a definition of what you call "normal." In view of your prior knowledge of the steel industry, not current——

Secretary HUMPHREY. Well, it was operating the way I have indicated, when I was in it.

Senator GORE. With a very few who control the supply in an item which the Nation must have to sustain its industrial economy, you think that the operation of the law of supply and demand is normal?

Secretary HUMPHREY. I think so. I think that, in my experience, you can have just as difficult competition and just as effective competition with a small number of strong companies as you can with a large number of weak ones.

Senator GORE. I will not pursue it further. It is obvious you and I do not agree on this point.

Secretary HUMPHREY. I think that is right, Senator. [Laughter.]

Senator GORE. If it is not obvious to anyone else, which I fear it has been for some time, it is at least obvious to you and me.

Secretary HUMPHREY. It is obvious to us.

Senator GORE. Yes. [Laughter.]

Of course, Mr. Secretary, human beings, in many respects, are products of their environment. That is no less true of me than it is of you and others. It is natural, therefore, that we would have different points of view on this situation, as well as others.

It is for this reason that I have been disturbed about the trends in Government under an administration in which practically all of the high officials are drawn exclusively from the big business segment of our society.

Those who come from that environment can, in all sincerity, think that what is good for General Motors is good for the United States;

can, in all sincerity, confuse ownership of stock in large corporations with ownership of America.

I would like to read to you what I think is an eloquent statement of the "trickle down" theory. On page 90 of the hearings before this committee on H. R. 8300, April 7-8, 1954, I find this statement which you made:

The recommendation to reduce double taxation of dividend income will encourage the investment of savings so that business can expand and create more jobs.

It was only yesterday that you told Senator Anderson that taxation, in your opinion, should be for one purpose, and I believe one purpose only, that of raising revenue.

This would indicate that in 1954 you had a different purpose in mind.

Continuing the quote:

Largely because of tax restrictions, the trend in recent years has been sharply away from equity financing toward borrowing. This is the wrong way for America's economy to finance its expansion.

Now, that comes to the point I asked you a few moments ago: To what extent you thought it was proper for corporations in a quasi-monopoly supply position to finance expansion from prices and profit increases, price and profit inflation, rather than from equity financing.

In 1954, you said this was the wrong way for America's economy to finance its expansion. Is that your view today?

Secretary HUMPHREY. Well, now, you have asked two questions, and let me answer them one at a time.

Senator GORE. I beg your pardon; I did not mean to be unfair in submitting them.

Secretary HUMPHREY. That is right; but you have asked two questions, and I will just answer them one at a time.

Senator GORE. Fine.

Secretary HUMPHREY. The first question you asked, if I had a different view 4 years ago about taxation than I had yesterday when I was talking to Senator Anderson——

Senator GORE. That was not a question. That was a statement. You may treat it as a question.

Secretary HUMPHREY. I want to correct it, because it is a misstatement.

Senator GORE. Why?

Secretary HUMPHREY. It is not correct. I have had exactly that same view, and if you will look back into many of my speeches at that time, you will find exactly the statement I made yesterday, I made at that time.

The reason that I favored at that time, and still favor, a reduction in the double taxation of dividends is because, as I said to Senator Anderson yesterday, I believe that in raising the amount of money we have to have to pay our bills, it should be as fairly distributed as possible, and I think it is unfair to tax double the dividends that are earned by corporations. I think it is a double taxation on the same money.

We limit it to a limited number of people, and those are the people who are stockholders in corporations.

Therefore, I advocated and recommended, and I still advocate and recommend, that that double taxation be eliminated.

I did not recommend that it be done all at once, because I thought that was too much of an adjustment to take at one step. I recommended that we start it, and you will find in my statements at that time I said I hope this will be a start, and that we will go further as other countries, such as Canada and Britain and other places, have done in eliminating the double taxation, which I believe is unfair to this group of people.

I said as well as being fair, more fair or reasonably fair to that group of people by starting to eliminate that double taxation, it is also beneficial to the people at large because it does help to increase our productive capacity throughout the country.

So it served a double purpose. But the purpose was to get a fairer distribution of the charge of taxation, and avoid a double tax.

As to the second question——

Senator GORE. May we——

Secretary HUMPHREY. Well, we will pursue the first one.

Senator GORE. You have presented what, to me, is an utterly unacceptable concept, conclusion, and recommendation.

It is your view now that actually there should be no tax whatever on income from corporate dividends?

Secretary HUMPHREY. I am not sure that it should be none. At least to the extent that the corporation pays the tax, there should be none.

Now, then, I am not sure, and that question has not been raised yet because we have never approached that point. But with our scale, our increasing scale, of taxation, it may be that if you ever approach that point, you would want to consider, and we did think about it and consider it, a credit of the corporate tax against the individual tax, which would not eliminate the highest rate of tax.

It was thought best to do it this way as a start. We thought this was the simplest and the fairest way to start to do it.

Senator GORE. But you have stated, as you have said, previously, and you restated a few moments ago, that ultimately you think the tax on corporate dividends should be eliminated.

Secretary HUMPHREY. No, I have just stated again to you——

Senator GORE. There was a slight difference between your two statements.

Secretary HUMPHREY. I think the double tax—let me put it this way: I think the double tax on corporate dividends should be eliminated. I do not think the corporation and the individual should both pay tax on the same money.

Senator GORE. Then you think that if the corporate rate is 52 percent——

Senator HUMPHREY. At least to that extent the income should not be double-taxed to the shareholders.

Senator GORE. You think, then, dividends should have what kind of credit in taxation?

Secretary HUMPHREY. Well——

Senator GORE. Will you spell that out?

Secretary HUMPHREY. Well, the kind of credit we adopted was in favor——

Senator GORE. Well, to reach your goal of having no, what you call double taxation, which I say we do not now have, but accepting your definition of the term, to what extent would you give dividend credit to eliminate what you call double taxation?

Secretary HUMPHREY. Well, I would start as we have started, and I would keep increasing it as adjustments could be made, could properly be made, as you go along.

As I say, I do not think you can do it all at once.

Senator GORE. Well, at what dividend credit would you arrive, when you arrive at the goal which you have described, and which you recommend, as complete elimination of double taxation?

Secretary HUMPHREY. That is a long way in the future, Senator——

Senator GORE. I am not asking you to estimate the time.

Secretary HUMPHREY (continuing). When you are going to do it, because as you make these adjustments, they will have to be made a step at a time, just as you do with a great many other adjustments.

We have made a lot of adjustments in that in the bill, the tax-revision bill. We made a lot of adjustments, I think all of which were beneficial, a good many of which were simply steps in the right direction. And I think you have to take it a step at a time.

Senator GORE. I did not ask you, Mr. Secretary, as to when you thought we could arrive at that point. I was trying to elicit from you a mathematical estimate of the tax credit which would be necessary.

Secretary HUMPHREY. I would like to eliminate the double taxation.

Senator GORE. This is what I am trying to find out: What income credit, what dividend credit, what tax credit, what rate would be necessary to eliminate what you call double taxation?

Secretary HUMPHREY. Well, it would depend on what the rates were at the time you were talking about.

Senator GORE. Let us take a given rate at 52 percent for corporate taxes.

Secretary HUMPHREY. I do not know just what you mean. You cannot——

Senator GORE. Well, the present dividend credit does not eliminate what you call double taxation, does it?

Secretary HUMPHREY. That is right. It is just a step toward it.

Senator GORE. I am trying to ask what rate would be necessary?

Secretary HUMPHREY. I would eliminate all of the double taxation, if you can finally reach that point.

Senator GORE. Well, I am trying to ask you what the rate would be when you reached that point, if you had a 52 percent corporate rate?

Secretary HUMPHREY. Well, it would be 52 percent.

Senator GORE. You would give a 52-percent tax credit?

Secretary HUMPHREY. Yes.

Senator GORE. It took us a long time to get there.

Secretary HUMPHREY. I did not know what you were driving at. I could not make it out.

Senator GORE. I apologize for my clumsiness in making myself clear on that.

Now you have stated your position. I will not argue with you about the fiction of double taxation. That is an argument which has gone on for some time. I completely reject the very theory of double taxation, that such a thing as double taxation is involved in the taxation of a corporation on the one hand, and individual income from dividends on the other. The corporation is a legal person, and so is a stockholder. Whether or not the corporation is a person, I will not argue.

However, since you have stated this position, do you think there should be a graduated system of corporation taxes?

Secretary HUMPHREY. No, I do not. I am opposed to that.

And the reason I am opposed to it, Senator, is this: that I think a person who has $5,000 to invest should not have to pay on the earnings that go to, that will eventually come to, that $5,000, a greater tax if that money is invested in A company than if it were invested in the B company.

In other words, I think the same $5,000 should pay the same tax, should not pay more than the same tax, in the corporations, whether it is a big corporation or a little one, in which the investment is made.

Senator GORE. Then you would be opposed, I take it, to the preferential rate now given to the small corporation.

Secretary HUMPHREY. Well, not necessarily. That is not a graduated tax like the individual income tax.

I think you can well have, for many purposes, you can well have a beginning division, such as you have in lots of things. These things, the theory and the practice, never completely work out for many reasons, and many conditions, and I think that a beginning rate for a particular size, both from the practical point of view of collection, and from the practical point of view of getting the money and the cost and expense of getting the money, collecting the money—and that is one of the things we always have to have much in our minds—is a perfectly proper division.

Now, just what that beginning rate might be, or that rate below which you would not try to collect that amount, it is hard to say. Whether the present one is correct, or whether it should be higher or lower, I am not arguing that. I am saying that it is perfectly proper to take something of that kind.

Senator GORE. As a matter of equity?

Secretary HUMPHREY. As a matter of equity and commonsense and enforcement.

Senator GORE. Mr. Secretary, I believe you said yesterday, or you said earlier—and I do not wish to pursue this particular point other than in preparation for another question—that it would be almost impossible to sell a long-term Government bond now at any reasonable rate of interest.

Secretary HUMPHREY. I think that is right.

Senator GORE. Then, Mr. Secretary, if the Government gave a 52 percent deduction on income from corporate investment, how could you ever sell a Government bond, the income from which is taxed?

Secretary HUMPHREY. Oh, I think it would have relatively little effect. They are entirely different kinds of buyers. They go for entirely different purposes. And, you see, there are all sorts of investors. Investors are not just one group of people that all want the same thing.

Once in a while you get a lot of them who all want to buy some particular stock, and then you get into trouble with that stock. Then it goes too high. Or they all get disgusted with it at once, and it goes too low.

Senator GORE. Let us take a given investor.

Secretary HUMPHREY. But you have all sorts of investors who require different kinds of investments, who want their money in different sorts of forms, their security in different sorts of forms, and I think that, within limits, and only within limits, stocks and Government bonds are in competition, and they are relatively low limits.

In many cases the investors are prohibited by law, the buyers of bonds would be prohibited by law, from buying stocks, or only a small percentage of stocks.

Senator GORE. You know, yesterday when Senator Anderson suggested that he was going to give you a demonstration of what could be done with figures and dollars, I thought that was the most venturesome action that I had ever seen him undertake.

I am almost in the position of equal trepidation in suggesting that, in my opinion, even with my limited knowledge of the investing instinct of the American people, you have just given us a completely fallacious answer.

Let us take a given investor.

Secretary HUMPHREY. Let us take a savings bank.

Senator GORE. Well, let us take Charley Wilson.

Secretary HUMPHREY. Now, wait a minute. Let us take a savings bank. They have a lot more money than Charley Wilson.

Senator GORE. You know, since he has been mentioned, I think Mrs. Wilson may be right. We may have imposed on "Charley."

Secretary HUMPHREY. I think that is right.

Senator GORE. If he had invested in Government bonds, he might have lost about a million dollars.

Secretary HUMPHREY. Well, you asked me a question. Let me answer that.

Senator GORE. All right.

Secretary HUMPHREY. Let us take the biggest investors in this country. Let us take insurance companies. They, by law, can only invest a portion of their investments in stocks.

Let us take pension trusts. Pension trusts only take a certain proportion.

Let us take savings banks, let us take commercial banks. They only buy a certain amount.

Senator GORE. Before you—excuse me.

Secretary HUMPHREY. Those are the great big investors.

Let us take a lot of funds of various kinds, endowment funds and things of that kind. They have only a limited amount of stocks that they will buy, and some of them by law can buy.

Senator GORE. Well, have you completed your answer?

Secretary HUMPHREY. Yes. And those are the big investors.

Senator GORE. Well, to begin with, insurance companies occupy a wholly different situation, taxwise.

Secretary HUMPHREY. Well, they have a special—that is a great problem to us, frankly.

Senator GORE. I do not wish to go into it, but I wish to acknowledge that difference.

Secretary HUMPHREY. I know. But they do have a special tax situation, which is a great problem.

Senator GORE. Well, would it be reasonable and fair to conclude from your answer that under the circumstances which you recommend, investment in Government bonds would be almost exclusively by financial institutions?

Secretary HUMPHREY. No. We have about, I think we have perhaps—well, I would not say it is the largest, but a large class of investors, we have about 40 million people in America that own about $40 billion worth of savings bonds.

Senator GORE. You are speaking of the present time?

Secretary HUMPHREY. Right now.

Senator GORE. But I am speaking of, questioning you on, the hypotheses of a 52-percent tax credit on income from corporate investment.

