[COMMITTEE PRINT]

PUBLIC DEBT AND TAX RATE EXTENSION ACT

STATEMENT OF THE

SECRETARY OF THE TREASURY

BEFORE THE

COMMITTEE ON FINANCE

UNITED STATES SENATE

EIGHTY-SIXTH CONGRESS

SECOND SESSION

ON

H.R. 12381

AN ACT TO INCREASE FOR ONE-YEAR PERIOD THE PUBLIC DEBT LIMIT SET FORTH IN SECTION 21 OF THE SECOND LIBERTY BOND ACT AND TO EXTEND FOR ONE YEAR THE EXISTING CORPORATE NORMAL-TAX RATE AND CERTAIN EXCISE-TAX RATES

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PUBLIC DEBT AND TAX RATE EXTENSION ACT

TUESDAY, JUNE 14, 1960

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

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

Present: Senators Byrd (presiding), Kerr, Anderson, Long, Smathers, Gore, Talmadge, Hartke, McCarthy, Williams, Carlson, Bennett, and Morton.

Also present: Elizabeth B. Springer, chief clerk.

The CHAIRMAN. The committee will come to order.

The bill under consideration is H.R. 12381, which provides for a temporary public debt ceiling of $293 billion for the fiscal year 1961 and a 1-year extension of the present tax rate on corporate income and certain excises.

(The bill follows:)

[H.R. 12381, 86th Congress, 2d sess.]

AN ACT To increase for one-year period the public debt limit set forth in section 21 of the Second Liberty Bond Act and to extend for one year the existing corporate normal-tax rate and certain excise-tax rates

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That this Act may be cited as the "Public Debt and Tax Rate Extension Act of 1960".

TITLE I—PUBLIC DEBT LIMIT UNDER SECOND LIBERTY BOND ACT

SEC. 101 TEMPORARY INCREASE

During the period beginning on July 1, 1960, and ending on June 30, 1961, the public debt limit set forth in the first sentence of section 21 of the Second Liberty Bond Act, as amended, shall be temporarily increased by $8,000,000,000.

TITLE II—EXTENSION OF EXISTING TAX RATES

SEC. 201 ONE-YEAR EXTENSION OF CORPORATE NORMAL-TAX RATE

Section 11(b) (relating to corporate normal tax), section 821(a)(1)(A) (relating to mutual insurance companies other than interinsurers), and section 821(b)(1) (relating to interinsurers) of the Internal Revenue Code of 1954 are amended as follows:

(1) By striking out "JULY 1, 1960" each place it appears and inserting in lieu thereof "JULY 1, 1961";

(2) By striking out "July 1, 1960" each place it appears and inserting in lieu thereof "July 1, 1961";

(3) By striking out "JUNE 30, 1960" each place it appears and inserting in lieu thereof "JUNE 30, 1961";

(4) By striking out "June 30, 1960" each place it appears and inserting in lieu thereof "June 30, 1961".

SEC. 202. ONE-YEAR EXTENSION OF CERTAIN EXCISE TAX RATES

(a) EXTENSION OF RATES.—The following provisions of the Internal Revenue Code of 1954 are amended by striking out "July 1, 1960" each place it appears and inserting in lieu thereof "July 1, 1961":

(1) section 4061 (relating to motor vehicles);

(2) section 4251(b)(2) (relating to termination of tax on general telephone service);

(3) section 4261 (relating to tax on transportation of persons);

(4) section 5001(a)(1) (relating to distilled spirits);

(5) section 5001(a)(3) (relating to imported perfumes containing distilled spirits);

(6) section 5022 (relating to cordials and liqueurs containing wine);

(7) section 5041(b) (relating to wines);

(8) section 5051(a) (relating to beer); and

(9) section 5701(c)(1) (relating to cigarettes).

(b) TECHNICAL AMENDMENTS.—The following provisions of the Internal Revenue Code of 1954 are amended as follows:

(1) Section 5063 (relating to floor stocks refunds on distilled spirits, wines, cordials, and beer) is amended by striking out "July 1, 1960" each place it appears and inserting in lieu thereof "July 1, 1961", and by striking out "October 1, 1960" and inserting in lieu thereof "October 1, 1961".

(2) Subsections (a) and (b) of section 5707 (relating to floor stocks refunds on cigarettes) are amended by striking out "July 1, 1960" each place it appears and inserting in lieu thereof "July 1, 1961", and by striking out "October 1, 1960" and inserting in lieu thereof "October 1, 1961".

(3) Section 6412(a)(1) (relating to floor stocks refunds on automobiles) is amended by striking out "July 1, 1960" each place it appears and inserting in lieu thereof "July 1, 1961", by striking out "October 1, 1960" and inserting in lieu thereof "October 1, 1961", and by striking out "November 10, 1960" each place it appears and inserting in lieu thereof "November 10, 1961".

Section 497 of the Revenue Act of 1951 (relating to refunds on articles from foreign trade zones), as amended, is amended by striking out "July 1, 1960" each place it appears and inserting in lieu thereof "July 1, 1961".

Passed the House of Representatives June 8, 1960.

Attest: RALPH R. ROBERTS, *Clerk.*

The CHAIRMAN. We have the honor of having with us the Secretary of the Treasury. Mr. Secretary, you may proceed.

STATEMENT OF HON. ROBERT B. ANDERSON, SECRETARY OF THE TREASURY

Secretary ANDERSON. Mr. Chairman and members of the committee, I am grateful for this opportunity to appear before you in support of H.R. 12381, which provides for a temporary public debt ceiling of $293 billion for the fiscal year 1961 and a 1-year extension of present tax rates on corporate profits and certain excises.

The temporary public debt ceiling of $295 billion effective during the current fiscal year has afforded the Treasury much needed flexibility in debt management. As you know, however, this temporary authority expires on June 30, 1960, at which time the statutory limit will revert to the permanent ceiling of $285 billion. It now appears that the debt on June 30, 1960, will slightly exceed $285 billion. This points up the urgency of passing this legislation before June 30, 1960.

In our judgment, the necessary flexibility for fiscal year 1961 can be provided by means of a temporary ceiling of $293 billion as provided in title I of H.R. 12381. The $2 billion reduction from the current temporary limit reflects primarily the impact of the $4.2 billion surplus as estimated in the President's budget message last January, slightly less than half of which can be expected to be available to reduce the Treasury's seasonal borrowing requirements which reach their peak around the middle of the fiscal year.

The need for a temporary public debt limit of $293 billion, or $8 billion above the permanent ceiling, is indicated both in table 2 and in the chart included in appendix A, which present estimates of the outstanding public debt for the fiscal year 1961.

You will note that, assuming a constant operating cash balance of $3½ billion, the public debt subject to the limitation is expected to rise to a seasonal peak of almost $290 billion on December 15, 1960, reflecting the distinct seasonal pattern in budget receipts as contrasted with the absence of a seasonal pattern in budget expenditures. Thus, a $293 billion temporary limit would allow for a contingency margin of approximately $3 billion at that time.

The $3 billion margin is, in our judgment, the minimum essential for flexibility in debt management and to meet contingencies. During each of the past 4 years the Treasury's cash balance has averaged about $4¾ billion, which is relatively small.

As is shown in the table below, the cash balance has averaged only 76 percent of average monthly budget expenditures during these years, an amount considerably lower than for earlier periods. Moreover, it is significant that the Treasury's average cash balance has been no higher recently than it was a decade ago, when budget spending was not much more than half its present rate.

Treasury cash balances and average monthly budget expenditures

[Billions of dollars]

Fiscal years	Average end of month cash balances [1]	Average monthly expenditures	Percent
1949-52	$4.8	$3.9	122
1953-56	5.2	5.7	92
1957-60 [2]	4.7	6.2	76

[1] Including gold in Treasury general fund.
[2] Through April 1960.

The Treasury's efforts to maintain relatively low cash balances have, however, gone about as far as they can without impairing efficiency of operations. For example, a low cash balance could require the Treasury to borrow in an unfavorable market atmosphere rather than timing its borrowings more propitiously.

Conversely, a temporary buildup in cash balances may permit the Treasury to reduce the size of a large forthcoming cash borrowing. Moreover, adequate cash balances permit the Treasury to sell new issues of securities in advance of the maturity of old securities when such action adds significantly to the success of a particular financing operation.

