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NOMINATIONS

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HEARINGS

BEFORE THE

COMMITTEE ON FINANCE

UNITED STATES SENATE

EIGHTY-SEVENTH CONGRESS

FIRST SESSION

ON

NOMINATIONS OF DOUGLAS DILLON, SECRETARY OF
TREASURY-DESIGNATE, ABRAHAM RIBICOFF, SECRETARY
OF HEALTH, EDUCATION, AND WELFARE-DESIGNATE

JANUARY 11 AND 12, 1961

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NOMINATIONS OF DOUGLAS DILLON, SECRETARY OF TREASURY-DESIGNATE, AND ABRAHAM RIBICOFF, SECRETARY OF HEALTH, EDUCATION, AND WEL- FARE-DESIGNATE

WEDNESDAY, JANUARY 11, 1961

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

The committee met, pursuant to call, at 10:15, a.m., in room 2221, New Senate Office Building, Senator Harry Flood Byrd (chairman) presiding.

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

Also present: Senator Fulbright and Senator Case of New Jersey; and Elizabeth B. Springer, chief clerk.

The CHAIRMAN. The committee will come to order.

The Chair is very happy to welcome to this committee a very distinguished and able Senator, Senator Fulbright.

Senator FULBRIGHT. Mr. Chairman, I am very happy to be here.

The CHAIRMAN. This meeting has been called for hearing on the expected appointment of Mr. Douglas Dillon as Secretary of the Treasury in order to expedite transition to the new administration. It will be understood that no action can be taken until the appointment is made and officially referred to the Committee on Finance.

Mr. Dillon is here today as Secretary of the Treasury-designate, and the Chair is advised that he is prepared for such examination as the committee may require in the course of meeting its responsibilities.

I think all members of the committee know Mr. Dillon, both personally, and by his general reputation in both public and private business. I submit for the record a biographical sketch on him for review.

DOUGLAS DILLON

Born: Geneva, Switzerland, August 21, 1909.

Home: Far Hills, N.J.

Education: Groton School, 1927; Harvard College, 1931.

Marital status: Married.

Experience: 1931-36: Investment banking; member of New York Stock Exchange. 1936-53: Director and subsequently president of United States and Foreign Securities Corp. 1938-46: Director and vice president, Dillon, Read & Co. Inc. 1941-45: U.S. Navy. Completed service as lieutenant commander, U.S. Naval Reserve. 1946-53: Chairman of board of directors, Dillon, Read & Co. Inc. 1953-57: Ambassador to France. 1957-58: Deputy Under Secretary of State for Economic Affairs. 1958-59: Under Secretary of State for Economic Affairs. 1959-61: Under Secretary of State.

Honorary degrees: Columbia University, Hartford College, Harvard University, Lafayette College, New York University, and Williams College.

Awards: Legion of Merit and Air Medal for services during World War II at Guam, Saipan, and Philippines. Lafayette Fellowship Foundation Gold Medal.

Other associations: Member of board of overseers, Harvard University, 1952-58. Trustee, Groton School, 1953 to present. Trustee, Metropolitan Museum of Art, 1951-53. Member of board of governors, New York Hospital, 1947-53.

The CHAIRMAN. The Chair is not sure, but this may be his first appearance before the Finance Committee as a witness. It may be said that we shall expect him back soon and often.

Mr. Dillon, you are welcome today, as you always will be. Please be assured that the Finance Committee will respect your views and give them sincere consideration.

If you have a prepared statement please make it at this time.

STATEMENT OF DOUGLAS DILLON, NOMINEE TO BE SECRETARY OF THE TREASURY

Mr. DILLON. Mr. Chairman, I do not have any particular statement. I have furnished the members of the committee with a brief biography, and I am prepared to answer any question.

The CHAIRMAN. Do you have a biography or a statement of your background and qualifications?

Mr. DILLON. I had no prepared statement regarding that. It is listed on my biography, which shows briefly that I have spent my life from graduation to college until I entered Government service in 1953, working in the investment banking and investment business in New York.

This was interrupted by 4 years' service in the Navy during World War II.

After 1953 I severed all my connections with the business in New York and served 4 years in France as Ambassador, and after that 4 years in the Department of State in various positions, terminating as Under Secretary of State. My primary duties in these positions, during my service in the Department of State, was handling foreign economic policy matters.

The CHAIRMAN. Mr. Dillon, you are, of course, familiar with the conflict of interest laws?

Mr. DILLON. Yes, sir. I am, Mr. Chairman.

The CHAIRMAN. And I will read them:

Whoever being an officer, agent, or member or directly or indirectly interested in the pecuniary profits or contracts of a corporation, joint-stock company or association, or any firm or partnership, or a business entity, is employed or acts as an officer or agent of the United States for the transaction of business with such business entity, shall be fined not more than \$2,000 or imprisoned not more than 2 years or both.

I would also like to insert in the record section 243, United States Code, title 5, relating specifically to restrictions upon the Secretary of the Treasury:

No person appointed to the office of Secretary of the Treasury, or Treasurer, or Register, shall directly or indirectly be concerned or interested in carrying on the business of trade or commerce, or be owner in whole or in part of any sea vessel, or purchase by himself, or another in trust for him, any public lands or other public property, or to be concerned in the purchase or disposal of any public securities of any State, or of the United States, or take or apply to his own use any emolument or gain for negotiating or transacting any business in the Treasury Department, other than what shall be allowed by law; and

every person who offends against any of the prohibitions of this section shall be deemed guilty of a high misdemeanor and forfeit to the United States the penalty of \$3,000, and shall upon conviction be removed from office, and forever thereafter be incapable of holding any office under the United States; and if any other person than a public prosecutor shall give information of any such offense, upon which a prosecution and conviction shall be had, one-half of the aforesaid penalty of \$3,000, when recovered shall be for the use of the person giving such information.

Now, do you have any interests in any company in conflict with these provisions of the law?

Mr. DILLON. Mr. Chairman, I do not.

I have consulted with my legal counsel in this connection, who are Shearman & Sterling & Wright of New York.

They have looked over all the statutes and have drawn them to my attention.

(The opinion of counsel referred to subsequently submitted by Secretary Dillon, follows:)

SHEARMAN & STERLING & WRIGHT,
New York, N. Y., January 10, 1961.

Hon. C. DOUGLAS DILLON,
Washington, D.C.

DEAR MR. DILLON: You have requested that we review your present business and financial interests in the light of the provisions of section 243 of title 5, U.S. Code, section 434 of title 18, U.S. Code, and section 7214(b) of the Internal Revenue Code, and advise you with respect to the propriety of your assuming the office of the Secretary of the Treasury.

We understand that, if you are confirmed, at the time that you become Secretary of the Treasury your circumstances will be as follows:

You will have sold or given away all of your direct holdings in every business or income producing property, and all of your direct security holdings, except for the following stocks:

- Celanese Corp. of America.
- Hercules Powder Co.
- International Paper Co.
- Louisiana Land & Exploration Co.
- Monsanto Chemical Co.
- Olin Mathieson Chemical Corp.
- J. C. Penney Co.
- Reynolds Metals Co.
- Strong, Cobb & Arner, Inc.
- Texas Eastern Transmission Corp.
- Union Carbide Corp.
- United States & Foreign Securities Corp.

None of these holdings amounts to more than 1 percent of the outstanding stock of any of these corporations, with the exception of United States & Foreign Securities Corp. in which you have owned 8¼ percent of the stock.

You will have transferred all of the securities that you have not sold or given away to Robert G. Payne, and a New York City bank or trust company, as trustees under a trust agreement dated September 15, 1960, which trust already holds certain State and municipal securities. The income of this trust will be payable to you, and you will retain the entire reversionary interest, but you will have no control over the management of the trust. The trust will provide that you may not amend or revoke it while you are Secretary of the Treasury, except that you may obtain withdrawals in cash. The trust will prohibit the trustee from purchasing, owning, or disposing of securities or other property which you could not yourself purchase, own, or dispose of while you are Secretary of the Treasury, and the trustees will comply with this prohibition.

You will continue to be the income beneficiary and have remainder interests in certain trusts in addition to the trust dated September 15, 1960. You will exercise no control over and have no power to control the activities of the trustees and will not participate in the management of these trusts. Under the provisions of certain of these trusts you may not dispose of your

right to receive the income therefrom. These trusts were settled before you were asked to be Secretary of the Treasury, and you have no power to revoke or otherwise vest the corpus of any of them in yourself. The investments of these trusts consist principally of publicly held securities, and United States, State, and municipal securities, securities in family corporations which in turn own securities of the type just mentioned, and in family corporations that own farms. None of the trusts will be directly or indirectly interested in the manufacture of tobacco, snuff, cigarettes, or in the production, manufacture, rectification, or redistillation of distilled spirits or fermented liquors, or own all or any part of any sea vessel, or be engaged in the purchase of any public lands or public property.

You will not be trustee of any trust, or a director, officer, or employee in any business corporation. You will not be entitled to receive compensation from any person or corporation other than the United States.

You will not take any personal action as Secretary of the Treasury concerning the business of any trust in which you have an interest, or any corporation or other business entity in which any such trust has any interest. You will instruct your subordinates in the Treasury Department not to bring to your attention any questions concerning these trusts, corporations, or other business entities. You have given a power of attorney to others to represent you in connection with the determination of any tax liabilities which you may have, which power will be irrevocable while you are Secretary of the Treasury.

Based on these facts, we have considered the following statutes:

(a) *Section 243 of title 5, United States Code*: This section provides that the Secretary of the Treasury shall not directly or indirectly be "concerned or interested in carrying on the business of trade or commerce, or be owner in whole or in part of any sea vessel, or purchase by himself, or another in trust for him, any public lands or other public property, or be concerned in the purchase or disposal of any public securities of any State, or of the United States, or take or apply to his own use any emolument or gain for negotiating or transacting any business in the Treasury Department, other than what shall be allowed by law:".

(b) *Section 434 of title 18, United States Code*: This section prohibits any person who is directly or indirectly "interested in the pecuniary profits or contracts" of any corporation or other business entity from acting as an officer or agent of the United States for the "transaction of business with such business entity".

(c) *Section 7214(b) of the Internal Revenue Code*: This section prohibits any internal revenue officer or employee from being interested directly or indirectly "in the manufacture of tobacco, snuff, or cigarettes, or in the production, rectification, or redistillation of distilled spirits" or in the "manufacture or production, rectification, or redistillation or production of fermented liquors".

On the basis of these facts, we are of the opinion that you will not be in violation of any of the above statutes upon your assuming the office of Secretary of the Treasury.

We also call to your attention the following statutes:

(a) *Section 281 of title 18, United States Code*, which provides that no head of a Government department shall directly or indirectly receive or agree to receive any compensation for any services rendered or to be rendered, either by himself or another, in relation to any matter in which the United States is a party or is directly or indirectly interested before any department or agency;

(b) *Section 1901 of title 18, United States Code*, which prohibits any officer concerned in the collection or the disbursement of the revenues of the United States from carrying on "any trade or business in the funds or debts of the United States, or of any State, or in any public property of either"; and

(c) *Section 1914 of title 18, United States Code*, which prohibits any Government official or employee from receiving "any salary in connection with his services as such an official or employee from any source other than the Government of the United States, except as may be contributed out of the treasury of any State, county or municipality," and also prohibits any person, association or corporation from making any contribution to, or in any way supplementing the salary of, any Government official or employee "for the services performed by him for the Government of the United States."

You have stated that you are aware of and will comply with these provisions, and accordingly, in our opinion, they present no impediment to your assuming the office of the Secretary of the Treasury.

Very truly yours,

SHEARMAN & STERLING & WRIGHT,

Mr. DILLON: I know there are a number of them which specifically apply to the Secretary of the Treasury and, as a result, I have made certain dispositions, and they have assured me in an opinion that I am not in conflict with any of these laws, and that I am perfectly free to undertake the duties of the Secretary.

I would like to say a word to the committee about my present situation. I own directly and through irrevocable trusts securities in a number of corporations that are engaged in a broad range of business activities. The same is true of other relatives and members of my family.

I am not now and have not been for the past 8 years active in the affairs of any of these corporations.

I am neither a director nor an officer nor in any other way a participant in the operation of any of these corporations, and I will not be while I occupy the position of the Secretary of the Treasury, if I should be confirmed.

I have recently also resigned as trustee of all family trusts of which I have in the past been a trustee.

I am disposing of certain of my interests. As I said previously, my counsel has reviewed the interests that I am retaining, and have advised me that I may properly retain them while I am Secretary of the Treasury.

The only direct interests which I am retaining are securities in 12 companies.

I have given a list of these holdings to the chairman, pursuant to his request.

In no case do I own as much as 1 percent of the outstanding securities in any of these companies, with one exception, the U.S. & Foreign Securities Corp., in which I own directly about 8½ percent of the stock.

U.S. & Foreign Securities Corp. is a regulated investment company listed on the New York Stock Exchange which holds securities in a large diversified number of corporations. The portfolio of U.S. & Foreign is made public under the regulations at quarterly intervals.

(The financial statement of United States and Foreign Securities Corporation for the quarter ending Sept. 30, 1960, was subsequently furnished to the committee and appears at pp. 57-67.)

My family and the irrevocable trusts to which I have referred also have substantial holdings in this company.

All of the securities which I mentioned and which are owned by me and that cash realized from the sale of certain other assets will be transferred by me to an existing trust which also holds certain State and municipal securities.

This trust, which has been a revocable trust, will become irrevocable as long as I remain in Secretary of the Treasury.

The trustees, who will be a New York City bank and a financial adviser, will control the investment and management of the securities in the trust without any reference to me.

I have instructed them in making this trust irrevocable that they should make no investments in any security that would not be proper for me as Secretary of the Treasury to hold.

I will receive the income of this trust and will reserve the right to withdraw cash, and cash alone, from the trust, for my own use, that is. State and municipal securities will be held until they are paid on maturity or until I cease to be Secretary of the Treasury, and neither I nor the trustees of the trust will purchase or sell any such securities while I am Secretary.

I have been advised that the Secretary of the Treasury, in the course of his duties, does not ordinarily pass on matters affecting specific companies.

In any event, if I am confirmed, I will not transact business with any company in which I have any interest, direct or indirect, and shall instruct the appropriate persons in the Treasury that matters involving such companies shall not be brought to my attention.

I have also considered my position in the event that corporations in which I have an interest should be involved in tax cases.

Again I am advised that cases involving the liability of specific companies do not normally come to the attention of the Secretary. In any event, I shall instruct the appropriate persons in the Treasury not to bring cases involving such corporations to my attention.

I have given a power of attorney to certain individuals to represent me in all matters involving my own personal tax returns, which power shall be irrevocable while I am Secretary of the Treasury.

The CHAIRMAN. Mr. Dillon, did you state that the United States & Foreign Securities Corp. has any financial transactions with the Government?

Mr. DILLON. No, sir; it has not.

The CHAIRMAN. There are none of any contract?

Mr. DILLON. No, sir. It is a regulated investment company which merely owns publicly listed securities.

The CHAIRMAN. Of course, the Treasury Department has little procurement in the sense that it makes contracts or purchases.

Mr. DILLON. That is my understanding.

The CHAIRMAN. I would like to also make clear the independence of the Commissioner of Internal Revenue. He is appointed by the President and confirmed by the Senate.

Mr. DILLON. That is my understanding.

The CHAIRMAN. To what extent would you be able to influence or control any actions of the Commissioner of Internal Revenue in regard to refunds of taxes or anything else?

Mr. DILLON. I have been informed that, as a matter of practice, these individual items are handled by the Commissioner and do not come to the Secretary of the Treasury.

However, to make certain I do intend, if I am confirmed, to issue clear instructions, which I would like to discuss with the General Counsel, to make certain that no such questions that might have anything to do with any company in which I had any interest, direct or indirect, are brought to my attention. They would be left with the Commissioner of Internal Revenue.

The CHAIRMAN. In fact, while it is not strictly an independent agency, it is my understanding that, throughout the years the Secretary of the Treasury has not attempted to influence in any way the

Commissioner of Internal Revenue in regard to taxes, refunds of taxes, or anything else. Is that your understanding?

Mr. DILLON. That has been my understanding; yes, sir.

The CHAIRMAN. Now, Mr. Dillon, there are just a few statements that should be made here.

The Senate Finance Committee has jurisdiction over legislation with respect to Federal taxation, debt and interest, tariffs and customs, social security, veterans' compensation pensions, and insurance. These are important matters, and the Treasury has a direct interest in most of them, and indirect interest in the others.

Proper consideration leads to committee examination of the need and sources of revenue, tax rates, and the ability to pay.

The committee is interested in deficit financing and surplus, size of the Federal debt, its management, limitation, and its cost.

The committee has responsibilities with respect to foreign trade and, therefore, with such related matters as the balance of international payments, and the position of our gold reserves. You, of course, understand that any and all of these matters may have an effect on inflation.

There are just several questions; I noted that Mr. Paul Samuelson, professor of economics at Massachusetts Institute of Technology in a report of the President-elect, recommends that Congress should delegate to the President authority to fix tax rates. Would you approve of that?

Mr. DILLON. Mr. Chairman, I would think that this would be a matter entirely for the Congress to decide.

It certainly would be most unusual, unique thing for the Congress, which represents the people, to delegate the taxing authority to the Executive.

I have not formed an absolute opinion on the matter, but certainly I would think this was a matter that was totally within the purview of the committee and the Congress to decide whether they were interested in doing this sort of thing which, as I say, would be quite new.

The CHAIRMAN. You have no present intentions of recommending—

Mr. DILLON. No, sir.

The CHAIRMAN. To the committee an action of that kind?

Mr. DILLON. No, sir.

The CHAIRMAN. Would you approve of a tax reduction that would create a deficit?

Mr. DILLON. Mr. Chairman, I notice that was in this report as a possibility.

At the time of the last recession in 1958, I understand this was also recommended as a possibility by Mr. Arthur Burns, who was Chairman of the Council of Economic Advisers at that time.

There is a substantial belief among economists that a temporary tax reduction, which would apply principally in its major impact to the people who need the funds most, by increasing purchasing power, would be very effective in stopping a trend toward recession.

However, there is also the belief that this should not be used, because of its impact on increasing the deficit, except in severe circumstances, and I think you would have to judge that situation at the time. Certainly, again, I have no present intention of making such a recommendation.

The CHAIRMAN. You think that a balanced budget is important, I imagine, under the view of the fact—

Mr. DILLON. Highly important.

The CHAIRMAN. That we have such a tremendous debt?

Mr. DILLON. Highly important, Mr. Chairman.

I think that the basic thing about a balanced budget is that it should be balanced over a period of years, not too long, over the business cycle. In addition to being balanced there should be some provision over that period for reduction in the debt.

It is, I think, impossible to be rigid about this so that you have a balance every year, because under our tax system, our revenues go up and down rather rapidly with the business cycle, and it would not be practicable to reduce revenues that drastically every time there was a dip.

But certainly, every time we have a boom we should take in adequate revenues to have a surplus, and I would say the surpluses should be larger than they have been in the immediate past.

The CHAIRMAN. It has been suggested that the Federal debt ceiling be abolished. Have you formed an opinion in regard to that?

Mr. DILLON. I think on the question of the debt ceiling, Mr. Chairman, that as far as the operations of the Treasury are concerned, there is no disadvantage to having a debt ceiling as long as we have within the debt ceiling adequate flexibility to operate so that we are not forced into unusual transactions to stay within the debt ceiling.

With such a caveat, I have no objection whatsoever to a debt ceiling.

The CHAIRMAN. Mr. Dillion, a year ago the Budget Bureau estimated a surplus of \$4.2 billion for the current fiscal year ending next June 30.

This situation has been growing steadily worse since that time. In October the surplus estimate was \$1.1 billion, and I understand now that we will be very fortunate if we have a balanced budget to this year.

I am inclined to think that we will have a deficit this year and, perhaps, a larger deficit, considerably larger, the next fiscal year, unless expenditures are reduced.

In the 12-month period ending next October the Treasury must refinance \$79 billion of the old debt, including some treasury bills, and that is going to be a formidable undertaking.

Unless Congress takes affirmative action, the Korean war excise and corporation taxes will expire on June 30.

This would result in a loss of revenue of nearly \$4 billion a year.

The statutory limit on the Federal debt is now fixed temporarily at \$293 billion; the permanent limit is \$285 billion.

Under the law, the limit will revert to the permanent limit next July 1 if no action is taken. The actual debt is now around \$290 billion.

Under these circumstances now, I was wondering if you would like to give some general statement of your views on excessive Federal spending, deficit financing, the size and limit of the Federal debt, and generally the need for sound fiscal policies at this time.

Mr. DILLON. Well, I would certainly like to say, Mr. Chairman, that I think that everything that we do in the United States, everything which we wish for our people, our position in the world, in

particular, and that means the position not only of the United States but of the whole free world, depends on the maintenance of a strong and sound economy in the United States which, in turn, depends on having a sound fiscal system.

I think I have made my views clear about the question of budgetary deficits, the fact that we should have a surplus over a period.

Everything that I am told leads me to believe that there will be a possibility of a deficit in the year 1962 because of the decreasing tax revenues, particularly from the corporate tax, as corporation profits have been decreasing very sharply during the past 9 months.

Certainly, the debt ceiling will have to—there will have to be further legislation on this during the course of this session because it will not be practicable or possible to live within the permanent ceiling. So that will be something which the Treasury Department would be bringing to this committee later this spring.

The CHAIRMAN. Now, Mr. Dillion, the present Reciprocal Trade Agreements Act will expire within the next 18 months. The committee will recall the opposition to this legislation when it was last before Congress.

I may say that I have been a strong advocate of the Reciprocal Trade Legislation. I helped to enact the first Reciprocal Trade Agreement Act.

But I think it ought to be reciprocal. If we reduce tariffs for other nations, they ought to reduce tariffs for us. I think it has gotten somewhat out of hand. Frankly I must say to you, that there is much dissatisfaction with the methods by which the Reciprocal Trade Agreements have been made.

It is certainly true in certain areas of the domestic industry. It is not too early to begin to give serious consideration to this matter.

While our export trade may be the one single bright spot in our balance of foreign payments picture at the moment, it is more than canceled by other factors, including foreign aid, foreign competition, capital investment abroad, interest rates, migration of U.S. industry, tourism and so forth.

The fact is that our deficit in the balance of international payments has been a matter of growing seriousness since 1957. I think you would thoroughly agree with that statement.

It is largely responsible for the loss of \$5 billion of our gold which has gone out of the country in 3 years.

Our gold reserves are now less than \$18 billion, at the lowest level in 20 years. Twelve billion dollars of this backs our currency, and deposits and foreign governments and banks still have large claims on our gold if they choose to demand it.

The situation, combined with the prospect for more deficit financing and debt, raises the possibility of many implications, including inflation.

I am not going to ask you today, Mr. Dillion, as to what you have in mind with respect to correcting this imbalance of payments which I regard as extremely serious. You and I talked it over very fully in my office.

We know of your recent trip to Europe with Secretary Anderson. We know that most careful consideration must be given as to what can be done. And I may say that the Senate Finance Committee in executive session would like to confer with you in regard to this

very serious situation. If it continues much longer, as you know, the gold level will be down to the \$12 billion which is dedicated to backing our own currency.

If you desire to make any statement now I am sure the committee would like to hear it, or if you desire to make it in executive session by reason of the implications abroad, the committee will be glad to arrange such a session for that purpose.

Mr. DILLON. Mr. Chairman, I appreciate that offer. I would like to say now that I quite agree that this is a very serious problem, this question of the balance of payments.

It is a problem which I believe we have in our power to solve, and solve in a way that will not adversely affect the general economy of the free world.

It cannot be done over night, but we must move resolutely and steadily to reach a solution which will bring our payments back into overall balance.

I would not want to discuss in various detail the various steps that might be taken until such time as they are definitely decided; by that I mean discuss in detail in open session.