Secretary HUMPHREY. I do not think that would change your savings bonds at all. The people who buy savings bonds want, if they buy stocks at all, they want diversity in their portfolios, and they want their money in different forms. They want it for a different purpose.

Senator GORE. For reasons satisfactory to yourself, which I will not question, you do not want to take Secretary Wilson as an example.

Suppose you take me as an example. I am willing to serve as an example. Say I have $1,000, and I want to invest it in a security. I can invest in General Motors stock or United States Steel or General Dynamics or Industrial Rayon or some other corporation, and the income I receive from that investment is going to be, in major degree, tax free.

Secretary HUMPHREY. No; it would be some degree. It will pay one tax.

Senator ANDERSON. You do not mean that.

Secretary HUMPHREY. Well, the corporation pays a tax on it.

Senator GORE. I was not talking about the corporation income.

Secretary HUMPHREY. That is right.

Senator GORE. I am talking about the income to me from an investment. We are talking about me now.

Secretary HUMPHREY. That is right.

Senator GORE. I have $1,000, let us suppose.

Secretary HUMPHREY. That is right.

Senator GORE. That is a fine supposition, and it makes me feel good. My wife is laughing. [Laughter.]

Let us go to another corporation, A. T. & T. I can buy a 6-percent stock. I can do so, and the income to me from that stock is going to be largely tax free.

Secretary HUMPHREY. Yes.

Senator GORE. How do you think you could persuade me to buy a "Humphrey-Dumpty"?

Secretary HUMPHREY. Well, it will all depend on what you want to do with your money.

Senator GORE. You understand, I refer to that not in——

Secretary HUMPHREY. I understand.

Senator GORE. I did not mean to be discourteous.

Secretary HUMPHREY. Not at all.

Senator GORE. I think it was generally referred to as one particular bond issue.

Secretary HUMPHREY. That is right.

It would all depend on what you wanted to do with your money, or how much of your money you wanted——

Senator GORE. Wait a minute there. I have one thing I want to do with my money, this $1,000 I am going to invest: I want to get the best return possible that I can take home——

Secretary HUMPHREY. And you are not——

Senator GORE (continuing) And keep.

Secretary HUMPHREY. And you are not interested in your principal.

Senator GORE. I was going into that next.

Secretary HUMPHREY. I think most people are quite interested in their principal.

Senator GORE. I was coming to that next. Let us first talk about the income. I am making a permanent investment now.

How could you, as Secretary of the Treasury, persuade Albert Gore, a normally selfish individual, and with some reasonable degree of prudence, to buy a Government bond the income from which would be subject to normal taxation, when I could invest in a corporate stock, the income from which would be practically, if not entirely free from taxation?

Secretary HUMPHREY. I think I would just classify you as a very tough customer and pass you up and go and sell one of——

[Laughter.]

Senator GORE. All right. I am going to pass you up that way, too.

Secretary HUMPHREY. Now, wait a minute. I would not just stop there.

I would just pass you up, and then I would go to 1 of the 40 million people we are now selling savings bonds to, and I would sell them another bond.

Senator GORE. Well, Mr. Secretary——

Secretary HUMPHREY. Just let me finish.

Senator GORE. All right.

Secretary HUMPHREY. We have sold 40 million people savings bonds, which I think are very good for them to have, and very good for us to have, and I think they are the best security in the world. And we have sold them, those savings bonds, and they do not begin to pay as much money as people can get on a lot of other securities that they could buy.

And yet, while you are such a tough customer that I would not compete against you, I would sell to 40 million others. Every day we sell bonds at a lower return than people can buy stocks for or other things that will pay them more.

Senator GORE. Mr. Secretary, I will conclude by just commenting that I think that you, perhaps, underestimate the intelligence and prudence of the American people. I do not think you will find as many suckers as that.

Secretary HUMPHREY. Well, we have got them, if that is what you call them, but I do not. I call them the smartest people in the world. [Laughter.] I think they are the best, the smartest, the most able and the most capable of looking after themselves of any people in the world, and I have got the greatest confidence in them.

Senator GORE. You know, speaking of tough customers, I asked you a question a while ago, and we have been talking about something else for about 30 minutes.

The question I asked was: To what extent do you now think corporations should finance their capital expansion, improvements, and acquisition of assets, from internal financing, particularly in view of the fact that in 1954 you said this is the wrong way for America's economy to finance its expansion?

Secretary HUMPHREY. Well, I am afraid you are misinterpreting the words. I said equity financing.

Senator GORE. May I read the two sentences, so we will both understand it?

Secretary HUMPHREY. Just read it.

Senator GORE. I certainly do not wish to put any words in your mouth.

Secretary HUMPHREY. I just thing you got a wrong impression now.

Senator GORE. Let me read the two sentences together, and I think that will clarify it in my own mind, if I am confused.

> Largely because of tax restrictions, the trend in recent years has been sharply away from equity financing toward borrowing. This is the wrong way for America's economy to finance its expansion.

I think I did place a little more emphasis on being "away from equity financing"——

Secretary HUMPHREY. That is right.

Senator GORE. Than your statement did.

Secretary HUMPHREY. You see, equity financing, Senator, when a corporation earns a dollar and only pays a half dollar to the stockholder instead of the whole dollar, and uses the other half dollar of that stockholer's money to improve or replace its property, that is equity financing ,and that is one of the ways that you get equity financing, that you build up the equity as opposed to the debt, and that is exactly what I said they ought to do, and I say it again today.

I believe in that, and I believe that the equity should be built up in the investment in the company, either by the sale of stock or by the use of money that would otherwise go to the stockholder, and they are both exactly the same, they serve exactly the same purpose, and they build up the equity as opposed to the debt.

And that is exactly what those words say and what they mean.

Senator GORE. Now I will be specific. I gave, in my statement, figures obtained from the Securities and Exchange Commission, on which I do not believe you have expressed an opinion, and which figures I do not believe have been previously presented to the committee, to wit, that corporations spent $35 billion plus in capital expansion and improvement in 1956, of which amount only about $10 billion came from either equity financing or borrowing. The remaining $24 billion plus came from internal financing.

Do you think that is a healthy condition?

Secretary HUMPHREY. That is equity financing.

Senator GORE. Do you think that is a healthy condition?

Secretary HUMPHREY. I do not know. I do not know whether it would be better for that money to be paid out to the stockholders, and then they have to turn around and buy new issues. It is pretty hard to say.

Senator GORE. Well, do you think that is a result of undue profits, or reasonable profits?

Secretary HUMPHREY. I do not think it has a thing to do, necessarily, with profits.

Let me put it this way: If I am a corporation and the corporation has a hundred dollars invested and on that $100 it earns $4, I would say that I thought that was probably a reasonable earning.

Now then, if with that $4 I pay out $2 to a stockholder, and retain $2, I put that in, that builds up the equity as against the debt position of the corporation, and that is sound financing.

I might, instead of that, pay out $1 and retain $3 to build it up, or I might pay no dividend at all and build up $4.

In any event, I am building the equity in the corporation, which is good corporate financing. And if I can still induce stockholders to stay with me, I can build up good, sound corporate financing in that way.

But as a rule, your stockholders, and if we had any like you, you would want a return, and I would have to pay $2 or $3 of the earning out and be left with $1, or maybe with 50 cents.

Senator GORE. You know, Mr. Secretary, I have come to admire you in many respects in these 4 weeks, and though I fear it would not appeal to you, I have often thought you would be a good college professor. You can give such——

Secretary HUMPHREY. I have had a lot of hard things said about me, but——[Laughter].

Senator GORE. Well, the particular qualification you have shown is the ability to give very fine and pleasant-sounding lectures, largely general, and without current reality. [Laughter.]

Now, it so happens that currently, corporations are both paying the highest dividends and retaining the highest amount of profit, and doing the greatest amount of internal financing. And I am asking you if, in our current inflationary situation, that is healthy for the country?

Secretary HUMPHREY. I have to get back, Senator, to whether the profits earned are unreasonable or reasonable profits. I think that is where we get——

Senator GORE. I am asking you.

Secretary HUMPHREY. I do not think you can just arbitrarily say they are or are not.

There may be, I am perfectly willing to go along with you, there may be companies which are making more money than is a reasonable profit. There may be some that are not. I can mention 2 or 3 of those that I happen to know about.

But without knowing or without a study, I do not think you can generalize on this. I think you have to look at it——

Senator GORE. That is just what you have been doing.

Secretary HUMPHREY. No. I have tried not to.

Let me just call your attention to this, which I think might be helpful to your thinking.

Senator GORE. I am sure it would.

Secretary HUMPHREY. I have here this Economic Indicator, and it shows on page 8 that, as it happened, the undistributed profits, going over a period of years here from 1939 to 1956, the undistributed profits were higher in 1948 than in any other year, and they were higher in 1950 than in any other year but 1948, and since that time they have been substantially lower.

Senator GORE. Undistributed, based on what, now?

Secretary HUMPHREY. On earnings, the amount of earnings undistributed, of corporate profits.

One of those is a war year, and one of them is a peace year. I will just read them so you will have them in mind.

Senator GORE. Thank you very much.

To get to——

Secretary HUMPHREY. It is not just a current phenomenon at all. It is a thing that varies from time to time.

Senator GORE. Well, I do not wish to go into a review of the figures on the percentage of profits as between large business and small business. I believe Senator Anderson covered that yesterday. It has been referred to 2 or 3 times.

Secretary HUMPHREY. I think that is right.

Senator GORE. I think the record shows that the trend has been steadily upward on rate of profit per dollar sales for the large, and steadily downward on rate of profit for the small.

Secretary HUMPHREY. I think those are the figures he put in yesterday.

Senator GORE. Yes.

I want to read to you a statement from Mr. Ben Fairless. Do you know Mr. Fairless?

Secretary HUMPHREY. Very well. I have know him for 40 years.

Senator GORE. Is he familiar with the steel industry?

Secretary HUMPHREY. Indeed he is, and I think—well, he is still in it.

Senator GORE. But you are not.

Secretary HUMPHREY. Not yet.

Senator GORE. He said:

> So I come finally to financing through the sale of new stock. This is a historic American way and a completely appropriate means of acquiring funds for financing new facilities or expanding old ones.

Do you endorse that?

Secretary HUMPHREY. The sale of common stock?

Senator GORE. I will read the statement again.

Secretary HUMPHREY. Yes.

Senator GORE (reading):

> This is a historic American way * * * So I come finally to financing through the sale of stock.

Secretary HUMPHREY. Yes; that is right.

Senator GORE (reading):

> This is a historic Ameircan way and a completely appropriate means of acquiring funds for financing new facilities or expanding old ones.

Secretary HUMPHREY. I agree to that.

Senator GORE. Then do you agree with the statement of the president of——

Secretary HUMPHREY. Just to clear it up, it is not the only way. It is a historic way.

Senator GORE. You saw this one coming, Mr. Secretary. [Laughter.]

Secretary HUMPHREY. Well, I just——

Senator GORE. That is all right. You are as good a batter as Ted Williams, but you do not have any of his bad habits.

Secretary HUMPHREY. Thank you very much. [Laughter.]

Senator GORE. Then do you agree or disagree with the statement made in the minutes of the Standard Oil Company of New Jersey that— let me read it, excuse me:

"For the first time in many years"—that is not what I am looking for. I am looking for the one just above that.

> The chairman of the board of the United States Steel Co. proposed to the stockholders——

Secretary HUMPHREY. When was this?

Senator GORE. This was this year.

Secretary HUMPHREY. This year?

Senator GORE. No, I am sorry. It was May 7, 1956. Let me read the statement:

> The chairman of the board of United States Steel advised the stockholders at the annual meeting on May 7, 1956, that a projection of the financial needs of the company showed that they would need an additional $140 million. He then proposed to the stockholders that the method to use to get expansion capital "is by raising prices from time to time—as circumstances require and permit."

Secretary HUMPHREY. If that results in an inordinately high price and profit, I do not think it would be right. If what it means by his statement is, that his prices would permit a reasonable profit, and that with the earning of a reasonable profit he would withhold part of it, distribute part of it and withhold part of it, I think it would be a very proper way to conduct a business.

Senator GORE. Well, then, to complete——

Secretary HUMPHREY. It all gets back, Senator—I think we can just agree, it all gets back to whether by some means you are gouging the public on unreasonable prices; and if you are, I do not care what you do with the money, it is not good for the country.

If what you make is a reasonable profit, it is good for the country. If you do not make a reasonable profit, if you cannot make a reasonable profit at all, it is not good for the country.

Senator GORE. You know, that sounds exactly like one of the sermonettes we have been hearing down at the White House. But it has no effect whatsoever, as Mr. Hoover has said, on the practice and conduct of big business.

I think that is a fine statement. I applaud it. But it is not the way to handle this situation. Excuse me, I do not mean to be unpleasant, but that is just a generalization that does not apply to the question at all.

If I may, I would like to continue to read this brief excerpt from your testimony, which I earlier described as an eloquent statement of the "trickle down" theory. [Reading:]

> I might add there, Mr. Chairman, that there is nothing more important, in my opinion, for the future of America than to encourage widespread investment in American business.

Secretary HUMPHREY. I believe that.

Senator GORE (reading):

> America needs big business, it requires big business, big enterprise, to do things in big ways that a big country has to have, through corporate ownership. The division of corporate ownership, the extension of it, the encouraging of millions of small investors to participate in the ownership of America and

American productive power is, in my mind, one of the greatest things that can be done for the stability and the strength of America in the future.