An additional reason supporting our judgment that the $3 billion margin is an essential minimum is the always present possibility of demands on the Treasury in the event of a national emergency, particularly if it should occur in the latter part of a calendar year, when Congress is not in session and when seasonal borrowing approaches its peak. Furthermore, if the Congress should not enact all of the revenue measures proposed by the President, if revenues should for other reasons fall below expectations, or if expenditures should exceed those budgeted, the need for the $3 billion leeway would become even more important.

We are asking that this temporary limit be provided only through June 30, 1961. We continue to believe that it is appropriate for the Congress to review the question of the debt ceiling, thereby focusing national attention on the importance of discipline in the Government's fiscal affairs.

If the President's budget proposals for fiscal year 1961 are enacted by the Congress, and if tax revenues, as now appear likely, are consistent with our January estimates, more than $4 billion of public debt will be retired in fiscal year 1961.

I now turn to title II of H.R. 12381, which would extend present tax rates on corporation profits and certain excises.

The President, in referring to these tax rates in his budget message to the Congress last January said:

> In order to maintain Federal revenues, it is necessary that the present tax rates on corporation profits and certain excises be extended for another year beyond the scheduled expiration date of June 30, 1960. The scheduled reductions in the excise tax rates on transportation of persons and the scheduled repeal of the tax on local telephone service, which were enacted in the last session of the Congress, should be similarly postponed.

Without the enactment of H.R. 12381 or a similar bill, the scheduled reduction in corporation income taxes and excise taxes would result in a full year revenue loss of over $4 billion, with approximately $2.7 billion of the total reduction occurring in fiscal year 1961.

In terms of the particular taxes involved the full-year revenue decline of over $4 billion would consist of decreases of $2.5 billion in corporation income taxes and over $1.5 billion in excises. Of the latter, various alcohol taxes would account for $256 million; the tax on cigarettes, $222 million; and taxes on automobiles and automobile parts and accessories, $489 million.

The reduction of the excise tax on the transportation of persons would result in a loss of $130 million and the termination of the general telephone service tax would result in a loss of $463 million.

For your convenience, I am submitting a table in appendix B showing the taxes, the respective rates, and the detailed revenue effects.

In the budget message, budget receipts for fiscal year 1961 were estimated at $84 billion, consisting of $43.7 billion of individual income taxes, $23.5 billion of corporation income taxes, $9.5 billion of excise taxes, and $7.3 billion from all other receipts.

These revenues, in combination with the other elements of the President's program, would produce the estimate surplus for the fiscal year 1961.

We view the attainment of a budget surplus as a high priority goal of Government fiscal policy. If we are to maintain full confidence in the ability of this Government to manage its affairs wisely, consonant with our position as a leader in the free world, we must continue to strive vigorously to attain budget surpluses during periods of high levels of business activity. A continuation of existing tax rates, as provided by H.R. 12381, is essential to this objective.

The attainment of a significant budget surplus during periods of strong business activity is important for several reasons. Such a surplus—

Provides an important stabilizing effect to help maintain balance in the economy when business activity is strong.

Facilitates management of our huge public debt, because the Federal Government becomes a net repayer of debt instead of a borrower.

Reduces the interest burden on the debt.

Provides an important example that will foster prudent decisions by consumers and businessmen.

Promotes confidence in the dollar both at home and abroad by providing a convincing demonstration of the determination of this Nation to maintain fiscal discipline.

The desire of the American people to achieve a surplus in the Federal budget during periods when business activity is high has been reflected in the determined efforts of the administration and the Congress to achieve a small surplus in the budget for this fiscal year and a meaningful surplus for fiscal year 1961.

The progress that has been made thus far has not been easy. It will be recalled that the economic downturn in 1957–58 had its budgetary impact largely in fiscal year 1959, ended last June, when Federal budget expenditures exceeded revenues by $12½ billion.

Although there were apparently many who believed that such a shift to surpluses could not be achieved, this massive change in the Government's budget position has now been attained. It would be unfortunate indeed if premature reductions in tax rates were permitted to undermine the surplus in the budget for fiscal year 1961.

Piecemeal tax reductions would not only prevent the attainment of the desired surplus for debt retirement in fiscal year 1961; such reductions would also tend to postpone the achievement of the significant margin of revenues over expenditures that we should appropriately have in order to effect general improvements in the tax system.

The financial position of the Government does not at this time permit a general reduction in individual income taxes, and we do not believe a reduction in corporate tax rates is justified at a time when a reduction for individuals cannot properly be made.

If this Nation is to maintain reasonable discipline, and if we are to realize our aspirations for a continued high and sustained rate of economic growth without inflation, then debt repayment must be established as a normal practice in good times, and adequate surpluses should be in prospect before we can prudently undertake balanced adjustments in our tax structure.

Mr. Chairman and members of the committee, the passage of H.R. 12381 is, in our judgment, essential to sound management of the public debt and the maintenance of an appropriate Federal fiscal position.

(The tables referred to follow:)

Appendix A

Table 1.—*Actual cash balance and public debt outstanding July 1959–May 1960*

[In billions]

	Operating balance, Federal Reserve banks and depositaries (excluding free gold)	Public debt subject to limitation		Operating balance, Federal Reserve banks and depositaries (excluding free gold)	Public debt subject to limitation
ACTUAL			Actual—Continued—		
			1959—Dec. 15	3.7	$291.9
			Dec. 31	4.7	290.5
1959—July 15	$6.2	$288.8	1960—Jan. 15	3.6	291.6
July 31	4.9	288.4	Jan. 31	3.8	290.8
Aug. 15	3.8	287.9	Feb. 15	2.5	290.2
Aug. 31	5.8	290.1	Feb. 29	4.3	290.3
Sept. 15	3.3	289.7	Mar. 15	2.7	290.0
Sept. 30	6.1	288.0	Mar. 31	4.2	286.6
Oct. 15	5.0	289.6	Apr. 15	4.1	289.0
Oct. 31	5.5	291.0	Apr. 30	5.1	288.5
Nov. 15	3.3	290.2	May 15	5.1	287.8
Nov. 30	4.1	290.3	May 31	6.6	289.1

Note.—From July 1, 1959, to June 30, 1960, the statutory debt limit is $295 billion. Thereafter it will revert to $285 billion.

When the 15th of a month falls on Saturday or Sunday, the figures relate to the following business day.

Table 2.—*Forecast of public debt outstanding, fiscal year 1961, based on constant operating cash balance of $3.5 billion (excluding free gold) (based on 1961 budget document)*

[In billions]

	Operating balance, Federal Reserve banks and depositaries (excluding free gold)	Public debt subject to limitation	Allowance to provide flexibility in financing and for contingencies	Total public debt limitation required
1960—June 30	$3.5	$285.6	$3.0	$288.6
July 15	3.5	285.5	3.0	288.5
July 31	3.5	286.2	3.0	289.2
Aug. 15	3.5	287.0	3.0	290.0
Aug. 31	3.5	287.0	3.0	290.0
Sept. 15	3.5	289.0	3.0	292.0
Sept. 30	3.5	284.3	3.0	287.3
Oct. 15	3.5	287.0	3.0	290.0
Oct. 31	3.5	287.9	3.0	290.9
Nov. 15	3.5	289.3	3.0	292.3
Nov. 30	3.5	287.8	3.0	290.8
Dec. 15	3.5	289.8	3.0	292.8
Dec. 31	3.5	287.1	3.0	290.1
1961—Jan. 15	3.5	289.3	3.0	292.3
Jan. 31	3.5	287.8	3.0	290.8
Feb. 15	3.5	288.8	3.0	291.8
Feb. 28	3.5	286.8	3.0	289.8
Mar. 15	3.5	288.4	3.0	291.4
Mar. 31	3.5	282.5	3.0	285.5
Apr. 15	3.5	285.2	3.0	288.2
Apr. 30	3.5	284.4	3.0	287.4
May 15	3.5	284.4	3.0	287.4
May 31	3.5	283.9	3.0	286.9
June 15	3.5	286.1	3.0	289.1
June 30	3.5	279.8	3.0	282.8

Note.—When the 15th of a month falls on Saturday or Sunday, the figures relate to the following business day.