I would be very glad, if the committee would so desire, to discuss in any detail that the members of the committee desire all possible steps that could be taken in that connection.

The CHAIRMAN. Thank you very much Mr. Dillon.

Senator Kerr?

Senator KERR. Mr. Secretary, you told the chairman that you had received a legal opinion on, No. 1, requirements of the law with reference to what securities or assets might be appropriately owned and retained by the Secretary of the Treasury.

No. 2, to the effect that you have handled your own portfolio of assets to conform with the law.

Would it be appropriate, in your thinking, to advise the committee the name of the counsel who advised you?

Mr. DILLON. Yes, Senator, I did so state. It was Shearman & Sterling & Wright of New York City, 25 Exchange Place.

Senator KERR. Would you be perfectly at ease mentally to provide a copy of the opinion to any member of the committee who would like to see it?

Mr. DILLON. Yes, Senator, I have no objection; in fact, I would be very glad to do so.

Senator KERR. Now, you mentioned your ownership in the United States and Foreign Securities Corp., and advised that it was a duly regulated investment company, and that its operation was the purchase and holding of stocks in various corporations. Where the corporations in which it owns stock, are all of them American corporations?

Mr. DILLON. The great majority of them are, Senator. There are a few foreign corporations, I think, that they may have an interest in, such as Aluminium, Ltd. which is a Canadian corporation, and there may be two or three other relatively small investments in other foreign corporations. Foreign investment is a very small part of their business, even though it has been in their title since the company was formed, which I think, was in 1924, but they have never been active in foreign investments.

Senator KERR. They own enough percentage of the stock of any of the corporations in which they own stock to be the controlling owner?

Mr. DILLON. No, sir; not at all.

Senator KERR. Do they participate in the management of the corporations in which they own stock?

Mr. DILLON. No, sir; they do not.

Senator KERR. And do not seek to determine the policies of them?

Mr. DILLON. No, sir; purely an investment company.

Senator KERR. The chairman was asking you about the financing that would be necessary by the Treasury in the years ahead.

I believe the short-term debt of the Treasury of the Government has increased some 50 percent, maybe, in the last 8 years, from somewhere in the neighborhood of \$50 billion to now in excess of \$75 billion. Is that approximately—

Mr. DILLON. The figure I understand is that debt due within 1 year is approximately \$75 billion now.

Senator KERR. And he mentioned the amount that would have to be refinanced in what period of time?

The CHAIRMAN. This year.

Senator KERR. You did not include 2 years?

The CHAIRMAN. No; 1.

Senator KERR. What is your opinion, generally Mr. Secretary, as to the advisability of increasing the amount of the public debt into the form of long-term indebtedness?

Mr. DILLON. Well, certainly for a matter of balance in the public debt, it would be far better if we could extend some of it into longer obligations. That will be something which we will be concerned with.

Each specific operation that one undertakes, however would have to take into consideration the situation at the time, including the general state of the economy.

One of the problems that I have noticed, although I do not consider myself in any way an expert in this field, but one of the problems which has been brought to my attention is the very large amount of Treasury debt that will be maturing in the range of 1 to 5 years over the next 5 years. So there will be a particularly heavy burden on the Treasury in the coming 2 or 3 years to extend some of this debt to a longer range or this figure of \$75 billion within 1 year would increase very substantially; and generally the impression is that this would make handling of the debt more difficult and would not be a good thing.

That does not mean that some increase in that amount might not be acceptable as a means of providing more credit in the economy.

Senator KERR. Have you any specific recommendations in mind at this time that you expect to make to the Congress seeking to provide a better environment in which the Treasury could increase the percentage of the public debt into long-term indebtedness.

Mr. DILLON. No, sir; not at this time.

As one of the matters of high priority which we will be studying, if there are any recommendations to make to the Congress, we will naturally do so after first informing the committee.

I would like to say here that I am very happy at the fact that we have been able to obtain the services as Under Secretary of the Treasury designate for Monetary Affairs of Mr. Robert Roosa of New York, who has been a vice president of the Federal Reserve bank in New York for some years and who is a highly competent expert in this field. He has had personal experience in the Open Market Committee operations, and has been the vice president for research, which covered the whole field of Federal Reserve operations, and certainly his advice in this general area will be important.

SENATOR KERR. I have been very interested in learning of the designation of Mr. Roosa for that position and in his background.

The Senator from Oklahoma has been quite vocal in the past in his criticisms of the monetary control policies that have been in effect.

He has tried to make it clear that in his judgment the Treasury actually—the U.S. Government and its Treasury acting as its agent—is in the posture of any other borrower seeking credit from the sources which are available to it.

However, he has been quite aware, and has said a good deal about the fact that the environment in which the Treasury moves to secure its credit or manage its debt is the same environment in which big business and little business and individuals and States and counties and municipalities and school districts all have to move in managing their debt and securing their credit; and that this environment is largely created by the Federal Reserve Board, and that the Federal Reserve System is a creature of the Congress, one arm of the Government, the same as the Treasury Department, being a creature of the Government, and part of the executive arm of the Government; and in the opinion of the Senator from Oklahoma, the Federal Reserve System has been operated in the past 8 or 10 years in a manner which has made it more difficult for the Treasury or any other borrower to fiscal affairs on the economic basis which it has seemed to the Senator from Oklahoma, the Treasury and the Government and the people are entitled to have.

Therefore, the criticism that I voice at this time with reference to the monetary controls in existence in our country is aimed directly at the operation of the Federal Reserve System, and it seems to the Senator from Oklahoma that as the Treasury looks ahead into the next 5 years, the handling of the refinancing of literally hundreds of billions of dollars, it is going to be confronted with one of these alternatives.

That of having to convert larger and larger percentages of the public debt into current liabilities, that is, short-term indebtedness of 1 or 2 years, or face the necessity for increasing interest rates to secure long-term financing, or have the cooperation of the Federal Reserve System in creating an environment in which long-term financing can be accomplished under the present interest rate ceilings.

I would be happy if you had any observation to make on that statement to have you do so.

Mr. DILLON. Senator, the only observation I think I would like to make on that statement is that my own feeling is that there should be the closest cooperation and coordination between the Treasury Department and the Federal Reserve Board.

Certainly, I have not enough familiarity myself with the action of the Board over the past 8 or 10 years to have any valid opinions on

that, and I am very appreciative of receiving the views of the Senator from Oklahoma and the other members of this committee. It will be helpful.

I do feel though that for the future I have no reason to expect that there will not be real cooperation between the Federal Reserve Board, the Federal Reserve System, and the Treasury.

I fully expect to have it, and feel that this is a necessity if we are going to handle our debt and face the future in the way it should be faced.

Senator KERR. I want to say that you are going to have the best wishes of the Senator from Oklahoma, the benefit of any contribution he can make; and he is fully aware of the limited contribution that can make in developing appropriate cooperation there because he is convinced that you are up against one of two stone walls; either to get more effective cooperation from the Federal System or be confronted with the necessity of bearing a burden which may be even too heavy for the U.S. Government, by having to convert excessive percentages of the public debt into short-term financing.

Now, you have had some questions about a balanced budget. I presume it is a basic principle that the relationship between income and expenditure determines whether or not there is a surplus or a deficit?

Mr. DILLON. That is correct.

Senator KERR. That the Congress of the United States alone takes the actions which determine, on the one hand, the income, and, on the other hand, the expenditure?

Mr. DILLON. That is absolutely correct.

Senator KERR. I am sure that you, as Secretary of the Treasury, and the administration will have very positive ideas as to both items; that is, what the income shall be and what the expenditures shall be. But you can determine neither, and since the Congress alone can determine them, and since the Congress alone does determine them, your responsibility in the matter is to handle either the happy burden of any surplus that might accrue or the heavy burden of managing the debt in the midst of any deficit that might result.

Mr. DILLON. That is correct, Senator.

We do have a responsibility for making recommendations, but Congress disposes of those recommendations, and then our job is to handle the management of the debt accordingly.

Senator KERR. And you do have the responsibility if Congress appropriates more money than the income makes possible on a cash basis, borrowing the money in the most economic manner that you can to meet the requirements of paying for the Congress-appropriated—

Mr. DILLON. That is correct.

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

The CHAIRMAN. Senator Williams?

Senator WILLIAMS. Mr. Dillon, I join the chairman and other members of the committee in welcoming you here this morning and expressing the gratification to which we are looking forward, to working with you in the years to come.

However, in connection with the questions raised by the Senator from Oklahoma, one of them—do you have any reason to expect better cooperation or a closer working arrangement with the Federal Reserve System than that which has existed between the Secretary

of the Treasury and the Chairman of the Federal Reserve System during the past 8 or 10 years?

Mr. DILLON. It is a bit difficult for me to answer that question flatly, Senator, because I am not—I have no way of knowing of my own knowledge what those relationships were between the Secretary of the Treasury and the Chairman of the Federal Reserve Board during the last 8 or 10 years.

However, I have had a full discussion with Chairman Martin of the Federal Reserve Board and, as a result of this, I do have the feeling that there will be very close cooperation between the Treasury and Federal Reserve, and I look forward to that sort of cooperation. He has assured me that is his desire, as it is mine.

Senator WILLIAMS. I am confident that it is, but my question was directed to whether or not you intended to infer that such close arrangement, working arrangement, had not been prevailing in the years preceding this period.

Mr. DILLON. No, sir. I intended to state very clearly that I had no judgment as to what the relationship was in the past. Certainly I feel that in the recent past, when I have had some peripheral knowledge of it, there has been a good relationship there. But I was not even in this country for 4 of those years, so I have very little knowledge of what the relationship was at that time.

Senator WILLIAMS. Do you favor the maintenance of the independence of the Federal Reserve Board?

Mr. DILLON. By independence, if you mean independence in the day-to-day operations, independence from the Executive, I certainly do.

I do feel that the Board should remain independent. I do feel that the Board and the Treasury should cooperate.

I do not necessarily think that independence means that there should be action without consultation and without cooperation. I think that we can maintain a full independence and, at the same time, have cooperation.

Senator WILLIAMS. I agree with you on that. But I wondered whether or not you felt, as Secretary of the Treasury, you would have at any time the right to dictate to the Chairman of the Federal Reserve Board.

Mr. DILLON. None whatsoever.

Senator WILLIAMS. Thank you.

At the time your appointment was first announced Mr. Kennedy made this statement, and I wish to quote:

There is a general agreement between Mr. Dillon and myself that the American economy must move forward. We must provide for a satisfactory rate of growth. We must try to maintain as close as possible full employment. Mr. Dillon and I are in complete agreement on all of these questions.

Now I accept that as a basis. But going over to the Los Angeles platform there are a couple of questions I would like to ask you in connection with that, which deal with this same subject, and I am quoting from the platform:

We believe that our economy can and must grow at an average rate of 5 percent annually, almost twice as fast as our average annual rate since 1953. We pledge ourselves to policies that will achieve this goal without inflation.

Now do you agree with that, and, if so, what steps would you recommend that we take to achieve it?

Mr. DILLON. Senator Williams, I have on many occasions stated my belief over the past years publicly that we, as a nation, have to have a more rapid rate of economic growth, particularly in the rate of increase in our industrial production than we have had in the past few years.

I believe that such an increase is possible without inflation, and that there is no contradiction between a sound fiscal policy and more rapid rate of growth.

The countries of Western Europe have in the past few years been able to maintain more rapid rates of growth and to avoid inflation. I think we should do everything possible to achieve a similar result.

What the exact rate of growth should be is a very difficult thing for me to have an opinion on. It certainly should be enough to absorb our labor force so that we have relatively full employment.

I know that this is not a matter that is entirely within the province of the Government. I am not trying to so indicate. Certainly it is our private enterprise system that has to carry the great burden here.

But I think it is the province of the Government to do what it can, through its policies, to encourage this sort of growth.

I do not think there is any difference here in this view in our country because certainly I know that the policies of the Republican Party, as announced in its platform, also favored a more vigorous and rapid economic growth in the future than we had had in the past, and felt that this could also be combined with a sound fiscal policy.

Senator WILLIAMS. And, as I understand it, except that being in favor of it you have no specific points in mind through which you would take any steps or actions?

Mr. DILLON. I have no specific things to recommend at this time, no.

Senator WILLIAMS. Continuing with this platform, I notice that they make some specific recommendations, and in quoting they say:

As the first step in speeding economic growth, a Democratic President will put an end to the present high-interest, tight-money policy.

Do you agree with that step, and do you consider the past 8 years that have been a period of high-interest, tight-money policy?

Mr. DILLON. Again, this is out of my field. It is very difficult for me to comment on what the policy has been.

Certainly I understand that during periods of boom there has been a relative tightening of credit. I think in the present situation it is of interest to stress the fact that the Federal Reserve Board beginning sometime last spring in a series of actions has very substantially eased credit in the United States and has also reduced the rediscount rate twice, and so I think that the situation, as of now, as a result of those actions, cannot any longer be characterized as one of tight money, and our interest rates have also gone down.

Senator WILLIAMS. Well, does that mean that you would characterize them as tight money in the period immediately prior thereto?

Mr. DILLON. As tight money immediately prior thereto?

Senator WILLIAMS. Yes.

Mr. DILLON. I think that the Federal Reserve Board themselves would say that they had—that one of their duties was to restrict credit in a period of incipient inflation so as to avoid inflation.

Now the words "tight money" have certain unpleasant connotations, and I do not think that they would probably like to use those particular words, but certainly they do restrict credit.

Senator WILLIAMS. Do you think it would be important that the Congress should take action to remove the present ceiling on long-term Government bonds?

Mr. DILLON. This 4¼-percent ceiling is a matter of very considerable controversy. I have not as yet had the opportunity to come to any firm conclusion about it because I understand it was debated at length last year in this committee and I would want to familiarize myself in detail with the views on both sides before coming to a definite conclusion.

Certainly, I think that the Treasury does need the maximum flexibility in refinancing in the longer maturities the debt that will be coming due over the next 4 or 5 years, and it may be that this would be a thing that we would require to accomplish this successfully.

Senator WILLIAMS. Well, do you think that the ceiling on the long-term bonds has been a handicap to the Treasury Department in the past few years, and is responsible for the fact that we have such a large percentage of our debt today maturing in the 1-to-2-year basis?

Mr. DILLON. It is certainly true that over the past couple of years the ceiling on the debt has prevented the Treasury Department from issuing long-term debt and, to that extent it can be said, certainly accurately, that it is responsible for a portion of that debt moving into the shorter term, the 1-year category.

Whether without the ceiling it would have been practicable or possible to refund all this very large debt that has moved up into the 1-year category into a longer one is another question. Some of it certainly, but I am not sure that all of it could have been.

Senator WILLIAMS. Do you think Congress was wise in rejecting the removal of that ceiling at that time, based upon your experience in the banking field?

Mr. DILLON. I do not think I would want to comment, Senator, on the wisdom of Congress.

Senator WILLIAMS. Well, I will put it this way: Do you think that in a similar situation, if it arises, would you recommend the removal of the ceiling?

Mr. DILLON. I certainly would leave myself clear to do so. This is going to be one of the things that I think we should address ourselves to relatively early in the coming months and reach a definite position on.

As I said before, I would not want to come to a definite conclusion myself until I had a chance to read the story on both sides.

I notice that the Joint Economic Committee reports, whose reports I have read, indicate that maybe it would be appropriate to remove such a ceiling if there were certain fiscal—certain reforms in fiscal and monetary practices.

Certainly we want to look at this whole field before we reach a definite conclusion on this.

I do not want to say right now that we would feel the need of requesting removal of this ceiling in the immediate future. Quite to the contrary, on the other hand, we may very well do so. I would like to leave this question open.

Senator WILLIAMS. You reserve the right to request it at a later date?

Mr. DILLON. That is right.

Senator WILLIAMS. And you think you may well request it, is that correct?

Mr. DILLON. I cannot make any further comment except that we will keep ourselves open on that.

Senator WILLIAMS. Continuing from this platform:

First, we shall end the gross waste in Federal expenditures which needlessly raises the budgets of many Government agencies.

On that we can be in agreement.

The most conspicuous unnecessary item is, of course, the excessive cost of interest on the national debt.

You commented on that.

Second, we shall collect billions in taxes which are owed to the Federal Government but not now collected.

Do you know of any particular place where such billions as you may recommend—where we could find them?

Mr. DILLON. Well, as I understand it, what that particular recommendation was directed to, Senator, was the fact that there has been a feeling that there have not been enough agents in the Internal Revenue Service to do as complete a job of checking tax returns as would be advisable, and that as we put on more agents in the Internal Revenue Service, each one of these agents has been able to bring in a great deal of revenue, very much more than the cost of the agents.

I understand that this is a continuing program, and that the budget will be coming up and will request again more agents. I have no way of personally having an opinion on the amount of extra funds that can be brought in there, but certainly the record shows that having better enforcement, more agents, is a source of additional funds, and we shall certainly pursue this, provided the Congress gives us the funds for extra agents.

Senator WILLIAMS. Well, that was one of the recommendations, of course, and there is not too much dispute about that. But here are some other suggestions they made:

Third, we shall close the loopholes in the tax laws by which certain privileged groups legally escape their fair share of taxation.

Among the more conspicuous loopholes are depletion allowances which are inequitable.

How do you feel about depletion allowance?

Mr. DILLON. The depletion allowance is certainly a very controversial matter.

Senator WILLIAMS. Secretary, you are going to have to move into some of these controversial questions, Mr. Secretary.

Mr. DILLON. I am not yet the Secretary. [Laughter.]

We will, Senator, have to reach a recommendation on this matter.

I think that the time has come when there probably has to be or should be a very intensive study of the whole income tax structure, with recommendations on a number of matters. And certainly if we are going to be able to reduce the overall rates and, particularly, the highest rates which are an inducement against or counter-induce-

ment to achieving the best effort, we can only do so after taking very real action to close whatever loopholes may exist.

Now in the depreciation allowance that has been—

Senator WILLIAMS. Depletion allowance is what I am talking about.

Mr. DILLON. The depletion allowance, that has been on the books for many years. There are depletion allowances for many items. By far the most controversial is the oil and gas allowance because it is the largest, and not only in percentage but in the amount of money that is involved.

Certainly I am fully openminded on this question and intend to study it very closely, and I think that we will, the Treasury will, definitely, of course, have a position at the appropriate time later this spring one way or the other on that. But I wouldn't want to take a position on it now.

Senator WILLIAMS. It was my understanding that President-elect Kennedy is in favor of studying possible revision downward in it, and since you were so closely in agreement, I was wondering if this was one of the points in which you had reached agreement to reduce it.

Mr. DILLON. No, sir. We did not discuss this in any detail; and I, as I understand his position, he was in favor of a careful study of this matter but did not indicate whether he favored or would tend to favor a revision downward or no change. He would make up his mind after receiving all the facts.

Senator WILLIAMS. Well, I agree we need a study, but we do not raise much revenue from studies, as you know.

Mr. DILLON. That is correct.

Senator WILLIAMS. There is another suggestion that we should repeal the present 4 percent dividend credit. How do you feel about that?

Mr. DILLON. That again is something that we will have to turn our attention to early.

I would say that this, as I understand it, is a particular provision that was inserted into the law—was inserted as a first step toward removing the idea of double taxation on corporate income, which is taxed once to the corporation and again to the individual when he receives it as a dividend.

I think it is fairly obvious that a 4 percent deduction does not go very far in achieving that general principle, and to my mind there is some real question whether it is advisable to maintain this particular provision, which certainly appeals and gives a greater benefit to those individuals, stockholders, who are in the substantially higher tax brackets.

My feeling is probably it was enacted because Congress felt that tax brackets were on the high side and it, rather than change them, made this adjustment which, in effect, reduces them. But I think there is a real question whether this should continue.

Senator WILLIAMS. And without taking any firm position you are inclined to feel that that may be advisable to eliminate that feature?

Mr. DILLON. It could be; yes, sir.

Senator WILLIAMS. But you do not have any firm opinion on the depletion allowance?

Mr. DILLON. No, sir; or on that. I certainly feel that needs more study.

Senator WILLIAMS. But you are more fixed in your opinion on that point?

Mr. DILLON. An inclination; yes, sir.

Senator WILLIAMS. Yes.

In order to promote full employment, the Democratic platform promises that if recessionary trends appear we will act promptly with countermeasures such as public works or temporary tax cuts.

Now, I think the chairman touched on that, but would you approve expensive public works programs and taxcuts during a period of recession as a check?

Mr. DILLON. I think I touched, in answering the chairman, on my views regarding tax cuts.

Regarding public works, the real problem there seems to me the type of public works that one moves into.

Very large-scale, long-term public works do not seem to me to be very appropriate for counteracting an immediate recession, because it takes a long time for the actual expenditure to start after the particular public work has been approved sometimes 2 or 3 years. And expenditures often then come at a time when the recession is no longer in effect, and we actually might be in a boom period when, for that purpose, they would not be required, although they might very well be required because of the public work itself.

On the other hand, if there are smaller, more localized, public works, particularly in areas where there is particular economic depression, so-called depressed areas, I think it might very well be wise to give consideration to expediting construction of that sort of a public work, but that would not be, I would think, an expense any way near as great as the large-scale heavy public works.

Senator WILLIAMS. Such steps would inevitably increase the deficit during that particular period.

Now, we recognize that. Do you think such action would aggravate our present international situation as regards the value of the dollar, which I noticed in this morning's Wall Street Journal is selling at a discount, inching upwards, even yesterday, that it is selling now at 35.27½? Do you think that such action of further deficit spending would aggravate this situation even more?

Mr. DILLON. I think it is entirely a question there of amount, confidence, and intent.

Certainly, if the world felt that we did not have control of our expenditures, that we did not intend to maintain an overall sound fiscal policy, this would be very serious. It would have a very bad effect.

We are in a position now where we have to take into account and give great weight to world opinion in countries that have convertible currencies, particularly to that of other financial centers.

On the other hand, I think all of these financial centers realize that you cannot necessarily have a fully balanced budget every year, that business and economic progression does move in an undulating pattern, that it does not always go straight up. They are aware that deficits, if they are counterbalanced over a series of years by larger surpluses, do not cause any basic harm.

So I think it is entirely a question of amount and the way it is done, whether we affect this delicate thing called international confidence or not.

Senator WILLIAMS. How do you feel about a proposal to withhold, put a withholding tax on dividends and interest?

Mr. DILION. I have had a feeling, I have been told, that there are very substantial amounts of dividends and interest that are unreported, and which do not pay tax.

The question, as I understand it, is whether a workable system can be devised for a withholding operation.

Certainly, if it can be, and we could obtain these taxes that are due, we should do so, I would think.

It would seem to me it would be far easier to do that in the field of dividends than in the field of interest, which is obviously very complicated because there are all kinds of personal loans, and so forth, in the interest field. That would be really a question of mechanics.

Regarding whether it is possible or not, I have not as yet had the opportunity to study that mechanical problem. It is another one of the serious matters to which I will naturally have to give my attention in the near future.

Senator WILLIAMS. President-elect Kennedy has appointed or designated Mr. Walter Heller as the chief to head his Council of Economic Advisers, and in the U.S. News & World Report I notice they quote rather extensively in a recent article Mr. Heller's views on taxes and fiscal policies.

(The article referred to follows:)

[U.S. News & World Report, Jan. 2, 1961]

TAX IDEAS OF A TOP ADVISER TO KENNEDY

A sample of proposals from the man picked to head Kennedy's Council of Economic Advisers: Overhaul tax laws; wipe out most deductions; end the tax credit on dividends; remove special tax benefits for old folks. Then, having assured billions more revenue; cut tax rates. It all adds up to a drastic new approach, affecting everybody in the country.

The selection of Prof. Walter W. Heller to be Chairman of the Council of Economic Advisers in the Kennedy administration offers strong clues to the tax and budget policies now to be proposed.

Mr. Heller has detailed plans for drastic tax changes that, if approved, will affect every taxpaying individual and company in the United States.