That ends the quotation which I desired to read.

I believe you said yesterday——

Secretary HUMPHREY. I would be glad to confirm that, every bit of it, again today. I believe that, every bit of it.

Senator GORE. Mr. Secretary, I have noticed that one of your admirable traits is that you are utterly unashamed of your views. [Laughter.]

I believe you have said repeatedly to the committee that one of the areas of the greatest inflationary pressure was in plant expansion.

Secretary HUMPHREY. That what? I did not get the first part of your question.

Senator GORE. I believe you stated yesterday to Senator Anderson, and I think you have stated several times previously—and I only raise it as a preface to a question which has not been asked—that, in your opinion, one area of the most severe inflationary pressure——

Secretary HUMPHREY. At the moment.

Senator GORE (continuing). At the moment, was in plant expansion.

Secretary HUMPHREY. That is right. I think it was proceeding more rapidly than could be readily absorbed.

Senator GORE. I find, Mr. Secretary, that you recommended the rapid depreciation provisions of the 1954 tax law for exactly that reason.

Secretary HUMPHREY. Not that it all be done at once; that it be continuous. I believe that we have to have in this country a continuous expansion of plant and a continuous improvement of plant.

I believe that we ought to have, just as rapidly as possible, old equipment made obsolete and moved out, and new equipment come in.

I think that is what raises individual earning power, I think that is what raises our standard of living in America, because, as we can continually improve our processes and improve our power and improve our machinery, we increase the productivity of a man; and as the productivity of a man increases, so does the standard of living in America.

But, on the other hand, if everybody tries to do the whole job all at once, you can have a period of congestion, which is what we have been in in the past year or so, and which I think perhaps—I hope I am justified in it—is leveling off a little bit, and that everybody is not going to try to do it all at once.

You can have too much of a good thing. You can eat too much cake. But that does not mean that cake is not good.

Senator GORE. You have stated that you are opposed to the rapid amortization program, largely because it is discriminatory.

Secretary HUMPHREY. It is unfairly distributed.

Senator GORE. It is unfairly distributed.

Then would it be reasonable to assume that you would favor it for all corporations if applied evenly?

Secretary HUMPHREY. No; I think not. I think that rapid amortization was—and I am not criticizing its original use; I think it could have been done better by direct subsidy, but let's not get into that—it was designed as a form of subsidy to stimulate development for war needs.

We needed certain things badly in the war, and this was designed to stimulate the rapid production of those things we needed for war, to fight the war with, and we needed them quick, and they adopted this means of providing a subsidy for that purpose.

Now, as I say, I think if you were looking at it all new, a direct subsidy would have been a little more appropriate, but this worked, and it did accomplish that purpose.

The thing I objected to was carrying a war expedient, and only justified as a war expedient, over into a peacetime or a semipeacetime operation.

Senator GORE. I believe the record shows that the first time you objected to it, at least publicly, to this committee, was in 1955.

Secretary HUMPHREY. I have forgotten when it was, but I believe it was in this committee that I made the first public objection to that and criticized it and started to curtail it.

Senator GORE. I am sure it was in 1955. What is the difference in principle——

Secretary HUMPHREY. Between that and the depreciation?

Senator GORE. Between that and the rapid depreciation schedules——

Secretary HUMPHREY. Well, there is a great difference, Senator. Rapid depreciation applies to everybody, right across the board.

Senator GORE. Yes.

Secretary HUMPHREY. This applies to a select few. I am in favor of giving it—I think, as nearly as you can, if you can make things applicable to everyone, to treat everybody fairly and treat them all alike as nearly as you can, that is the way to do it. I do not like to pick out a few and give them a special subsidy.

Senator GORE. I had not quite completed the statement of my question.

Secretary HUMPHREY. Excuse me.

Senator GORE. What difference in principle is there, other than the lack of uniform application, between the rapid amortization certificate and the rapid depreciation provisions of the 1954 law?

Secretary HUMPHREY. There is not any difference except in these two things: One is in the method of application, and the other is in the amount.

Senator GORE. There is no difference in principle?

Secretary HUMPHREY. That is right. But it is those two things that make one bad and the other one good.

Senator GORE. Well then, would it be reasonable to assume that you would favor increasing and further opening up and liberalizing the depreciation allowances in the tax law?

Secretary HUMPHREY. I have opposed, as you know, tax changes because I did not feel we could afford it, and if the time comes——

Senator GORE. You mean tax reductions?

Secretary HUMPHREY. Tax reductions.

When the time comes we can afford it, and that we can make another series of adjustments fairly across the board to make fair divisions among the people in the payment of their taxes, we have given a good deal of serious thought to extending it, the possibility of extending this depreciation provision to secondhand machinery.

I think if we could afford to do it, and could work it out fairly with the demands and the rights of other people, that it would be rather substantial assistance, to small business particularly, if they had the right not only to depreciate new machinery but secondhand machinery on this same basis, and I would favor that——

Senator GORE. You are familiar——

Secretary HUMPHREY (continuing). At the appropriate time.

Senator GORE. You are familiar with that quotation, "Oh, that mine enemy had written a book."

Secretary HUMPHREY. That what?

Senator GORE. "Oh, that mine enemy had written a book."

I think that sometimes applies equally to testimony before congressional committees.

Secretary HUMPHREY. I am sure it does.

Senator GORE. In line with your interesting observation to Senator Anderson yesterday that taxes should be only for the purpose of raising revenue, I find that on page 95 of the hearings on H. R. 8300, in the discussion of depreciation, you said: "Here again, the purpose is to stimulate employment, plant expansion and modernization."

Secretary HUMPHREY. And that always happens when you fairly apportion your taxes. Any fair distribution of your taxes among your people will do those things, and they will follow.

Senator GORE. So, as long as the purposes of the tax are to bring fair and equitable treatment, you favor those, even though it is not for the purpose of raising revenue?

Secretary HUMPHREY. It is for the purpose of raising revenue. That will get you the most revenue.

Senator GORE. Well, I have one more question, Mr. Secretary, and I am going to try to finish by 12:30 so we can enjoy lunch.

No one has asked you to describe the steps through which you go and the people to whom you talk in the actual flotation of a bond issue?

Secretary HUMPHREY. That is right.

Senator GORE. Would you mind enlightening me and the committee on the sale of a bond issue?

Secretary HUMPHREY. Yes; I would be very glad to.

Senator GORE. All right.

Secretary HUMPHREY. And it has not been brought up at all.

Senator GORE. That is right.

Senator HUMPHREY. Let's talk about just what we are doing now. We are getting ready for a refinancing job to be done here in just a short time.

We have some people in the Treasury whose job it is to be in touch with various people, various security buyers around the country; and they have been for the last few weeks and few days, out around the country talking to prospective buyers, seeing what their situation is, what their portfolios are, what moneys they are likely to have to invest, about what their demands would be, and the kind of things that they are interested in, the kind of things they have been buying.

They come back and make those reports to us, and we are collecting those reports.

We have communicated with insurance companies as to their situation; we have communicated with a good many banks as to theirs.

Mr. Burgess was yesterday talking with a group of Federal Reserve people, as to the situations in their communities throughout the

United States with respect to their bond market and with respect to how things are going and what the prospects are for the sale of bonds throughout the United States.

We will have next Monday and Tuesday a committee of investment bankers who largely represent dealers in Government securities, who are skilled, whose business it is to sell Government securities, to buy and sell them, we will have them in.

And Mr. Mayo, sitting here, who is our expert statistician, and I am sure you have observed that he is expert in his statistics——

Senator GORE. A bit too much so.

Secretary HUMPHREY (continuing). In knowing his statistics [laughter]—he presents the statistical situation to them, tells them as nearly as possible who owns these bonds now and where they are, and what our borrowing requirements will be.

And then we ask them for their suggestions and opinions as to the kind of security and the rate, and the various terms of the security that they would issue if it was their job to do this.

They are a committee which is a standing committee that is appointed by the Investment Bankers Association from security dealers all over the United States. They come here at their own expense, and with no cost to us, and they give us their advice. The next day, they come in and make a report, make a report to me, and to all of us.

The following day there is a committee appointed by the American Bankers Association and that group goes through the same process independently and they come in and make their report.

Then, after we get all these things together and we have the reports as to what various groups of people would recommend and we have the reports, as nearly as we can get them, of what the demand is and what the buyers' positions are, then we sit down and go into a trance and figure out what we ought to put out.

Senator GORE. Who is with you when you are in that trance?

Secretary HUMPHREY. It is all of us in the Treasury, and I take the final responsibility and say, "This is what we will do."

Senator GORE. How long does this trance last?

Secretary HUMPHREY. And recommend that to the President.

Well, it goes over—maybe that is one of the reasons I have been slow on your questions [laughter]—it goes over quite a little period when you are studying this.

Senator GORE. It does not last 4 years.

Secretary HUMPHREY. No. [Laughter.]

Senator GORE. Who are the prospective buyers now for long-term bonds?

Secretary HUMPHREY. For long-term bonds? I do not, as I said before, I do not believe there are many prospective buyers for long-term bonds today.

Senator GORE. Do you know of any?

Secretary HUMPHREY. I do not; no. We tried it out, we have investigated, and I do not know of any long-term prospective buyers today.

I would not say there were not some, but there are not for large amounts.

Senator GORE. You do not know of any for any amount?

Secretary HUMPHREY. Well, I have not—I do not know of any that would be interested in large amounts; no.

Senator GORE. Could you recall to how many people and to whom you talked with respect to the issue of the $1.6 billion of 3¼-percent bonds in 1953?

Secretary HUMPHREY. Well, we went through this same process; and I should say, all in all, there were maybe 250 people altogether whose opinions or from whom information has been obtained; maybe it was even more than that.

Senator GORE. Did those people indicate to you that they would not buy the bonds at a rate less than 3¼ percent?

Secretary HUMPHREY. Well, my judgment at that time was that that was what it would take to sell the amount of bonds that we wanted to sell, and that that was the lowest rate at which we could feel some assurance of being able to sell that amount of bonds.

Senator GORE. I did not understand you.

Secretary HUMPHREY. You see, there is nothing exact about this, Senator. You have to gage it the best you can. And if you gage it wrong, you do not sell your issue. If you gage it right, you sell your issue. And if you are too liberal, why, you have made a mistake.

Senator GORE. I am not sure you mean to say exactly what you have said. In all fairness, I had understood that it was a matter of judgment on your part—whether the judgment was good or bad, time may tell.

Secretary HUMPHREY. That is right.

Senator GORE (continuing). That the national interest would be served by selling bonds a little above the market rate. I understood you to say to Senator Anderson yesterday that, indeed, we might be better off today if you had led the market "a little more than we did."

Secretary HUMPHREY. What I meant by that is exactly what I have just said. You have to price an issue at a price that will move the security.

Now, if you want to sell a lot of securities and keep going back to those securities on a rising market, which we have had, you have to keep stepping it up.

Senator GORE. You have to keep leading the market a little; is that what you mean?

Secretary HUMPHREY. Well, you want to be as near the market as you can, and still you have got to have a product to sell that is a little better than is being offered currently, or else they will buy the current one instead of yours.

It is just like selling cattle or anything else. If you want to be sure, if you have got a whole load of cattle to sell and you want to be sure that you are going to make your sale, you have to price them at a price that will get you the business instead of giving it to a competitor.

Senator GORE. I had understood—at least I have been under the impression, Mr. Secretary—that the 3¼-percent bond issue to which I have been referring was deliberately priced above what you thought the market would be, and that as a result it was greatly oversubscribed.

Now, as I read your Seattle speech and other statements by you, and as I have heard you testify here, I had been led to believe that this was an act, not of bad judgment, but an act of deliberate judgment that the bond market needed to be led in order to move more of the financing into long-terms.

Secretary HUMPHREY. Well, I think you are saying the same thing. We priced them as nearly as we could to move them.

Senator GORE. What did you mean yesterday, then, by saying that we might have been better off if you had led the market more than you did?

Secretary HUMPHREY. By more in volume, not by more in rate.

Senator GORE. Oh.

Secretary HUMPHREY. By more volume. In other words, we were talking yesterday as to the amount of volume that had been extended forward, and there was a criticism, and I think it may be justified, that we did not sell as big a volume of long-term bonds at that time as we could have.

Now, we could have——

Senator GORE. At that rate.

Secretary HUMPHREY. We could not at that rate. We might have had to pay more rate to move a bigger volume. That is exactly what I said yesterday.

Senator GORE. How many times——

Secretary HUMPHREY. Maybe we made a mistake in not selling more.

Senator GORE. How much was this issue oversubscribed?

Secretary HUMPHREY. I have forgotten, but that does not—the oversubscription does not indicate, necessarily, that you could have sold that much more. You see, these oversubscriptions, you have to understand them, too. The buyer, on his part, also has to guess at how effective this rate is going to be to move these bonds. And if a buyer thinks the issue is going to be oversubscribed, he knows that he will be prorated down.

Now, let's just suppose you wanted to have $10,000 worth of bonds, and you wanted to buy $10,000 worth of bonds of an issue. Let's say we are selling a billion dollars of bonds of an issue, and you want to be sure that for your particular bank account, or whatever the account is, that you want to be sure you can buy $10,000 of those.