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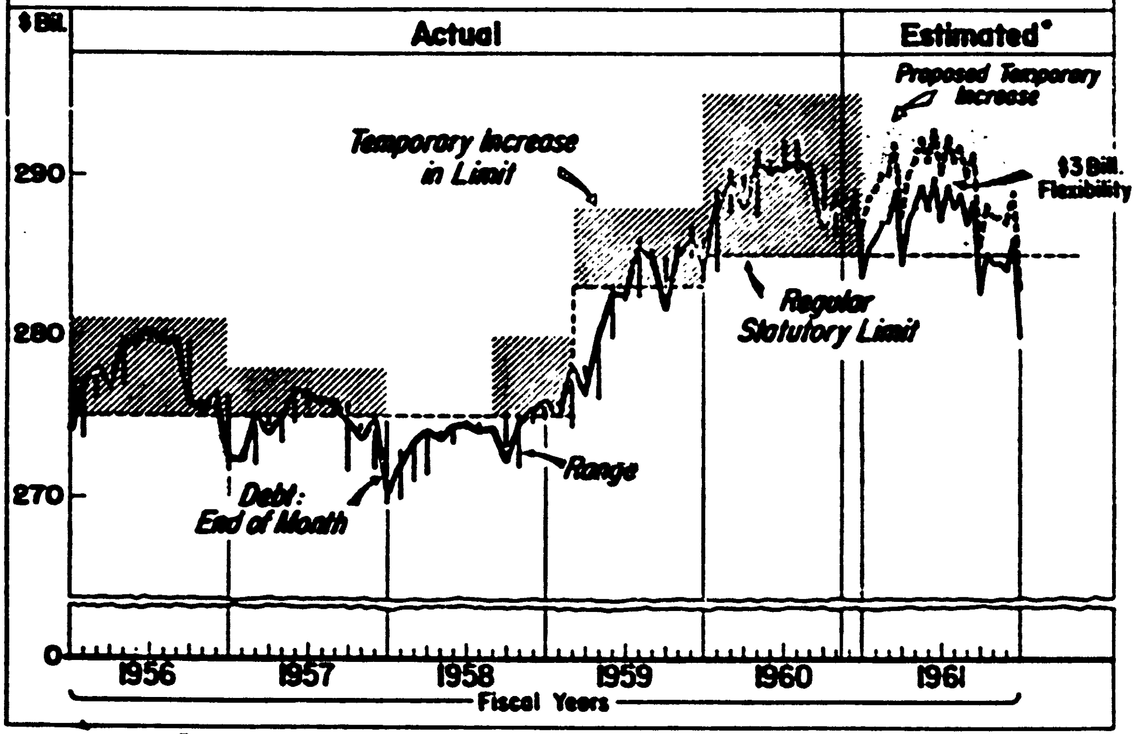
MONTHLY RANGE OF PUBLIC DEBT SUBJECT TO LIMIT



*Estimate on basis of January 1960 Budget Message. Semimonthly; assuming $3.5 billion operating balance, excluding free gold.

Office of the Secretary of the Treasury

APPENDIX B

Increase in revenue[1] resulting from extension of present corporation income and excise tax rates for 1 year beyond June 30, 1960

[In millions of dollars]

	Scheduled rate reduction	Increase in receipts: Fiscal year 1961	Increase in receipts: Fiscal year 1962	Increase in receipts: Full year	Decrease in refunds (1961 only)
Corporation income tax	52 percent to 47 percent	1,200	[2] 1,300	2,500	....
Excise taxes:					
Alcohol:					
Distilled spirits	$10.50 to $9 per gallon	168	3	171	130
Beer	$9 to $8 per barrel	76	1	77	8
Wines	Various [3]	8	....	8	5
Total alcohol		252	4	256	143
Tobacco: Cigarettes (small)	$4 to $3.50 per thousand	218	4	222	22
Manufacturers' excise taxes:					
Passenger automobiles	10 percent to 7 percent of manufacturers price.	350	75	425	80
Parts and accessories for automobiles.	8 percent to 5 percent of manufacturers price.	53	11	64	....
Total manufacturers' excise taxes.		403	86	489	80
Miscellaneous excise taxes:					
General telephone service	10 percent, repeal July 1 1960.	350	113	463	....
Transportation of persons	10 percent to 5 percent	105	25	130	....
Total miscellaneous excise taxes.		455	138	593	....
Total excise taxes		1,328	232	1,560	215
Total increase in receipts		2,528	1,532	4,060	215

[1] At levels of income estimated for the calendar year 1960 and fiscal year 1961.
[2] Includes small receipts in succeeding years.
[3] Various wines:

		From	To
Sparkling wines (champagne)	per gallon	$3.40	$3.00
Artificially carbonated wines	do	2.40	2.00
Still wines:			
Not more than 14 percent alcohol	do	.17	.15
More than 14 percent, not over 21 percent alcohol	do	.67	.60
More than 21 percent, not over 24 percent alcohol	do	2.25	2.00
Wine liqueurs or cordials produced domestically containing over 2½ percent wine, which wine contains over 14 percent alcohol (in lieu of rectification tax)	per gallon	1.92	1.60

Source: Office of the Secretary of the Treasury, tax analysis staff, Jan. 11, 1960.

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

The papers will be inserted in the record.

I note the seasonal high every year occurs on December 15.

Secretary ANDERSON. Yes, sir; usually during the month of December.

The CHAIRMAN. This December 15, you estimate a debt of $290 billion, and in——

Senator KERR. Where do you find that, Mr. Chairman?

Secretary ANDERSON. Appendix A.

Senator KERR. In December, December 15, mine says 291.

Secretary ANDERSON. Excuse me, it is table 2.

The CHAIRMAN. It is $290 billion for December 15, 1960, and $291.9 for December 15, 1959.

Secretary ANDERSON. Yes, sir.

The CHAIRMAN. You stated that on December 15, 1960, the debt would be nearly $290 billion; that is on your second page.

Secretary ANDERSON. Yes, plus $3 billion for flexibility.

The CHAIRMAN. No, speaking of the debt itself. I am not talking about the debt limit.

Senator ANDERSON. $289.8 billion is in your table 2.

Secretary ANDERSON. The figure on appendix A, table 1, $291.9 billion is where we were in December of last year, December 15, last year.

Senator ANDERSON. Table 2 is $292.8 billion just as the chairman said.

Secretary ANDERSON. Yes.

The CHAIRMAN. I am referring to your statement, where you say, that the highest debt for the year is $290 billion of actual debt.

Secretary ANDERSON. Yes, sir.

The CHAIRMAN. And in the last year, 1959, it was $291.9 billion?

Secretary ANDERSON. Yes, sir.

The CHAIRMAN. So you have got an improvement in the debt situation of $1.9 billion within that year.

Secretary ANDERSON. That is correct.

The CHAIRMAN. Mr. Secretary, do you still—what is your estimate of the surplus on June 30 of this year?

Secretary ANDERSON. We do not have a precise estimate, but I think that the estimate will be somewhat above the estimate that was made on the last review in December, or January.

The CHAIRMAN. That was $500 million?

Secretary ANDERSON. Beg pardon?

The CHAIRMAN. Was that $500 million?

Secretary ANDERSON. No, it was $200 million and I would think it would be above that.

The CHAIRMAN. You think it will be slightly above that.

Secretary ANDERSON. Yes.

The CHAIRMAN. You still think the estimate on June 30, 1960–61, will be around $4 billion?

Secretary ANDERSON. Yes.

The CHAIRMAN. Surplus?

Secretary ANDERSON. Yes, sir.

The CHAIRMAN. That being the case, the next time we have to increase the debt ceiling, take up the debt ceiling it probably would be wise and proper to reduce it by about $4 billion under these figures that you have submitted if that is correct?

Secretary ANDERSON. I would hope that we could reduce it.

The CHAIRMAN. Would you furnish to the committee a statement of the income and receipts for each of the years, both this fiscal year and the next fiscal year?

Secretary ANDERSON. Well, we can furnish certainly the figures that we have for the past year. I think it would be difficult, if not impossible to furnish it for the coming years.

The CHAIRMAN. Frequently in the past they have made up estimates of both receipts and expenditures for the coming fiscal year whenever they have asked for an increase in debt limit.

Secretary ANDERSON. The figurs which we have put in table 2, Senator Byrd, are the figures which, by semimonthly periods, that is on the 15th and 30th of each month, reflect the income and the expenditures by showing the amount which we will have under the debt ceiling.