First goal he is to pursue: A thorough overhaul of the budget and credit programs that Government uses to control booms and slumps. Mr. Heller wants big budget surpluses in prosperous times, limited deficits during recessions.

This outspoken economist has little faith in tight money for boom control. Mr. Heller, now chairman of the department of economics at the University of Minnesota, shares the conviction of President-elect John F. Kennedy that more Federal spending is needed. Yet both believe in balanced budgets.

As top economic adviser to the White House, Mr. Heller will not find his tax views automatically accepted by the Treasury or by Congress. Yet his views will be influential.

Getting down to cases

What specific proposals is Mr. Heller to make?

One of his first suggestions is to be the full taxing of income now taxed only lightly or not at all. You get an idea how he feels from his attacks on tax rules that favor people just because they "are aged, or blind, or sick, or unemployed, or homeowners, or veterans."

If Mr. Heller gets his way, you no longer will get to deduct your State and local taxes on your Federal tax return. For one such tax—a State income tax—

you may get, instead, a partial credit against your Federal tax. This change means a smaller tax savings, particularly for high-income people.

There will be an end, too, to the deductions you now enjoy for interest paid on debts. Also you will lose the 4-percent tax credit now allowed on dividends.

If the Heller plan wins out, you will pay the full income tax rates on your old-age pension from social security or railroad retirement, and on any unemployment pay you draw. Interest on State and local bonds, now tax free, will be fully taxed in the case of newly issued bonds. So will income now partly or fully tax exempt because a taxpayer is 65 or on "sick leave." A portion of the rental value of a home you own and occupy may be taxed as "investment income" under the Heller plan.

If you are married, you probably file a joint return with your wife or husband, and enjoy the tax savings from income splitting. Mr. Heller wants to wipe out most of those savings.

For investors, businessmen

The Heller plan also calls for tighter rules on businessmen and investors. If this plan is adopted, plush living on business expense accounts will become a thing of the past. Expense account rules will be tightened. The push for more generous writeoffs for tax purposes on investment in plant and equipment will be halted. Savings and loan associations will lose their preferred tax status. So will mutual savings banks.

The depletion allowance on oil and gas, as well as on other minerals, will be sharply reduced.

Capital gains—profits on assets that rise in value—will be hard hit if Mr. Heller's ideas prevail. Examples: When you give away stocks, you will pay a capital-gains tax on any rise that has occurred in their value while you have held them. At your death, the capital-gains tax will bite into your estate.

A good deal of income—from coal and timber, for examples—will become subject to ordinary income tax rates instead of the lower capital-gains rate.

Stock-option plans under which thousands of business executives now get the favored capital-gains treatment will no longer be favored under tax rules.

Are you considering tax-free gifts to your family in order to reduce your holdings for estate-tax purposes? If so, note that Mr. Heller wants tighter rules on estate and gift taxes, too.

If most of these changes are made, Mr. Heller believes, then some easing of tax rules may be in order.

Top-bracket rates, in his view, could be cut drastically—to a top of 75 or even 65 percent.

People with unstable incomes would be permitted to "average" their incomes for tax purposes.

Small corporations might get a flat reduction in their income tax rate.

Mr. Heller will agree to these new benefits only if Congress accepts most of his plans to eliminate the "privileged status" of many taxpayers.

In a recession

What will Mr. Heller, as economic adviser, propose in the event of a serious slump in business? A quick tax cut, provided the slump seems serious enough.

Mr. Heller is specific about the kind of tax cut he wants in this situation. He suggests that the withholding tax on wages and salaries be reduced quickly and sharply—by, say, a fifth or even a fourth—and that quarterly tax payments be reduced correspondingly for those not subject to tax withholding.

And there is this to note: Cutting the withholding rate would mean tax relief limited strictly to the first-bracket rate which, in effect, applies to everybody on all taxable income.

Mr. Heller, along with many other university economists, has been pushing all or most of these tax ideas for some time. Now he is to have his chance to offer them from the highest economics position in the Government.

Senator WILLIAMS. Have you read that article?

Mr. DILLON. I read it briefly. I think it was quoting from some—from an appearance of his about a year ago before some congressional committee.

Senator WILLIAMS. That is correct. Would you care to express an opinion in general terms on his recommendations or—

Mr. DILLON. As I, in very general terms, understood his recommendations, they are to favor a closing of so-called loopholes in our taxes, which would be coupled with a reduction of rates.

If this can be generally accomplished, I think it is—it would be a desirable thing. However, when you get into details you find that this sort of matter is very difficult of accomplishment, and I think it requires careful study to see the extent to which it can be done.

Certainly, from an economist point of view, which Mr. Heller is. I think it would be economically sounder if we had a maximum rate of income surtax substantially lower than our present level and with less special exemptions. But whether it is possible to reach that goal is a different matter. It is a very difficult matter.

Senator WILLIAMS. Well, I do not want to take up too much time of the committee, Mr. Chairman, but there are a couple of specific points which Mr. Heller mentioned which are very important, and in view of the position he would hold I would like to have your opinion on them.

One of them, I notice Mr. Heller is recommending that we abolish the present exemption which is extended to the interest of State and municipal bonds. I will quote from this article:

Interest on State and local bonds now tax free will be fully taxed in the case of newly issued bonds.

Would you support a proposal such as that or not?

Mr. DILLON. Senator, I have seen that, and I have seen that particularly in the context of recommendations by a number of economists and income tax experts directed toward the equity of the income tax system. From that point of view, certainly this is something I can see that might have some merit and should be studied.

On the other hand, my own feeling is that an equally important question here is the effect of any such change on not only the local borrowing authorities, which would be the localities throughout the United States, but also the effect this would have on the general market for debt obligations.

Last year there were something upward of \$7 billion of tax-free obligations sold, new ones sold, in this country, and I think about the same amount has been sold in each of the last 3 years.

If these obligations were to become fully taxable, there would be some question whether they could all be sold at all, and certainly it would have a very real effect on the interest rate for other private companies and utilities that were borrowing at long term.

That, in turn, by forcing up the interest rate, would be counter-productive to our economy generally, and would create higher electric, gas rates, and things of that nature.

I think this whole problem is highly complex, and I certainly feel that the effects of any such change on the borrowing authorities and on the general market should have an equal or probably even a greater importance in coming to a conclusion on this than the merits of pure income tax equity and justice.

Senator WILLIAMS. Yes.

One other suggestion that Mr. Heller makes is that we should close what he describes as a loophole wherein in 1947 the Congress extended to those over 65 a double exemption, that is, they raised it to \$1,200,

and they raised the exemption for the blind to \$1,200, and he suggested that should be repealed. Do you agree with that?

Mr. DILLON. I would certainly not be prepared to make any such recommendation, sir.

Senator WILLIAMS. He also, and I am quoting him here:

If the Heller plan wins out you will pay the full income tax rates on your old-age pensions from social security, the railroad retirement fund, and on the unemployment pay, which they are now receiving.

Would you agree with Mr. Heller on that point?

Mr. DILLON. I think Mr. Heller's views on this were again, as I say, from the point of view of overall income tax equity, and I think, in fairness to Mr. Heller, he contemplates that if such items were taxed, that the tax rate itself would be reduced, and for the people who would pay that. So I do not think he contemplates that the individuals who are in need of these payments would have less take-home funds after they got through with their taxpayments.

I think it is really a very complex and very large shift in the way of collecting taxes that he is talking about.

Whether this is practicable or not after a long period I would very much doubt, but I think this was from the point of view of pure income tax equity that he was testifying about.

Senator WILLIAMS. That is correct. But how can you close what is characterized as a loophole for a particular group by eliminating that exemption without taking away some of the benefits?

Mr. DILLON. The only way you can do it—

Senator WILLIAMS. If you are not going to change their tax burden you are not going to accomplish anything.

Mr. DILLON. I think that is correct. You would change the tax burden generally on certain individual groups, but you would have reductions that would compensate, but they might go to other people. When you talk about old age, in particular, it would increase the burden on some of the older people, and lessen it on some of the younger ones.

Senator WILLIAMS. Under existing law capital gains which may have accrued, but upon which the particular securities or property have not been sold at death are not collected, as you know, but you collect a direct inheritance tax on the gross.

I notice that he recommends that capital gains should be leveled prior to the computation of the inheritance tax.

Would you agree with that?

Mr. DILLON. Well, that again is a highly technical question on which I would not like to express any opinion at this time.

Certainly he states the law correctly at present. Whether he contemplated a change in inheritance tax rates at the same time as this was done, I do not know, so I do not think I would want to comment on that.

Senator KERR. May I make a request, Mr. Chairman, for an insertion in the record?

The Senator from Delaware asked about the relationship of the price of gold, I believe he said the value of the dollar, and the deficit of the U.S. Treasury.

Would you obtain the information from one of the staff experts in the Treasury and put into the record the price of gold in the free

market at London on a monthly basis for each of the past 8 years, January 1, 1953, to December 31, 1960, and the amount of the deficit or surplus for each of the fiscal years ending during this period?

Mr. DILLON. I will be glad to transmit your request to the Treasury Department, and I am sure that the Department will be glad to agree and submit that information.

Senator KERR. Fine; at this point in the record.
(The information referred to follows:)

TREASURY DEPARTMENT,
Washington, January 12, 1961.

HON. HARRY F. BYRD,
Chairman, Senate Finance Committee,
New Senate Office Building,
Washington, D.C.

MY DEAR MR. CHAIRMAN: In response to the request of Senator Kerr at the hearing before your committee on January 11 relative to the nomination of C. Douglas Dillon as Secretary of the Treasury, I am pleased to enclose information concerning the amount of the United States' deficit or surplus for each of the fiscal years ending in the period, January 1, 1953, to December 31, 1960, as well as the price of gold in the London free market on a monthly basis from March 1954, when the market reopened, through December 1960.

Sincerely,

JOHN P. WEITZEL,
Assistant Secretary of the Treasury.

Federal Budget totals, fiscal years 1953-60

(In millions of dollars)

	Net receipts	Expenditures	Surplus or deficit (-)		Net receipts	Expenditures	Surplus or deficit (-)
1953.....	64,671	74,120	-9,449	1957.....	70,562	68,066	1,596
1954.....	64,420	67,537	-3,117	1958.....	68,550	71,369	-2,819
1955.....	60,209	64,380	-4,180	1959.....	67,915	80,342	-12,427
1956.....	67,850	66,224	1,626	1960.....	77,763	76,539	1,224

Source: Office of the Secretary of the Treasury, debt analysis staff, Jan. 12, 1961.

Price of bar gold on London free market

(In terms of U.S. dollars per fine ounce)

	1954	1955	1956	1957	1958	1959	1960
January.....		35.05	34.99	34.67	35.08	35.05	35.10
February.....		35.05	34.99	34.68	35.03	35.06	35.09
March.....	34.98	35.06	34.98	34.63	35.10	35.08	35.12
April.....	35.10	35.05	34.99	34.92	35.10	35.09	35.12
May.....	35.07	35.05	34.98	34.64	35.12	35.10	35.09
June.....	35.08	35.05	34.98	35.00	35.09	35.11	35.09
July.....	35.10	35.05	35.09	35.00	35.10	35.13	35.13
August.....	35.05	35.01	34.99	34.96	35.11	35.12	35.16
September.....	35.08	34.97	35.02	34.95	35.12	35.12	35.22
October.....	35.09	34.97	35.06	34.97	35.09	35.09	35.03
November.....	35.04	34.99	34.92	34.68	35.09	35.06	35.62
December.....	35.04	34.97	34.92	35.00	35.08	35.07	35.53

NOTE.—London Free Gold Market reopened on Mar. 22, 1954. Prices quoted are monthly averages of daily fixing prices.

The CHAIRMAN. Senator Anderson?

Senator ANDERSON. Mr. Secretary, I just want to say that when I heard how carefully Senator Williams had read the Democratic platform, I realized then how Senator Kennedy was elected. Many people must have read it.

But when he talked about Mr. Heller and this loophole, as he called it, of double taxation at 65, I just want to tell you privately that when I reached the age of 65 this double deduction looked awfully good to me, and the right to have all my medical bills deducted was extremely advantageous, and don't take those away from the aged too quickly.

Senator WILLIAMS. We Republicans will save it for you. [Laughter.]

Senator ANDERSON. In the matter of depletion allowance which he quoted, I happened to have the privilege of being on the drafting committee and also on the final drafting committee, and the language was "depletion allowances which were inequitable."

Mr. DILLON. Oh.

Senator ANDERSON. The Congress has decided many times that the depletion allowance is not inequitable, and has voted it.

Senator DOUGLAS. Which, I suppose, makes it so. [Laughter.]

Senator GORE. I do not think they decided that it was equitable, but decided to vote for it in spite of it being inequitable.

Senator ANDERSON. Let the Congress fight it out.

Mr. Dillon, you have many times been before another committee with which I am associated, and your appearances there have been extremely satisfactory to us, and I think you have been treated extremely well. If I ask you some questions which might be regarded as mean, I hope you do not so regard them. They are not intended to be.

But you referred to a legal opinion which had been given to you by the firm of Shearman & Sterling & Wright.

Now, when Mr. Baird was before the committee once before, we asked him about some of these things. He was going to hold on to and put in trust some securities. I was pressing him about the stock he might have in a holding company, and Senator Kerr asked him for a portfolio of his stocks. He said the Counsel in the Treasury "has gone over the list with me and thinks there will be no conflict, there is no conflict."

I just wonder if you think that an opinion from Treasury might not be more binding, in a way more valuable, than an opinion from a private firm that, I assume, are attorneys for some of the firms that you are identified with?

Mr. DILLON. That is correct. If you think that is a good idea, the committee thinks that is a good idea, I would certainly be glad to talk to the General Counsel in Treasury and obtain his views on it, too.

It had not occurred to me before. I had not been aware that that had been done by anyone in the past.

Senator ANDERSON. I realize that, but it has been done, and we have had questions about it.

Now, in the hearings which we had with Secretary Anderson when he was coming up, he supplied the committee with a list of his stocks, and they were published in the record.

I have no particular desire to see that done. As a matter of fact, on another committee we have not published them, but there has been much discussion about them.

Now, you mentioned United States and Foreign Securities Corp. in which you and other members of your family have a rather sub-

stantial amount of stock. I merely want to suggest to the chairman that I do not care to get into this discussion in public session. However I do believe it would be useful to find out exactly how the United States and Foreign Securities Corp. operates because the Secretary of the Treasury has some very direct bearing upon some of these questions of securities owned by these corporations. I do think it might be useful.

Mr. DILLON. This is a publicly regulated investment trust which is regulated under the law by the Securities and Exchange Commission, and has—makes specific reports that the law requires, which are very detailed, and I think the information regarding the operations of any of these regulated investment trusts is probably more complete than almost any kind of company there is, and they are all filed with the Securities and Exchange Commission on a quarterly and annual basis.

Senator ANDERSON. Well, this is not the sort of family holding company then that—

Mr. DILLON. Oh, no, not at all; no, sir. A public company that was formed and has been listed on the New York Stock Exchange since, I think, 1924 or 1925.

Senator ANDERSON. About how much do the members of your family own in this company?

Mr. DILLON. I think, although I am not certain what the exact amount is, but I think overall it is somewhere around 35 percent, something like that.

Senator ANDERSON. You list the fact at one time you were chairman of the board of directors of Dillon, Read & Co. I did not see any Dillon, Read ownership listed in your report.

Mr. DILLON. No, sir. I did own stock in Dillon, Read & Co., but in preparation for assuming this new job I am disposing of that completely because Dillon, Read & Co. is in the business of buying and selling and underwriting securities, and while in that business, while it is not a large part of their business, from time to time they buy and sell and operate in the area of municipal and State securities, which is specifically prohibited of the Secretary of the Treasury.

So I have disposed of my entire interest in that corporation.

Senator ANDERSON. You helped me, because you said you had made certain dispositions, and I was going to ask whether Dillon, Read was something where you had made the disposition.

Mr. DILLON. That was one of them.

Senator ANDERSON. This is not transferred to a trust, is it?

Mr. DILLON. No, sir; actually it was liquidated, and I received in return certain listed securities that are listed stocks; I have sold myself publicly and disposed of a good many of those.

Senator ANDERSON. Could I explain the reason for my question? When Dr. Wilson, former president of Standard Oil of Indiana, came on the Atomic Energy Commission, he submitted a list of his stock-ownerships. That was not made public, but he had on there two stocks that I thought were bad for him to own, and other members of the committee agreed.

We asked him to sell them. We did him a great favor, incidentally, because they dropped in value and it was not his knowledge of the stock market that was concerned. But we felt it was an improper

stock, and I felt Dillon, Read, doing the kind of a business it does, would be an improper stock.

Mr. DILLON. That is why I disposed of those and, as I have said, I have submitted this list of what remains. There are only 12 companies here. I have submitted this list to the chairman and it is available to every member of the committee.

Senator ANDERSON. Now the chairman made an observation, or I understood him to make an observation, that the Secretary does not pass on matters involving specific companies, normally, at least.

We had an insurance bill, life insurance taxation bill, before the committee, in which some of us found ourselves in opposition to other members of the committee. The opposition is very largely centered down here in this area, and at the time Secretary Anderson did appear before the House, and then sent charts to the Senate.

When it came up the second time, he appeared or Mr. Glasmann, and the Office of the Secretary was well represented at all times on this matter.

You would not regard it as improper for the Secretary, in a matter involving \$100 or \$200 million, even though he had a Commissioner of Internal Revenue, you would not regard it as improper for the Secretary to have an opinion, too, would you?

Mr. DILLON. No, sir; I do not think it is improper.

Senator ANDERSON. I certainly do not, and I think we would profit by the recommendation of the Secretary of the Treasury.

Now the matter of ceilings will come up many times, and that was a rather warmly debated item of discussion when we had it up, and I cannot remember quite whether Senator Douglas was the author of the motion to put a ceiling on E-bonds or reestablish from the House bill a ceiling on E-bonds or I was, but the E-bonds are selling at 3¾.

Do you have any feeling that that has stopped the sale of E-bonds, that the removal of the ceiling would have helped?

Mr. DILLON. So far as E-bonds are concerned, our sales are going reasonably well.

Senator ANDERSON. Well, I just looked at this morning's—

Mr. DILLON. The one item that is tending to make it a little more difficult is that at the moment, as I understand it, the average rate paid throughout the country on savings deposits is somewhat higher, maybe as much as 4 percent, and so there is pretty stiff competition there.

However, if that savings rate should ease, the rate on the savings bonds themselves would then become very attractive, and we would sell more. But in spite of this present situation we have been able to, the Treasury I am informed has been able to, maintain a very good record of selling E-bonds.

Senator ANDERSON. Now a short time ago there was an issue put out that refunded some 2½s of probably 63 or 65, and replaced them with 3¾ percent bonds. Was that not oversubscribed?

Mr. DILLON. As I understand it, it was.

Senator ANDERSON. And those, for their investment purposes in companies in which they were interested, were not able to get as many of those as they desired, so the ceiling was not holding those back either.

I just noticed this morning in the paper it lists the rates on all Government bonds, and while the Government bond market dropped

yesterday, I do not know whether in anticipation of this hearing or not, there still is not anything over 4 percent but one issue, and that is one that was put out at $4\frac{1}{4}$, I believe. Mr. Secretary, advance funding would be a great help, would it not be, in this matter?

Mr. DILLON. Yes, sir.

This is one thing which I, quite frankly, have not had an opportunity to get into in the detail that would be necessary to understand it, but the Secretary of the Treasury, Mr. Anderson, has informed me that while the ceiling is of no problem now, if one wanted to sell for cash a long-term bond, that because of the way the Treasury interprets the law, if you wanted to use the advance refunding technique it might be a problem in certain cases, even now when long-term bonds are selling considerably below $4\frac{1}{4}$ percent.

As I said, I have not had the opportunity to really study this matter to know why this, what seems to be anomalous, situation exists.

But if it does exist, and if this is an impediment to advance refunding, it might be something that the committee would later want to consider.

Senator ANDERSON. Thus far apparently it has not been. Thus far the advance refunding has been going very rapidly.

Mr. DILLON. Very successful.

Senator ANDERSON. At a full one-half of 1 percent over the ceiling.

Mr. DILLON. Well, I think what Secretary Anderson had in mind is that even though they wanted a coupon rate at a one-half of 1 percent below the ceiling for purposes of the law, they were much closer to the ceiling in the computation that they used, and that is what I say, I do not fully understand the reasoning behind this. This is something that I would have to go into in more detail, but I have been definitely informed that that is the case.

Senator ANDERSON. I only wanted to express the hope that we do not get into a battle over removal of that ceiling too quickly, because that was part of the election also.

I think I will defer the questions except to say to you, Mr. Dillon, that this high-interest, tight-money policy would be a matter that we could all debate all morning. I am sure that we are willing to accept your views that we naturally want an economy that is growing. It would be a matter of debate and discussion as to how to get us there.

I would appreciate it if you would furnish us with a copy of the opinion furnished you by your lawyers, and then subsequently the comments that Treasury might make as to the dispositions that you have made.

Mr. DILLON. I will be glad to do so.

The CHAIRMAN. Senator Carlson?

Senator CARLSON. Mr. Secretary, of course I want to state that, as a member of the Senate Foreign Relations Committee we have always, personally I have, and I know our committee has always, appreciated your appearance before that committee, particularly in dealing with some of our international problems, and now I am delighted that you are coming into a field that I think dovetails closely with some of our not only domestic but our international problems. I am proud of the fact that you are familiar with them.

Recently Secretary Robert Anderson and yourself made a trip to Europe, and on your return made some suggestions as to what might be done to improve our balance of payments.

I noticed there were eight specific items, and I do not want to take the time of the committee to get into each one of them in detail, but I noticed one of them was one that reads this way, in fact, it was suggested that we have a two-prong drive by the administration to, first, increase the demand for American goods in foreign countries and, second, induce other nations to relax trade barriers against U.S. products.

I do not know of anyone who would be better qualified to deal in this field than you because of your vast experience as Under Secretary of State.

We have had during the past year established many institutions—loaning institutions, banking institutions—to improve our foreign credit.

I would like to ask if you are satisfied with the actions that we have taken to date in an effort to correct the balance-of-payments deficit?

MR. DILLON. Well, Senator, I think obviously you cannot be satisfied, and I am not satisfied, until the deficit is corrected.

I think that the moves we have taken have been good moves. I think we have to continue pursuing them and possibly take others.

Certainly, most important is an attempt to increase our exports in every way.

Now, we have had very considerable success in the last year or slightly more in removing these many restrictions that there were against dollar imports. In fact, they are now pretty well gone with two exceptions. One is Japan, which is in the process of removing them, and the other is the category of agricultural exports, which seems to be a more difficult category and where we still find wide-scale discrimination. We certainly have got to use every effort to get these agricultural discriminations removed.

In the promotion of exports on our own side, we started a new program last year which involved greater effort on the part of the Department of State and the Department of Commerce to make their facilities available to exporters, to small business particularly, in this country, so they could invest, so they could get better knowledge of export possibilities, and could get a bigger share of them. This sort of thing has been done by other countries for a long time, but this is the first time the United States is really moving into this field.

I must say, in connection with that, we asked for a deficiency or supplemental appropriation. We received, the Department of Commerce received, a large portion, over half of what they requested.

The Department of State received only a very small portion. Now, I regret that that happened, and I do hope that the Congress this year will see fit to support this export promotion program through appropriations to a greater degree than last year, because this is very important.

Also, in the field of export credits, the Export-Import Bank last year, for the first time, moved into the area of making export credit available for consumer items, for short-term export credit, the type that has been available for a long time to foreign exporters in this field.

I think that we want to continue to look at that to see if the program, as it was put out and as it now functions, which was the first time they had been in this field, is fully adequate to the needs of the small exporters.

Senator CARLSON. Do you not feel that it is necessary that we do explore this credit situation, as far as our own products and manufacturers are concerned, if we are to stop or at least discourage the movement of our factories from this Nation to other countries and thereby reduce the employment of our own labor?