Well, you, in turn, inquire around, and you guess at whether the 3¼ percent we put on that will attract a lot of buyers, or whether it will attract only a few buyers. If you feel that it will not attract a lot of buyers, it will only attract a few, then you put in your bid, if you want $10,000, you would put in your bid for $12,000 or $15,000, with the hope that if they were oversubscribed, your pro rata share would give you $10,000.

But let us assume, in looking around, you make up your mind that 3¼ in the market looks pretty good, and that a lot of people will subscribe for these, and you still want your $10,000. Well, under those circumstances, you would subscribe for $20,000 or $25,000, because you would feel that there probably would be a 40 or 50 percent allotment, and in order to get your $10,000 you would have to subscribe for $25,000 so that you would wind up with $10,000.

Senator GORE. Again coming back to this——

Secretary HUMPHREY. It is a guessing game on both sides, to balance out your account.

Senator GORE. Coming back again to this "tough customer"——

Secretary HUMPHREY. Let's just finish that one.

It does not ever mean you wanted to buy $25,000, you see. It means all you wanted was $10,000, but you wanted to be sure to get $10,000. But you would not have bought $25,000 under any circumstances——

Senator GORE. Would a "tough customer"——

Secretary HUMPHREY (continuing). Voluntarily.

Senator GORE (continuing). Oversubscribe his real desire unless he thought that the investment was so attractive that he wanted to be sure he could get all he could pay for?

Secretary HUMPHREY. Well, no. What he wants to be sure of is that he gets the amount that he decides he wants to buy.

He only wants $10,000 all the time. He does not want any more than $10,000.

Senator GORE. Well, suppose $10,000 is all he can pay for.

Secretary HUMPHREY. But he wants to get that $10,000, so then he guesses the amount of oversubscription, and what the prorate will be to get him $10,000, and then he places his bid accordingly.

Senator GORE. He does not necessarily do that out of patriotism.

Secretary HUMPHREY. It is not patriotism at all. He wants $10,000 invested in those bonds. It is just a plain business transaction.

Senator GORE. He thinks the issue is so attractive that if he wants to get $10,000, he must subscribe for $25,000?

Secretary HUMPHREY. That is right.

Senator GORE. How often have you had that happen?

Secretary HUMPHREY. Most of our issues are oversubscribed in varying amounts. You really want them oversubscribed, if you can. It makes a better market for them, and makes a better secondary market, and we want to price them just as nearly right as we possibly can in the market to make a good security.

Senator GORE. Mr. Secretary, I do not want to be unfair in either comment or question. I respect you and your views. I think a man can be sincerely and enthusiastically wrong. I think I, as well as others, can be that way.

I had sincerely thought that you came into the responsibility of Secretary of the Treasury with the view—and that you have followed a course of action based on that view—that the interest rate on Government securities at that time was too low, and that the amount of securities in short-term issues was too heavy. I thought that you had followed a deliberate policy, first, to transfer a larger part of the debt to long-term issues, and secondly, to increase the interest rate on Government bonds.

Secretary HUMPHREY. Well, I was not—any impression that I was desirous of increasing interest rates is wrong, Senator.

What I was desirous of doing, and what I believe should be done, and what we did not do as much as I would like to have done, was to refinance short-term obligations into long-term obligations.

Now, if it took some increase in the interest rate to sell a long-term obligation as against refinancing it short, I believed it was to the best interests of this country to pay a little more interest to extend the time than it would be to just finance it short.

So I deliberately had the view, and I still hold the view, that if and when we can, without paying too much, that we should transfer more of our refinancing of short-term maturities into longer term maturities, and that should be our continuous objective.

Senator GORE. Thank you, Mr. Secretary.

Secretary HUMPHREY. There comes a time when the price is too high, and you just say we will not do it, and that is what I meant when I said yesterday to Senator Anderson that perhaps we should have been a little bolder, perhaps we should have increased the volume of long-term bonds by paying more at a relatively higher rate, instead of doing it short at that time, when it could have been done at a rate.

Senator GORE. In other words, you think you may have erred in not raising the interest rates enough at that time?

Secretary HUMPHREY. By pushing out for the purpose of selling long-term bonds, not for the purpose of increasing rates.

Senator GORE. I thank you very much, Mr. Secretary.

Thank you, Mr. Chairman.

Secretary HUMPHREY. Thank you very much, indeed.

The CHAIRMAN. The committee will adjourn until 9:30 tomorrow morning, and I hope all the Senators will be present promptly at that time.

(Whereupon, at 12:35 p. m., the committee recessed, to reconvene at 9:30 a. m., Friday, July 12, 1957.)

INVESTIGATION OF THE FINANCIAL CONDITION OF THE UNITED STATES

FRIDAY, JULY 12, 1957

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

The committee met, pursuant to recess, at 9:30 a. m., in room 312, Senate Office Building, Senator Harry Flood Byrd (chairman) presiding.

Present: Senators Byrd (chairman), Kerr, Frear, Gore, Williams, Flanders, Carlson, Bennett, and Jenner.

Also present: Robert P. Mayo, chief, analysis staff, Debt Division, Office of the Secretary of the Treasury; Elizabeth B. Springer, chief clerk; and Samuel D. McIlwain, special counsel.

The CHAIRMAN. The meeting will come to order.

Unfortunately, the chairman is called to another meeting.

I expect to return shortly. No majority member is present at this time, so I will ask Senator Bennett to take the Chair until I can return.

Senator BENNETT. Thank you, Mr. Chairman. [Laughter.]

(Senator Kerr entered the committee room.)

Senator BENNETT. Mr. Chairman, I assume I have been recognized——

Senator KERR (presiding). Yes, sir.

Senator BENNETT (continuing). To begin the questioning.

STATEMENT OF HON. GEORGE M. HUMPHREY, SECRETARY OF THE TREASURY—Resumed

Senator BENNETT. Mr. Secretary, like every other member of the committee, I have been looking forward to the opportunity of discussing with you the economic questions involved in this inquiry.

During the past 3½ weeks, a great many of them have arisen, and the more important ones have been presented many times and from many points of view. By your answers you have revealed a thorough grasp of the problems we face—as well as almost infinite patience.

By this time we have developed a record of 1,366 pages—and to interpolate, the chairman has just indicated that the Secretary has been on the stand 14 days, which ties the modern record. You have been making better than a hundred pages a day of record.

This record contains a number of things that, from my point of view, need clarification or correction. I have been tempted to bring these things up again, but I realize that there will be other witnesses, and I have no desire to prolong your ordeal.

Therefore, following the example of the Senator from Tennessee, I shall present a statement, during which I may ask for your comments from time to time.

It seems to me that if this investigation is to have any value, its conclusions should point to those economic policies which will contribute to maintenance of the stability of the purchasing power of the dollar. This is the positive and affirmative goal, toward which we should be trying to move.

Here is my first question, Mr. Secretary: Do you believe that that goal, the goal of a stable dollar, is necessarily incompatible with the goal of relatively full employment?

Secretary HUMPHREY. Indeed, I do not. There is no reason why it should be incompatible with high employment.

Senator BENNETT. Have we not, in fact, had periods when we had both of those conditions?

Secretary HUMPHREY. We have just been living through them for a good many months.

Senator BENNETT. I shall return to that a little later, and I appreciate your confirmation of my own feeling.

To go on: Currently we have inflation rather than stability. It has been with us, except for two periods, ever since the beginning of World War II. We took it for granted in wartime, but I feel we should not accept its existence in a time of comparative peace. In fact, it presents a problem so serious that many responsible people, from the President down, have expressed concern about it.

Over the past weeks there has been developing in the record of these hearings a definite pattern of attitudes and ideas concerning this basic problem, and it is with respect to these, and particularly with respect to the disagreements that have developed, that my statement is chiefly concerned.

Perhaps the fundamental issue thus far developed is the nature of the current inflation. If I have understood you, Mr. Secretary, you have given what has been termed the classic explanation, in the sense that you have stressed excessive money supply——

Secretary HUMPHREY. Money demand.

Senator BENNETT. Money demand; I am sorry. This statement was written against time last night, and you will find the word "demand" in plenty of places to follow, so that it should have been here—"money demand," I have got it right. I read it wrong—money demand pressing against the available supply of goods and services. This explanation has been challenged, as you well know, on the grounds, first, that there are currently surpluses in many sectors of the economy and, second, that these surpluses reflect inadequate effective demand.

Those who take this latter position say that, while there may be strong desire for goods and services, we actually have a shortage of effective demand rather than an excess, because we have a shortage of the bank credit needed to translate that desire into effective demand.

They say that, instead of restraining the rate of increase in the money supply, the Federal Reserve Board should be encouraged or required to increase it substantially in order to make money "easy."

Let us examine this Alice-in-Wonderland logic of your critics. In the first place, it should be evident that the general level of prices cannot increase, nor can individual price increases be made to stick, unless there is strong effective demand.

Yesterday, in a statement before the Antitrust and Monopoly Subcommittee of the Senate Judiciary Committee, Dr. John K. Galbraith, of Harvard University, made this point precisely, and I should like to read his words, taken from the copy of his statement as submitted to the committee:

The basic setting for inflation, as ever, is a strong demand for goods. This is true now, even though not all industries are operating at full capacity. And it is true whether the inflation is classical, preclassical, or neoclassical.

Even if logic did not tell us that there must be strong money demand for goods and services in order for price increases to occur, the data would bear out the fact that there has been such demand. We are told by your critics that this is not shown by increases in the quantity of money, since such increases have been at a relatively low rate during the past several years.

What these critics have neglected to take into consideration, however, is the fact that the velocity of circulation of money—its rate of use—has been increasing significantly during recent years; it is the combination of volume and velocity which must be considered in order to appraise the aggregate money demand for goods and services.

And I read one authority the other day who suggested that, while the rate of increase during the last year or two had been comparatively small, there was still hanging over the market the results of the tremendous rate of increase during earlier periods.

With regard to the relationship between inflation and the money supply, I would like to read—I had planned to read a paragraph from an editorial in the Wall Street Journal of July 10. Instead, with your permission, I would like to read the whole editorial.

And, as I read it, Senator Kerr, I deplore the fact that your name is mentioned in it. I certainly had——

Senator KERR. It is all right with me, if they spell it correctly.

Senator BENNETT. I recognize the risk that is involved.

I also would like to make the comment that the Wall Street Journal and its editorial page have become a kind of sourcebook for this particular investigation, and I am happy to add another to the list of editorials that have been inserted.

This is the editorial of the day before yesterday, July 10. It is headed, "The New Inflation," and reads:

Is the United States facing a "new kind" of inflation?

This question is rapidly blossoming into both a political and economic controversy. It keeps cropping up in the Senate Finance Committee's study of monetary policy. It is discussed by economic commentators. It underlies yet another probe which Senator Kefauver is about to undertake.

The political answer—

and here is the part I deplore—

given by Senators Kefauver, Kerr, and others is that we are, indeed, facing a new kind of inflation for which the administration's and the Federal Reserve's current fiscal and monetary policies are the wrong remedy. In this view, the threatened inflation is characterized by price rises even in the absence of maximum demand; consequently, the attempts to hold down demand by restraining credit miss the point.

Economically, this is not a very serious argument. Whatever the demand for some goods, the demand for credit continues intense, and this is the cause of the so-called high interest rates. It is not at all difficult to imagine what the inflationary impact would be if the Federal Reserve, as these politicians apparently want, were to pump up the money supply to the point that cheap money would be available to all and sundry.

An economically more sophisticated aspect of the controversy turns on whether the Government or the constant succession of wage increases is the prime source of the inflationary pressures. The "cost-push" theorists pin the main responsibility on the latter. The money supply, they note, has expanded only slightly in recent years, whereas wage rates have gone up considerably, outrunning productivity gains.

Unquestionably the constant advance of wage rates, reflecting both what is for practical purposes a full-employment economy and the monopoly power of organized labor to enforce its demands, constitute a continual upward pressure on prices. Unquestionably such a spiral can be an inflationary influence.

But rising wages and prices are not automatically or by definition inflation. Unless there is inflation in the money supply the spiral cannot continue indefinitely; it will reach the ceiling of the money available.

So we get back to the money supply. It is true it has been expanding only modestly compared to earlier periods, but it grew tremendously under the inflationary policies of the war and initial postwar years. Consequently it is now a much greater money supply and even a modest expansion of it—say, 2 percent a year—could be too much to keep the inflationary dangers adequately checked.

For our part, we do not know that the present inflationary dangers are as great as some people fear. But we do know that it is nonsense to talk of inflation as though it were something that could somehow be divorced from the money supply. What the money managers are dealing with is not basically a "new" form of inflationary potential; it is the ancient one.

And if there is criticism of the money managers' policies it is not that they are too harsh, as the political inflationists contend, but that they may be too lenient.

That is the total, the full Wall Street Journal editorial.

Mr. Secretary, it seems to me that the logic of your critics leads them into a curious economic dilemma. If we do not now have enough money to create excessive demand, then we cannot possibly be facing inflation, because we lack 1 of the 2 conditions necessary to create it.

But we do have an inflation—so there must be strong demand, and since they propose to increase bank credit, such a proposal could only lead to further inflationary price rises.

This same curious economic logic creates another riddle. If, as your critics maintain, demand is ineffective for lack of sufficient available credit, and there are actually surpluses of goods and services, we have the conditions which should produce deflation and declining price levels. But prices are going up.