The CHAIRMAN. I understand that but that is based upon the actual income, and the actual disbursements. These respective months.

Secretary ANDERSON. Yes, I think we can take the figures based on the January budget and furnish them to you.

The CHAIRMAN. Heretofore that has been furnished to the committee on the basis of each month.

Secretary ANDERSON. I think we could do that on the basis of the January budget.

The CHAIRMAN. Otherwise you would not arrive at these figures.

Secretary ANDERSON. That is correct.

(The material referred to is as follows:)

Budget receipts, expenditures, and surplus or deficit—Actual results for fiscal year 1960 to date, and projections for fiscal year 1961, based on January 1960 budget document

[In billions]

	Budget receipts	Budget expenditures	Surplus (+) or deficit (−)
Fiscal year 1960 (actual):			
July 1959	$3.2	$6.5	−$3.3
August	5.7	6.3	−.6
September	8.5	6.4	+2.1
October	3.0	6.9	−3.9
November	5.9	6.6	−.7
December	7.6	6.8	+.7
January 1960	4.9	6.2	−1.3
February	7.3	6.2	+1.1
March	9.6	6.4	+3.2
April	5.1	6.1	−1.0
Total, July–April[1]	60.7	64.4	−3.6
Fiscal year 1961 (estimated):			
July 1960	3.5	6.4	−2.9
August	6.3	6.3	.....
September	9.2	6.5	+2.7
October	3.3	7.2	−3.9
November	6.4	6.4	.....
December	8.2	7.1	+1.1
January 1961	5.4	6.5	−1.1
February	7.6	6.4	+1.2
March	10.4	6.7	+3.7
April	4.8	6.7	−1.9
May	6.6	6.4	+.2
June	12.3	7.2	+5.1
Total, fiscal year 1961	84.0	79.8	+4.2

[1] May results will be available on June 20.

NOTE.—Figures are rounded and may not add to totals shown.

The CHAIRMAN. Now, what effect is the financing of the Fannie Mae influence on the public debt?

Secretary ANDERSON. Well, Senator Byrd, one of the things we have in mind in asking for this $293 billion debt ceiling is the fact that on August 23 there is $797 million of FNMA obligations coming due. These were obligations which were issued in January 1958 at the time when we had a very tight debt ceiling. We were criticized by the Comptroller General for issuing these FNMA obligations on the ground that if we had issued the general obligations of the Federal Government, we could have financed from one-half to three-quarters of 1 percent cheaper. We replied to the Comptroller General at that time that the reasons which we had followed this route was the very narrow limits under the debt ceiling.

We now propose under the $293 billion ceiling to refinance the $797 million which will be due in August as a general Treasury obligation, which will reduce the required interest, as I say, depending upon the market at the time, from I would guess one-half to three-quarters of 1 percent.

The CHAIRMAN. When was it they were not financed through the Treasury?

Secretary ANDERSON. Well, this issue was issued in 1958.

The CHAIRMAN. 1958?

Secretary ANDERSON. Yes, sir.

The CHAIRMAN. There is another question that is a little not along the line as we are discussing now but what is your latest information on the balance of payments with foreign countries?

Secretary ANDERSON. Well, as the committee will recall in calendar year 1958 we ran a deficit in the balance of payments of approximately $3.5 billion.

Senator KERR. How much?

Secretary ANDERSON. $3.5 billion. In calendar year 1959 we ran a deficit in the balance of payments of approximately $3.8 billion.

During the first quarter of 1960, there has been some improvement. Exports have increased by about $750 million as compared to the first 3 months of 1959. This is largely due to larger sales of cotton, machinery, which includes machine tools, and jet aircraft. The improvement also includes foodstuffs and animal and vegetable products, some metals and some manufactures. The imports have about leveled off. I think we should point out that the jet aircraft represents deliveries which were contracted for some years before. The increase in the sale of foodstuffs is largely influenced by the drought which was prevalent in Europe last year.

During the first quarter the total recorded gold and liquid dollar gains by foreigners ran at an annual level of about $2.8 billion, that is extrapolated on the basis of the improvement and would compare with about $3.8 billion in 1959.

The CHAIRMAN. Isn't it a fact that the actual deficit in foreign payments is about equivalent to the amount of the foreign aid?

Secretary ANDERSON. I have forgotten precisely the figure last year of foreign mutual assistance but the deficit in our balance of payments was $3.8 billion.

The CHAIRMAN. I think it is more than --

Secretary ANDERSON. $3.8 billion.

The CHAIRMAN. That is practically the same as the deficit in our foreign payments.

Secretary ANDERSON. I think I should point out one thing to the committee, Senator Byrd. You have been reading a figure of $3.7 billion as the deficit in the balance of payments for 1959.

I am today using the figure of $3.8 billion. The reason being there is always a lag in statistical gathering and the $3.8 billion has supplanted the $3.7 billion only in the last couple of weeks, so I wanted to note that.

The CHAIRMAN. I am speaking of approximately---

Secretary ANDERSON. Yes, approximately.

The CHAIRMAN. Approximately the amount of the deficit in foreign payments is the amount of foreign aid, in fact exactly.

Senator KERR. I think one very pertinent factor in that regard, Mr Chairman, is that I am sure that over half of the foreign aid as it relates to the figures the chairman has in mind is in the form of military equipment and not in the form of dollars. And here insofar as the dollars involved in the foreign aid are concerned the amount of the foreign aid in dollars annually is probably a good deal less than half of last year's deficit in the foreign payments.

Secretary ANDERSON. I think that is correct. One has to make a distinction between what we call the trade deficits or trade balances and the deficits in the balance of payments.

When we buy materials in the United States and supply them to other countries, it does not directly affect the deficit in the balance of payments although it has a budgetary effect.

When you add together the total amount of exports and then compare it with the total amount of imports, this is the figure which is normally referred to as our trade balance.

Then, in order to determine what the deficit in the balance of payments will be, one adds such payment items as what is included in the mutual security program in terms of foreign expenditures as well as tourist expenditures, private investment abroad which has also been running in recent years at around $3 billion, and so forth; also receipt items such as sale of U.S. services abroad, investment income, and so forth.

Senator LONG. How about troop payrolls, that is running into a couple of billions overseas.

Secretary ANDERSON. Yes, troop payrolls and the maintenance of forces abroad.

Senator TALMADGE. Last time I checked it, the total expenditures for 1957 was $28 billion annually.

Secretary ANDERSON. You mean for all purposes?

Senator TALMADGE. For all purposes.

The CHAIRMAN. Isn't it true that much of the military expenditures for the foreign aid program are expended abroad?

Secretary ANDERSON. Yes, a considerable amount.

The CHAIRMAN. Except for the one-half of this $3.8 billion is expended in this country because it was for military purposes is what Senator Kerr said. It is my understanding that the offshore—under our military assistance abroad most of that is spent in foreign countries.

Secretary ANDERSON. I would have to take a look at the breakdown to know, but a large part of it is materials which we buy here and ship abroad.

Part of it is for transportation and a number of other items for which we use dollars to balance our accounts.

Senator WILLIAMS. In making allowance for export of agricultural commodities, cotton and wheat and so forth, where they are sold to be paid in foreign currencies, how do you reconcile that with our dollar purchases abroad?

Secretary ANDERSON. I am not quite sure that I understand your question but I think maybe I could reply to it by saying that the amount of commodities which we sell under the Public Law 480 agreements are considered as a part of our exports.

Senator WILLIAMS. That is true.

Secretary ANDERSON. For that we secure local currencies.

Senator WILLIAMS. But which you can only spend back in the country in which they are sold?

Secretary ANDERSON. That is correct.

Senator WILLIAMS. So in fact they are not paid for but are grants, so I wondered how you carried those in as your totals?

Secretary ANDERSON. Well, they would simply be carried at their dollar export value as an export abroad.

Senator FREAR. You transfer the value of the soft currency into dollars and then give credit for it?

Secretary ANDERSON. The exports are carried at their dollar export value.

Senator WILLIAMS. You do on paper but in actual mechanics of it, it is that you cannot transfer it, isn't that correct?

Secretary ANDERSON. Well, you can't do it until you have a use for it.

The CHAIRMAN. As a matter of fact though, the counterpart money can only be spent in these nations that give the counterpart money.

Secretary ANDERSON. That is correct.