Mr. DILLON. That certainly is correct; and I think it is still the case that many American businessmen trying to operate in foreign countries feel that the short credits, that are what we have available, are not as favorable as what some of their competitors can get from countries such as Germany, Great Britain, and so forth.

Certainly, on the other hand, on the medium and longer term credits, the Export-Import Bank has done a magnificent job, and the credit we have available is probably the best in the world.

Senator CARLSON. I am certainly pleased that you made that statement, because I think it is a field that we need to study further if we are to prevent the movement of many of these industries.

I am going to be specific in one case. I think it is well known in this Nation and in foreign nations that we produce not only the largest quantities but the best light airplanes, single-motored and twin-motored ships.

We have two companies in Kansas, the Beech and the Cessna, and then there is a Piper Aircraft, and I am told by company officials that they cannot meet the competition in some of these foreign countries because of credits given by Germany, France, Great Britain, and other nations, and it is going to be necessary, if we cannot do something about it, for them to establish factories in foreign countries. I think it is most urgent that we take whatever action is necessary so that we can meet this competition and keep our people employed at home, and I would certainly appreciate if the Secretary, if he could, would give additional thought to that. The State Department and this committee should give this priority.

Mr. DILLON. I think it is most important, and we certainly intend to do so.

Senator CARLSON. Thank you, Mr. Chairman.

The CHAIRMAN. Senator Douglas?

Senator DOUGLAS. Mr. Chairman, I have no questions of Mr. Dillon. I hope it will not be inappropriate for me to say that it is my present intention to vote for his confirmation.

The CHAIRMAN. Thank you.

Senator Bennett?

Senator BENNETT. Mr. Chairman, I think it was Senator Anderson, in his questioning, who brought out the fact that it has been the custom of the Secretary of the Treasury in the past to come up to the committee to discuss proposed tax changes and participate with us in the discussion of, technical discussion of, tax programs.

I have two questions in this field.

Mr. Dillon, do you have any plans now to come up soon with a proposal for temporary tax changes to meet this so-called present recession?

Mr. DILLON. No, sir; we have no such ideas at the moment.

Senator BENNETT. The Senator from Utah has been interested in the proposal that this can be solved by reducing the tax withholding for a period of time without changing the rates. This idea seems to be based on the supposition that people who have their taxes withheld, by that process have paid their taxes.

Actually, they only have their taxes paid in part, and if you reduce the tax withholding from now until next November, the full burden will hit the poor taxpayer the following April because he will have had less of his tax paid in advance, and the whole process, of tax withholding will have been lost.

My second question is like the first: Senator Williams referred to Mr. Heller's program, which contains 15 or 20 proposals for changing the tax laws, some of which we have heard in this committee from witnesses and from members of the committee.

As Secretary of the Treasury, do you plan to come up here soon with specific recommendations for a broad overall revision of the tax structure?

Mr. DILLON. Certainly, we have no such plans.

But, as I stated, I think that the time may be coming, and probably is here, when we do want to take a careful look at the overall tax structure. When we would be prepared to make recommendations, I do not know.

As you are aware, Senator, the House Ways and Means Committee has been conducting, and is still conducting, a very detailed study toward this end, of the possibility of a further overhaul in our income tax system, the last one having been made in 1954, and we have, naturally, in the first instance been working with them. But we have no particular program. We have no particular date in mind, and it will be in cooperation with them that we do anything, at the time that seems appropriate.

Senator BENNETT. Of course, the Senator from Utah is aware of the responsibility of the House Ways and Means Committee, and of the studies they have been conducting, and it would seem from experience in working as their partners that it would be rather unusual to expect the House Ways and Means Committee to come to us with recommendations that contain many of these proposals that we find in the Heller article.

So I expect if those proposals become part of the Kennedy legislative program, it will have to be someone within the new administration who provides the initiative to push Congress into considering the Heller recommendations.

Going back to your earlier discussion, I was interested in the use of the word "cooperation," to describe the relation between Treasury and the Federal Reserve.

Between 1941 and 1951 there was a kind of cooperation between those two agencies which amounted to outright dominance of the Fed by the Treasury.

Is it your feeling that anything like the pattern which existed for those 10 years should be set up as an operating basis in the Kennedy administration?

Mr. DILLON. Again I must plead a certain amount of ignorance and inability to characterize what the relationship was at that time. But

as far as the future is concerned, I certainly do not believe any relation of dominance would be appropriate at all.

Senator BENNETT. Well, I think the word "dominance" describes that situation. It was broken off by the accord of 1951, and a lot of people associated with the new administration without suggesting the repeal of the accord, would like to get back to the conditions that existed, and I suppose you will be under pressure to try and create an atmosphere of cooperation without being subject to domination, if you want to avoid unpleasant words.

I was interested in your discussion in which you said, "There is no contradiction between a more rapid rate of growth and freedom from inflation," if I quoted you substantially correctly.

I am curious to know what you think the Treasury, within its responsibilities, and assuming the continued independence of the Federal Reserve, can contribute to that situation, which seems to me to contain a possible contradiction?

Mr. DILLON. Well, I think one area certainly that should be studied is the area of incentives through the tax system to more rapid modernization of plant, and that certainly would be a prerogative of the Treasury to suggest to the Congress and for the Congress to act on; and, as I said, that is just one example that is quite effective.

Senator BENNETT. Then you say, in effect, that you have opportunities by recommended changes in the tax system?

Mr. DILLON. That is correct. I think that the area of debt management might have some connection with that because it is bound up with monetary policy, too.

Senator BENNETT. There again the cooperation becomes an important relationship.

Mr. DILLON. Yes.

Senator BENNETT. Well, I will close by making the observation, Mr. Chairman, that Mr. Dillon's 4 years in a very difficult diplomatic post will probably stand him in good stead in his relations with this committee. [Laughter.]

The CHAIRMAN. Senator Gore?

Senator GORE. Thank you, Mr. Chairman. I would like to inquire as to your views, Mr. Dillon, on questions of international economics.

You and I have been supporters of the reciprocal trade program. But I have been considerably disturbed at the rate and magnitude of the outflow of U.S. capital, particularly for manufacturing facilities abroad.

I know this is a very complicated, far-reaching subject, as others on which you have been questioned have been.

By way of preface I would like to call to your attention the fact that almost one-fifth of the capital expenditures of U.S. businesses last year, according to indications I have been able to get, were made in foreign countries.

Now, in bringing this up, I hope that no one will, and I know you will not, think that I am trying to be either an isolationist or chauvinistic.

I think this is a problem which will require your attention and the attention of the country, else we may find the American labor movement becoming strong advocates of a high protective tariff, which, I think, would be a very deleterious thing not only to our own economy but, perhaps, disastrous to the free world economy.

I will not make a speech, but I want to give you a few figures, a few statistics, before inquiring of your views.

I would like to cite to you a few specific examples. In 1960 the Goodyear Tire & Rubber Co. expected to spend approximately one-half of its expenditures for plant and equipment on plants abroad; General Motors expected to spend \$200 million for oversea plants; Firestone has been spending 25 to 30 percent of its capital outlay on plants abroad; Kaiser Aluminum expected 80 percent of its total capital outlay for 1960 to be spent on its foreign operations.

I picked up the New York Times one morning this week and found that all U.S. typewriter corporation businesses are now manufacturing their typewriters in foreign subsidiaries or branches.

Now this is encouraged very materially by tax incentives, preferential tax treatment of profits earned abroad, which form a powerful incentive for this outflow of U.S. capital.

U.S. investment abroad has more than doubled during the Eisenhower administration. It has almost trebled in the last 10 years. The outflow of capital exceeds our loss of gold.

I will not go further. I would solicit your views on this problem.

Mr. DILLON. My views on this problem, Senator, are tied in with the balance-of-payments situation which, as we recognize, is of crucial importance to our country and to the whole free world today.

I think it is true that without again pretending to be an expert in a few days, which I am not, our tax laws, as presently drawn, do encourage investment abroad. They do allow specifically for the retention of earnings, the reinvestment of earnings abroad in foreign subsidiaries of American corporations, with no U.S. tax until they are repatriated.

This policy was probably adopted, and would seem to have been the proper policy, in the era when we were trying to build up the strength of Europe, or Western Europe after the war.

That strength has now been built up, and certainly I can see no particular reason, no reason at all, for special treatment to induce American capital to go to Europe and to make investments there, particularly in manufacturing industries. And I would think this was something which should be looked at very early to see what should be done, what can be done, to neutralize any favorable conditions inducing our capital to go to Europe.

There are, in addition, some specific situations there, which the committee is probably aware of. I am not aware of them in detail, but I know they exist, where they have the so-called tax havens in Europe, where there is very little, if any, tax, and an American company can set up a subsidiary in a European country, manufacture there, and pay no tax either in the country where it is operating or in the United States by simply transferring its profits as a management fee into a corporation in one of these tax-haven countries that has very little tax.

Senator GORE. That is generally referred to as a third country operation.

Mr. DILLON. Third country operation. That type of thing I think certainly should be looked at.

On the other hand, I do feel that there may be a difference, and we should look at this with care when we are doing this, in the way we

might treat investments in countries that are fully able to take care of themselves and which have indicated, at least through their public opinion, that they have enough private investment from the United States at this time and other countries which are in the process of development. In the latter, U.S. investments might, or would partially, take the place of foreign aid programs, governmental aid programs, and would carry with them this sort of investment technique, the knowledge, the technical competence of American private industry, which is very important to make available to these countries so they can see how a private system operates as compared to a system being pushed by the Soviet Union.

This is a complex matter and I do not have any complete feeling on this, but I do think that the two cases are somewhat different.

Senator GORE. What did you say about your feeling about it?

Mr. DILLON. I said I do have a feeling that the cases, there is a difference between investments in development—

Senator GORE. I see.

Well, you referred to the third country tax haven by which companies avoid paying really any taxes at all. That is one tax avoidance gimmick.

Is not another the recent establishment abroad of insurance company subsidiaries by American insurance companies, with the domestic company reinsuring through this subsidiary, thereby transferring a great deal of what would be legitimate profits, subject to U.S. taxation, into a foreign tax haven?

Mr. DILLON. I was not personally aware of this until I read your statement, Senator, the other day in the Senate.

Senator GORE. You are campaigning for my support now; very good. [Laughter.]

Well, are you aware of that?

Mr. DILLON. Well, only from what I read in your statement. It certainly—if the situation is as you state, and I am sure it must be since you so stated, that would be classified as another one of these areas.

Senator GORE. Well, you compliment me by having read my statement and I appreciate your consideration of it.

You said a few moments ago that you saw no need now for tax incentives for further U.S. private investment in Western Europe.

Mr. DILLON. That is correct.

Senator GORE. You also said that present tax laws provide such an incentive.

Mr. DILLON. They seem—it is my understanding that they do. I think it is generally accepted that they do.

Senator GORE. Well, let us put two and two together. You say it is not justified on the one hand; now, it exists; thirdly, it operates adversely in the balance of payments. Could we not arrive at a mutual conclusion that this preferential treatment should be corrected?

Mr. DILLON. Certainly this is one of the things that in the balance of payments field I think we have to look at very promptly.

I think we must move in this area to right our balance of payments, and it would seem to me that specific proposals in this part of the field should be part of an overall package to improve our balance of payments situation.

Senator GORE. Well, the outflow of well direct investment capital is at the rate of better than \$21½ billion a year, and it shows signs of accelerating.

Our direct oversea investment now amounts to some \$30-odd billion. I do not remember the exact figure.

It would seem to me that, with the balance of payments difficulty, the Secretary of the Treasury or one soon to be Secretary of the Treasury would have some definite views on this matter.

Mr. DILLON. Well, as I have said, I think this is something that, or a field where, action should be taken, but the details of what action and how are something I think would require a little further study. I am not an expert on it.

Senator GORE. I certainly think it would be unreasonable of me to ask of you details of a recommendation on this subject which, along with others, you have described as complex, and accurately so.

I think I would be satisfied with your recognition that the present situation is not justified, that it is operating contrary to the national interest.

I could not reach any conclusion other than that you would recommend some remedial action, the details of which I will not inquire into.

I would like for you to identify some additional characteristics of the preferential tax treatment accorded income earned abroad. You referred to deferral of tax payment. By that I take it you refer to the provision by which the profits of a foreign subsidiary corporation are not taxed at all, regardless of the size of the profits, until those profits are brought back to the parent U.S. corporation.

Mr. DILLON. That is correct.

Senator GORE. And you further stated that this gave some advantage in accumulation of profits and of investment.

The American Management Association recently made a study, and they said this—I do not believe it is a quote—let me just read this statement. This study showed that the reinvestment of foreign earnings over a 3-year period provides, and this is a quote, “roughly double the rate of profit accumulation for reinvestment that is possible under domestic tax schedules.”

Now, if by manufacturing typewriters in a foreign subsidiary, or if by operating through a foreign subsidiary, a corporation can double its rate of profit accumulation within 3 years, I would say that would be a powerful incentive, wouldn't you?

Mr. DILLON. Yes, sir.

Senator GORE. Now, suppose that a corporation has a tax liability of \$100 million on the operation of a subsidiary. Collection of this tax is deferred for a period of years.

Does not that operate in the same way as if the U.S. Government loaned \$100 million to that company for the same period of time, completely without interest?

Mr. DILLON. I would think that is a fair comparison, yes.

Senator GORE. It roughly amounts to the same thing.

Mr. DILLON. Yes.

Senator GORE. Now, the other major preferential tax treatment is the foreign tax credit. Would you describe that as you understand it?

Mr. DILLON. Well, as I understand foreign tax credit, this is a credit whereby a tax paid abroad is deducted from the tax after it is figured here in the United States.

In other words, if there is a 52-percent tax abroad, that 52 percent is deducted from the 52-percent tax which would otherwise be payable in the United States, and the result is no tax at all in the United States. I understand that is the way this system operates.

Senator GORE. Well, I have seen in a confidential way, and I will not identify any of the taxpayers, tax returns from very large U.S. corporations operating abroad which showed that no taxes at all, not any at all, were paid to the U.S. Government over a long period of time.

Mr. DILLON. I would think under this system they would not pay tax to the U.S. Government if the tax rate in the country in which they operate is roughly equivalent to the U.S. tax rate. Some countries even have a higher rate.

Senator GORE. I have thought, Mr. Dillon, that this was an example of tax favoritism which was wholly unjustified, and I have sought remedial action.

However, last year the administration recommended, and the Congress passed, my opposition to the contrary notwithstanding, a bill to increase this favoritism. I had gathered from your testimony before the Foreign Relations Committee on a specific tax treaty with India that, perhaps, you, too, wished to make this, shall we say, sweeter, that is, make the incentive for foreign investment greater instead of lesser.

That was one main reason why I undertook to dissuade Senator Kennedy from designating you as his Secretary of the Treasury.

I am pleased to find that both in personal conversation and in your public testimony here you recognize this incentive as unjustifiable, to the extent that it now exists in the law, and I shall await with interest your recommendations in this regard.

We have spoken only about Western Europe. This same tax incentive operates around the world, Japan, Hong Kong, any place.

I was riding beside an editor of Time magazine recently, on a plane flight from Nashville to Washington, and we fell into a discussion of foreign investment, and I expressed my deep concern about it, and my apprehension that unless the outflow of American capital, stimulated in a large part by tax favoritism to foreign earnings, was stopped, we would have developed in this country, in our own country, a very powerful, perhaps almost irresistible, sentiment for a high, protective tariff. I outlined by view that it had taken two major steps:

First, U.S. corporations had established subsidiary or branch facilities abroad to supply their markets abroad.

Second, the tax incentive was so great, and the costs of production abroad so advantageous in some cases that these foreign facilities began to supply U.S. markets from our production abroad.

He reached under the plane seat and pulled out a transistor radio bearing the trade name of a leading U.S. radio manufacturing concern, but in fine print below the trademark it said, "Made in Japan." I can give you thousands of illustrations like this.

As I say, this is not isolationism. I have long been an advocate of reciprocal trade, but this does not justify tax advantages for large-scale outflow of capital, particularly for manufacturing facilities.

If this capital were going into facilities for the purpose of promoting our exports, that would be something else. But the record

shows that only 10 percent is going into facilities of that character; about 85 percent is going into manufacturing facilities.

I will have no further questions on this particular point, but will afford you the opportunity of making any statement that you would like to make.

Mr. DILLON. I think the only thing I would like to say, to make my position clear, is one thing, Senator Gore. That is that I do feel that certainly the Government should give no encouragement to, and it should be well understood to be Government policy that the Government does not favor American companies moving abroad, establishing factories for the specific purpose of supplying markets here in the United States that have usually been supplied by American domestic companies. Because I agree totally with you that this would, if continued—and I know that there have been some cases like the example which you gave—cause very serious problems for our reciprocal trade program and our whole economic relationships with the rest of the free world, which I would consider fundamental to the continued strength and health of our Nation.

Senator GORE. In fairness to you, I should say that the treaty with India, which you supported, was a bilateral arrangement between the United States and an underdeveloped country.

The Foreign Relations Committee did not endorse that treaty, and I doubt if it will, but that was not in the pattern of this overall problem. That was specific rather than general.

Mr. DILLON. That is correct; yes.

Senator GORE. This problem assumes enormous magnitude because of its general application. The incentive applies to West Germany the same as to Ethiopia.

I would like to ask some questions, Mr. Chairman, on domestic policy, but I do not wish to press the lunch hour.

The CHAIRMAN. What is the pleasure of the committee? I understand Senator Long has some questions. We could recess until 10 o'clock tomorrow morning if that would be agreeable.

Senator LONG. Mr. Chairman, I would prefer to come back this afternoon if the Senate would permit us to rather than carry over for another day.

The CHAIRMAN. Is that satisfactory?

Senator LONG. Or stay here, either way. I did not imagine the questions I had would take more than 15 minutes.

The CHAIRMAN. Senator Gore, what is your pleasure?

Senator GORE. I will abide by your pleasure.

Senator LONG. I do not care to be held to a tight limit, but that is a guess, and I must say that the Senator knows how difficult some of those promises are to keep along that line, but I would anticipate about 15 minutes.

Senator GORE. I did not interrupt to make a suggestion, but I noticed it was 12:30, and I do have some more questions. I will abide by your suggestion.

The CHAIRMAN. Suppose we recess until 2:30; will that suit you, Mr. Dillon?

Mr. DILLON. Yes, sir.

(Whereupon, at 12:30 p.m., the committee recessed, to reconvene at 2:30 p.m. of the same day.)

AFTERNOON SESSION

The CHAIRMAN. Senator Gore, if you will proceed, sir.

STATEMENT OF DOUGLAS DILLON—Resumed

Senator GORE. Mr. Dillon, I would like to pursue a bit further the question of preferential treatment of income earned abroad.

What justification is there, in your opinion, for giving as much as 50 percent tax reduction in the case of natural resource development abroad?

Mr. DILLON. You have reference to the operation of the depletion allowance abroad; is that it?

Senator GORE. I have reference to the percentage depletion tax reduction formula which, as you know, has no relation to the depletion of the natural resource. It is a formula for tax reduction and is limited not to 27½ percent, but to 50 percent of net profits.

What justification is there, in your opinion, for allowing that for foreign operations?

Mr. DILLON. Well, I would say that the only reason for that would be that the same law applies to the American company, whether it operates within the United States or abroad.

I would think that was the reasoning. I have not particularly examined this argument to see if there is any difference there.

I can see that actually the way oil has been found, say, in the Middle East, it has been in much greater quantities and with many fewer wells than in the United States; so maybe this is more valuable abroad because of that circumstance.

Senator GORE. Well, in this case, I do not believe it is preferential treatment. The depletion allowance, when it was originally enacted, was granted on the theory that a tax deduction should be permitted because a natural resource and property was being depleted, used up, exploited. But I am not sure that—well, later it was changed to a percentage formula, and the real limit in many, many cases is not the 27½ or the 15, or whatever the percentage of gross may be, but rather the 50 percent of net.

But I just wondered why this should be extended, if extended at all, even at home, to the development of a resource in some other country?

Mr. DILLON. I am not familiar enough with tax laws as yet to know, but I would assume that our depletion allowances which we have for a great number of items were written into the tax laws on the basis that they apply wherever the resources may be found, either here or abroad, and whether the American companies operate in this country or abroad. That the Congress has not seen fit to draw that line, I have not been aware—it may well have been—because, as I say, this is a new field for me in this detail—I have not been aware that there have been any very general considerations or debate on drawing the line on this in the Congress or among tax experts. I have not seen the debate on whether the tax depletion itself is proper when it is in effect abroad.

I have seen the fact that the way it operates in, say, the Middle East it may appear to be more advantageous than here where there

are small drillers whom you are trying to help and who have some difficulty in discovering—finding oil and carrying on their business.

Senator GORE. How enthusiastic are you about tax reform in the United States?

Mr. DILLON. Well, I would feel, Senator, if we are going to carry out many of the programs, which I feel are necessary programs, in the fields of defense, other programs in the fields of education, in the field of growth, I feel if we are to maintain a sound and stable budget which is essential, we will have to obtain the revenues for that, and to obtain those revenues we will have to have as sound a tax system as possible.

That would involve having a tax system that was generally accepted as being completely fair and equitable and being as devoid as possible of what might be considered by a number of people as loopholes. Therefore, I think one of the very first things that should be done is to take another look in detail at our tax system, such as was last done over 6 years ago, to see what changes can be made to improve it.

I think that this is a vital thing if we are going to get the revenues we need.

Senator GORE. Well, the change 6 years ago made it worse instead of better.

Mr. DILLON. In all respects? I did not realize that.

Senator GORE. I beg your pardon?

Mr. DILLON. In all respects? I did not realize that it was entirely worse.

Senator GORE. Maybe there was some improvement. For the moment I am not aware of any, and I know of many instances in which the loopholes were made bigger.

Mr. DILLON. That may be. I have been told by people who are expert in this field that they feel that one reason for these so-called loopholes was a deliberate feeling of the Congress, as expressed by its action, that some of these rates were too high, and rather than tackle the rates that were too high, it created these loopholes knowingly.

Now, I would think it would be much better not to have loopholes and have lower rates directly.

Senator GORE. Then, is it fair to conclude from your statement that you believe we should have tax reform?

Mr. DILLON. I would think that it was time to have some tax reform; yes.

I am not in position to specify as to what at this time, because it is a very complex and detailed thing, as you well know, and I think everyone on this committee knows a good deal more about it than I do in the short while I have had to familiarize myself with details of the tax law.

Senator GORE. I agree with you that it is time for tax reform. But one thing concerns me. I do not know just how we are going to get it unless the Secretary of the Treasury is dedicated to that objective.

I do not wish to press you on what reforms you think we need since you have not formed your opinion on it. That was one of the things that troubled me about your selection.

I felt that, perhaps, now there was an opportunity to have a President and a Secretary of the Treasury dedicated to equity in taxes

and to tax reform, that they would provide necessary leadership, and we could accomplish it.

I am not sure that drifting along with some more study is going to do it.

Mr. DILLON. I would hope and feel that—well, I would hope that action in this field could be taken relatively rapidly, because I would agree with you, Senator, that if action is to be taken this would appear to be a propitious time now rather than to wait another year or two.

Senator GORE. Well, I like that statement.

Now, referring to this as a propitious time, Senator Byrd expressed doubt this morning that the budget, which was presented to us a year ago, projecting a \$4 billion surplus, would actually show a surplus at all.

I wonder if you know how many additional expenditure budget estimates the President has sent to the Congress since he sent the original so-called balanced budget?

Mr. DILLON. I would not be aware of the number. I know there was an estimate, an overall estimate, made last September called the midyear review, and I know there is another one due to be made, I think, next week.

Senator GORE. I do not have the figure in mind either, but I know that the expenditure side of the budget has been growing since last June, and the income side has been steadily reduced.

Mr. DILLON. That is correct.