Faced with these challenges to the validity of their theory, they put forth the idea that prices are being arbitrarily pushed up in quasi-monopolistic sectors of the economy. But, as the Wall Street Journal editorial notes, this process could not operate if sufficient money demand were not already present, and this your critics cannot admit.

Also, prices of food and other things are also going up and, as Dr. Galbraith observed in his testimony yesterday, these prices cannot be administered.

So we search in vain for any comprehensive and logical explanation for the present inflation other than the classic one; and until one is produced, we must continue to believe this concept is correct and that general monetary controls can be effective.

Up to this point, none of your critics has produced either a complete or logical alternative explanation for this inflation or a complete and logical alternative program for its cure.

Up to this point, we have been talking about the demand factor in the current inflationary situation. Now I want to talk about the supply factor and, in particular, the question of shortages.

I think before these hearings end, we are going to have to take the shortages of available labor into consideration. The classic view of inflation holds that the economy is at its limit of output when the labor force is fully employed—notwithstanding the existence of excess productive facilities.

We have a comparatively small amount of unemployment today, and there are some definite labor shortages in several vital fields, including engineers, machinists, tool and die makers, draftsmen, and office and clerical workers.

I have been enjoying these cartoons that appeared about commencement time. I remember one in which the mother is adjusting the cap and gown of her son and saying to him, "Now, whatever you do, don't tell your father you are starting at $10,000 a year."

And another in which the applicant stands at the door of the employment office, and it is he who says, "Don't call me. I'll call you."

Some of these shortages are so critical that they may be limiting the effective use of labor in other fields. As you have pointed out, for example, while housing starts have declined, the increase in heavy construction projects has absorbed most, if not all, of the available building labor.

If I remember correctly, you said at one point in the hearings that if both programs were operated at full speed, we would undoubtedly have a severe labor shortage in these particular skills. Is that an accurate statement?

Secretary HUMPHREY. I said that, yes; I believe so.

Senator BENNETT. Another comment should be made on this question of surpluses and shortages. It has been urged that there cannot be any shortages because we have idle plant capacity.

The steel industry has constantly been held up before us as an example of this, and there has been reference also to the automobile industry.

It has been my observation that rarely, except in time of war, does any factory operate at full capacity, and that when a plant begins to work regularly at near capacity, plans for expansion are made immediately because reserve capacity is always needed to safeguard production. I do not think we can ever reach a point where every sector of the economy will operate to the limit of its capacity.

In view of these conditions, I feel sure that, in terms of our whole industrial complex, we are facing a condition that can better be described as "tight" rather than a general condition of surplus.

Are there any comments you would like to make on that?

Secretary HUMPHREY. No. I think it is a very proper observation.

Senator BENNETT. Thank you.

Having now discussed both demand and supply, the two facets of inflation, I should like to make one final observation as to the recent price increases. This observation stems from earlier testimony of yours which has not, I feel, received sufficient attention.

That is, that there are necessarily time lags between changes in monetary and fiscal policies and resulting changes in the price level. As you have already indicated, it is quite possible that our monetary policy of 1956–57 is now beginning to take hold so far as retail prices are concerned.

I note, that Mr. Clague, head of the Bureau of Labor Statistics, ventured the guess that in August we might see a turndown in the index of consumer prices.

Also, as you have noted, the wholesale price index leveled off several months ago. If your analysis is correct, as I believe it is, I think it would be fair to say that the price increases we have witnessed during 1956, and to date, reflect, in part at least, the easier monetary policies of 1954–55.

At this point, Mr. Secretary, I would like to ask a question which may be a little sticky, and it may be that you are not the man who should give the answer, but if you have a comment, I would welcome it.

Do you believe proper policy should be to restore prices to the levels of approximately 18 months ago, or to attempt to restore prices to those levels, or should monetary and fiscal authorities be content with maintaining the current level of prices?

Secretary HUMPHREY. I think this, Senator: It is much more difficult, and it requires much more restriction in activity to reduce prices than it does to maintain prices, so that I think when you are talking about—of course, if you are just talking about a fluctuation of a penny or 2 or 3, that can happen without any severe difficulties.

But if you were to attempt, for instance, to have the dollar go back to the 100 cents in purchasing power that it had in 1939, I think that could only be accomplished through very severe contractions.

Senator BENNETT. That certainly was not my thought, but——

Secretary HUMPHREY. I do not think that would be advisable nor an appropriate objective.

I think the objective should be to maintain a stability, as great a stability as possible, in the price level, and I think that never can it be at any exact figure; that it will fluctuate and move a few cents one way or the other from time to time, and a move of that kind can be accomplished without undue hardship either way, provided the trend does not continue.

Senator BENNETT. Well, in my question, I mentioned 18 months ago, which would indicate a change of about 2 cents in the value of the dollar, and I am glad you answered it——

Secretary HUMPHREY. These things will fluctuate within limits of that sort, just naturally, under proper circumstances.

Senator BENNETT. Would it not be fair to say, Mr. Secretary, that we must look at stability as the maintenance of a fairly narrow range of fluctuation?

Secretary HUMPHREY. I think that is correct.

Senator BENNETT. Rather than attempt to maintain a point?

Secretary HUMPHREY. There is no possible way you can maintain a point.

Senator BENNETT. I was interested a few months ago in listening to Chairman Martin, and of course he is going to be able to testify, when, in a speech before the Press Club, he made the point that we should consider stability as a range, as a band. And that when we considered it as a point, we had a tendency to cry "deflation" whenever the price turned down a little bit, and "inflation" whenever it turned up a little bit, and that we would do well to leave some margin in there.

Secretary HUMPHREY. The objective is, if it can be accomplished, the objective should be to maintain alternate narrow trends.

Senator BENNETT. Self-correcting.

Secretary HUMPHREY. Narrow trends in first one and then the other direction, and the thing that should be avoided, if possible, is a prolonged continuation of a trend either way.

Senator BENNETT. Thank you.

Another rather basic disagreement which has been revealed during these hearings concerns the extent to which we should rely on a free market.

The classic attitude is that when the market, either for money or for goods, is allowed to operate with a maximum degree of freedom, it will constantly move to redress the complicated balance between its various factors.

In my opinion, if we are ever to have hope of restoring and maintaining the stability of the dollar, this concept must be followed.

At the present time it is largely being followed with respect to both money and goods. In carrying out its responsibility for the constant refinancing of various parts of the huge Government debt, the Treasury has had to go into a relatively free market and be subject to its forces.

I phrase the sentence that way because, as I have understood your testimony, you have indicated that you preferred to keep the market free and take the consequences of its operation.

Secretary HUMPHREY. I think the consequences of not doing so are much more undesirable.

Senator BENNETT. Because for 10 years, from 1941 to 1951, there was no free market on Government bonds, and the price of Government bonds was supported at par or above, interest rates could be fixed at very low levels.

But this was secured at the cost of having the Federal Reserve surrender its control over the volume of Government obligations which it would hold. It thus, in effect, surrendered much of its control over monetary affairs.

Since 1951, the Federal Reserve has resumed control over its affairs, and rates of interest on United States obligations have been determined by the market. Interest rates today are substantially higher than the artificially produced rates of the period of price pegging; but not too high in relation to historical rates for periods of high prosperity.

I know you have discussed this several times, but just for the record, I would like to ask again the following question:

Has it ever been your policy in the Treasury to deliberately attempt to increase interest rates above levels prevailing in the market into which you went?

Secretary HUMPHREY. From the point of view of trying to increase interest rates, absolutely no. We are borrowers of money, we are not lenders. And the Government, as a borrower of money, of course, is desirous of borrowing at as low a rate as it can.

That helps to keep our costs down and helps to keep our taxes down.

The only way in which it can be said that we operate to increase rates is that we have to meet obligations, we have to borrow, and we have to price our goods to sell. And in pricing those goods, we price them as near as we can, in our judgment, to the rate that will induce the buyer to buy our goods instead of somebody else's goods.

Senator BENNETT. And you have to go into the market when you have to go.

Secretary HUMPHREY. That is right. We have no choice. We have to go frequently into the market.

Senator BENNETT. To repeat again a matter which has been discussed before, but just again to give you a chance to restate your position for the record, as I have understood your previous testimony it has been that higher interest rates are or may be both inflationary and deflationary.

Secretary HUMPHREY. I think they have both effects.

Senator BENNETT. But at the present time, which effect do you believe is most effective?

Secretary HUMPHREY. I believe the deflationary effect is greater than the inflationary effect.

Senator BENNETT. The day before yesterday, Senator Anderson in questioning you indicated, or I got the impression from his questioning, that he felt higher interest rates were always a prelude to a boom followed by a depression. He referred particularly to 1929 and the speculative situations, the stock inflation, that existed then.

Do you think at the present time, the present interest rates are a prelude to that kind of a situation?

Secretary HUMPHREY. Well I hope they will be a prelude to a turn before they have gone to such an extent that the turn will be too great.

In other words, I think that Senator Anderson's point that he made is exact confirmation of what we are saying and what I believe, and that is that as interest rates rise, they become a sufficient deterrent to buying so that the buying recedes a little and the price turns down again.

Now, the difference between his illustration and my thought is that if interest rates climb to too high a point, and you get a collapse as a result of it, that that is a very unfortunate thing; and that is why I am hoping that with a proper pressure of interest rates, the turn will come when the turn can very easily be made, and we will accomplish this, what I said a minute ago, this movement of opposite short trends, alternating up and down.

Senator BENNETT. But do we not also——

Secretary HUMPHREY. If we do that, Senator, we will avoid any big drop. It is the cure of the excesses on the way up, it is the handling of the excesses on the way up, that is the biggest deterrent to great difficulty on the way down.

Senator BENNETT. Do we not also need to remember that interest rates are a result or an effect of something more deepseated in the economy, rather than a prime cause?

Secretary HUMPHREY. They are a result; they are not a cause.

Senator BENNETT. That is right.

Going on with my statement, and thank you very much:

Rising interest rates under present circumstances were, I believe, to be expected. This rise tends to restrain demand, and also increases the rate of savings from which sound funds for long-term investment can come. Those who would have us return to the days of artificially produced low interest rates seem to feel that they can ameliorate the inevitably resulting inflation by adopting selective credit controls or wage and price controls.

My feeling is that the free-market system is safest because it is impersonal—because as it tends to create a balance the effect of any necessary hardship is gradually diminished—and, most of all, because it tends to preserve to the greatest possible degree the basic principle of freedom and the concept that the law is no respecter of persons.

Much has been said during these hearings about inequities created by monetary controls. I think it is fair to say that no control can be applied so as to produce immediate results which are fair to everyone and affect everyone evenly and equally.

When price freezes were applied, and I know this from sad personal experience because I was in business in those days, they tended to preserve inequities rather than to cure them, because they penalized the man who was trying to keep his prices down and gave the advantage to the profiteer.

I can remember very sadly some of the situations in which companies with which I was connected were frozen at low-price levels in the face of tremendous demand, while our competitors, some of them, were frozen at price levels which gave them opportunities for profit that were denied to us. And I think most people who were in business at that time had that same experience.

When general monetary controls are applied, it may be true that they tend to accentuate the problems of the man with the poorest credit or the man who has already overextended himself. But I think it is also true that if these controls had not been applied, these same weaknesses, sooner or later, would—I will change "would" to "might," and say might have produced the same consequences.

After all, it is the creditworthiness of a man or his lack of creditworthiness that creates his problem, basically.

Secretary HUMPHREY. That is right.

Senator BENNETT. Authorities generally agree that the impact of inflation is far more uneven and inequitable than that of general monetary controls. The Mills subcommittee report stated this very plainly.

Skipping the first phrase, which should not have been copied:

> Public policies to cope with increases in the price level must take the form of general fiscal and monetary restraints on the expansion of total spending. It is recognized that the burden of such restraints may not be evenly distributed throughout the economy. The burden of inflation, however, is far more inequitably distributed. The alternative to general fiscal and credit controls is some form of direct Government control over wage and price determination. The use of this type of control would produce results as bad, if not worse, than the inflation against which it would be directed, and should be avoided.

Mr. Secretary, am I correct in assuming that you agree with that point of view?

Secretary HUMPHREY. I certainly do.

Senator BENNETT. Mr. Secretary, at the beginning of this statement I expressed the idea that if the work of this committee were to be effective, it should move us toward the goal of price stability—toward the preservation of a sound dollar.

Now, with respect to this, there are two other questions on which I would welcome your comment.

Do you believe that there must be a continuing and persistent increase in prices with an accompanying decline in the purchasing power of the dollar in order for the economy to have an incentive to expand its output?

Secretary HUMPHREY. No; I do not think that is essential.

Senator BENNETT. My second question: Do you believe that a little inflation is good for prosperity?

Secretary HUMPHREY. I do not believe, Senator, that you can have just a little inflation. I think that it might result, in spite of your activity; but certainly if that is your objective, you will never be able to control it, in my opinion.

Senator BENNETT. You cannot have a little inflation and stability?

Secretary HUMPHREY. I do not believe you can, and I think the objective should always be stability.

Senator BENNETT. Whenever I get on this particular point of view of inflation, my mind always compares it with the narcotics habit.

Secretary HUMPHREY. That is it, exactly.

Senator BENNETT. The first few shots will probably produce a sense of well-being, but you have to keep on increasing them all the time; and eventually, the ordeal of getting rid of the habit must be terrible beyond belief.