The CHAIRMAN. And cannot be used for any other expenditures?

Secretary ANDERSON. That is correct.

Senator WILLIAMS. You cannot transfer them back into dollars even when you have a use for it?

Secretary ANDERSON. No.

Senator TALMADGE. May I pursue that further, please. As I understand the questions and your replies, a little over half of our foreign aid program is treated as an export when, of course, we receive no dollars for it, and of course, in addition to that, all of the commodities that we sell under Public Law 480 for which we received foreign currencies is likewise treated as an export, and of course we get no dollars or thing of value to the Treasury that we can utilize that for.

What is the sum total of those two figures? Do you have them for the last fiscal year?

Secretary ANDERSON. I do not have them before me but I will get them for you.

Senator TALMADGE. Could you give an educated guess? What I am trying to get at is to see how our true exports and imports compare when you deduct those two figures? What was the total exports last year; could you give us those figures?

Mr. Chairman, you don't mind my interrupting at that point; do you?

The CHAIRMAN. Go ahead.

Senator FREAR. While he is looking that up, I think, Mr. Secretary, the question that I asked in conjunction with the senior Senator from Delaware was: When you generate these foreign——

Secretary ANDERSON. Senator, this bulletin has got it set out by quarters and I would have to do some arithmetic to get it together, and may I add it together and supply it?

Senator TALMADGE. If you would, please, what I would like to know is to give us for the past 2 or 3 years the exports and the imports and take in consideration the fact the proportion of our mutual security program that we consider to be an export for which we receive nothing of value, and also the export of our farm commodities for which we receive soft currencies that can only be spent in those countries, and then if you will give us along with that the deficit in the balance of payments for those particular years I would like to have those figures, if you don't mind, sir.

Secretary ANDERSON. I would be delighted to furnish them.

(Secretary Anderson subsequently supplied the following for the record:)

U.S. nonmilitary merchandise trade, U.S. commodity shipments under Public Law 480 and by ICA and the overall U.S. balance of payments position, 1957–59

[In millions of dollars]

	Calendar year		
	1957	1958	1959
U.S. nonmilitary merchandise exports	19,390	16,263	16,225
Of which:			
Public Law 480 shipments	(1,236)	(1,060)	(1,069)
ICA U.S. commodity shipments	(647)	(470)	(380)
	(1,883)	(1,530)	(1,449)
U.S. nonmilitary merchandise imports	13,291	12,951	15,315
Merchandise trade surplus	6,099	3,312	910
Other international transactions (net U.S. payments (−))	−5,631	−6,789	−4,736
U.S. balance of payments position (deficit (−))	468	−3,477	−3,826

Senator TALMADGE. Thank you.

The CHAIRMAN. In addition to that, Mr. Secretary, I think that the committee would be very much interested in a very complete and accurate statement of what brought about this deficit in foreign payments, itemized as to how much is in the foreign aid, how much is in the vacation money that is being spent abroad, how much is in the maintenance of our armies abroad, and all the different factors.

You have stated, as I understand it, that is one of the most serious conditions in the fiscal field that confronts this country, is a continuation of deficit payments between us and foreign nations.

Secretary ANDERSON. I am not quite sure as to the extent that we could reflect accurately such things as the total amount of expenditures abroad by tourists and that sort of thing, but to the extent that we can we will do so.

The CHAIRMAN. Well, you can make an estimate. But that is certainly one factor.

Secretary ANDERSON. That is one factor but I am not certain the extent we can give you that in detail.

(Secretary Anderson subsequently supplied the following for the record:)

SOME REASONS FOR UNFAVORABLE U.S. BALANCE OF PAYMENTS

The term "unfavorable" has been used in connection with our balance of payments position to indicate that total outpayments (public and private) to foreigners have persistently exceeded total receipts from foreigners with the result that during the past decade there has been a very large growth of short-term dollar liabilities to foreigners and, in some years, additionally, a sizable loss of gold to foreign governments and central banks.

The bulk of our receipts from foreigners represents current earnings earnings from U.S. exports and U.S. investments abroad, from banking and insurance services, etc. Only a small part of our receipts from foreigners represents foreign capital investment here.

On the outlay side, however, the United States makes not only large so-called current payments for imports, tourist travel, military establishments abroad, etc., but also provides large amounts of capital, public and private, to foreigners.

With the growth of U.S. private demand for many foreign products, tourist services, etc., with increasing interest by U.S. business in investing abroad, and with the U.S. Government maintaining large military establishments and assistance programs abroad, our earnings, largely from exports, have not been sufficient to cover all of these requirements. There are three broad reasons why U.S. export growth in the past decade has not been greater:

(1) U.S. exports in recent years have been meeting increased competition from exports of other industrialized countries, and adjustments here to increased competition from abroad have not been sufficiently rapid. This increased foreign competition was due to reestablishment of European productive capacities after the war and, to some extent, to price differentials.

(2) Foreign import restrictions, although they are now being relaxed, have kept down the level of U.S. exports in the past decade.

(3) Cyclical downswings in business activity in other industrialized countries have had a considerable effect in reducing U.S. exports in certain years.

The following table presents the U.S. balance of payments in detail for the past 4 years:

U.S. balance of payments

[In millions of dollars]

Line	Type of transaction	1956	1957	1958	1959
1	Exports of goods and services	26,284	29,168	25,606	25,452
2	Military transfers under grants, net	2,579	2,435	2,281	1,988
3	Other goods and services	23,705	26,733	23,325	23,464
4	Merchandise, adjusted, excluding military	17,379	19,390	16,263	16,285
5	Transportation	1,642	1,999	1,672	1,649
6	Travel	705	785	825	902
	Miscellaneous services:				
7	Private	1,087	1,166	1,205	1,199
8	Government, excluding military	125	138	142	144
9	Military transactions	156	372	296	297
	Income on investments:				
10	Direct investments	2,120	2,313	2,198	2,235
11	Other private	297	363	417	467
12	Government	194	205	307	346
13	Imports of goods and services	19,829	20,923	21,053	23,560
14	Merchandise adjusted, excluding military	12,804	13,291	12,951	15,315
15	Transportation	1,408	1,569	1,636	1,784
16	Travel	1,275	1,372	1,460	1,610
	Miscellaneous services:				
17	Private	543	563	613	609
18	Government, excluding military	264	310	305	322
19	Military expenditures	2,955	3,165	3,412	3,090
	Income on investments:				
20	Private	426	452	537	549
21	Government	154	201	129	281
22	Balance on goods and services	6,455	8,245	4,553	1,892
23	Excluding military transfers	3,876	5,810	2,272	−96
24	Unilateral transfers, net (to foreign countries (−))	−4,977	−4,753	−4,619	−4,390
25	Excluding military transfers	−2,398	−2,318	−2,338	−2,402
26	Private remittances	−530	−543	−540	−563
	Government:				
27	Military supplies and services	−2,579	−2,435	−2,281	−1,988
28	Other grants	−1,733	−1,616	−1,616	−1,623
29	Pensions and other transfers	−135	−159	−182	−216
30	U.S. capital, net (outflow (−))	−3,619	−4,133	−3,815	−4,034
31	Private, net	−2,990	−3,175	−2,844	−2,301
32	Direct investments, net	−1,559	−2,058	−1,094	−1,310
33	New issues	−453	−597	−955	−624
34	Redemptions	174	179	85	94
35	Other long-term, net	−324	−441	−574	−372
36	Short-term, net	−926	−256	−306	−89
37	Government, net	−629	−958	−971	−1,733
38	Long-term capital, outflow	−545	−993	−1,176	−2,383
39	Repayments	479	659	544	1,013
40	Foreign currency holdings and short-term claims, net (increase (−))	−563	−624	−339	−353
41	Foreign capital, net (outflow (−))	1,804	691	1,226	4,674
42	Direct and long-term portfolio investments other than U.S. Government securities	520	361	24	548
43	Transactions in U.S. Government long-term securities	−135	−82	31	669
44	Short-term liabilities to foreign banks and official institutions	1,095	−16	827	3,209
45	Other short-term liabilities	314	398	344	248
46	Monetary gold (U.S. sales (+), purchases (−))	−306	−798	2,275	1,075
47	Foreign capital and gold, total	1,498	−107	3,501	5,749
48	Errors and omissions and transfers of funds between foreign areas (receipts by foreign areas (−)), net	643	748	350	783

Source: Office of Business Economics, Department of Commerce.