Senator GORE. I will not ask you if you are acquainted with the President's budget for fiscal year 1962 which is to be presented within the next few days. I am not acquainted with it, and I will not ask you if you are, but I would call attention to the fact that we have had several so-called balanced budgets presented that turned out not to be balanced at all, but severely unbalanced.

Now, with the recessionary conditions we face, 5 to 6 million unemployed, the necessity to restock some pipelines for international security, the condition of our national defense, adding up, as I believe they do, to the necessity and possibility of increased Government expenditures, is it not necessary for the Government to have some additional sources of revenue?

Mr. DILLON. I think it might—that may well be the case.

Senator GORE. At least desirable?

Mr. DILLON. It is certainly desirable. I think that may well be the case, although the question of whether it is necessary or would be advisable to try to increase taxes at this particular time is again—

Senator GORE. I did not say increase taxes—additional revenue.

Mr. DILLON. I see what you mean, Senator.

Senator GORE. I think we can obtain additional revenue without change of rates.

Mr. DILLON. From the same taxes; that is right.

Senator GORE. I would say, first, there is something about which you can do a great deal through administration, that is, expense account allowances.

I am not suggesting you are widely experienced in this, but maybe you would have some ideas on it.

Mr. DILLON. Well, all I know on that is that there seems to be a widespread public belief that this expense allowance has been abused.

Certainly it is not a good situation in the country when there is such a belief, and we ought to use every administrative means possible to see that that situation is corrected or if there is no abuse that people generally understand there is none.

But certainly there is a general feeling that there is, and without having gone into it in detail myself I can only assume that it is correct since it is so general.

Senator GORE. But if it does exist—

Mr. DILLON. It should be corrected.

Senator GORE (continuing). It should be corrected; and you will use the power of the office to do so?

Mr. DILLON. That is correct.

Senator GORE. I will not engage you in a debate about the various equities which I might characterize as favoritism or loopholes, which somebody else would not so justify.

But to the extent that you and we accomplish tax reform, I think it is going to be necessary to begin, and you say you are willing to do so, with firm administration of the tax laws, particularly with respect to expense allowances.

And then next, it seems to me, one other thing that can be done by firmer administration is more efficient collection.

I have never quite understood the economy of reducing the number of Internal Revenue agents below the point necessary to have efficient collection of revenue. What are your views on that?

Mr. DILLON. My understanding is that we can still use more competent agents, and as long as you can obtain substantial additional revenues by putting more agents to work, I am for putting more agents to work so we can obtain maximum revenue through our present tax system.

Senator GORE. I agree with you on that. So you may not be as bad a fellow as I thought you were. [Laughter.]

I really did not think you were a bad fellow. In fact, I want to clarify that. As you well know, we have been friends socially; there was nothing personal whatsoever intended. I have been genuinely concerned that one who might not be dedicated to vigorous tax reform would be apt not to obtain any at all. But after you make these necessary studies maybe you will become enthusiastic and dedicated.

Mr. DILLON. I trust so.

Senator GORE. Dedicated has been a very popular word for the past 8 years. [Laughter.]

I notice in your statement to Senator Byrd about your personal holdings and your divestiture that you seem to make a distinction between direct holdings, on the one hand, and property owned through trusts, on the other. Did you mean that or was this—

Mr. DILLON. There is no—the only difference there, Senator, that I can see is that in irrevocable trusts I do not have control of the investments myself personally.

On the other hand, I have informed the trustees of what the statutes are, and the trustees have taken certain actions which they felt were required in disposing of stocks that might run contrary to the conflict-of-interest statutes.

The opinion of counsel, and my own opinion, is that there is nothing in the holdings in these irrevocable trusts that are contrary to the statute.

Outside my own personal holdings where I had control, I have gone considerably beyond the letter of the statute, and maybe even beyond the spirit, and divested myself of a great many things which I just felt it was more appropriate not to have maybe in the quantity in which I had owned them before.

Obviously, I could not do that in the case of trusts where I was not the sole beneficiary. That is the only difference.

Senator GORE. The statutes on conflict of interest, as you know from recent examination, place heavy emphasis on contractual relations with the Government. That is not particularly applicable with the Treasury Department because the Treasury Department does not handle defense production contracts.

Would your holdings in gas and oil properties in any way affect your views and your recommendation to the Congress and to the President on the percentage depletion allowance?

Mr. DILLON. Senator, they would not. And when I said that I went beyond my—what was required by the letter of the law—I did dispose of substantial quantities of oil and gas stocks just so that there would be no appearance or that anyone might think that this would influence me.

Senator GORE. But not all?

Mr. DILLON. Not all of them, no. I do retain one interest in one company.

Senator GORE. I do not wish to inquire in detail. I did notice your statement.

Mr. DILLON. Yes.

Senator GORE. Would your holdings of foreign corporate interests or of interests in corporations which, in turn, have foreign interests, in any way affect your views or your recommendations to the President and the Congress on the foreign tax credit or the retention of earnings abroad without U.S. taxation until repatriated?

Mr. DILLON. Not in the slightest.

Senator GORE. I accept your statement on that. I am, I think, sympathetic to the people who come into public service and have to make a great sacrifice in order to be, like Caesar's wife, above suspicion.

There is an area in which moral compunction must govern, which the statute does not touch. I am perfectly willing to accept your statement that our holdings of this character, either directly or through trusts, will not affect your views. I accept it without reservation.

Mr. DILLON. Thank you, Senator.

Senator GORE. Because I know your standing and the caliber of man that you are.

I am left in some quandary about your views on debt management and monetary policy.

You are aware, I take it, that the increase in interest rates over the past 8 years has added a burden of approximately \$3 billion per year on carrying the interest charges on the Federal debt alone?

Mr. DILLON. I have seen that that is the figure that has been used. I assume it is correct.

Senator GORE. Well, that \$3 billion is small compared to the additional interest burden which States, countries, municipalities, individuals, and private concerns are required to bear.

Would you like to make a statement on this general subject or do you wish to stand on what you have said previously?

Mr. DILLON. I think it is difficult for me to make any further statement.

I do think that the decision on policy at any particular time has to depend on the circumstances of the time.

I think that was very well put by the President-elect when he was asked a question of whether he had discussed in detail this specific thing with me, and he said the same thing. This was in a press conference at Palm Beach, that he thought that these matters had to be looked at in light of the circumstances at the time, and discussed with competent people who are interested, which would include the Treasury, the Federal Reserve, the Council of Economic Advisers.

So I think it is very hard to make a broad statement that would apply at all times.

Certainly from the point of view of the Treasury, everything else aside, it is ours—obviously his and should be our—objective to finance the public debt at as low a rate of interest as is possible, but consistent with spreading it out over a proper term, and anything that we can do to accomplish that, without inviting unnecessary inflation, is certainly something we would press for.

Senator GORE. Your objective will be then, if I correctly understand you, to finance the public debt of the United States at the lowest possible interest rate?

Mr. DILLON. Consistent with a proper spread of the public debt, I mean, if you could have it at the lowest interest rate, but having it all in 1-year obligations, that would be wrong.

Senator GORE. I am not sure that your statement is correct. Long-term rates have not always been higher than short-term rates.

Mr. DILLON. That is true. That has been—

Senator GORE. They have been in recent years; that has been true.

Mr. DILLON. In general, I think it is true, that long-term rates tend to be higher than short-term rates. That has been the history of the debt.

Senator GORE. Not entirely.

Mr. DILLON. In the recent past.

Senator GORE. In the immediate past that is true.

Of course, there is no rigid economic formula governing the amount which should be in short-term, long-term, or intermediate obligations. But, as I understand it, consistent with the national welfare and other regards, it will be your intention to finance, and manage, the U.S. debt at the lowest possible rate of interest?

Mr. DILLON. I think that is correct; yes, sir.

Senator GORE. In so doing, if you accomplished that goal, and it turned out to be a lower rate than has obtained for the past 8 years, on the average, would not that, in turn, and does not that, in turn, have an effect upon the interest rate which States and towns and counties and individuals and corporations pay?

Mr. DILLON. I think that is quite correct. It certainly does.

I think one thing that has also to be taken into account just so it is recognized here, particularly in the short-term rate, is the effect of our present situation, present world situation, regarding balance of payments. We do have to consider the relationship between the short-term interest rates in this country and the short-term interest rates in other countries with readily convertible and strong currencies, because we had this situation last summer, which was unfortunate, where when we were reducing our short-term rate of interest, both England and Germany moved to increase theirs. As a result, there was this very large flow of short-term funds out of the United States to Europe, which was a drain on our balance of payments.

This situation, I think, means that in the future we have to work more closely with these other central banks and that works two ways, both as it affects ourselves and also as it affects them.

I think that by cooperation we mean that we would hope that they would not take action that would result in undue strains on our economy without careful consideration, which I do not think was fully the case last summer.

They have since moved, both those countries, to reduce their re-discount rate which has served to relieve the strain on us.

Senator GORE. What is your opinion of the "bills only" policy of the Federal Reserve?

Mr. DILLON. Again, Senator, I can give you my understanding of it, which is not at all a technical one and not, by any means, a final opinion.

I understand that when the Federal Reserve ceased in 1950 or 1951, I guess it was, to peg the price of long-term Government bonds, they adopted this "bills only" policy to make clear that they were not going to peg the long-term rates, and that the long-term rates were going to find a relatively free level.

I am told that it seemed generally accepted that that probably was a proper decision at that time.

Certainly the situation has changed. No one thinks in terms of pegging long-term rates anymore. Our economic problems are different, and I understand that the Federal Reserve has actually begun to take some first steps toward a more flexible interpretation or change of policy in this regard in that they have begun to purchase some slightly longer term instruments of the Government. They now talk, I have heard it commented, about a "bills usually" policy now, instead of bills only.

I certainly think that probably it is clear that any one policy is not a perfect policy for all time, and this is a matter I would like to discuss further with the Federal Reserve.

Certainly the flexibility they are beginning to show seems to me to be a step in the right direction.

Senator GORE. I hope in your talks with the Federal Reserve officials that you will bear in mind that the Federal Reserve Board was created for the management of the mechanics of a central bank. It was never intended that the Federal Reserve Board would fix either national or international economic policy. That is for the Government as a whole, primarily the President and the Congress.

Mr. DILLON. Certainly.

Senator GORE. I would hope, of course, that you have no struggles with the Federal Reserve. If you do, you cannot win except with the support and the power and the prestige of the President of the United States. If that is not sufficient, I would think the Congress would be ready to take remedial action.

Now, it seems to me, Mr. Secretary, that you have said several significant things:

One, you think that we need tax reform. I am not trying to quote you exactly, but if I may paraphrase your statements, we need tax reform. One objective of that tax reform is the raising of additional revenue. The other is removal of inequities as between taxpayers.

The CHAIRMAN. Senator Gore, I am sorry to interrupt you, but they are just about to vote.

Senator GORE. Do they have a vote?

The CHAIRMAN. Would it suit you, Senator Gore, to resume Friday morning at 9:30?

Senator GORE. I was about to conclude now. If Senator Long wants to come back it will be fine with me.

The CHAIRMAN. Then, Mr. Dillon, we will recess until 9:30 Friday morning. Does that suit you?

Mr. DILLON. Anything suits me, Mr. Chairman.

Senator GORE. We have a vote at 3 o'clock.

Mr. DILLON. 9:30 Friday?

The CHAIRMAN. Friday morning.

Senator GORE. May I just say that I was about to recapitulate your testimony, and I was going to ask you to give us some time limit, some estimate of the time, in which you would hope to submit a fiscal program to the Congress. You can think about that between now and Friday.

Mr. DILLON. Fine.

(Whereupon, at 3:05 p.m., a recess was taken until 9:45 a.m., Friday, January 13, 1961.)

**NOMINATIONS OF DOUGLAS DILLON, SECRETARY-
DESIGNATE OF THE TREASURY, AND ABRAHAM
RIBICOFF, SECRETARY-DESIGNATE OF HEALTH,
EDUCATION, AND WELFARE**

FRIDAY, JANUARY 11, 1961

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

The committee met, pursuant to recess, at 9:45 a.m., in room 2221, New Senate Office Building, Senator Harry Flood Byrd (chairman) presiding.

Present: Senators Byrd, Kerr, Douglas, Gore, Talmadge, Hartke, Williams, Carlson, and Curtis.

Also present: Senators Dodd and Bush, both of Connecticut.

Also present: Elizabeth B. Springer, chief clerk.

The CHAIRMAN. The meeting will come to order.

Secretary Dillon is already in the witness chair for further questioning. The Chair recognizes Senator Gore.

**STATEMENT OF DOUGLAS DILLON, NOMINEE TO BE SECRETARY
OF THE TREASURY—Resumed**

Senator GORE. Mr. Dillon, I have but one more question; however, I think Senator Long has some inquiries to submit.

My question relates to the timing of the fiscal tax reform program of the new administration. I indicated this to you Wednesday. Perhaps you have had some time to reflect upon it and therefore I lay it open for your comment.

Mr. DILLON. Senator, this problem of fiscal tax reform is one of the major questions facing the administration.

As I indicated the other day, it would be our hope to be able to get some action at this session of Congress, and that would mean that we would have to submit a program, certainly, I would say, by the 1st of April. Whether or not we can submit a complete program by that time, I cannot at this time guarantee, because we have not fully recruited our staff who will be responsible for that, and the shape of the program, the details of it, are not yet worked out. But, certainly, that is the objective at which we will shoot; if we are not able to have a full program, I certainly feel we will have parts of it, and we will have some requests, and they will be before this committee, I would say, at the latest by the 1st of April. If they come after that, there would not be adequate time to get them enacted this year.

Senator GORE. I judge by what you have said that you recognize the urgency with respect to both time and substance?

Mr. DILLON. That is correct.

Senator GORE. Thank you, Mr. Chairman.

The CHAIRMAN. Senator Long is in Louisiana today. He will not be here to question.

I have just one more question, Mr. Dillon.

Would you say that the combination of our public debt, which is now about \$200 billion, the prospect for more deficit financing, the international payments situation, and the position of our gold reserves would call for the immediate exercise of fiscal restraint and Federal spending discipline regardless of what administration might be in power?

Mr. DILLON. Senator, I certainly feel that we have to maintain complete fiscal soundness. That means that we have to use restraint in spending programs, having programs which we are sure are essential.

Now, the question is what rule the measure of essentiality may be. I believe we should be certain to have adequate programs in the field of defense and national security, but certainly I equally believe that they have got to be very carefully looked over to see that all possible waste and all excess programs in that area are taken out.

Certainly, it may not, as I said Wednesday, and as you yourself said, Mr. Chairman, be possible to avoid a deficit in the forthcoming fiscal year, but we have got to give the impression, and it has got to be a fact, that we have control of our fiscal situation, that we know what we are doing, and that we have a balance over a relatively short period in sight, through the revenues that we are going to be able to get from our tax system as compared to the expenditures.

The CHAIRMAN. Is it your present intention to make prompt recommendations to the Congress with respect to the situation in the international payments balance?

Mr. DILLON. I would expect, Senator, that there would be very prompt recommendations or statements in that regard, either from the Treasury or possibly from the President himself.

Certainly, we wish to make clear, and we will make clear as soon as we are in office, that we have every intention, as President-elect Kennedy said, to maintain the soundness of our dollar and maintain it at its present value. We are going to do everything that is necessary to carry out that sort of policy.

The CHAIRMAN. I assume that you regard the dwindling of the gold reserves as very serious, do you not?

Mr. DILLON. Yes, sir. I think it is a serious thing that cannot be allowed to continue over any long period of time.

The CHAIRMAN. And do you expect to recommend some prompt action?

Mr. DILLON. I believe there will be additional action taken over what is presently in effect; yes, sir.

Senator KERR. I want to congratulate the Secretary upon the forthrightness and vigor of his statement, that it is their purpose to do what is necessary, whatever may be necessary.

I do not think there is a man in our country who is more familiar with the problem than Mr. Dillon, and I do not think there is a man in the country more able to accomplish that purpose, if he sets himself to do it, and I am delighted to hear him say that it is their purpose

to do whatever is necessary to reverse that trend and get it going back the other way.

The seriousness of the situation is not alone in the fact of the present status of claims and reserves, but that the balance is running adversely to us, and when that can be reversed and we start it back the other way, we have won the battle in the trends that we establish rather than in the status of the moment, because the reversal of the trends will restore both confidence at home and abroad, in my judgment.

Senator GORE. I have a further question.

The CHAIRMAN. Senator Gore?

Senator GORE. I share with you, Mr. Secretary, the sentiment that fiscal soundness must be observed.

Do you not think it is equally imperative to avoid fiscal foolishness?

Mr. DILLON. Most certainly; yes, Senator.

Senator GORE. Such, for instance, as drastically reducing the number of internal revenue agents, which causes a reduction in Government revenue by a factor of several—

I yield.

Senator KERR. I just wanted to say—off the record.

(Off the record discussion.)

Senator GORE. In reference to Senator Byrd's questions and your response on the seriousness of the gold situation, is it your view that the United States should continue—or if the United States does continue, as I hope she will, as the banker for the free-world economy, its essential international banking function, and should this banking function continue to be narrowly tied to gold?

Mr. DILLON. Senator, I certainly believe that the United States should continue its function of provider of an international reserve currency and international banker for the world.

Our whole free-world system is tied to a fractional gold reserve. There is not enough gold in the world to permit a full reserve behind all convertible currencies, but our whole system is based on that, and I think it must continue to be based on that, and I think it is perfectly workable as a system. I think we can and will bring our balance of payments into balance, and we will be able to—without any trouble and without any doubt—maintain the value of our dollar at its present value in gold of \$35 an ounce.

Senator GORE. Do I understand you to say, then, that you think that the international banking function must be tied to the mining of gold in South Africa?

Mr. DILLON. The mining of gold in South Africa is only, Senator, one of the places where and from which new gold supplies come, and, of course, the gold supplies—

Senator GORE. That is the chief supply.

Mr. DILLON. It is certainly by far the largest in the free world, and it is probably half of the world's increase, something like that, each year.

Senator GORE. Well, I will not lead you into a discussion on this.

Did you happen to read Mr. Henry Alexander's speech on the subject?

Mr. DILLON. Yes; I did, Senator.

Senator GORE. It seems to me, and it has seemed to me, that the international banking function requires a more sophisticated base, a more

flexible base, a more adequate monetary machinery, than a reserve of gold which at best can never be overly large and at the worst can create quite a good deal of havoc, but I will not engage you further in that.

The CHAIRMAN. Senator Hartke?

Senator HARTKE. Good morning, Mr. Dillon. I am delighted to see you here.

I was wondering whether—

The CHAIRMAN. The committee welcomes to the hearing the two Senators from Connecticut, Senator Dodd and Senator Bush, and they are invited to come to the rostrum.

Senator HARTKE. You mentioned in your testimony on Wednesday something about the need for a reexamination in the field of depreciation. There was a study done by the man from Fordham University—I do not know whether you are familiar with this or not—that indicates maybe depreciation on equipment and plants might be on the basis of replacement costs rather than original purchase.

I was wondering whether as Secretary you would be willing to examine some of these fields of depreciation which are utilized, particularly in Western Europe, in order to place our own manufacturing establishments upon a modernistic basis so that we can successfully compete with them?

Mr. DILLON. I fell very strongly that we do have to improve in one way or another our tax system in that regard, because I think it is essential that we maintain an industrial system, a supply of industrial equipment in our factories, that is the best in the world. At present, apparently the incentives for modernizing equipment are even greater in the countries of Europe than they are here, and the trend in the last few years is that European factories are becoming more modern in some respects than our own. This is an entirely new and unacceptable development, and we have got to find ways to offset that.

Senator HARTKE. I was wondering if there was any possibility—I know you are just new—if such a study and such a recommendation could come before the Congress at a relatively early date, in your opinion?

Mr. DILLON. I think we would hope that this would be one of the things we could reach agreement on, a program, a specific program, in time to submit it for action this year.

Senator HARTKE. Two fields in regard to the tax itself: In your opinion, any reduction in taxes, should it occur during a period of relative prosperity or during a slack period?

Mr. DILLON. There are two different concepts there, Senator. I think during a period of relative prosperity, you should give first priority to having an adequate surplus to offset any deficit that you might have in slack times.

Senator HARTKE. I mean assuming that; of course, I mean from your original statement, that you felt that a continual long-term program should have a balance of surplus and deficit; yes.

Mr. DILLON. That's right.

Well, I would say that long-term tax reduction you would probably be more apt to make at a time when you were in surplus.

When you were in a recession, there is a strong body of economic theory that temporary tax cuts, strictly temporary in nature, can be very effective.

However, that would not be a permanent thing, so permanent reductions in the system, I should think, would come at times of relative prosperity.

Senator HARTKE. I wonder if you had given any thought to the raising of the exemption for dependents as either a permanent or a temporary measure, during periods of recession, in order to provide additional purchasing power to the masses of the American people?

Mr. DILLON. I think that is generally thought of as being one of the best ways, or one of the ways, to operate a temporary reduction that would have rather prompt impact.

As far as permanent reform, I really do not have enough knowledge of the overall tax system to want to comment on whether that would be part of it or the major part or a minor part or not at all.

Senator HARTKE. In answer to Senator Williams' questions in regard to certain programs, which he based upon a report by, made by, Mr. Heller, I know that you have read the Samuelson report to the President-elect.

As I understand your statements, and you said, in substance, that you agreed with the overall proposition that much more had to be done in the field of economic growth, but that this should not be done in a fiscally irresponsible manner so that it would look like it was run-away handling of our financial situation.

I thought maybe it ought to be cleared up, because I thought, possibly, part of that could have been interpreted as indicating that you did not feel that we should give any consideration to the actual responsibility of the Government to maintain a sound dollar.

Also there was an editorial in the Scripps-Howard papers of yesterday indicating that you had made a statement that the permanent or temporary debt ceiling, would have to be raised above \$285 billion.

Is there any indication at the present time that the Government will be in a position to operate unless the ceiling is somewhat raised in the relatively near future, without any change in spending or anticipated revenues?

Mr. DILLON. No, Senator. Last year the ceiling was, the temporary ceiling was, \$295 billion, and I do not see anything that would forecast that we could operate under a much lower ceiling in the coming year.

What the exact ceiling will be we have to wait until we are a little further down the road and see what appropriations look like and what the fiscal situation looks like for the next year.

But it is certainly clear that we will need an increase over the permanent ceiling of \$285 billion as we have had every year in the past.

Senator HARTKE. And just to clear that point up, there is not just an awful lot you can do about that, is there?

Mr. DILLON. No. As Senator Kerr pointed out, Congress appropriates the funds, and after they have appropriated the funds, we do not have too much to do, but this keeps us closely within that limit.

Senator HARTKE. But I am sure that you are going to do everything that you can to finance our Government at the least expense to the people; is that not right?

Mr. DILLON. That is correct.

Senator HARTKE. And that this will be done consistent with the laws which provide for a debt ceiling, and if they are not needed,

you are not going to ask for an increase, and if they are needed, you will tell us honestly that they are?

Mr. DILLON. That is right.

Senator HARTKE. Thank you.

The CHAIRMAN. Senator Curtis?

Senator CURTIS. Mr. Dillon, you have been here for a long time, and you have been very patient, and I believe I have heard all the discussion except that I was detained this morning. I shall be very brief.

What is your notion as to the necessity, the desirability of a yearly balanced budget?

Mr. DILLON. I think on that, Senator Curtis, I made my position clear.

I think the objective is to keep a balance over a reasonably short period of time, because the economy undulates up and down.

It would not be practicable to increase expenditures very drastically one year because we had a lot of income, and decrease them equally rapidly when our income fell off.

So I think what we should aim for is a surplus that will bring some reduction in our debt over a period.

I think that is a generally accepted theory and I think it is fiscally sound.

Senator CURTIS. You would not favor that and attempt to bring the budget into balance every year?

Mr. DILLON. Not in a time of extreme recession, no, Senator.

Senator CURTIS. I understand the philosophy back of that, and it appears in many places in the Government.