I would like, then, to move on to my final set of questions.

Apparently, there is no place in our present body of Federal law in which this goal of price stability is explicitly stated. I have in mind three ideas, they are not new or not my own, which might contribute to this objective, and as we conclude, I should like to ask for your comments on them.

First, do you think it would be useful if we sought to amend the Employment Act of 1946 to include among its objectives a specific reference to price stability and the maintenance of the purchasing power of the dollar?

Secretary HUMPHREY. That certainly should be an objective, and I see no reason why it should not be stated. But just stating it is not going to do it.

Senator BENNETT. No question about that, but this might be a small first step.

Secretary HUMPHREY. It certainly would be a statement of a worthy objective that could be kept in mind, but you have got to do a lot more than make a statement.

Senator BENNETT. That is right.

Earlier, you have testified that you do not think there is anything necessarily incompatible between the goals of relatively full employment and the stability of the dollar.

Secretary HUMPHREY. I think high employment and stability—it is the combination of high employment and stability that gives us our greatest benefits in living.

Senator BENNETT. Second, do you think it might be well to give careful study to the idea of amending the Federal Reserve Act to spell out the responsibilities of this agency in the field of price stability?

It may be that officials of the Federal Reserve Board would see no necessity for amending the Act.

Secretary HUMPHREY. Well, whether they do or not, I do not see any reason why you should not be glad at any time to state your objectives.

Senator Gore was kind enough yesterday to say that I have never been ashamed of my own opinion, and I see no reason why you should not be willing to state what your objectives are.

But with it, let me say that I do not know that while just stating it is all right, that does not get the job done.

Senator BENNETT. Finally, and this is one of those "finally's" that you cannot trust, like the minister's when he begins to move toward the end of his sermon, I realize that such legislation will take time. I have noted that the newspaper, the American Banker, in a recent editorial suggested that the President might make a strong declaration to the effect that the preservation of price stability through vigorous and sound monetary and fiscal policies is an affirmative goal of his administration.

After your 4 years as Secretary of the Treasury and your 4 weeks with this committee, I would welcome your comment on this idea.

Secretary HUMPHREY. Well, the President has said it a number of times, and I think it would be a wholesome thing if he continued to say it often and loud.

Senator BENNETT. My impression, and I could be wrong, is that most of his comments have been with respect to the problem of inflation rather than affirmatively with respect to the value of stability of the dollar.

Secretary HUMPHREY. Well, they go together, of course.

Senator BENNETT. Yes, they do, but in a sense, the inflation problem is the short-run problem today, and the stability is the question of long-range policy.

It has been a temptation all the way along—before I go into that, do you have a statement here which you would like to read into the record which might correct me?

Secretary HUMPHREY. This has just been handed here to me. Let me see this for a minute.

We are referring to a stable dollar. You spoke about that.

Senator BENNETT. That is right.

Secretary HUMPHREY. And this is very pat on that particular thing, this letter of transmittal of January 23, 1957, sending up the Economic Report and I will just quote these few lines, not out of context, however, but as part of it, and it is unnecessary to go further.

Senator BENNETT. Yes.

Secretary HUMPHREY (reading):

> Government must use all practicable means to promote high levels of production and employment and to contribute toward achieving an expanding and widely shared national income earned in dollars of stable buying power.

Senator BENNETT. Well, that is a statement, and I would hope on some occasion, some public occasion when he is addressing the people of the country, he might make an affirmative statement of this particular policy.

Mr. Secretary, that is the end of my prepared statement.

I am tempted to just go back for one final review of a problem which was discussed yesterday.

Yesterday, you were asked to discuss the relative impact and the relative value of funds for expansion raised through retained earnings, through the sale of equities, or through the creation of debt.

You made the interesting observation that, actually, funds used out of retained earnings were equity funds.

Secretary HUMPHREY. That is right.

Senator BENNETT. Ordinarily, the use of the word "equity" financing applies to the sale of new stock, or at least that has been my concept of it, in contrast to money raised outside of the organization through debt.

Maybe what I am getting is a necessary education in the meaning of the word "equity." But the point I want to get at today, you related equity financing to the financing through retained earnings.

Secretary HUMPHREY. To what?

Senator BENNETT. To financing through retained earnings.

Secretary HUMPHREY. Yes.

Senator BENNETT. I would like for a second, with your help, to relate financing through the issuance of debt securities, mortgages, debentures, to financing through retained earnings.

After all, do they not come back to the same fundamental source of money? If I go out and borrow, let's make me rich, let's say I borrow a million dollars, I am a corporation——

Senator FREAR. You can.

Senator BENNETT. There is my source, you see. We have got a deal right now. He will loan it and I will borrow it. [Laughter.]

If I were to go out to seek a source or sources from which I could borrow a million dollars, one of the first questions I would have to answer is, "Is your earnings position good enough to give us an assurance that this money will be paid back when it it due?"

And does that not mean, then, that when you borrow money, you simply create a difference in the time pattern when that money must come out of earnings?

Secretary HUMPHREY. Well, very broadly. But the second question he will ask is, "How much money have you got in your business?" And, I do not care what your earnings are, if you do not have any money in your business, you probably will not get the loan.

Senator BENNETT. That is right. You have to demonstrate both adequate capital and adequate ability to repay.

Secretary HUMPHREY. That is right.

Senator BENNETT. Through all of these discussions of the problems of debt, through all of the discussions in this committee and other committees, when it has seemed that there were those who advocated the idea that the problems of the people could be solved if we only made credit easier, if we only created more bank credit, it has seemed to me that there has been inadequate attention paid to the job of paying those loans back.

And inevitably, if industry or an individual is going to accept the responsibility of borrowing money, he must accept the responsibility of paying it back.

So is it fair to say, Mr. Secretary, that in the end, all expansion, whether in an individual's own inventory of household or other fixtures and supplies, or in an industry's inventory of facilities and goods, must be financed out of the earnings of the company, over the long pull?

Secretary HUMPHREY. I do not believe so, not necessarily.

Let us say again that you and I are going into business, and let us say that—I think you can get these things awfully complicated, and, in fact, they are mighty simple, they are really very simple.

Senator BENNETT. That is right.

Secretary HUMPHREY. We are going to start in business, and we will not start on quite as big a scale as you are on, as you started on, but let us say that we need, you and I have an idea, we starting out in business, and let us say we figure that with $25,000 we can get ourselves started.

I have a little money and you have a little money, and we go around and we get Senator Williams and Senator Frear and Senator Flanders all to come along with us. They put in a little money, and out of it we raise $25,000, and we issue some stock with that. That is equity. We do not owe anybody. They cannot ask us to pay it back, we do not have to pay it back and never intend to pay it back.

That money is in the business, and we intend it shall stay in the business as long as we will stay in business. The only way anybody will ever get it back is if we liquidate the business.

But we expect to get some return, we expect the business to earn something and pay us some dividends on it.

Let us say we are successful, and we go along and get started, and let us say we do pay ourselves some dividends so that we are all getting a modest return on our money. But our business is growing and developing, and we get the Senators together and we say, "Now, this year we have earned $4."

Let us just say, for sake of argument, that we have $25,000 invested in equipment, and that we sell $25,000 worth of goods in a year.

I will make it $100,000, just to make it even. Just to make it easy, let us say we have $100,000 invested in equipment and plant, and we sell $100,000 worth of goods in a year. And the goods, our labor and our materials and all the rest of it, cost us $92,000 we sold it for $100,000 and we have $8,000 left.

That is not an inordinate profit, it is a reasonable profit on a turnover. The first thing we have to do is to pay $5 or to pay $4 and a few cents, of each hundred dollars of that to the Secretary of the Treasury, he gets the first bite, and that leaves us with $4, in round figures.

Now, our business is growing, we want to expand a little, we want to buy some new machinery, and so we get together and we say, "Last year we paid $2 in dividends, but we want to spend a little money this year, a little extra money this year, and what we would like to do would be to cut down this dividend, and we will only pay $1 in dividend, and that will leave us $3 that we can use of this $100 to help pay for this new equipment."

But that is not enough. That does not buy enough. We all say we do not think we want to put in any more stock equity in the company; we will put in our earnings, $3 of earnings, instead of getting them in dividends, but we would like $1 in dividends or something for the money that is in there.

But the rest of it, we do not want to put in. You go to the bank, Senator, and see what you can do. You go to the bank, and the first question the bank asks you is what you said, "What are your earnings?"

And the second question he asks you is the question I said, "How much money have you got in your business?" And if you have that amount of money in your business, and if you have that kind of earnings, and you want to borrow a reasonable amount of money that is a safe loan against that, $25,000, $50,000, some number of dollars of that kind, against what you have got in, you will get your loan.

If you want to borrow a million dollars on that basis—he will turn you down. He will say, "You have got neither the earnings nor the equity," or if you had some exceptional earnings with that equity, he will say you cannot have it anyhow, because he must feel sure.

He is lending other people's money, the bank's money does not belong to him. It belongs to thousands of other people, and he has to be cautious to see that it is loaned, first, to make a return on it but, above all, to be sure be gets paid back, so that he will have that money paid back to him.

Now, you can get awfully complicated reading about these things in books, but when you do it, it is a perfectly simple, obvious transaction.

Senator BENNETT. You feel, then, that——

Secretary HUMPHREY. Now, that is all equity, the $8 we put in is just the same, and it goes in alongside of the original money we put in.

Now, that money is never going to get back to us. We do not expect to draw it out. We expect to get earnings on it; but not the money back.

But the money we get from the banker we have to pay back, or if we sell bonds.

Senator BENNETT. Yes, that is right.

Secretary HUMPHREY. If Senator Carlson says he will lend us some money, but he does not want to invest with us——

Senator BENNETT. He wants bonds.

Secretary HUMPHREY. He will end it to us, but he does not want to be a party to this group, he will put in his money and we have got to pay him back, but we will not pay John back his money.

Senator BENNETT. That is right.

But eventually, the money that we have gotten from Frank has got to be paid back, and it has to be paid back out of our earnings.

Secretary HUMPHREY. That is right.

Senator BENNETT. So eventually——

Secretary HUMPHREY. That is the only way we have got it.

Senator BENNETT. So the increase we have created by borrowing money from Frank does come out of the same source as the other, it comes out of our earnings.

Secretary HUMPHREY. That is right. And until we get him paid off, the amount of dividends we can have will be reduced.

Senator BENNETT. And at these present so-called high interest rates, it costs us more to borrow from Frank than it does to take the money from our own business.

Secretary HUMPHREY. That is right.

Senator BENNETT. Well, you have been very patient with me, and I appreciate the remainder of good business principles.

I was also flattered by your statement that we were going to start cheaper, at lower than I started. The business which I headed before I came here started out at bankruptcy, and you cannot get any lower than that. [Laughter.]

Well, Mr. Chairman, just one final word of appreciation to the Secretary for his patience with me and all the rest of us over these weeks; and an expression of our good wishes for his new activities, and the hope that his job will keep him just as busy, but he will not have quite as big a debt to worry about in the years ahead.

Secretary HUMPHREY. That will be a great relief, Senator.

I certainly greatly appreciate the privilege of being before this committee, and this opportunity to try to explain what it is that we have sought to accomplish.

I wish we might have done it better, but we have done the best we could.

Senator BENNETT. I am sure you have done it very well.

Mr. Jenner, I think, is next.

Senator FREAR (presiding). That is right.

Senator JENNER. Senator Douglas is passing, I understand.

Senator FREAR. I understand that is true, and the acting chairman will recognize the Senator from Indiana.

Senator JENNER. Mr. Secretary, I notice among your new endeavors that you are going to become interested, if you are not already interested, in raising racehorses. You will never see a final——

Secretary HUMPHREY. It has been a long time.

Senator JENNER. You will never see a final eighth of a furlong on the home stretch any more welcome than this is going to be, and I am the final furlong. [Laughter.]

Like my colleagues, Mr. Secretary, on this committee, I have very much admired the Secretary's fortitude during this arduous ordeal. I admire his clarity of thinking and his frankness in giving us the benefit of his vast experience.

I might add that I agree with him and I am very sorry to see him leave the Treasury. I, too, wish him well in his new endeavors. I know he will never, whatever he may be doing, give up his interest in the public welfare.

Mr. Secretary, at the beginning of this inquiry, the chairman stated what the committee wanted to ascertain about the financial condition of the United States.

He said we were going to study:

(1) The revenue, bonded indebtedness, and interest rates on all public obligations, including contingent liabilities;

(2) Policies and procedures employed in the management of the public debt and the effect thereof on credit, interest rates and the Nation's economy and welfare; and

(3) Factors which influence the availability and distribution of credit and interest rates thereon as they apply to public and private debt.

End of the quote from the chairman on June 18, 1957, transcript volume I, pages 1 and 2.

I realize, Mr. Chairman, we have wandered far afield at times from the objectives stated by the chairman. Nevertheless, that was supposed to be the field we were going to cover.

We have held long and extensive hearings on those problems.

As President Franklin D. Roosevelt once said, liberal governments are only too often wrecked on the rocks of loose fiscal policy. Since he made that statement, we have seen the governments of Germany, France, England, China, and many other countries suffer the shock and cruelty of inflation.

Recently the Soviet Government stopped payment on the national debt in the hands of the people—260 billion rubles in all—and in all probability confiscated the savings which the Soviet workers thought they had earned by their labor.