The CHAIRMAN. If that is going to continue, to the extent that it continues it is going to have serious consequences.

Senator KERR. It won't continue.

The CHAIRMAN. I look to see the imports increase and the exports decrease.

Senator KERR. It is not going to continue with the present specifications because that money, those dollars are convertible into gold if in the hands of a foreign central bank because we don't have the gold to do it, is one reason why it is not going to continue. [Laughter.]

You are already there.

The CHAIRMAN. We are not already there yet.

Senator KERR. When he gets that to you, there will be more members on this committee wanting to become joint authors of the resolution that some of us have got before this committee calling on our negotiators at GATT to make no further concessions, because the reciprocal trade agreement which is sponsored by this committee and which is spawned by it, is the one thing that has brought most of that about over which we have absolute control.

Senator WILLIAMS. Bob, day by day you are coming around to my position in the conference committee. [Laughter.]

Senator KERR. You are one of the guys who whipped me on that all these years.

Senator WILLIAMS. No, you left me. [Laughter.]

The CHAIRMAN. Mr. Secretary, if you can furnish that information the best you can get it.

Secretary ANDERSON. Yes.

The CHAIRMAN. In addition to that give a statement to the committee in writing or however you choose as to under what conditions foreign nations can call for our gold and if we are forced to meet that being in gold instead of in dollars. What has been the decrease in gold supply during the last, what is it, how many years, $24 billion?

Secretary ANDERSON. Maybe I could clarify that by this, Senator. Our gold stock today is about $19,400 million.

The CHAIRMAN. And it was how much a little while back, $25 billion?

Secretary ANDERSON. Well, it, in 1952, reached $23,252 million.

Senator LONG. How much?

Secretary ANDERSON. $23,252 million. In 1949 it was $24,563 million. It went up again in 1957 during the Suez crisis to $22,857 million.

The CHAIRMAN. If this deficit payment continues to what extent will that deplete this $19 billion of gold we now have?

Secretary ANDERSON. Well, one could not say precisely the extent to which it would deplete it, but one could give a judgment, I mean as to the amount of claims which would be generated against it.

Senator KERR. That's right.

Secretary ANDERSON. The situation today is this:

We have $19,400 million worth of gold. All private and official liquid dollar holdings of foreign countries amount to $17,900 million. Of the short-term holdings of foreign countries $9 billion approximately are in official account.

Senator KERR. What does that mean, Mr. Secretary?

Secretary ANDERSON. That means under our present monetary standard they represent a potential direct claim against our gold.

Senator FREAR. And the only difference between that and the other is the other has to be converted before it can be called.

Secretary ANDERSON. Yes, a foreign central bank under our present monetary system can exchange its dollar holdings for gold at the standard rate of $35 per ounce. Individuals and corporations who hold dollars or dollar obligations cannot claim gold but they could, as Senator Frear indicates, go to the central banks of their respective countries and exchange their dollar holdings for the local currency of that country, and then they would become official holdings.

Senator KERR. Then the central bank would become an official holder of that?

Secretary ANDERSON. That is right.

Senator TALMADGE. Would that same transaction take place if they merely deposited their local currency in that bank?

Secretary ANDERSON. No, sir. They would have to convert their dollars into the currency of the local — —

Senator TALMADGE. Request an exchange for dollars.

Secretary ANDERSON. Yes.

Senator TALMADGE. You mean if he deposited that money then the dollars would still be held in that particular bank.

Secretary ANDERSON. They would be held as dollars if he were simply a depositor.

The CHAIRMAN. Isn't it true that of this $9 billion, all of that could be, the payment could be required in gold if the central banks called for gold?

Secretary ANDERSON. That is correct.

The CHAIRMAN. In other words, then, it is possible for our gold to be depleted to $10 billion, I don't say that will occur.

Secretary ANDERSON. No. I think you have also to bear in mind the fact that we have a domestic reserve requirement of $12 billion in order to support the outstanding Federal Reserve notes and deposits.

The CHAIRMAN. We don't know what is going to happen, but we have to look forward in the future. Supposing they called the $9 billion and reduced the fund to $10 billion?

Secretary ANDERSON. Senator, that is a thing I would not like to speculate about. The important thing in this country is that we maintain confidence in the conduct of the affairs of this nation so that these demands would not be made upon us.

The CHAIRMAN. Let me ask you this: When we have deposits in foreign countries have we got a right to demand gold?

Secretary ANDERSON. You mean if we hold foreign currencies?

The CHAIRMAN. That's right.

Secretary ANDERSON. Largely, no.

The CHAIRMAN. Why is it that they can call upon us for gold and we can't call upon them for gold?

Secretary ANDERSON. Because, under the international gold bullion standard which we maintain in our country, foreign central banks can exchange their foreign dollar holdings into gold. This is a feature of the international gold bullion standard.

The CHAIRMAN. Why can't we exchange it into gold too if we have foreign currency?

Senator KERR. That is not the deal. We haven't got that arrangement.

The CHAIRMAN. I say, this is a one-way street.

Secretary ANDERSON. I am not sure, Senator, before I put this into the record, let me check to see what extent we might, against some countries, demand gold payments?

The CHAIRMAN. My recollection is that Secretary Humphrey who testified at length on this, and I would have to check on it, said we could not call on foreign countries for gold but they could use their own discretion and make their own decision whether or not to call on us for gold.

Secretary ANDERSON. I think that is generally true. There might be some exceptions and I would want to check to be sure.

The CHAIRMAN. If that is the situation, I don't think we ought to let it continue.

(Secretary Anderson subsequently supplied the following for the record:)

The United States is now the only country which maintains an international gold bullion standard, in that we regularly sell gold at a fixed price in dollars to foreign governments and central banks. In certain European countries gold can be purchased by nonresidents (e.g., in the London market) with dollars or other convertible currencies, but the governments do not maintain fixed official buying and selling prices for gold.

Secretary ANDERSON. Senator Byrd, if the committee will indulge me I would like to speak about an aspect of our international situation which is not generally appreciated. We in this country have come to a position that is very unique in our history.

It poses problems for us that are perhaps as new as problems that were faced in the early beginnings of our country, although quite different in character.

These problems are the result primarily of the fact that after the war when most of the world had been destroyed in warfare, we deliberately initiated a policy under which we exported dollars. This was accomplished through all manner of programs, the largest of which was the Marshall plan.

I am not at all critical of it because I think if we faced the same situation today we would do the same thing again.

We were the country that had the things which the devastated countries of the world wanted to buy. When our people sold them they wanted to get paid and they wanted to get paid in dollars.

There were insufficient dollars abroad. This was called the period of the dollar gap. The result of these programs and the efforts of our friendly countries around the world were such that they rebuilt during the period of 1945 to 1956 and 1957, the industrial capacity of those countries.

These results and efforts did not manifest themselves so much in 1957 because of the Suez crisis in which we were very large exporters because of the difficulties which then existed and because of the large flow of gold into this country when gold traditionally flows away from troubled areas into safer places.

But in 1958 the results of this high degree of economic recovery and industrialization began to manifest itself not only in other countries but in the markets of this country as well and whereas prior to that time we had been running an average deficit in our balance of payments of around $1¼ billion we went to $5 billion in 1958, and in 1959 to $3.8 billion.

As a result of the whole combination of these effects—that is, of the competitiveness and the resurgence of these countries, the increase of our imports, and the fact that our exports were not rising as rapidly—liquid dollar claims in the hands of foreign central banks and foreign holders rose sharply to $17.9 billion and we lost gold.

On the other hand, if we look at the amount of money due us, all claims public and private due the United States amount to about $60 billions.

The CHAIRMAN. In what kind of payments?

Secretary ANDERSON. But these payments are stretched over a period of years.

The CHAIRMAN. I mean what currency?

Secretary ANDERSON. Largely in dollars, and it also includes foreign investment which will repatriate slowly, either through profits or through the return of capital.

Now, as a result, although $60 billion is owed to us and we owe them over $35 billion in all forms, the difference is that $17.9 billion of our obligations to the foreign countries are short term banking obligations and their obligations to us are mostly long term obligations. We have come to perform the traditional role of the international banker by borrowing short and lending long.