It seems to me that that invites a national attitude that we ought to balance the budget but not now.

Every year Congress is faced with a demand for needed improvements, needed expansion. There is always some unemployment. There are always soft spots in the economy, and then every other year there have been elections in this country, and while I can see the theoretical background for an objective over a reasonable period, that we should stay in balance, I think that when we waver in that for one year we are gradually leading the American people to adopt the same attitude, a balanced budget is a good thing but not right now.

Do you think that it is practical and desirable, or either, that this huge debt of our country be amortized in some systematic way?

The reason for that, the reason for my question, is this: I believe in respect to all individuals, those who get their debts paid are those who work out a plan of payment and stay with it.

I think that is largely true of businesses. But here we have, in the National Government, proceeded on that notion that some happy day in the future, why, our economy will expand and this will happen, and we won't need this and that, and we will reduce the debt.

Do you think it is either desirable or practical to attempt to work out an amortization of this debt?

Mr. DILLON. I think it is highly desirable that the debt burden be reduced. The only difficulty I find with working out a definite schedule, Senator, is in figuring out what the proper size of it would be, and obtaining the extra revenues that would be required.

I do not think it would be of any use to have a provision that so much debt be retired every year unless coequally with it there was provision to raise the tax revenues to take care of it.

Senator CURTIS. That is very true.

Now, in the last Congress, particularly in the other body, there were a number of bills introduced which just say the Congress shall reduce the debt by X dollars per year.

Well, that cannot be done. It has got to be more worked out than that; that when they reach a certain point, either the revenues are increased or expenditures are cut back, and I firmly believe that is a necessity.

I think it is rather grave for our own self-respect, I think it is important in connection with our children, I think it is important so far as other countries of the world are concerned.

Some day these youngsters are going to rise up and say, "Does Uncle Sam ever pay his debts, or does he just refinance?"

I would like to see a system worked out, having the greatest amount of flexibility so that in tough times maybe the reduction of the debt will only be a token, but that would be real; and I certainly agree with you that a phony gesture does not do any good.

The only way you can reduce the debt is to take in more money than you pay out—that is correct, is it not?—and it would be improper to ask you or any other prospective Cabinet member to commit yourself on legislation in advance and before it's presented in the usual way.

But I do want to call your attention to something that I hope that you and your staff can give some very careful study to.

The distinguished chairman of this committee, Senator Byrd, who, in my opinion, has done more to protect the homes and wages and values of the American people than most any person of our generation, has authored a constitutional amendment. Senator Bridges of New Hampshire is a cosponsor, and it has been my privilege to be on that constitutional amendment, which provides that after estimates of receipts and expenditures are made at certain periods, and before the Congress adjourns, that if the budget is not going to balance the Congress will not adjourn until provision is made to put it in balance.

Now, that amendment also provides that in time of extreme emergency the Congress can vote to suspend, but they have to take affirmative action.

The roll has to be called, and they have to take a position that we are in such a serious situation that this is not revised, which, in itself, would be a restraint.

I think this job of Federal finance is so difficult and the demands upon the Federal Government are so great that every restraint that has value should be used and pursued.

As I say, it is not my purpose in mentioning this constitutional amendment to ask you to support it or not support it, but I would express the hope that you and your policymaking people would give serious attention to it because I think that we are drifting into a situation where there is no intent to pay the national debt.

I believe that pressure groups and even committees of Congress, if they anticipate an increase in revenue, line up some programs to take it up, and, while there will be additional revenue by reason of the

growth of the country, I think that that has been a pretty well-worn proposition, and that is not inexhaustible.

But I would appreciate it if this field could have the study of the high officials in the Treasury.

Mr. DILLON. Yes, sir.

The CHAIRMAN. Mr. Dillon; we want to thank you, sir, for your testimony.

Senator KERR. Mr. Chairman, may I interrupt?

I want to place in the record a statement received from the Treasury concerning the amount of the U.S. deficit or surplus for each of the fiscal years ending in the period January 1, 1953, to December 31, 1960, as well as the price of gold in the London free market on a monthly basis from March 1954 when the market reopened, through December 1960.

I would like to have this go into the record at the appropriate place.

The CHAIRMAN. Without objection, so ordered.

(The document referred to will be found at p. 24.)

Senator KERR. I would like to ask the Secretary one question, but before I ask the question, and as a preface to the question, I would like to say that the Senator from Oklahoma's record, his official record, is filled with glittering stars of fiscal soundness and dedication to the principle of a balanced budget, and reduction of the Federal debt; and in the light of that statement I would like to ask the Secretary this question:

I guess you are familiar with the expansion and growth of American industry and business as many man that has ever been before this committee.

Do you know a single growing productive business and private enterprise associated with the production of resources or their development that has no debt?

Mr. DILLON. I think there are some oil corporations, one or two. [Laughter.]

Senator KERR. How is that?

Mr. DILLON. Amerada Petroleum Corp. [Laughter.]

Senator KERR. Well, I am glad you mentioned that, and my respect for its management is so great that I will not refer to the throes in which they now find themselves by reason of that unhappy condition.

I would presume that the American Telephone & Telegraph Co. is one of the great industries of our country?

Mr. DILLON. It certainly is, Senator.

Senator KERR. Would you happen to be familiar with their total indebtedness?

Mr. DILLON. No, Senator. I know it is very large.

Senator KERR. Would you be surprised to know it is in the neighborhood of between \$5 and \$6 billion?

Mr. DILLON. That is slightly larger than I had expected.

Senator KERR. And I understand that their expansion program this year will call for an increase in over a billion dollars.

Mr. DILLON. That is correct.

Senator KERR. Now, it is a fact that their expansion has been provided generally through the issuance of convertible debentures which constitute an indebtedness, and which go out of existence as the value

of the stock increases to where the owners of the convertible debentures find it to their great advantage to convert into common stock?

Mr. DILLON. Yes.

Senator KERR. And that great organization has done so much in many ways to contribute to the development and growth of our country, has done so by a boldness in policy of expansion possible only through very substantial indebtedness, and then wise management of the debt.

Would you be able to tell the committee the total or approximately the total public and private debt of the Nation?

Mr. DILLON. No, sir, I am afraid I do not have that figure readily.

Senator KERR. Would you, as you so kindly did the other day in connection with another request by me, transmit to the appropriate official in the Treasury a request that that figure for the latest date for which it is available be put into the record?

Mr. DILLON. Yes, sir.

(The information requested follows:)

Estimated changes in gross public and private debt, December 1959 to December 1960

(Billions of dollars)

	1959 December	1960 December	Change
Individual:			
Mortgage.....	172½	187½	+14
Consumer.....	52	56	+4
Other.....	40½	43	+2½
Total.....	266	286½	+20½
Corporate ¹	342	358	+16
State and local government.....	64½	69½	+5
Total (other than Federal).....	672½	714	+41½
Federal Government.....	291	290½	-½
Total.....	963½	1,004½	+41

¹ Includes Federal agency debt not guaranteed by the U.S. Government.

Source: Office of the Secretary of the Treasury.

Senator KERR. You would not be surprised if it were found to be either at or approaching the sum of \$1 trillion, would you, Mr. Secretary?

You would not be surprised, would you?

Mr. DILLON. I would not be surprised at all.

Senator KERR. And that it increases substantially each year, both public and private debt, as our economy expands and grows?

Mr. DILLON. That has been the case, yes.

Senator KERR. In fact, our economy has been built on a foundation of wise management and wise use of substantial credit, and our hopeful future growth is on the same foundation.

Thank you, Mr. Secretary.

Mr. DILLON. Thank you, Senator.

The CHAIRMAN. Are there any further questions?

Mr. Dillon, I thank you, sir. You have been frank with the committee and have answered the questions in fine fashion.

We are very grateful to you.

Mr. DILLON. Thank you, Senator.

The CHAIRMAN. The Chair is pleased to insert in the record statements favoring the nomination of Secretary Dillon by both of the Senators from Secretary Dillon's home State of New Jersey, Senators Harrison A. Williams, Jr., and Clifford P. Case.

(The supporting statements follow:)

U.S. SENATE,
Washington, D.C., January 13, 1961.

HON. HARRY FLOOD BYRD,
Chairman, Senate Finance Committee,
New Senate Office Building, Washington, D.C.

DEAR MR. CHAIRMAN: It is a pleasure to add these comments to the record of hearings conducted by the Senate Finance Committee on the nomination of Mr. Douglas Dillon as Secretary of the Treasury.

Mr. Dillon has already given impressive demonstration of his ability to see directly to the heart of many critical problems facing this Nation and other free nations. His experience with economic aspects of foreign policy makes him particularly well qualified to serve in a Cabinet office which, more and more, must consider the international consequences of national fiscal and monetary policy.

As one of the Senators from Mr. Dillon's home State, I am particularly happy to have this opportunity to express my personal satisfaction at his nomination for high office in the incoming administration.

Sincerely yours,

HARRISON A. WILLIAMS, JR.

STATEMENT BY SENATOR CLIFFORD P. CASE, OF NEW JERSEY

Mr. Chairman and members of the committee, it is an honor and privilege to speak in support of C. Douglas Dillon, who has been designated by the President-elect as Secretary of the Treasury.

The people of New Jersey are understandably proud of the distinguished service which Douglas Dillon has already rendered to the Nation, as Ambassador to France, as Under Secretary of State for Economic Affairs and in his present position as Under Secretary of State. His knowledge of financial affairs, combined with broad experience in diplomatic and economic matters, uniquely qualify him for the vitally important role of Secretary of the Treasury. This is particularly true at a time when this post involves our relations with other countries to an unprecedented degree.

I know that the committee is familiar with the outstanding qualifications which Douglas Dillon will bring to this new assignment. But I do wish to add, as one who has known and admired him for many years, an expression of my highest regard for his character, integrity, and judgment. I believe our country is extremely fortunate to have a man of his caliber and dedication to public service available at this hour.

(By permission of the Chair, the following financial statement of the United States and Foreign Securities Corporation, which was discussed on page 5, is inserted in the record at the suggestion of Secretary Dillon.)

**UNITED STATES & FOREIGN
SECURITIES CORPORATION**

**STATEMENT
SEPTEMBER 30, 1960**

DIRECTORS

AUGUST BELMONT

LESLIE J. CAVANAGH

CLARENCE DILLON

FREDERICK H. ECKER

THOMAS S. NICHOLS

CHARLES C. PARLIN

ROBERT G. PAYNE

DOROTHY DILLON SPIVACK

ROBERT WINTHROP

OFFICERS

CHARLES C. PARLIN President

ROBERT G. PAYNE Vice President

LESLIE J. CAVANAGH Secretary and Treasurer

ROBERT L. CADLEY Asst. Secretary and Asst. Treasurer

RICHARD J. LYONS Asst. Secretary and Asst. Treasurer

TRANSFER AGENT

The Hanover Bank
70 Broadway
New York 15, N. Y.

REGISTRAR

The First National City Bank of New York
2 Broadway
New York 15, N. Y.

**UNITED STATES & FOREIGN SECURITIES
CORPORATION**

One Headley Road,
Morristown, N. J.

To the Stockholders:

Herewith are submitted a balance sheet, a summary of assets and a list of securities owned as of September 30, 1960, and statements of income and surplus for the nine months ended on that date.

The indicated net asset value on September 30, 1960 of \$98,035,022, as calculated on page 3, was equivalent to \$29.61 per share of stock outstanding. No allowance has been made for federal capital gain tax on unrealized appreciation of \$63,843,959 as the corporation has elected to be taxed as a regulated investment company and expects to distribute to stockholders substantially all net realized capital gain.

On March 31, June 30 and September 30, dividends of \$0.40 per share were paid. Of each payment, \$0.15 per share was from net ordinary income and \$0.25 per share was from net realized capital gain and so designated.

The Board of Directors has authorized the officers to purchase for the corporation shares of its stock, in such amounts, at such prices and at such times as they may deem advisable. No purchases have been made under this authorization and any future purchases will be reported in the quarterly statements to stockholders.

By order of the Board of Directors,

ROBERT G. PAYNE,
Vice President.

October 14, 1960.

**UNITED STATES & FOREIGN SECURITIES
CORPORATION**

BALANCE SHEET—SEPTEMBER 30, 1960

ASSETS

CASH.....		\$ 230,732
RECEIVABLE FOR SECURITIES SOLD.....		48,867
DIVIDENDS RECEIVABLE.....		85,830
INVESTMENTS IN SECURITIES, AT IDENTIFIED COST (Indicated value \$97,713,481)		
U. S. Treasury bills.....	\$11,879,357	
Other securities.....	21,990,165	33,869,522
		<u>\$34,234,951</u>

LIABILITIES AND CAPITAL

PAYABLE FOR SECURITIES PURCHASED.....		\$ 18,446
ACCRUED TAXES.....		25,442
CAPITAL STOCK AND SURPLUS		
Common stock, \$1 par value		
Authorized —3,500,000 shares		
Outstanding—3,310,815 shares.....	\$ 3,310,815	
Capital surplus.....	23,505,846	
Undistributed net ordinary income.....	3,669,157	
Accumulated net realized gain on investments...	3,705,245	34,191,063
		<u>\$34,234,951</u>

UNITED STATES & FOREIGN SECURITIES CORPORATION

SUMMARY OF ASSETS—SEPTEMBER 30, 1960

In the following table, investments in securities are included at values as indicated on page 6.

CASH AND RECEIVABLES.....	\$ 365,429	.37%
U. S. TREASURY BILLS.....	11,916,611	12.15
COMMON STOCKS		
Chemical and Drug.....	20,753,168	21.16
Electric Utility.....	5,299,146	5.40
Manufacturing and Misc.....	11,148,400	11.37
Merchandising.....	2,310,000	2.36
Metal and Mining.....	10,891,500	11.11
Natural Gas.....	1,612,000	1.64
Oil.....	33,605,206	34.26
Other investments.....	177,450	.18
	<u>\$98,078,910</u>	<u>100.00%</u>
TOTAL ASSETS.....	\$98,078,910	100.00%
Liabilities as shown on balance sheet.....	43,888	
	<u>\$98,035,022</u>	
NET ASSETS.....	\$98,035,022	

This indicated value of net assets was equivalent to \$29.61 per share of stock outstanding.

The corporation upon request will furnish to any stockholder of record the latest calculation of the indicated value of its net assets.

CHANGE IN NET ASSETS

Net Assets—December 31, 1959.....	\$118,757,860	
Additions or (deductions)		
Net ordinary income.....	1,922,829	
Net realized gain on investments.....	3,143,585	
Change in unrealized appreciation.....	(21,816,274)	
Dividends paid from net ordinary income.....	(1,489,867)	
Dividends paid from net realized gain on investments...	(2,483,111)	
	<u>\$ 98,035,022</u>	
Net Assets—September 30, 1960.....	\$ 98,035,022	

**UNITED STATES & FOREIGN SECURITIES
CORPORATION**

NINE MONTHS ENDED SEPTEMBER 30, 1960

NET ORDINARY INCOME

INCOME

Cash dividends.....	\$2,063,308	
Interest.....	312,816	
Other income.....	6,809	\$ 2,382,933

EXPENSES AND TAXES

Statistical services and research—		
Keswick Corporation (Note 1).....	\$198,500	
Directors' compensation.....	27,000	
Officers' salaries.....	44,225	
Other salaries.....	33,657	
Retirement plan and pensions.....	25,311	
Professional services.....	21,675	
Transfer agent, registrar and custodian fees.....	20,114	
Other expenses.....	33,448	
	\$403,930	
State franchise and other taxes.....	30,310	
Taxes on foreign income.....	25,864	460,104

NET ORDINARY INCOME (Note 2)..... **\$ 1,922,829**

NET REALIZED GAIN ON INVESTMENTS

NET REALIZED GAIN ON INVESTMENTS (Note 2)..... **\$ 3,143,585**

UNREALIZED APPRECIATION

At December 31, 1959..... **\$85,660,233**

At September 30, 1960 (Notes 2 and 3)..... **63,843,959**

Decrease..... **\$21,816,274**

(See notes on page 5)

UNITED STATES & FOREIGN SECURITIES CORPORATION

NINE MONTHS ENDED SEPTEMBER 30, 1960

CAPITAL SURPLUS

Balance, December 31, 1959 and September 30, 1960..... \$23,505,846

UNDISTRIBUTED NET ORDINARY INCOME

Balance, December 31, 1959.....		\$ 3,236,195
Net ordinary income for the period.....	\$1,922,829	
Dividends paid, \$0.45 per share.....	<u>1,489,867</u>	<u>432,962</u>
Balance, September 30, 1960.....		<u><u>\$ 3,669,157</u></u>

ACCUMULATED NET REALIZED GAIN ON INVESTMENTS

Balance, December 31, 1959 (net realized gain on investments from organization to December 31, 1959 of \$62,497,359, less dividends paid of \$59,452,588).....		\$ 3,044,771
Net realized gain on investments for the period.....	\$3,143,585	
Dividends paid, \$0.75 per share.....	<u>2,483,111</u>	<u>660,474</u>
Balance, September 30, 1960.....		<u><u>\$ 3,705,245</u></u>

NOTES TO FINANCIAL STATEMENTS

NOTE 1. Keswick Corporation, a wholly owned subsidiary, furnishes statistical and research services at cost.

NOTE 2. No provision has been made for federal income taxes on net ordinary income, on net realized gain on investments (on identified cost basis) or on unrealized appreciation, as the corporation has elected to be taxed as a regulated investment company and expects to distribute to stockholders substantially all such income and realized gain. Regulated investment companies are also permitted to retain part or all of net realized capital gain and pay the tax thereon on behalf of the stockholders. Should the corporation in the future decide to avail itself of this alternative, stockholders will be so advised.

NOTE 3. As a result of the present unsettled conditions in the Republic of the Congo (formerly Belgian Congo) the corporation's investments in Compagnie Generale d'Automobiles et d'Aviation au Congo and Filatures et Tissages Africains are currently carried at no value, as against an aggregate indicated value at June 30, 1960 of \$220,143.

SUPPLEMENTARY INFORMATION

Legal fees paid during the period to Shearman & Sterling & Wright, of which firm Charles C. Parlin is a partner, amounted to \$15,000.

Commissions paid to Robert Winthrop & Co., of which firm Robert Winthrop is a partner, amounted to \$7,976.

Excluding U. S. Treasury bills, purchases and sales of securities during the period aggregated \$782,149 and \$4,216,714, respectively.

UNITED STATES & FOREIGN SECURITIES CORPORATION

INVESTMENTS IN SECURITIES—SEPTEMBER 30, 1960

Indicated values are based on New York Stock Exchange or American Stock Exchange market quotations except those indicated by (†) which are based on over-the-counter market quotations and those indicated by (*) which are stated at fair value as determined by the Board of Directors.

U. S. TREASURY BILLS

	Principal Amount	Indicated Value
U. S. Treasury Bills, due Oct. 17, 1960	\$3,200,000	\$ 3,196,951
U. S. Treasury Bills, due Oct. 20, 1960	2,500,000	2,497,108
U. S. Treasury Bills, due Dec. 1, 1960	1,250,000	1,245,186
U. S. Treasury Bills, due Dec. 8, 1960	2,500,000	2,489,229
U. S. Treasury Bills, due Dec. 15, 1960	2,500,000	2,488,137
		\$11,916,611†

COMMON STOCKS

CHEMICAL AND DRUG

	Shares	
Abbott Laboratories	10,000	\$ 570,000
American Cyanamid Company	40,000	1,840,000
Dow Chemical Company	41,616	3,037,968
DuPont (E. I.) de Nemours & Company	17,000	3,136,500
Hercules Powder Company	35,000	2,590,000
Lilly (Eli) and Company, Class B	10,000	690,000†
Monsanto Chemical Company	40,800	1,489,200
Olin Mathieson Chemical Corporation	20,000	820,000
Pfizer (Chas.) & Co., Inc.	15,000	427,500
Schering Corporation	7,500	375,000
Searle (G. D.) & Co.	9,000	522,000†
Smith Kline & French Laboratories	50,000	2,225,000
Stauffer Chemical Company	5,000	242,500
Union Carbide Corporation	25,000	2,787,500
		\$20,753,168

ELECTRIC UTILITY

	Shares	Indicated Value
American Electric Power Company, Inc.	15,682	\$ 831,146
Central and South West Corporation	8,000	280,000
Florida Power & Light Company	7,000	399,000
Gulf States Utilities Company	11,000	379,500
Middle South Utilities, Inc.	44,000	1,298,000
Texas Utilities Company	20,000	1,520,000
Virginia Electric and Power Company	13,000	591,500
		<hr/>
		\$ 5,299,146
		<hr/>

MANUFACTURING AND MISCELLANEOUS

American Telephone & Telegraph Company	5,000	\$ 450,000
American Viscose Corporation	10,000	335,000
Eastman Kodak Company	21,000	2,331,000
General Electric Company	15,000	1,095,000
Goodrich (B. F.) Company	2,000	105,000
Goodyear Tire & Rubber Company	6,000	207,000
Halliburton Company	8,500	310,250
International Paper Company	10,404	910,350
Johns-Manville Corporation	20,000	1,020,000
Kimberly-Clark Corporation	10,200	800,700
National Lead Company	4,000	328,000
Owens-Corning Fiberglas Corporation	4,000	352,000
Pittsburgh Plate Glass Company	10,200	591,600
Procter & Gamble Company	10,000	1,135,000
United States Steel Corporation	5,000	367,500
Westinghouse Electric Corporation	10,000	490,000
Weyerhaeuser Company	10,000	320,000†
		<hr/>
		\$11,148,400
		<hr/>

MERCHANDISING

	Shares	Indicated Value
Federated Department Stores, Inc.	50,000	\$ 1,750,000
— Simpsons, Limited	20,000	560,000
		<u>\$ 2,310,000</u>

METAL AND MINING

— Aluminium Limited	125,000	\$ 3,625,000
Aluminum Company of America	12,000	840,000
— International Nickel Company of Canada, Limited	20,000	980,000
International Salt Company	6,000	597,000
Newmont Mining Corporation	18,000	1,062,000
Reynolds Metals Company	87,500	3,412,500
St. Joseph Lead Company	15,000	375,000
		<u>\$10,891,500</u>

NATURAL GAS

Republic Natural Gas Company	40,000	\$ 1,100,000†
United Gas Corporation	16,000	512,000
		<u>\$ 1,612,000</u>

OIL

Amerada Petroleum Corporation	155,000	\$ 9,610,000
Continental Oil Company	40,000	2,020,000
Louisiana Land and Exploration Company	130,000	6,435,000
Ohio Oil Company	20,000	660,000
Standard Oil Company of California	18,000	765,000
Standard Oil Company (New Jersey)	160,000	6,480,000
Superior Oil Company (California)	3,500	3,458,000
Texaco Inc.	57,222	4,177,206
		<u>\$33,605,206</u>

OTHER INVESTMENTS

	Indicated Value
Keswick Corporation (100% owned)	\$ 20,000
South-Headley Realty Corporation (100% owned)	150,000
Miscellaneous (See note 3)	7,450
	<hr/>
	\$ 177,450*
	<hr/>
Total	\$ 97,713,481
	<hr/> <hr/>

*To the Board of Directors and Stockholders of
United States & Foreign Securities Corporation:*

In our opinion, the accompanying statements present fairly the financial position of United States & Foreign Securities Corporation at September 30, 1960 and the results of its operations for the nine months then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year. Our examination of these statements was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances, including confirmation of the cash and securities owned at September 30, 1960 by correspondence with the depositaries.

PRICE WATERHOUSE & CO.

Newark 2, N. J.
October 14, 1960.

The CHAIRMAN. We are honored to have before us Gov. Abraham Ribicoff, the distinguished Governor of the State of Connecticut, the designate to be Secretary of Health, Education, and Welfare. You may proceed.

Before you do, I would like to say that we are honored by having the two Senators from Connecticut who, if they wish, may make a statement introducing Governor Ribicoff.