Economic stability is likewise one of the mainstays of our national security. We can hardly imagine a more important task than that of preserving this economic stability for the years ahead.

The Secretary has presented the basic facts and the Senators who preceded me have asked most of the questions I intended to raise.

What I will try to do now, as the junior Senator on this committee, is to review what has already been said.

We have talked about inflation, the depreciation of the dollar, the gold situation, the Government debt, interest rates, Government spending. The most striking aspect of the problem seems to me to be that our outstanding public and private debt, according to the Tax Foundation—

> rose $28 billion in 1956 to reach a fabulous $684 billion, or the equivalent of $12,979 for every American family.

That debt is—

> three times all the annual wages and salaries paid all the 56 million full-time employees in the country.

Our contingent liabilities are approaching the $70 billion mark and probably will rise some more according to the Tax Foundation.

How are we going to finance an emergency—a recession, a war—I keep asking myself. I am afraid I have not found the answer yet.

On page 181 of the transcript, the Chairman asked if we have any reserve to withstand a minor recession, as would occur if our national income dropped to its 1955 level, which was a high income year. That drop, it was estimated, would mean today a $13 billion loss in revenue to the Treasury—changing into a $12 billion deficit what began as a $1 billion surplus.

The Secretary said he didn't know of any nest eggs the Government had to meet such a situation.

The chairman then pointed out that in his opinion we have exhausted our capacity to tax and our capacity to borrow—page 185 of the transcript.

Our citizens pay approximately a third of the national income in Federal, State and local taxes.

We have established the fact that inflation has again become a real problem, that in the past year the dollar has declined 2 more cents in value—using the 1939 base.

We have asked you to define inflation, Mr. Secretary, tell us why it has increased in the last year, give us your opinion on the effects of taxes, Government debt, private debt, Government expenditures, the activity of the Federal Reserve Board on such inflation. We have discussed the inherently inflationary unobligated balances in previous budgets.

The Secretary has answered us frankly and astutely.

My questions are simply to sum up the ideas already expressed here and to enable the Secretary to summarize his main points.

It is evident that our economy produces a very high output. We are also saving a substantial share of that output. But we are obviously in a period of serious inflation. Half the value of the dollar has been eaten away since 1940. Though our taxload is excessive, we have difficulty refinancing our Government bonds.

What is the explanation of these contrary forces? The key, it seems to me, is that something is exerting an even more tremendous pressure on savings than the American economy, with all its wealth, can meet.

Briefly, the pressures on this savings fund comes from:

Government demands—to finance regular Government expenditures, defense expenditures, domestic welfare programs and foreign aid.

Consumer demands—rising with wage and salary increases.

Producer demands—responding to both Government and consumer spending.

This brings us to the principal issue in Government economic policy: Shall we meet these growing pressures by the historic method of reducing war-inflated Government spending, by paying off the debt, and paying higher interest rates to encourage more savings? Or shall we pretend there is no shortage of real capital, keep interest rates artificially low, and make up the deficit by Government-manufactured credit, which is the present-day equivalent of printing press money?

The policy of retrenchment has never been easy. But that policy has been followed by our country after all its wars.

Alexander Hamilton paid our Revolutionary War debts so our money would be trusted by all.

Following the Civil War, we redeemed the greenbacks and returned to trustworthy money. We did the same after 1918.

The opposite philosophy is that of permanent deficit spending, which would have the Government keep interest rates and profits artificially low, thus discouraging real savings. It would make up the deficit by inflated payments for grants-in-aid, socialized medicine, Federalized schools, and other Federal welfare spending, by expanded foreign aid, and artificially stimulated wage and farm payments. The consumers would get more dollars, but every dollar would have fewer cents.

I hesitate to ask you, Mr. Secretary, any questions, but if I may I should like to pursue a little further the choice involved in these two very different kinds of Government monetary policy.

The first question, is it correct to say that the proposals for permanent deficit spending with their extreme increase in Government budgets, their artificially low interest rates and profits, and their indifference to paying off the debt, would bring about massive inflation?

Secretary HUMPHREY. It certainly would, Mr. Senator, and there is no way that I could imagine that you could bring it on to a greater degree than by the combination of circumstances you have outlined in this question.

Senator JENNER. Second, is it correct to say that the Government, by creating artificial purchasing power, can pay its beneficiaries only by deductions from the earnings of productive workers, or by hidden deductions through inflation? The Government, that is, can create artificial jobs and purchasing power, but it cannot really pay the new consumers except by taking what other consumers would get? Is that correct or incorrect?

Secretary HUMPHREY. I think that is correct. The Government, in and of itself, is not creative of production, useful production for living, and the only way that the Government can get money to distribute in any form, or to pay any bills with, is to take it away from its citizens. And the only citizens that have it are those who are productive either through capital investment or through activity in physical effort.

Senator JENNER. That is right, and it is more or less agreed we have about reached the saturation point in taking it away from the citizens.

Secretary HUMPHREY. That is my opinion, as I said before. I think, as I have stated many times, that our taxes are too high, that one of our great problems is the fact that we are continuing and have continued over this period, these extremely high taxes. And I think that our policies should be so fashioned that we will have a definite program to work toward, a definite objective of tax reduction in this country.

Senator JENNER. A recent proposal, Mr. Chairman, of the deficit spending school also proposes action—necessarily Government action—to keep down the payments for interest and for profits. This will mean reduced payments for those who save money and invest it in production.

It has been brought out clearly in these discussions that we have no Marxian class of interest-receivers. Ownership of savings and investment is very widely distributed throughout the population, and at present the labor unions and their pension funds constitute one of the largest factors in investment.

I should like to turn to the use of this saving fund. Investors buy machine tools, industrial plants, new freight cars. Obviously, they do not buy them to put them up on the game room wall, or to hang as a necklace about the necks of their wives. Therefore, what are investors' funds ultimately used for, except tools and equipment and research for new jobs?

If the Government artificially lowers the price paid to investors through interest and profits, we can expect this capital fund for new jobs to shrink, can we not?

Secretary HUMPHREY. It is just obvious, of course, that it will shrink, and with the shrinkage of investment capital, the productivity of man will decline.

The only reason, Senator, that American citizens today have—can earn what they do earn, and we have the scale of living we do have, is because of the power and the tools that investors have put in the hands of the American people.

I said 4 years ago in one of the earliest speeches I made, my hands are not any better as to productivity than the hands of a savage. In fact, the savage is probably a little stronger than I am and has a little more power in his hands than I have in mine. That is true of any American.

The savage uses his hands to do all he can to promote his scale of living. The American uses his hands for the same purpose, but because of the tools, because of the power, because of the transportation, because of the research, because of the expert management, because of the planning, because of all the things that capital has provided and puts in the hands of the American, the scale of living of the American, because his hands have been made so tremendously more powerful than the hands of a savage, you have this great disparity in what the savage has to live with and what the American has to live with. Those are the two extremes. But that same comparison could go to the hands of any other citizen of any other country in this world.

Senator JENNER. Thank you, Mr. Secretary.

Mr. Secretary, what will happen to the total volume of productive employment—employment not created by Government fiat—if we proceed to follow the policies as set up in the earlier question?

Secretary HUMPHREY. Of course, it will just decline; what happens as the Government takes money out of the capital field and spends it for things that do not contribute to the permanent capital of the country is that the permanent capital of the country is lessened to that degree.

Senator JENNER. If the amount of capital per worker shrinks, what will happen to the real wages of American workers? If American workers had only the productive capital per worker which is available to Indian workers, and you just made this comparison, how much would our wage levels differ from Indian wage levels?

Secretary HUMPHREY. I did not know this question was coming, or I would have waited for the question.

Senator JENNER. Is it correct that efforts to distribute American capital over the globe among the 2 billion or so inhabitants affect most markedly the American worker, who will find his real earnings fall, as capital is exported, nearer and nearer to the level of other countries?

Secretary HUMPHREY. Well, that is a much more difficult question. It is perfectly true that, to the extent that our capital is exported, that capital is not available for use in investment in America. On the other hand, we live in a world where time and distance have been tremendously limited as of late years, and it goes on every day and gets smaller and smaller. That means that we are in closer contact, not only for the benefit of trade, but for the fear of attack.

Our great protections of 50 years or a hundred years ago, these tremendous oceans which surround us, have been eliminated. The oceans, so far as transportation is concerned, are dried up. We can cross them in a few hours. So that we are subjected to a greater fear of attack from without than we ever have been—than we were a number of years ago. That means that, as long as there is a fear of attack, we have to be more watchful of our own posture of defense against that attack. And, I believe the surest protection against attack—the best assurance we have of protection—is that we maintain an adequate posture of defense, so that nobody will try it. Now, the same thing applies to a certain expanded——

Senator JENNER. You are talking primarily there of defense, but when you get into the other fields, of cotton production in Japan, and the Volkswagen production of automobiles in Germany, and so forth, what is going to happen to the real wage earners of America if that continues?

Secretary HUMPHREY. Well, I am just coming to that, Senator, from the trade point of view, from the economic point of view.

Senator JENNER. Yes, sir.

Secretary HUMPHREY. It works two ways. In the first place, because of this shrinkage of the globe, our markets can expand. The markets for American goods can expand. They are expanding. We are shipping more and more goods to other parts of the world.

Now, there are two things to a trade, and you always have got to remember it. It does not do you any good for me to sell you some goods unless I get paid for the goods. There is no market for goods among a lot of people who cannot pay for them. So that if you—if in the world there are large areas where they cannot pay for anything, until they are able to earn some money and are able to pay something, they are no market for us.

Now, you can say, "What good does it do to give them the money to pay you back?" Or they either buy stuff back with the money you have given them or buy it from somebody else.

It does not do any good unless it is an assistance, and within a limited amount, a limited amount. These things are all relative. They can all be grossly overdone, any any possible benefits can be lost by greater detriments.

But, if we can encourage a proper extent, and, within the limit of our means, the development of areas that can become customers of ours, we can further expand our trade. And perhaps the amount that we originally offered to get them started will come back many times by virtue of subsequent trade.

Senator JENNER. Well, you say within limited amounts. I think the figures are out since World War II, for economic aid and so forth, all over the 4 corners of the earth, around $60 billion.

Secretary HUMPHREY. I think, in all fairness, Senator, you have to divide that into two classes. We did two things. We thought the wise—and whether it was or not, I do not pretend to say at the moment——

Senator JENNER. The point I am trying to get at is: What is the limit you think?

Secretary HUMPHREY. Here is the point: I think we must divide the figures in two classes. We did two things. The first thing we did was to decide it was wise and desirable to rehabilitate war damage. The destruction of war, among a great group of people who had had functioning societies, who were customers as well as suppliers of ours was very great. We thought it was well to help rebuild them and give them a fresh start in life. Now, that took a lot of money and that was one function.

Now, then, what we are doing today; we are not now rebuilding war damage. What we are doing today, and what our foreign funds are going for today, is for the development of peoples for two purposes: I am not saying whether it is being accomplished or not, but the objectives are two.

One is to aid our security by developing these people into better positions and maintaining them in our sphere of influence, rather than in the other sphere of influence. And the second is the hope they will eventually develop into permanent and satisfactory markets.

Now, the amount of money spent for this latter activity is something that I believe very definitely is a limited amount of money that must be carefully watched, carefully limited, and we must be very wise in its expenditure in order to get the best results.

Senator JENNER. In other words, what really concerns me, when we stop to think, we have a Federal debt probably larger than all of the nations combined that we are trying to help in the way you have just described.

Secretary HUMPHREY. No doubt about that.

Senator JENNER. Two hundred seventy-five billion dollars Federal debt; we have a Government contingent liability of around $250 billion, I think it is. We have a corporate indebtedness of $257 billion. We have a local and municipal debt of $50 billion. We have an individual debt of $218 billion. And that is over a trillion dollars. What is the limit that one group of people can carry for the rest of the world; that is my point.

Secretary HUMPHREY. Well, I wish I knew. I do not know.

Senator JENNER. We will go into another subject. Is it desirable to retain the present plan of giving the Federal Government a monopoly of all investment funds of the social-security system, particularly when Government is taking the money as received and spending it for general Government expenses? Do not those who have contributed this money have a right to put their money where it will bring the highest safe return?

Secretary HUMPHREY. Well, I think I can only answer that question, or best answer that question in this way: I have said this before; when I first came down here, I was talking to a business friend, who said to me, "The people pay money into these funds. You collect money from them and take it from funds or pensions for social security and so forth. I am told that what you do is that, the minute that money gets in there, you take that money all out and spend it for your general purposes, and you just stick an I O U in the box and that all you have got in the box there, in the fund, are a lot of your I O U's."

Senator JENNER. That is not true. We buy bonds with them; do we not?

Secretary HUMPHREY. Well, a bond is an IOU.

Senator JENNER. Of course.

Secretary HUMPHREY. It is a Government bond——

Senator JENNER. Sure.

Secretary HUMPHREY. Which is an IOU.

And I said, "Yes, that is true."

"Well," he said, "that is stealing, is it not? You are just about stealing, are you not?"

And I said "No, I do not think we are." I said, "Your company has a pension fund, has it not?"

He said, "Yes, it has."

"Well," I said, "you try to protect that the best you can, do you not?"

And he said, "Yes, I do."

I said, "What have you got it invested in?"