This means that for the foreseeable future, foreign holders of our currency, whether it be foreign central banks or individuals, are going to be concerned as to how we manage this institution which is our country, but which is the depository for their funds whose obligations they hold.

Now one of the other unique situations which has developed as a result of history is the fact that we have become the supplier of the major reserve currency of the free world.

Let me say here that in every period of the world's history, certainly in modern times, somebody has to be a supplier of reserve currencies or else the reserves have to be predicated entirely upon the quantities of gold that they hold. There were times in the past when holdings of gold were both inadequate and badly distributed. Today we in this country have about half of the total free world gold supply.

This was a function which for a great portion of our lifetime was performed by the British, because the British had colonies, and dependencies of different kinds stretched pretty well around the world.

They were engaged in large trading operations and the British pound was held as a reserve currency.

In 1949, after a great many of the British dependencies had become independent, and the British were no longer able to determine the speed at which their pounds could be repatriated against the Bank of England, and when they were not yet recovered from the war, the pound went under very serious pressure and in 1949 it was devalued.

With that devaluation and because of the fact that sterling was subject to foreign exchange restrictions the American dollar became the primary reserve currency that is held by the countries of the free world, and this is the currency which is most widely used to supplement their supplies of gold and metal as international reserves. It is therefore important for us to realize that if the dollar should ever lose any part of its reserve characteristics, we would run the risk of shrinking world liquidity by the amount to which other countries were unwilling to hold our currency as reserves.

Now this leads me to the conclusion that we are going to be carefully and minutely watched by other countries, because we occupy the position of the world banker and because we are the supplier of the reserve currency.

It also leads me to the conclusion that we must exercise every diligence, to bring the deficit in our balance of payments within some reasonable equilibrium and to bring it within that reasonable equilibrium by a manner which will be durable, and that is by increasing our exports relative to our imports.

This, I think, is a real problem with which the country is confronted, and one which I think deserves the best thought of all of us.

The CHAIRMAN. As I understand it, about what period was it that we became the world banker and took the place of England?

Secretary ANDERSON. I think it has been a gradual process, but I think it reached a degree of——

Senator KERR. It became crystal clear just before they devalued the pound, becoming more so all the time.

The CHAIRMAN. Prior to that time did they give to other countries the right to demand gold in lieu of sterling?

Secretary ANDERSON. Prior to 1931, the British did allow the repatriation. I mean gold to be purchased with pounds.

The CHAIRMAN. Now to what extent is the value of the dollar held up by the right of these central banks to call on us for gold?

Secretary ANDERSON. Well, to a considerable extent, because one of the reasons that it is used as a reserve currency is because they recognize that as holders of American dollars they can purchase gold from us, and this is one of the reasons that they are willing to hold it as a reserve.

Let me point out that so long as we maintain fiscal disciplines in our country and so long as we maintain reasonable stability of our dollar, foreign countries would prefer to hold dollars, say in the form of short-term obligations, rather than hold gold, because gold is sterile, and by holding dollars in our short-term obligations they have the reserves, and they have earnings as well.

The CHAIRMAN. What were the reasons that brought about this approximately $5 billion dollar withdrawal of holdings?

Secretary ANDERSON. I think there are a variety of reasons. In the first place, some countries traditionally over many, many years have held a large part of their reserves in gold. During the years following the war when they were unable to acquire dollars in any substantial amounts, they were unable to purchase gold. As soon as the balance of payments swung a little bit in their favor and they became earners of gold they returned to their traditional role of holding a substantial part of their reserves in gold.

I think on the other hand during the recession years of 1957, 1958, when the interest payments on the short-term debt in this country went down for a time to considerably less than 1 percent, countries may have converted some of their dollar earnings into gold because they felt that the amount of earnings was not sufficient to justify their continuing to hold dollar obligations, and therefore they decided to replenish their own gold supplies.

I do not believe that any of the sales of gold by this country to foreign countries has come about as a result of lack of confidence in the United States. I think it is rather the normal——

The CHAIRMAN. You use the word "sale," you mean they called on us for gold to redeem dollars?

Secretary ANDERSON. They called on us to get gold.

Senator KERR. But they do it by redeeming their dollars in gold?

Secretary ANDERSON. Correct.

The CHAIRMAN. Am I correct that gold is recognized, the only currency recognized in every country in the world?

Secretary ANDERSON. Well, the U.S. dollar is fully convertible.

The CHAIRMAN. That is correct. Dollars are convertible into gold. As long as dollars are convertible into gold, that is true?

Secretary ANDERSON. As long as you maintain their confidence that they are fully convertible.

The CHAIRMAN. That is not the question I asked. I asked about doing all the things possible to strengthen our currency and that of other nations, is gold after all the currency that all the world will accept?

Secretary ANDERSON. Well, it is the standard against which the values are measured.

The CHAIRMAN. That is what I mean.

Secretary ANDERSON. And it is measured upon the basis of what the United States is willing to buy and sell gold for, which is $35 an ounce.

The CHAIRMAN. Would it be any advantage to us to try to increase our supply of gold?

Secretary ANDERSON. Again I would not want to be held to these figures, but let me point out that from time to time you hear a suggestion that maybe there might be some advantage that would flow from increasing the price of gold because it would increase the production of gold in this country.

I do not subscribe to this belief at all, and we have said firmly and publicly and I would say to you now that we would have no intention whatsoever of changing this position.

A part of the gold in this country is produced as a result of producing other metals. Even if we took what we now called marginal mines and put those marginal mines back into production so as to raise the production of gold in this country substantially, we would probably not increase production by more than $30 million or $40 million annually. When one considers that you would devalue what you now have in hand, a stock of $19.4 billion, in order to encourage an increased production of only $35 or $40 million in a half a trillion dollar GNP, it would be folly to say that this was a way in which it might be brought about.

Senator KERR. I believe the Senator asked you about the advisability of a subsidy, not the advisability of an increase in the price that the Government advertises that it would pay for gold?

Secretary ANDERSON. Yes, I am coming to that point. We have not been able to devise a method of subsidy which would not, in effect, be construed as some increase in price.

There may be a way that can be worked out in the future but it has not occurred to any of us.

The CHAIRMAN. Russia is doing all that she can to increase her gold production, isn't she, and other nations are doing it.

Secretary ANDERSON. Well, I wouldn't know the extent to which Russia is making an attempt to increase her gold.

The CHAIRMAN. Of course, that is the only thing Russia can use outside of barter. I imagine she is doing all possible to get all the gold she can, you know so much more about it than I do that adequate holdings of gold is absolutely vital to us in some emergency, just like if you have a run on a bank. It does seem to me if we could increase the amount of gold in some reasonable and practical way it would be a safety valve, just like a bank increasing its reserves.

Secretary ANDERSON. If a way can be found which would not be disturbing to the whole world market.

The CHAIRMAN. Has any effort at all been made to look into that?

Secretary ANDERSON. Yes, sir, we have studied it and found no such way.

The CHAIRMAN. When the price of gold was fixed at $35, gold mines closed down—I have been up through the closed Juneau mines in Alaska.

Senator KERR. Will the Senator yield?

Mr. Secretary, how much industrial gold is consumed in this country per year, how much gold is used each year, by industry in this country which, of course, removes it from the posture of being available to the Treasury?

Secretary ANDERSON. Frankly, I don't remember the figure. I will be glad to supply it to you, both the current production and the amount that is used industrially comes very close to the amount that we produce.

Senator KERR. I thought it was several times what we produced annually, or considerably in excess of our annual production.

Secretary ANDERSON. I will simply have to look the figure up to be accurate about it, but I think they are relatively close together.

Senator KERR. Do you have an approximation of our annual production?

Secretary ANDERSON. We will have to get the figures on U.S. annual output.

Senator KERR. I would like for you to get them because, I think, Mr. Chairman, I think we use $150 million or more in gold.

Secretary ANDERSON. I will get the figures precisely.

(Secretary Anderson subsequently supplied the following for the record:)

U.S. gold production and industrial consumption during the 10-year period 1949–58

[In fine troy ounces and millions of dollars]

Calendar year	U.S. production		U.S. consumption (net)[1]	
	Ounces	Millions of dollars	Ounces	Millions of dollars
1949	1,921,900	67	3,109,800	109
1950	2,288,700	80	2,795,600	98
1951	1,894,700	66	1,985,100	69
1952	1,927,000	67	2,752,900	96
1953	1,970,000	69	2,142,900	75
1954	1,859,000	65	1,269,800	44
1955	1,876,800	66	1,300,000	46
1956	1,865,200	65	1,400,000	49
1957	1,800,000	63	1,460,000	51
1958	1,759,000	62	1,833,300	64
Total	19,162,300	670	20,039,400	701

[1] Represents total issues for industrial, professional, and artistic uses less returns of scrap gold from same uses.