Senator DODD. Senator Byrd, I would like to make a brief statement to the members of the committee.

I consider it a very rare honor for me, and a great privilege, as well, to appear here with Governor Ribicoff to say to this committee that in my considered judgment we have here a man of extraordinary talents, and of a most unusual and remarkable record in government.

He has served in the legislature, the executive, and the judicial branches of his State and Nation. This is in itself unusual.

He was an outstanding member of our State legislature. He was a distinguished Member of the House of Representatives here in Washington; he was one of our most respected judges and, of course, he is now, and has been for 6 years, one of the greatest Governors in the long history of the State of Connecticut.

So he comes before you with this very unusual record. He is a man of unique executive ability and his success in working fruitfully with Republican and Democratic legislatures, his success in uniting the people of Connecticut behind progressive but prudent government is one of the most remarkable feats in the annals of our State.

I would like to say to Senator Byrd and the members of the committee that I would like to remain, but I am due at a Judiciary Committee hearing, and if I stayed longer I could not say more or anything more truthful than what I have said already.

The CHAIRMAN. Senator Dodd, we thank you for being here, sir, and you will always be welcome to this committee.

Senator DODD. Thank you.

The CHAIRMAN. Senator Bush?

Senator BUSH. Mr. Chairman, I welcome the opportunity to join my able friend and colleague, Senator Dodd, in presenting Governor Ribicoff to this committee.

The Governor has just concluded 22 years of almost continuous service to the people of the State of Connecticut, and has become recognized not only in our State but in the Nation as one of the ablest men in public life today.

I have had the pleasure, the privilege of knowing him as a friend and as a fellow servant of our people, and I say with great satisfaction that we have worked together closely and in friendship for the benefit of our people in connection with issues affecting their welfare, and so I can consider it an honor to my State and, obviously, a great honor to the Governor, that he has been selected by President Kennedy to assume this very high post in his Cabinet.

I believe that, as Senator Dodd says, his background qualifies him well, with his experience as legislator, judge, Member of House of Representatives and, finally, the Governor of our State.

I said yesterday at a luncheon that Senator Dodd gave for him that I was impressed with what the New York Times said editorially at the time his nomination was announced by Senator Kennedy.

The Times says that not only would the Governor bring to his post a wide background of experience which qualified him, but also he would bring heart. This is a department of our Government where, obviously, the chief executive of that Department must have a sensitivity to the needs of our people, and the Governor has well demonstrated that he does have that, and I thought the comment by the New York Times editor was particularly appropriate concerning Governor Ribicoff.

Mr. Chairman, I am grateful to the committee for the patience and for the privilege of letting me introduce the Governor.

The CHAIRMAN. Yes.

Senator BUSH. I submit, Mr. Chairman, a biography of Governor Abraham Ribicoff to be inserted in the record.

The CHAIRMAN. It will be inserted.

(The document referred to follows:)

BACKGROUND OF ABRAHAM A. RIBICOFF

Background: Born April 9, 1910, in New Britain, Conn., son of Samuel and the late Rose Sable Ribicoff; married to the former Ruth Slegel, June 28, 1931; son, Peter, 23, Alameda, Calif., high school teacher, and daughter, Jane, 19, student at Pine Manor Junior College, Wellesley, Mass.

Education: Educated in the New Britain public schools, attended New York University 1928-29, was graduated from the University of Chicago Law School with the LL.B. degree, cum laude, in 1932.

Public and professional life: Admitted to the Connecticut bar, 1933; elected on Democratic ticket as representative from Hartford to Connecticut General Assembly in 1938; reelected in 1940; judge, Hartford police court, 1941-43, 1945-47; chairman, Connecticut Assembly of Municipal Court Judges; elected Representative Connecticut's First Congressional District (Hartford County) 1948; reelected 1950; member of House Foreign Affairs Committee. Elected Governor of Connecticut (4-year term) 1954; reelected 1958; member, Governors' conference executive committee; chairman, Governors' conference highway safety committee (1956-58); chairman, Governors' conference roads and highway safety committee (1959-60). Appointed by President Eisenhower, a member of Advisory Commission on Intergovernmental Relations.

Honorary degrees: Amherst College (doctor of laws), American International College (doctor of humanities), Fairfield University (doctor of laws), Hebrew Union College (doctor of humane letters), Hillyer College (now University of Hartford) (doctor of laws), Trinity College (doctor of laws), Wesleyan University (doctor of laws) and Yeshiva University (doctor of laws).

The CHAIRMAN. Governor, the committee will be happy to hear any statement you would care to make.

STATEMENT OF ABRAHAM RIBICOFF, NOMINEE TO BE SECRETARY OF HEALTH, EDUCATION, AND WELFARE

Mr. Ribicoff. Thank you very much, Mr. Chairman and members of the committee.

First, I am very grateful to the distinguished U.S. Senators from the State of Connecticut, Senator Bush and Senator Dodd, for their kind remarks.

I have been able to work very closely with both these gentlemen for the welfare of the people of Connecticut, and I am sure that I will be able to continue so working with them, in case the Senate approves my nomination, for the benefit of the people of this Nation.

May I say at the outset, that I was born in New Britain, Conn., on April 9, 1910.

I went to public school in New Britain, Conn.; that I am a graduate of the University of Chicago Law School. I have been a lawyer, legislator, a judge, a Congressman, and a Governor.

I have been married for 29 years. I have a son who is a teacher in high school in the State of California, and I have a daughter who is a freshman in college.

As Governor of the State of Connecticut I am at the beginning of my seventh year. Should this committee report favorably upon my nomination, and should the U.S. Senate confirm my nomination, I would forthwith tender my resignation as Governor of the State of Connecticut.

As Governor of the State of Connecticut, I find that over 70 percent of the general fund budget of the State of Connecticut goes into the field of health, education, and welfare.

In 1960 the budget of this Department was some \$3½ billion; \$2.7 billion of that went to the States and territories and communities by way of grants; in other words, more than three-quarters of the Federal budget for this Department goes back to our States and communities.

The State of Connecticut has received in 1960 some \$21,000,000 by way of grants in this field and, therefore, it would seem to me that my experience as Governor, dealing in these important fields, would give me an understanding of the basic problems that I would have to deal with on a day-to-day basis in this Department.

I also feel that I have no interests whatsoever which would be in conflict with the performance of my duty as Secretary of Health, Education, and Welfare.

After this brief statement, I open myself to questioning by the committee.

The CHAIRMAN. Thank you. Thank you, Governor.

Senator Kerr?

Senator KERR. No questions.

The CHAIRMAN. Senator Williams?

Senator WILLIAMS. Governor, I have been interested in the recent task force report that has been submitted to the President-elect by Mr. Wilbur J. Cohen, as chairman of that task force, Mr. Cohen being from the University of Michigan.

Have you read this report?

Mr. RIBICOFF. Yes, I have, Senator Williams.

Senator WILLIAMS. Would you care to comment on it and outline your views in connection therewith?

Mr. RIBICOFF. Yes.

First, may I state that none of these reports that are going to the President-elect are considered binding by the President-elect on himself.

This report, and other reports affecting the Department, over which have been designated, was sent to me for my study. I read that report.

I have sent that report to the career people in the Department of Health, Education, and Welfare, asking them to give me a careful, most careful, analysis of the entire report, the history and background of the proposals; the positions for and against that have been taken on these proposals in the past; also the suggestions that they may make concerning this report.

When this report, when this analysis, is received by me, I will then, in turn, sit down with the career people in this Department and myself question them and analyze it.

After I have finished that analysis, Senator Williams, I will feel in position to make recommendations as requested by the President-elect concerning my views.

But I do not feel that until I have that complete analysis by the career people I should approve or disapprove the basic document.

Senator WILLIAMS. Do you have any fixed opinions in connection with the advisability of financing a medical program under the social security system?

Mr. RIBICOFF. May I say I do, sir. I do feel that health care for the aged should be financed basically under the social security system.

I think the matter needs most careful study. I talked to people who are on both sides. I have had an hour and a half conference with the top representatives of the American Medical Association as well as the top representatives of the labor unions to get their point of view. The President-elect, of course, is committed to such a program, and I would feel dutybound to back up the President-elect on that commitment.

Senator WILLIAMS. That is all.

The CHAIRMAN. Senator Douglas?

Senator DOUGLAS. Governor Ribicoff is an old friend. He has made a distinguished record in every office that he has held. I think we are all acquainted with that record. I think the country is very fortunate in having his services, and I believe in giving him a relatively free hand without quizzing him in great detail as to what his views are on specific issues.

Thank you, Mr. Chairman, but I shall not ask any further questions.

The CHAIRMAN. Senator Curtis?

Senator CURTIS. Governor, we are delighted to see you here.

Mr. RIBICOFF. Thank you, sir.

Senator CURTIS. And we appreciate your fine and frank statement.

I remember our days in the House of Representatives together. I have not checked your voting record, but I remember one vote, in particular, back there to create the Department which is now HEW—Health, Education, and Welfare—and I voted against it, and I believe the distinguished Governor of Connecticut voted against it at that time.

I do not know what your motives were, but I had a distrust of the medical program then being offered by Oscar Ewing who, from all appearances, was slated to be the new Secretary, and I was delighted that the bill did not become law.

Mr. RIBICOFF. Well, let me say this: I forgot that vote until a newspaperman called it to my attention the other day, and I thought about it and must say that is very ironical to have been designated for a department whose existence I voted against.

But if you will ask me why I voted against it I think, basically, this is the reason.

I have always felt, and still do feel, that we should expand our governmental agencies as little as possible. I have always been against the large expansion of bureaus and agencies, and I thought

this was the creation of another department, and I had an aversion for the creation of more and more departments.

However, this Department has now been in existence for 8 years.

It is an accomplished fact. The programs are important and necessary. I would hope that if I were confirmed by the Senate I would bring to my duties a look, a hard look, at every program that has been in existence for many years. Could these programs be better? Are all these programs necessary? Should there be new approaches? Should there be new ideas?

But I do recall that vote, and it is ironical, Senator Curtis.

Senator CURTIS. Now, in reference to the general field of social security, including medical aid, would you not recognize that one of the problems in social security legislation is that the real costs are deferred for some time before their full impact is felt by our people? Isn't that correct; isn't that the way it has worked out?

Mr. RIBICOFF. Yes, I would say that is correct.

I think this is an important problem, in this field, Senator Curtis.

I have given a lot of thought to the problems, to the philosophy and the development of all social security legislation.

There is a constant push toward the expansion of these fields, and there has taken place a juggling or a jockeying of position to take from the individual responsibility of his care to the philanthropic and charitable organizations to the cities, to the States, and then up to the Federal Government.

I would hope that to the fullest extent possible individual responsibilities for his own needs where he can possibly do so would be the philosophy that prevails.

I do not think that we accomplish very much when we keep shifting responsibility from one group to the other without accomplishing a positive and more constructive approach to our problem; and I think that we have to very carefully examine this.

I know this has been my experience as a Governor. The individuals bring pressures on the towns and cities and they bring pressures on the State for more and more grants-in-aid.

Now, the States are bringing pressures on the Federal Government.

If we are going to go into this field, as we are, because I understand the President's budget is some \$4 billion—President Eisenhower's budget is some \$4 billion in this field—we should at least make sure that we get as much value as possible out of every dollar we spend and make sure that there is an increase and betterment of services instead of merely juggling the responsibility from the individual all up to the Federal Government.

Senator CURTIS. I agree with the distinguished Governor on that.

Now, the point—and I shall not take a great deal of time this morning—the point I wanted to establish in the record is this: that the social security approach, having used the term "insurance" has been most misleading to the Congress and to the people, generally, and it has provided a gimmick for voting programs in that will be very burdensome 10 years from now, 20 years from now, and they are not felt right now.

For instance, our old age and survivorship program—survivorship is not—but our old age, under title II, has been in existence about a quarter of a century. Yet there are millions of people getting less because of the value of the dollar.

There are other millions of people, which can be revealed by the mail we all receive, who are thoroughly convinced that that is an insurance program, and that they have paid for everything they are getting, which is not true, it will be a number of years before they pay anything more than a token payment.

It is a tax upon young and productive people to pay a social benefit to somebody else now, and for many years the tax was very low, 1 percent.

I have received letters from very competent citizens who say, "I understand the OASI trust account has so many billion dollars in there. Why don't you raise our benefits?"

At the very time they were writing their letters, the trust account was such that it would not pay out the benefits of the people already retired, to say nothing of those over 65 who might elect to retire or will be 65 tomorrow or anytime in the future; and the same thing will be true in connection with this medical program.

I have known Mr. Cohen a long time, and I am not at all surprised to see that he is recommending a program that is going to do a lot of things for a quarter of 1 percent of payroll, and I think the time is here when public officials are going to have to give attention to the hidden and delayed costs in social security.

If the Congress never passed another bill, if we never increased benefits again, and we increase them before election just about every time, the social security tax would have to be increased a great deal, and I think it is misleading our people as well as a rather dangerous financing, and I just hope that the good Governor now before us, one experienced in State finances, and so on, will not only do as he says about holding costs down and the expansion of the bureaus—I thoroughly agree with that—but the biggest offense, in my opinion, of the social planners who have promulgated these social programs in the future has been that they have operated on a delayed and concealed cost, and that we have an obligation to young people who are just out of school, who are buying homes, who are paying bills, and so on, because upon them must fall the burden of carrying this program.

They are not funded programs, and the Federal Government cannot run a funded program.

If the Federal Government had a fully funded program it would be a question of what could they do with the trust account, and pretty soon dry up all the assets of the country.

But I do call that to your attention because I think that it is serious, and I think it pertains very much to the proposal to expand social security into the medical field, and the facts are, after 25 years we have not made a success of social security for old age benefits.

The cost of old age assistance has continued on, but we do add to the burdens of people not able to express themselves at this time.

Mr. RUBINOFF. Well, Senator Curtis, may I add this; I think it is the duty of every public official to disclose the facts, the full facts, upon which you are expecting the Congress and the people of the United States to act and pay the bill.

I think it is the duty of a Secretary to be truthful with the committees of Congress and the people.

Senator CURTIS. We appreciate that.

Mr. RUBINOFF. And should any measure come before this committee that comes from this Department, I would consider it my duty not

only to tell this committee and the American people what it will cost this year, but as this program progresses what it will cost in the future. One of the problems I have found, one of my most difficult, as Governor, is in trying to explain, even to a legislature, that a grant that is voted on today has a way of doubling in 4 years, and while you seemingly have the money to spend for the program today, you may not have it 4 years from now, and consequently, I do feel that there is a duty of candor from all of us in Government to explain the costs today and tomorrow of the programs that we advocate.

Senator CURTIS. Of course, we are dealing here with a program where we cannot project the cost of it in the future because we do not know what the next Congresses will do.

Mr. RIBICOFF. That is right.

Senator CURTIS. Now, is it not true that with regard to medical assistance for the aged or any other group that in the last analysis it comes down to this; individuals who cannot pay their medical bill and for the type of good medical treatment that we want them to have, that the only place to turn to get that paid is to have somebody else pay it? Isn't that not correct?

Mr. RIBICOFF. I would say that when somebody else is to pay it, the bill, of course, eventually falls upon all of us as a burden, a bill of that nature will fall upon all of us as taxpayers.

Senator CURTIS. It falls upon those who are able to produce, to earn and have an income.

Mr. RIBICOFF. That is true, except—

Senator CURTIS. That is the inflationary part falls on them, and I believe that Mr. Cohen is totally wrong in saying to the world, "here is an easy way for people of middle income, higher middle income, of wealth income, to solve all of the health problems and do it for a quarter of 1 percent."

It will grow and grow and grow and it will be a burden upon every young fellow who starts out with nothing and has to work with his hands to acquire his home, to create savings and the like, because it is elementary that just merely by projecting a plan in the future does not get away from the proposition that these bills are paid for those unable to pay them, by those who can, and we have had no success, and it could not work out that way, in making OASI a type of program where the recipient bought and paid for his benefits. It is not that at all.

A great many of the beneficiaries who are drawing social security now that has a total accrued value of upwards of \$20,000, few have paid less than \$100, many of them have paid less than \$500, and probably the average have paid less than \$1,000.

I know they are good people, but they do not realize that that check coming to them in the mail month after month is taken out of the toil and the payroll checks of the people now working, and the people now working are not building up a reserve for themselves; they are being taxed to pay these benefits.

So I hope that the career people, as well as the Secretary—and I am delighted that the Cohen report will receive careful study—will look at it in the light of its real costs, and also that they will give some attention to this premise: if we are going to tax the young fellow working in the grocery store or the machine shop or on the

small farm, if we are going to tax him to pay the medical bills of others, whose medical bills should be paid?

Should we pay the medical bill of the individual well able to pay it himself?

Now, there is no magic in the Government whereby the Government can do this for him. If we adopt the Cohen plan, it is the same thing as the Forand, we will be saying to all these young people who are raising families and carrying the burdens of the world:

"We are going to reach farther into your income to pay medical bills of people who are well able to take care of them," not all of them.

I think every American wants those who are not able to do it to have such medical care. I realize that in the political arena, in the campaign, whether it is for the House or the Senate or for the Presidency, there is an element of rush, and there is also the element of making an attractive appeal of something.

But this health program should be approached on its true basis, that you are going to put a burden on the productive segment of America to pay somebody else's medical bills, and you should ask the question whose bills should we pay.

I beg your pardon for taking so much time. I do not expect detailed answers or any comment of yours that you might wish to make, because it will be unfair until you are in there and called upon to make recommendations in due course.

That is all.

The CHAIRMAN. Senator Gore?

Senator GORE. Mr. Chairman, I had the pleasure of serving in the House with Mr. Ribicoff, along with Senator Curtis.

I would unhesitatingly say that their votes against the creation of the Department of Health, Education, and Welfare were in error, except that I am not sure how I voted. [Laughter.]

I am going to look that up, Mr. Ribicoff, before I brand you for your vote.

I have listened with interest to the colloquy between you and Senator Curtis on the question of health care.

Do you think that it would be fiscal soundness or fiscal folly to neglect our education?

Mr. RIBICOFF. I would say that one of the greatest problems facing us as a people is in the field of education.

This is a problem that will come before us with increasing insistence.

As Governor, again, we have been bucked up from the cities to the State.

Our great problems in the field of education exist in Connecticut and every other State and then, of course, now the demand from the States to the Federal Government. I think that there will be a requirement for Federal funds in this field.

However, let me say this, Senator Gore, that I do not think that all problems can be solved by the expenditure of money. While money is needed for certain phases of improvement, there is much that can be done for the national purpose in the field of education that will not take any money.

It is a question of leadership, it is a question of discipline, it is a question of study habits, it is a question of programing, it is a question

of dedication, and it is a change of philosophy of what we do and how our young people approach their tasks.

But here again is a problem that we are going to have to wrestle with as a nation. The President will have to wrestle with it, I will have to wrestle with it, as Secretary, and Members of the Senate and the House will have to do likewise.

The Hovde Committee, as the Cohen Committee, consisting of distinguished educators, made recommendations to the President-elect.

This program, too, was given to the career people for an impartial analysis for my benefit, because they make recommendations in fields that I do not know at the present time. But I would hope to address myself to these problems and give it as much study as I can, and hope to be able to come up, after talking to all the experts on both sides of every question, with recommendations, following through the President's program, that I feel will make important contributions for the Nation as a whole.

Again, I do not think we accomplish anything in America if we just shift the burdens everywhere, from one pocket to the other, unless in the process of doing so we get more value for what we are spending.

There is a basic philosophy.

You cannot spend more money than you take in. We should try to get full value for every dollar we spend. Better education is a problem that will plague you as well as myself and will concern every thinking American for the future.

Senator GORE. I was interested in your philosophical discussion of the problem of education and its relative position. Obviously, you are correct in that money does not solve all problems, if indeed it really solves any problems.

But so long as we have a system in which the inventor of the best mousetrap lives in a mansion and, perhaps, the author of an immortal poem in a hovel, we do have the problem of values, the assessment of values, our sense of values.

It seems to me that since you approach it in that way, that one measure of using incentives is to give greater rewards to intellectual achievements and cultural contributions.

So long as the system remains whereby the driver of a trailer truck from Atlanta to Chicago will earn two to three times the annual income of the principal of the high school, we will have greater and greater difficulty attracting the imaginative, provocative brainpower into the teaching profession.

Mr. RIBICOFF. I agree. I think the key to education is a dedicated, inspired teacher and a willing and able pupil, and I do believe that one of the problems we must address ourselves to in the field of education is how do we attract our best and brightest people into the field of education where they give of their time and of themselves, and yet pays the teacher enough money to get married and support a family without having to take a job in a store on the weekend or do laboring work in the summertime.

I understand that problem. My son is a teacher and I am very proud he is a teacher. Many teachers teach not for monetary reward alone, but because they love teaching and they love young people. One of the key problems is how do we develop more and better teachers.

I have always felt that—and I have said this in my own State time

and time again—that you do not get an education from a fancy chair or a bright light fixture and a fancy face brick. Good education still must come from the dedicated and able teachers, which is one phase. We have the other phase, what type of leadership do we need to have more willing and able pupils. It is going to take both sides of this to develop our educational system.

Education is a field in which I am deeply interested, and I hope in my own way to be able to make some contribution in this field, Senator Gore.

Senator GORE. Of course, as you have said, education is, in large measure, the result of self-promotion, but the essential ingredient is a good and an inspiring teacher. There can be no good class without a good teacher.

Mr. RIBICOFF. That is right.

Senator GORE. However adequate the building may be, however scientifically arranged the lighting of the room, unless there is a good teacher, that cannot be a good class.

This again comes down to the problem of how do we give to this Nation's educational system a surge to excellence? Would you have any specific recommendations in mind or do you wish to give this further consideration before submitting a program?

Mr. RIBICOFF. Well, I would say that it would be unfair of me now. I know that this is uppermost in the mind of the President-elect. I have spent much thought on it, and I think it is my duty as a Secretary-designate not to make a detailed comment until the President-elect adopts his programs and makes his decisions.

But there has been a considerable amount of research that I am undertaking now. I have not completed my research and I have talked—I would say, since I have been designated to this position—I have talked to over 100 people in every phase of education to get their ideas.

I have talked to them in Hartford and in Washington and in New York about almost every phase in the field of education. I have had many philosophical discussions so as to get their points of view and better understand what the problem is, not only in Hartford, Conn., but what the problem is basically across the Nation. I would hope that there would be a good program and plan, and my thinking will be submitted, in due course, to the proper committees of the Congress.

Senator GORE. Have you advanced to the point of being for or against Federal aid to education?

Mr. RIBICOFF. I would say, sir, that I am for Federal aid to education. The President is for Federal aid to education, and I stand behind the President-elect in this field.

Senator GORE. Do you concur in the view, which I at least hold, that the very survival of our Nation in the long run depends upon the quality of its education?

Mr. RIBICOFF. I do, sir.

Senator GORE. Thank you, Mr. Chairman.

The CHAIRMAN. Senator Hartke.

Senator HARTKE. Governor, I want to comment upon one thing the President-elect did, and I think he was very wise in going to Purdue University to pick Dr. Hovde as heading his task force group in this field of education, not only because he is a distinguished Hoosier but,

being a Republican, that makes it all the more in the nature of having a bipartisan flavor, and having the high idea of trying to see what we can do for young people.

I come from a family replete in the education field. My father was a teacher, and my wife, before she started raising our family, was a teacher, and my sister is actively engaged in education now, and I was glad to hear of your interest in this field.

I was wondering though, whether in your mind you felt that we, in America, in recent years have done enough to really meet the challenge of the future which is going to come to us as a nation in this field of education?

Mr. RIBICOFF. I do not know what you mean by, "Have we done enough?"

Senator HARTKE. Let me not keep you in the dark. Let me say this to you: We have a high rate of unemployment at the present time in the United States. The No. 1 group which causes chief concern are the so-called dropouts from high school.