He said, "We have got our pension fund invested in Government bonds."

I said, "So have we."

Senator JENNER. IOU's.

Secretary HUMPHREY. That is about the best answer I can give you.

Senator JENNER. But it is still IOU; is it not?

Secretary HUMPHREY. It is still an IOU.

Senator JENNER. It has to be paid.

Secretary HUMPHREY. That is right.

Senator JENNER. Would it not have good political and economic effects if the Government had to bid for social insurance trust funds by putting its fiscal house in order, and offering competitive rates, rather than having a monopoly in these funds by law?

Secretary HUMPHREY. Somebody has to determine what this money is put in. And, very frankly, in spite of all that we have heard and all the questions—and they are all proper questions and proper matters of concern—I think a promise to pay of the United States Government is the best investment in the world, the most secure, the safest investment.

It may not pay the highest return. It may not appreciate in value. It may even depreciate temporarily in value. I still think it is the safest place you can put your money in all the world.

Senator JENNER. If we can control inflation.

Secretary HUMPHREY. If we run our business like we ought to, yes.

Senator JENNER. It has been said that we must keep taxes high in time of inflation because high taxes help control inflation. Would not tax cuts increase the supply of savings? When there is a shortage of savings, is it not just as inflationary for the Government to be competing for goods and services as it would be if individuals kept their own money?

Secretary HUMPHREY. Well, now, you asked two questions there, and I will answer them, first, one, and then the other.

Would not tax cuts increase the supply of savings? Yes, there is no doubt about it. And that is why I have said and continue to say that I think our policy should be so fashioned that we will have tax cuts, not one, but successive tax cuts just as soon as we can control our expenses sufficiently so that we have an excess of income with which to pay for them. And those tax cuts should be made and the money put back in the hands of the people for them to spend and to save, and they will save more if there are tax cuts.

Now, the second thing you asked is this: Is it not just as inflationary for the Government to be competing for goods and services as it would be if individuals kept their own money? It is more so. The Government expenditures, as I said yesterday, I believe, it was to—I do not remember which Senator it was.

Senator JENNER. Senator Gore, I think.

Secretary HUMPHREY. To Senator Gore, I believe. The most inflationary money that is spent is the Government's money that is spent for security. On the other hand, it is an essential expenditure. And the greatest problem we have, Senator, I think the greatest problem facing this country is the problem of trying to balance what it is absolutely necessary to spend to maintain an adequate posture of defense and still not have too much collection in taxes, and too much inflation that we cannot handle.

Senator JENNER. My last question is, if interest rates were kept artificially low, how would the picture change?

Secretary HUMPHREY. Well, when you introduce artificialities into your economic system, wherever it is, you cause imbalances, and one artificiality leads to another, and the only way, if you are going to artificially keep your interest down, it means you artificially expand your credit, and as you do that you artificially depress your currency. And as you do that, you run into wild inflation unless you then go in and artificially control by physical laws and policemen and one thing and another, the amount of money that people can spend, and take away from the Americans their freedom of choice. The most precious thing that any American has in his freedom of choice to buy what he wants to buy, to go where he wants to go, to work where he wants to work, to do the things he wants to do, that he thinks are best for him and his family to promote their own better life.

Now, when you start curtailing in one place, you are going to wind up curtailing them all along the line.

Senator JENNER. In conclusion, Mr. Chairman, Mr. Secretary, you have clearly shown that this matter of inflation is not a party matter, that it affects our fiscal sanity, and the economic health of every part of our economy. It affects every person living in our country.

We have talked about inflation, depreciation of the dollar, Government debt, interest rates, Government spending. We have talked of higher, lower interest rates, but they are only an indicator showing which of two very different directions our country shall take in all of its monetary and credit policies.

There is no question about it, we are on an economic tightrope. Any slack in that rope at this critical time could destroy our country. It is not enough to discuss monetary policies of Government. Every man and woman in the country must be concerned, labor, business, and agriculture, everyone must do his part to help keep our economy sound. We talk about monetary policy because it is the key to the future economic growth, political stability and military security of our country.

We all recognize the strain and stresses of a high-interest-rate policy. They are real, and they are serious. But, Mr. Secretary, you have shown clearly that high interest rates are the only honest policy, the only safe policy, the only policy which truly benefits all of the people of our country.

We all know from recent history the collapse of all values that follow prolonged inflation. For myself, I have no doubt about the choice which confronts me. If it is to be inflation or high interest, I will take high interest. I fully agree with you, Mr. Secretary, on this issue. I endorse wholeheartedly the brilliant leadership of our distinguished Secretary of the Treasury in his efforts to protect our national credit, and put a firm foundation under our economic life and our military strength.

Thank you, Mr. Secretary. You have been very patient. And thank you, Mr. Chairman.

That concludes my questions.

Secretary HUMPHREY. Thank you, Mr. Senator, very much, indeed. I appreciate it very much.

The CHAIRMAN. Mr. Secretary, your trials have come to an end. As your testimony concludes as Secretary of the Treasury, I want to express to you the appreciation of this committee for your cooperation, your patience, and the forthright answers you have given to the questions propounded to you.

You have promptly supplied a great mass of detailed and enlightening information for the record. I believe your testimony and the opinions you have expressed in answer to the questions propounded by the members of the committee have provided an excellent beginning to the examination of the financial conditions of the United States which this committee has undertaken.

I am aware of criticism voiced by at least one Member of the Senate, who is not a member of the committee, even as the study is just beginning, that these hearings have been a failure, and that the jurisdiction of the Finance Committee has been questioned.

I merely want to say that no committee in the Senate has responsibility for the matters concerned in this investigation as great as the Senate Finance Committee. Our committee has the responsibility for the public debt, determining the rates of interest to be paid on Federal obligations, and recommending Federal debt limitations. It has the responsibility for raising the revenue necessary to pay the

Federal obligations as enacted by Congress, including obligations incurred in the past.

It is directly concerned in interest rates, as the Federal Government is the largest borrower in the world. It has a direct concern with inflation because the Federal Government is the largest purchaser of goods and services, and, as prices increase, it becomes necessary to increase the tax revenue.

It likewise has responsibility for tariffs and customs, which have a direct bearing on economic conditions.

The resolution under which the committee is conducting the hearings, if I may now repeat, calls for an examination of:

(1) The revenue, bonded indebtedness, and interest rates on all public obligations, including contingent liabilities;

(2) Policies and procedures employed in the management of the public debt and the effect thereof on credit, interest rates and the Nation's economy and welfare; and

(3) Factors which influence the availability and distribution of credit and interest rates thereon as they apply to public and private debt.

This committee is concerned also over possible results of a recession, even though it may be in minor one. It was developed by your testimony and by calculations of the Joint Committee on Internal Revenue Taxation that should economic conditions revert to 1955, just 2 years ago, under the existing taxes, a deficit of $12 billion would occur.

You stated, I believe, that to revert to a national income on a basis of 1955 would not be regarded by you as a major recession; yet a deficit of $12 billion coming at this time, especially in the light of the inflation, now so actively increasing, would create a very bad situation.

I am even more convinced now than I was at the beginning of your testimony that inflation is the most serious internal problem in our country today. Had this renewed inflation started with a 100-cent dollar, the danger would not be so great. But it is alarming to note the fact that 48 cents of the 1939 dollar was lost up to 1953; in 1954, 1955, and 1956, the value of the dollar was stable; in early 1956, inflation started again, causing a loss of 2 cents on the basis of the 1939 dollar, or 4 percent of the present dollar, between April 1956 and April 1957. As of April, 1957, the dollar value, as compared to 1939, was 49.8 cents.

I am informed by qualified experts that in May and June and July, percentagewise, the inflation has continued to increase.

We all know the terrible consequences of inflation, not only in property values but in the destruction of the democratic form of government. No democratic government can survive with a badly impaired currency. If we continue to debase the value of the American dollar, it is certain that the results will be disastrous.

The causes for this new inflation have not yet been clearly shown. It was not due in the past year to deficit spending as it was in the 1940's, when we had heavy deficit spending for a period of years. It was not due in this period to increases in wages above productivity, because in the period from April 1956 to April 1957, these increases, I am informed, were not excessive.

It is apparently not due to the conditions that debased the value of the dollar between 1939 and 1952.

The problem is to find the causes of this new inflation and then take the necessary measures to stop it before disaster occurs.

This committee is diligently attempting to discharge its responsibilities and to do so objectively in the light of conditions and testimony given by you and to be given by other distinguished witnesses who will follow.

It has been my privilege, Mr. Secretary, to serve with you closely during your 5 years of service as Secretary of the Treasury. We have had our differences and some have been rather sharp, but I have a great admiration for your ability and your high patriotism, and this close association with you has been a great privilege.

I regret that you are leaving the public service, and wish you much contentment and happiness in whatever work you may undertake.

The committee wishes to note that you have testified on 14 days since the hearings were started on June 18, and that your interrogation has covered nearly 1,500 pages.

The chairman has not checked the record, but your examination must be among the most exhaustive. I am advised unofficially the former Secretary of the Army Stevens also was on the witness stand 14 days, in an examination of some television fame earlier in this administration.

This examination is into one of the most serious problems facing the American people. The Senate Finance Committee does not intend it to be a three-ring circus. We intend to be objective and nonpolitical, so far as possible, and the members of the committee have taken their obligations seriously, and have framed their examinations accordingly.

I am proud of the manner in which these complex and difficult matters have been brought before you, the committee, and the public.

Fourteen members of the committee have examined you on all aspects of the problem, and I believe they have exhausted your official and personal knowledge of the situation confronting us.

Senator BENNETT. As well as the witness.

The CHAIRMAN. If the witness does not think they have, then we can have a few more days. [Laughter.]

As chairman of the Senate Finance Committee, I am glad to have the opportunity to make this statement today, because this is perhaps your last appearance before the committee as Secretary of the Treasury.

It is possible the committee will want your counsel as times goes on, and, if so, I know you will be glad to appear whenever requested.

So I bid you good day, but not goodby.

Secretary HUMPHREY. Mr. Chairman, I would be entirely out of character if I did not say that I was very glad that this examination is terminated, at least for the present. And, of course, I will make myself available in the future, probably not in the capacity in which I am now here, as long as this committee is active and wants anything that I can contribute.

I should like to say this: This has been a long hearing, and it was an exhausting hearing; but while it was exhausting of your physical resources, it was also, as you pointed out, exhausting the subject.

And I agree with you that there is no subject, no subject, that is as important to the American people as the subject you were discussing, which is, in its broadest aspects, the fiscal and monetary policies of this Government, and what is required.

And you are blazing new trails. We are going to blaze new trails in the future. There never has been any country in the history of the world which has owed as much money as we have. The effect of this debt, the effect of our obligations, the effect of the degree of taxation to which we have been submitting ourselves, are things that nobody knows where they will land or how they can best be handled.

So that, whether I am here or whether I am not here—and I just want to say in that context that, while I again would be out of character if I did not say that I am looking forward to the things that I am going to do when I leave here, these 4½ years have been the most rewarding and the most interesting years of my life. Any association with you, Mr. Chairman, and with the members of this committee, with whom we have worked just as closely and, I think, just as agreeably, I think, as it would be possible to do, is one of the very fine things that has happened to me in Washington. I am glad to have been able to seek the counsel and have the benefit of the advice that you and your associates have given.

Now, I hope that this investigation will continue and, despite its length and despite all the things which have been said about it, I just want to compliment you and the members of this committee on the fact that, brushing aside the little things, the objective of this investigation has been to try to probe into these extremely difficult things that we do not any of us know exactly how they are going to work, and to try to decide how best really to do it, what is best for America.

I hope your committee will continue along the same lines. I am sure you will make some progress. And if there is anything I can do to be helpful, I am at your service.

The CHAIRMAN. We certainly thank you very much, Mr. Secretary. Any further questions?

(No response.)

The CHAIRMAN. If not, the committee stands adjourned.

(Statement subsequently submitted by Secretary Humphrey in response to Senator Anderson's question on p. 586 relating to the acquisition of corporate property principally for the purpose of tax evasion or avoidance:)

In addition to strengthening the general provisions of the tax law disallowing deductions not otherwise available to the taxpayer where another corporation or its property is acquired principally for purposes of tax evasion or avoidance, the Internal Revenue Code of 1954 also introduced specific limitations to check abuse of the net operating loss carryover in accordance with recommendations of the Treasury Department. Under section 382 of the 1954 Code, a loss carryover is completely eliminated if 50 percent or more of the stock of a corporation is acquired by purchase in 2 years and the corporation does not continue the business which resulted in the loss. In tax-free reorganizations, if shareholders of the loss corporation acquire less than 20 percent of the stock of the new corporation, the loss carryover is reduced proportionately. Thus, if they acquire 10 percent of the stock, only 50 percent of the carryover is available to the successor corporation.

In its recent decision in the Libson case (*Libson Shops, Inc.* v. *Koehler*, 353 U. S. 382) the Supreme Court, ruling under the pre-1954 provisions, disallowed tax-loss benefits where a merger was arranged to obtain a tax deduction for premerger losses. Similar cases have not yet been litigated under the strengthened 1954 provisions. However, it seems clear that these provisions have operated to discourage the acquisition and absorption of companies merely to take over their tax losses in a number of other situations, not involving public litigation.

(Whereupon, at 11:30 a. m., the committee adjourned, subject to the call of the Chair.)

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