Senator WILLIAMS. Do you have an estimate of the Russian production of gold?

Secretary ANDERSON. No, sir.

Senator HARTKE. Mr. Chairman?

The CHAIRMAN. Senator Hartke?

Senator HARTKE. May I ask in regard to the fact that the United States is the world's banker and the supplier of reserves, is the fact that the Russians are able to continue their economic progress because of the fact they have a controlled economy, is that the difference?

Secretary ANDERSON. Certainly in an economy in which you can dictate the use of your materials and your manpower, and all of the other elements of your society, you can direct production into whatever facets you want to direct it.

You cannot say to the people in this country, this is the level of consumer goods that you can have, and no more. You cannot say to the people that this is the amount of money which you will lend to your Government, and this is the rate of interest which we will pay, and this is fixed. This can be done only under a dictatorship.

Senator KERR. Doesn't everything produced over there belong to the Government?

Secretary ANDERSON. Everything is Government.

Senator HARTKE. But they still engage in trade at least with their own nations and satellite nations and with Red China and to some extent with the rest of the free world?

Secretary ANDERSON. That is correct, and of course, the reason they make sales of gold from time to time in the European markets is because, as an industrial country, they find the need of having foreign exchange in order to acquire different items and they sell their gold in order to acquire foreign exchange.

Senator HARTKE. As I understand what you are saying is in place of a total discipline and completely controlled society we have to impose a fiscal discipline in order to match their controlled discipline of all society, is that right?

Secretary ANDERSON. Well, it is not only a fiscal discipline, but it is a recognition on the part of the United States that we have to be a competitive nation, and we have to be competitive so that we will be able to export and we have to have reasonable stability of the value of our currency so as not to impair the confidence of other people who hold our short-term obligations and who——

Senator HARTKE. And this type of confidence is not necessary in a state controlled society.

Secretary ANDERSON. Not nearly so much, no. Not nearly so much.

Senator HARTKE. What I am trying to find out is why these people are willing to go ahead and have confidence, if they have any, in dealing with the Russians where they have a state society and no fiscal discipline really, and why we have to have that discipline, fiscal discipline here.

The CHAIRMAN. They don't deal with Russian currency.

Secretary ANDERSON. They only deal with Russia on the basis of foreign currency or gold or through ruble loans which they receive. Let me point out that in a case where the United States makes an untied loan to country X in dollars, those dollars would be competed for by every nation in the world which had something to sell that they wanted to buy.

Senator KERR. Including Russia, that is.

Senator HARTKE. Including Russia?

Secretary ANDERSON. They would be free world countries. If the Russians made a loan in rubles to precisely the same country the only competition would be between Russia and her satellites.

It would be possible for the Russians to make a non-interest-bearing loan and simply increase the price of the material which they were going to sell to the borrower and come out at exactly the same net position as one borrowing from the United States with an interest-bearing loan.

Senator HARTKE. Is it true that the Russians are making non-interest-bearing loans to countries like India and Afghanistan? Is that true?

Secretary ANDERSON. The extent to which they are making non-interest-bearing loans I don't know, but we believe most of their loans bear a low rate of interest. They are making loans.

Senator KERR. They money they loan is Russian currency spendable only in Russia and in a satellite?

Secretary ANDERSON. I think it is interesting also in some of those contracts they reserve the right, as in India, to take repayment for some of their loans either in Russian rubles, Indian rupees, the product of the mills or in British pounds, so that on each payment date they would have a considerable amount of leverage in determining how they would like to be repaid.

Senator KERR. We loan our money in dollars and we don't put any such restriction on it. We send our dollars out in foreign aid and we don't put any restrictions on it.

Senator HARTKE. The Secretary suggested at one time we do something along that line, I believe. But I don't believe in Afghanistan they do this—that is my understanding. That is not true of the loans made there. I don't know about India.

Secretary ANDERSON. I don't know about India.

Senator HARTKE. Interest free loans without restriction.

The CHAIRMAN. The facts are that the United States is the world banker, we all agree to that. And we know in the history of the past it is a very perilous position because every other nation that has undertaken that, especially England, has failed.

Now the very last reserve we have is our gold.

Secretary ANDERSON. That is correct.

The CHAIRMAN. And we have given—made agreements whereby if these other nations choose to exercise them they can call on $9 billion of our gold reserve which places our gold reserve then below what we have guaranteed on our own currency and that would mean disaster.

Secretary ANDERSON. It simply means we have to maintain their confidence so that they will hold our dollar obligations.

The CHAIRMAN. Well, the banks tried to maintain confidence in the 1930 depression and they couldn't do it. What I mean is I don't think we ought to take any unnecessary risks on a question of this colossal importance. If we are going to be the world banker we ought to have securities that would back us up to the extent so that we can perform those obligations.

We have lost $4 billion or $5 billion, I don't understand why, in the last——

Senator KERR. Would the Chairman like to know why?

The CHAIRMAN. Just let him answer it. [Laughter.] How long a period was it, Mr. Secretary, that we lost—what was the $5 billion, or was it $4 billion? $5 billion?

Senator KERR. What did it get up to in 1957, 22 what?

The CHAIRMAN. What was the largest amount of gold we have had on hand, and how far down have we gone?

Secretary ANDERSON. If the committee would like, I have a statement here of the U.S. gold stock and the monetary gold reserve requirements and foreign and liquid dollar holdings.

Senator LONG. If you could make that available for the record.

(The material referred to was previously submitted.)

Secretary ANDERSON. From 1945 to 1960 and I would like to put the whole thing in the record.

The CHAIRMAN. What was the highest amount?

Secretary ANDERSON. It was 1949 when we had $24,563 million.

The CHAIRMAN. Now we have how much?

Secretary ANDERSON. $19,457 million in March 1960.

The CHAIRMAN. We have lost pretty close to $5 billion.

Secretary ANDERSON. In that period.

The CHAIRMAN. What in your opinion, was the main cause for that loss?

Secretary ANDERSON. I think largely the return of the capacity of other countries to accumulate dollars with which they could replenish what they have traditionally held as their own gold supplies prior to the war.

The CHAIRMAN. Is this a continuing loss?

Have we lost any recently?

Secretary ANDERSON. Well in 1958 we lost $2,275 million.

The CHAIRMAN. In 1 year?

Secretary ANDERSON. In the year before we had gained $799 million.

The CHAIRMAN. You mean we lost $2 billion in 1 year?

Secretary ANDERSON. In 1958, $2,275 million.

The CHAIRMAN. What was the cause of that?

Secretary ANDERSON. I think partially it was the fact, as I pointed out earlier, the industrial rehabilitation of the European countries became apparent with almost dramatic suddenness in 1957 and 1958, and they began to compete and acquire dollars.

Let me point out that during the period from 1945 until very recently, the United States was tolerant of discriminations against dollar commodities, commodities from the dollar area.

We were more tolerant during the 1940's and the early fifties than in any other period, because we were trying to say to those countries "You have to acquire dollars to buy these things which our people want to sell."

Now then in the meeting of the International Bank and Monetary Fund in this last year, last fall, the United States pointed out that we would no longer be tolerant of discriminations against dollar commodities, and there has been a considerable improvement in these past several years. But during those years, as they accumulated dollars, as the balance of payments ran in their favor, as those countries had traditionally held part of their reserves in gold and had been able to do so, and during some of this time as the interest rate on their investment in short-term securities of the United States went down to less than 1 percent per annum, they said to themselves "This is a good time to restore some of our gold reserves" and this is what they did.

Senator TALMADGE. Mr. Chairman, will you yield for a question at that point?

(Discussion off the record.)

Secretary ANDERSON. In conclusion, I hope that H.R. 12381 will receive your favorable consideration and again I thank the committee for the opportunity to appear.

The CHAIRMAN. Thank you, Mr. Secretary.

(Whereupon the committee adjourned at 12:20 p.m.)

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