Do you feel we have done enough to provide the incentive to keep these children in high school, and do you feel that more can be done to encourage our young people to, at least, finish their high school education?

Mr. RIBICOFF. I would say, sir, of my own experience, that this again goes to the very root of American purpose, leadership, programming, dedication, the proper use of our students.

Some students do not have the will or desire or capacity to go further. I have always felt that we should give opportunity to develop to the fullest limits of each individual's capacity. Some people who go to high school should be in vocational schools. They have no interests, no desire or they do not have the ability to just pursue the liberal arts or the sciences, but yet they could be wonders to use their hands in our trades, in our vocations, on our farms.

I think that we have to be able to siphon or direct that energy to the trades and vocations.

Now, if we find a brilliant young man who will be a great scientist or musician or a poet, we must do everything that we possibly can to see that his capacity is developed.

There are great problems in the field of education. Some of the greatest problems in the field of education are in our big cities. There has not been too much talk about the problems in our big cities.

Some of the deepest, some of the gravest and some of the worst situations are in the big cities of America, and when you mention Dr. Hovde, may I say, frankly, I met him for the first time a few weeks ago, and few men have impressed me as much as Dr. Hovde of Purdue; and he is sound, he has his feet on the ground. There is a recognition by many top educators that we need something else besides money.

The feeling is that there has been drift, there has been lack of purpose, there has been lack of leadership in the curricula, the lack of inspirational leadership, to make young men want to study, to make young men and women want to improve themselves, to make young men and women have a greater purpose in life and a greater dedication. If we think as a people that we are going to solve all our problems by money alone, we are going to be sadly mistaken.

We are going to have to have more money for education, but I think, as a nation, in our States, in our communities, we are going to have to give additional leadership for excellence, and this is a very complicated and a very tough problem. It is not an easy one, and the solution to it will not be easy.

SENATOR HARTKE. What I had in mind is whether or not we had been doing enough in this field, and you have indicated by your answer you feel we have not, evidently, to try to accommodate these people. But in my opinion, it is still—if you are going to satisfactorily remove this problem we now have on the market, so to speak, in the labor force, a group of people who are ill prepared to provide for themselves; and I suppose the most expensive commodity in America is an unemployed man. I would hope that we could see the vision in this administration under your type of leadership, about which you have talked, to think in terms of Jefferson who thought in terms that every child in America should have the right to an education, and in terms of those who conceived the GI bill of rights which, in my opinion, were the greatest attack upon mass unemployment that this country has ever conceived.

It is true that you may not touch all the gifted, but you must at least attack this thing on a mass basis, and although I would agree with your philosophy that we might want to do something for those exceptional students, I think that unless we attempt ourselves to do something for that large mass of people now who are on the scene, and who are coming rapidly, more rapidly, on the scene every year, that something is going to have to be done or we are going to have what Senator Curtis does not like. And somebody is going to have to pay for the bill, because somebody is going to pay for an unemployed man.

I know that my brother gave up teaching for one very simple reason. You say money is not the answer, but he gave it up because he could not provide for his family—their needs—and the necessary funds for their education to require them to even teach our own children, on the salary that a teacher receives today.

MR. RIBICOFF. When I said, I believe that teachers are inadequately paid—I believe that teachers should get better salaries. But again I want to make it clear that if there is lack of will and lack of desire, and the lack of opportunity, just putting money into something won't improve it. This is what I am pointing out, and that besides I would hope that whatever we develop, whatever programs on a local, State, or National level, we will always keep in mind not just spending more money, but how are we going to develop the desire, the opportunity, the will in these young people to want to learn, to want to achieve excellence, to use the uppermost limits of this own individual capacities instead of letting them wither on the vine, and there is going to be, and this is going to take, a lot of hard work, and a lot of good leadership, Senator Hartke.

SENATOR HARTKE. I can understand that, and I am certain you can provide that type of leadership to us in this field.

MR. RIBICOFF. Thank you.

SENATOR HARTKE. I would like to know one other thing in this field. Do you feel we have done enough in the field of taking care of the advanced education of our young people who are now and at the present time find themselves unable to go into college because strictly of this matter of lack of finances? Do you feel we have done enough

in this field or do you think more should be done, without any definite indication of the approach as to how it should be done?

Mr. RIBICOFF. Well, again, I think, more is going to have to be done. Yet I think there is much more that can be done with some hard thinking that will not require just giving people money to go to college.

A lot of us worked our way through college and got an education, and I imagine many of you here and myself.

Senator HARTKE. I did that.

Mr. RIBICOFF. We are going to have to think more of bringing the colleges into the communities, the expansion of the community college, where young men and women can still live at home instead of having the expense of a campus living, where the mother and father can still give them the same room and board they had while in high school, and have colleges within commuting distances, to encourage more night schools or more after work schools.

Again, if there is not this will and desire for excellence in an education, you are not going to be able to spoon feed the American people to an education if you do not inspire them.

Now, I would say that what we must make sure, especially in the scientific field, the field of medicine, in the field of higher education, where a young man or woman, because of the nature of his studies—take in the field of medicine, a young man going into the field of medicine is required to work and study from early morning to late at night. This boy does not have time to wait on tables. This boy does not have time to get a job after school or do the errands around the campus.

Now, we do not want to lose a brilliant young man to the field of medicine or the field of science; and I think this is where, in the field of higher education, we should encourage fellowships and scholarships to build up the national reservoir of ability and the national reservoir of will and excellence.

In this field there are a lot of things we want; there are a lot of things we need.

We are only going to have so much money, and it would be my hope that once we know how much money we have that we will try to establish a system of priorities. We cannot spend for everything that we would like to have and, therefore, we are going to have to determine what is X, how much money do we have to spend.

When we do, I would hope that there would be a system of priorities as to which is the most important for the national interest at any given time, and once we have established that list of priorities, then determine the amount of money, that recommendations should be made to the Congress of the United States on the basis of the priorities as we see it and then, of course, it is up to the Congress of the United States to determine, first, whether we have the money and, secondly, whether it goes along with the recommended priorities.

Senator HARTKE. I quite agree with your concern about the financing. But don't you think that the most expensive thing we can do is fail to educate our young people?

Mr. RIBICOFF. That is right.

Senator HARTKE. I mean this is the expensive thing.

Mr. RIBICOFF. That is correct.

Senator HARTKE. And in the long run unless we have proper education for our youth—unless that is the emphasis—we will not have to

worry about the excellence of our youth. We will deteriorate underneath, and Russia will make an easy prey of us.

Mr. RIBICOFF. We should do everything to encourage the fullest use of the intellectual and physical capacity of our people.

Senator HARTKE. I would think we are properly in agreement on this. I just want to get this in proper perspective.

Do you feel also that we have done enough in the field of health, particularly, for example, in the field of heart disease and cancer?

Mr. RIBICOFF. I would say that Congress has done well in this research. I believe that last year you appropriated something like \$400 million in this field.

Whether we have done enough I cannot tell you, but I would like to find out whether we are using the results of our research. Are we sending our findings into the country? This is something that I want to look at.

Our needs are great. I cannot tell you, Senator Hartke whether we are doing enough or not, but I would hope that after I was in that department and had studied it, I could then answer that question for you, and I will try to give you an honest answer.

Senator HARTKE. Let me say this: when I am talking about doing enough, I am not talking about spending enough money, and I would hope that you would keep your feet firmly on the ground financially. But I hope you will keep looking for those stars up there, and I would hope that you would feel in your own mind that we have not really done enough in any of these fields, because I do not think we have done enough, and I think we are capable of doing a lot more, and I think all you have to do is to stir the imagination of the American people, which I am sure you are able to do, as you have done in Connecticut, and stir them up to greater enthusiasm and greater drive, and not let these side issues about what we are going to do about the moment of the day worry us so much. Because when we worry too much about today, why there may not be a tomorrow which will be worth while living.

I think you will do that. I know your reputation is all right.

Mr. RIBICOFF. Thank you very much Senator.

The CHAIRMAN. Senator Carlson?

Senator CARLSON. Mr. Chairman, Governor, I personally think you are coming into this position as Secretary of Health, Education, and Welfare with a very fine background. You have had service in the legislative branch, House of Representatives, you have also been the Governor of a great State, and having served in both of these bodies myself, I am somewhat familiar with the problems, and I know some of the problems that you have had to meet in the educational field and in the social welfare field as Governor of your State.

I have one or two thoughts that I want to leave with you.

The social security program is 25 years old; it celebrated its anniversary last fall, and during that period the people in the industrial areas of this Nation were covered. It began 25 years ago and, therefore, you served as Governor of a State with a greater percentage of people having had more years of coverage than farmers in the agricultural areas, whose coverage only began 3 years ago.

Now, in dealing with the medical care program for the aged, we are going to be confronted with this problem, and I hope you have given it some thought or will give it some.

In these areas in the agricultural sections where we have not had the benefit of these many years of coverage, we have people who have reached 65 and are past 65, not qualified. What provision are you going to make to take care of these people who will not be eligible and cannot ever become eligible for social security payments for medical care?

Mr. RIBICOFF. Senator Carlson, I do not know. However, the point that you raise is a point that I think we have got a duty to address ourselves to.

I do not have the answer, but I do understand the position that you are making, sir, and this is something that I will try to find out and try to come up with a suggestion.

Senator CARLSON. Well, I would assume, and I am sure you would agree, that any citizen of this Nation, whether he is under social security or not, who reaches the age of 65 or whatever age we agree on, is equally entitled to medical care whether he has been privileged to be covered by social security or not.

Mr. RIBICOFF. That is right; I do.

Senator CARLSON. It is one of the problems that greatly concerns me in this program, and I am sure you are going to give it every thought. This committee has wrestled with it. It is one of the problems we have.

I have one other question, and it deals with education. I know you have had that problem, too, because you have State aid for elementary and high schools, which we have in our own State.

As a matter of fact, I sponsored legislation for that as Governor of Kansas.

Assuming that the Federal Government does vote funds for Federal aid to education, would you favor the Federal funds being handled or distributed through the State agencies, such as your State public superintendent of instruction or your State board of education or whatever your State agency is, or would you want it handled directly from the Federal Government to the schools?

Mr. RIBICOFF. I would say, Senator Carlson, I would be definitely against having the Federal Government make a distribution.

I would like to see this done, if it were passed in the simplest and easiest way possible. Whatever the formula should be, I would hope to evolve a formula where the check can go into an envelope to the commissioner of education of every State for distribution by the commissioner of education in every State to his communities throughout the State, and maybe a bird dog look at it or an auditor once in a while, but I do not want to set up a great Federal bureaucracy in any field, and especially in this field, to try to handle the money to the States.

I would say education is a State function, it should remain a State function, and if the Federal Government goes into it, it should go into it on the simplest, cleanest way possible. I believe my philosophy here is consistent with yours, Senator Carlson.

Senator CARLSON. Governor, I assure you it is; and I thank you very much for that statement. That is all, Mr. Chairman.

The CHAIRMAN. Senator Douglas?

Senator DOUGLAS. Did the chairman wish to ask any questions?

The CHAIRMAN. No.

Senator DOUGLAS. I had not intended to ask any questions or make any comment, but in view of the questions or comments from our friend, the Senator from Nebraska, I wonder if I might be privileged to ask a question or ask for some comment?

Governor, do you have any estimate as to the percentage which administrative costs form of the annual contributions under old age security, under the insurance program? Do you know what the administrative costs of old age are?

Mr. RIBICOFF. I do not. But I would say they are very small.

Senator DOUGLAS. That is my understanding, that they are appreciably less than 5 percent.

Mr. RIBICOFF. I would say that they could be around 2 percent.

Senator DOUGLAS. Two percent?

Mr. RIBICOFF. I am not sure, but—I think they are very low.

Senator DOUGLAS. In other words, the amounts paid in under social security will be ultimately distributed to beneficiaries, subject only to a very minor deduction for administrative costs.

Mr. RIBICOFF. I would say that the way that program is set up, as I understand it, and again I am going to have to see it—

Senator DOUGLAS. Yes.

Mr. RIBICOFF (continuing). It is probably a lower percentage of overhead and deductions than practically any program in private or public industry comparable to it.

Senator DOUGLAS. Well, now, is it not true, without any reflection upon the private insurance industry, that the private insurance companies which sell so-called insurance against a loss of earnings or medical costs, and which collect their premiums either on a weekly or a monthly basis, have relatively high administrative costs?

Mr. RIBICOFF. I would—well, coming from basically an insurance State—

Senator DOUGLAS. I understand that.

Mr. RIBICOFF (continuing). I would say that I cannot conceive of any private insurance company having lower administrative costs than the social security system.

Senator DOUGLAS. Now, it has been some years since I went into this matter, but when I did go into it, which was 20 years ago, the administrative costs of the companies were very much more than a third, 33½ percent, and I found some costs which, as I remember it, were roughly over 40 percent.

Senator CURTIS. Will the distinguished Senator yield briefly for a question?

Senator DOUGLAS. May I be permitted to develop this? I did not interrupt the Senator from Nebraska, who had considerable comment, and after I do that I will be glad to yield.

Senator CURTIS. Yes.

Senator DOUGLAS. But there was a very thorough study made in Great Britain on the subject which showed administrative cost that were approximately 42 percent.

Now, I am not going into the question at all as to whether these costs are excessive or not.

I would merely like to raise this query: Is it not true that the amounts paid in under old age, security go almost entirely to the beneficiaries: is that not true?

Mr. RIBICOFF. That is my understanding.

Senator DOUGLAS. There is a minimum of overhead in administrative costs.

Mr. RIBICOFF. That is my understanding.

Senator DOUGLAS. I think the facts bear that out.

The Senator from Nebraska emphasized the fact that people will not benefit in precise proportion to their contributions. This is true, although everyone who contributes will ultimately benefit, but not necessarily in proportion to the contributions.

Now, the practical problem which we face is the problem which the Senator from Kansas has properly called to our attention. When a system is started the people who are already aged, and others in middle age, if the benefits are confined to the actuarial equivalent of the contributions which people will have made, will get no benefits because they will have made no contributions. And those who are in the fifties will get very slight benefits because they will have only a few years to make contributions.

So I was greatly pleased when our good friend from Kansas called attention to this fact. Is there not, therefore, a social obligation to take care of what I believe the insurance people call accrued liabilities?

These are really accrued liabilities that should be taken care of, and the only way to really take care of them is either through a general system of taxes, which I think our friend from Nebraska would oppose, or from the social security system in which the oncoming generation assumes the liability of the people who have not been similarly protected in the past.

Mr. RIBICOFF. I would like to say it is very obvious, Senator Douglas, after listening to you and Senator Curtis, I well realize that is one of the toughest problems I have. [Laughter.]

Senator DOUGLAS. I merely wanted the record to show that there was more to this issue than our good friend from Nebraska would include.

Senator CURTIS. Would you yield now?

Senator DOUGLAS. Surely.

Senator CURTIS. Governor, it is quite a different proposition ascertaining the date of the birth of an individual to find out when he reaches 65 and ascertaining whether or not he is totally and permanently disabled; is it not?

Mr. RIBICOFF. I would say so, yes.

Senator CURTIS. Now, one other question, and then regardless of how I might further be brought into this, I shall not take any more of your time.

The Forand bill and similar bills would bring medical benefits now to our aged who have qualified for title 2 benefits under OASI.

Have those people made any contribution in the past toward medical care through the social security system?

Mr. RIBICOFF. No. I would say that this is actuarially—this would be a new program, and the people in the past have not. They have paid for a different type of fund. You would have to be starting a new fund and taking care of the progression of people as they come in.

Senator CURTIS. The bill that was before us last year would have made eligible for medical benefits now people who were social security beneficiaries.

Mr. RIBICOFF. I believe so.

Senator CURTIS. But those people have not made any contribution through the social security system for medical care, any more than the person who was too old to earn credits under the social security or was engaged in an occupation, such as my farmers.

Mr. RIBICOFF. Of course, this is the great philosophical difference between the Senator from Nebraska and the Senator from Illinois, and I recognize one of the knotty or one of the knottiest problems to be is the one raised by Senator Carlson of Kansas. If you have such a program, what do you do for those people who have not been covered at all? In a sense of fairness, if you say, people are being brought in now because they have had social security without making additional contributions, can you neglect the people in Kansas who are just being brought into the situation—on a sense of national fairness and treating all peoples equally?

You have raised one of the most difficult and toughest problems, Senator Carlson. It deserves thought and consideration from a sense of fairness.

Senator CURTIS. I agree with my colleague from Kansas wholeheartedly. As a matter of fact, that is true of all of the agricultural States.

But the point I am trying to make is this: that the farmer who has been under social security 3 years and has had a crop failure 3 years and has paid nothing, or the individual who was too old to go to work when the Social Security Act was passed 25 years ago have paid just as much into the social security fund for medical care as the qualified beneficiaries, which is zero, yet the bill before us last time was distinctly class legislation, to give it to the qualified beneficiaries and no one else.

Mr. RIBICOFF. If you would adopt the philosophy that you would want to take care of our aging population who have problems of health, then I think that you have to go all the way. I think that there could be a meeting of the minds; I do not know.

But I think when the Kerr-Mills approach, which would take care of people not under social security, and then you add the social security approach, then you might find a bridge in the Kerr-Mills approach and the social security approach. I think there is something here.

Do I have the formula now? I do not have it, but I am sure going to try to see if I can find it.

The CHAIRMAN. Senator Talmadge?

Senator TALMADGE. Mr. Chairman and Governor, I regret that I was late in getting here. We had a meeting of the Agriculture Committee at the same time, and I did not get an opportunity to hear all of your testimony.

All that I have heard about you from mutual friends and my own independent investigation has been very good.

I have heard a little of the testimony here with Senator Carlson and Senator Curtis and also Senator Douglas.

There has been, of course, a great deal of talk by members of the medical profession and many others about socialized medicine. I voted for the bill that was devised by this committee, principally authored by Senator Kerr, primarily because social security would not take care of the people who had the greatest need, as I saw it, not only in Georgia but throughout the Nation, and they were the people who had no social security entitlements.

Would you come before this Congress at any time and advocate any legislation of any kind and character that would deny a doctor the right to choose his patients under any circumstances?

Mr. RIBICOFF. For this I can answer you very easily. First, I am against socialized medicine.

I want to choose my own doctor, and I want every man and woman to be able to choose his doctor.

Frankly, I think the name of the bill "Medical Care for the Aging" is a misnomer.

The bill that I have got in mind, I think, even the Anderson—Kennedy-Anderson—bill had nothing to do with doctors. It had provision to take care of hospital, nursing, nursing homes, and a few other incidentals that do not involve the doctors.

In any bill that I would present I would not include physicians. It does not cover doctors.

I would want there to be definitely free choice for the individual, whether he came under the Kerr-Mills approach, under the social security approach, to always have the right to choose his own doctor, to always have the right to choose his own hospital, to always have the right to choose his own nursing home, and to always have the right to choose his own nurse.

I believe in this, and I would not advocate the so-called socialized medicine approach.

I believe that the time has come to stop calling it medical care for the aging and call it the name it deserves, health care for the aging, because doctors are not contemplated to be covered in the bill that we are talking about.

Senator TALMADGE. Would you favor a plan where it would not be compulsory, where it would be optional, for citizens to determine whether they wanted their health benefits with the Government or a private source?

Mr. RIBICOFF. Well, this, if it is under the—I think here we have a basic difference. If it is the social security approach, I assume that it covers everybody under social security, Senator Talmadge.

Senator TALMADGE. The thought would then arise as to a wealthy person who, perhaps, has resources to select any doctor or any hospital that he sees fit, why would you compel him to take his medical insurance through the Federal Government instead of somewhere else?

Mr. RIBICOFF. Let me say this: I would always be willing to entertain an idea of how what you are talking about could be done to exclude such an individual.

Senator TALMADGE. I did not get that.

Mr. RIBICOFF. I would always be willing to entertain a formula for writing into a bill or discussion or passage of how this could be done and excluding that type of individual.

Senator TALMADGE. For instance, as I understand it, it is optional with ministers whether they come under social security or not. That is the only profession I know of offhand where it is optional; is that correct?

Senator KERR. Correct.

Senator TALMADGE. Would there be any objection to making it optional with the citizens in this health care plan?

The main argument, as I see it, that the opponents of the social security approach make is why should they be compelled to carry their insurance with the Government against their will?

Mr. RIBICOFF. I indicated, I am not trying to avoid your question, Senator Talmadge, but before you came into question, I indicated that I did not have all the answers. I mean, I have been sitting on the Governor's side of it instead of a Senator's side of it or Secretary's side of it, and I have asked the career people in the Health, Education, and Welfare Department for a complete analysis of the pros and cons to every approach, the arguments for it and against, and the suggestions, and I would hope to be able to come forth with a measure that could help solve many of the dilemmas, and many of the questions that are raised. I do not have the answer, Senator Talmadge, to all the questions that you raise now.

Senator TALMADGE. I have no further questions, Mr. Chairman.

Senator GORE. Mr. Chairman, if I may.

The CHAIRMAN. Senator Gore.

Senator GORE. If you succeed in making available to us the luxury of option, perhaps you could extend it to me in the case of education.

My son goes to a private school here in Washington, but I still pay taxes in Tennessee to support the public school system. So this luxury of option can go into many directions, and can become quite advantageous to many of us.

But if we have a social security program I would fully expect to pay my fair share, and hope also that I am never a beneficiary of it, of necessity.

Now, you say that—

Senator TALMADGE. May I interrupt at that point? I understand that it is, that the responsibility of paying taxes always carries with it the right to draw benefits. If you do not pay the taxes you would not be entitled to benefits. [Laughter.]

Senator GORE. This is the nearest to an argument that my friend and I have ever had. [Laughter.]

Now, you said you wanted to be free to choose your own doctor?

Mr. RIBICOFF. Yes, sir.

Senator GORE. And I affirm Senator Talmadge's sentiment that the doctor should be free to choose his patient. I want to enjoy that same freedom.

That is not the crux of this problem at all. The crux of this problem is the availability of medical care or hospital care, whether we have enough doctors, an adequate number of nurses, hospitals, nursing homes; then whether those who need the care have the money to pay the fees.

This leads to the necessity of providing the service, and I think some standardization of fees. If you will come back to the Senate when we are debating this question we will give you a full education.

Mr. RIBICOFF. I would say, Senator Gore, I have gotten as good an education in this hour or two that I could possibly get in this field. I have learned the different philosophies and approaches of this committee, and probably the Congress of the United States, which should be very, very helpful to me in trying to put together a program to bring here.

Senator GORE. Well, I would like to make one other observation, and then I will quit.

Senator KERR. Would the Senator yield?

Senator GORE. Well, yes.

Senator KERR. Wouldn't you make that first statement without partially impairing it with the latter?

Senator GORE. I would not deny you anything, so I may have something else to add.

I could not help but wonder when Senator Hartke was adjuring you to taking actions which would stir all of us to vigorous activity, if Senator Byrd was very stirred? [Laughter.]

The CHAIRMAN. I do not get too excited.

Senator GORE. That is all.

The CHAIRMAN. Governor, we want to thank you, sir, for a very fine presentation, and I am especially pleased, informed, and interested about your discussion with respect to the respective power of the local government, the State governments, and the Federal Government.

I think you have made one of the most impressive presentations I have heard of the fundamental principles of our Government. I hope they will get general circulation.

It has never been my custom to predict what the Finance Committee is going to do, but I think I can do so in this case. I predict that you will get a unanimous vote from the Finance Committee and you will get a unanimous vote from the Senate of the United States.

Mr. RIBICOFF. Thank you very much.

The CHAIRMAN. In recognition of the fact that you are one of the ablest appointments to the Cabinets that I know of in recent years.

Mr. RIBICOFF. Thank you.

The CHAIRMAN. I would like members of the committee to remain because we have a bill here to take up.

Thank you very much.

Mr. RIBICOFF. I thank the committee for their courtesy.

(Whereupon, at 11:35 a. m. the committee adjourned.)

