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**PUBLIC DEBT CEILING**

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**HEARINGS**  
BEFORE THE  
**COMMITTEE ON FINANCE**  
**UNITED STATES SENATE**  
EIGHTY-EIGHTH CONGRESS  
FIRST SESSION  
ON  
**H.R. 8969**

AN ACT TO PROVIDE FOR THE PERIOD ENDING JUNE 30, 1964,  
TEMPORARY INCREASES IN THE PUBLIC DEBT LIMIT SET  
FORTH IN SECTION 21 OF THE SECOND LIBERTY BOND ACT

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NOVEMBER 18 AND 19, 1963

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Printed for the use of the Committee on Finance



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# CONTENTS

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	Page
Text of H.R. 8969.....	1
WITNESSES AND EXHIBITS	
Dillon, Hon. Douglas, Secretary of the Treasury.....	1
Public debt subject to limitation, fiscal year 1964.....	2
Sales of mortgages and other financial assets.....	6
Interest payments on the public debt and interest rates as of selected years.....	23
Gordon, Hon. Kermit, Director, Bureau of the Budget; accompanied by Charles L. Schultze, Assistant Director, and Samuel Cohn, Office of Budget Review.....	33
Changes in outlook for 1964 administrative budget expenditures.....	35
New obligational authority and expenditures, by agency.....	54
Saltonstall, Hon. Leverett, U.S. Senator from the State of Massachusetts..	71
Letter and enclosure of Hon. Joseph Campbell, Comptroller General of the United States.....	74-77
Text of S. 2281.....	71
ADDITIONAL INFORMATION	
Civilian employment in the executive branch, submitted by Senator Williams.....	52
"Two Chickens in Every Pot," editorial in the Washington News, Novem- ber 16, 1963, submitted by the chairman.....	70



# PUBLIC DEBT CEILING

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MONDAY, NOVEMBER 18, 1963

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

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

Present: Senators Byrd, Douglas, Gore, Talmadge, McCarthy, Hartke, Williams, Carlson, and Dirksen.

Also present: Elizabeth B. Springer, chief clerk.

The CHAIRMAN. The committee will come to order.

The committee has before it today for consideration H.R. 8969, to provide for the period ending June 30, 1964, temporary increases in the public debt limit set forth in section 21 of the Second Liberty Bond Act.

(H.R. 8969 follows:)

[H.R. 8969, 88th Cong., 1st sess.]

AN ACT To provide, for the period ending June 30, 1964, temporary increases in the public debt limit set forth in section 21 of the Second Liberty Bond Act

*Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That, during the period beginning on December 1, 1963, and ending on June 30, 1964, the public debt limit set forth in the first sentence of section 21 of the Second Liberty Bond Act, as amended (31 U.S.C. 757b), shall be temporarily increased to \$309,000,000,000. Because of variations in the timing of revenue receipts, the public debt limit as increased by the preceding sentence is further increased through June 29, 1964, by \$6,000,000,000.*

Passed the House of Representatives November 7, 1963.

Attest:

RALPH R. ROBERTS, Clerk.

The CHAIRMAN. We have the Secretary of the Treasury, Mr. Dillon. Please proceed.

## STATEMENT OF HON. DOUGLAS DILLON, SECRETARY OF THE TREASURY

Secretary DILLON. Thank you, Mr. Chairman.

At the end of this month, the second temporary extension in the debt limit since late May of this year will expire. In the absence of new legislation, the ceiling will revert from \$309 billion to its permanent level of \$285 billion. This would be more than \$23 billion below our latest estimates of the actual amount of outstanding debt subject to the limit on November 30.

Consequently, the need to extend the temporary limit promptly is imperative. Moreover, the limit must also be increased to enable us to meet our financial obligations during the remainder of the fiscal

year. These obligations will require new debt financing within the first few days of next month—financing which will have to be announced before the end of this month.

Our projected borrowing needs over the remainder of the fiscal year are illustrated in the following table:

*Public debt subject to limitation, fiscal year 1964—Assumes tax cut (effective January 1964—as passed by House)*

(In billions)

	Operating cash balance (excluding free gold)	Public debt subject to limitation	Normal allowance to provide flexibility in financing and for contingencies	Total public debt limitation required to provide normal allowance
<b>Actual:</b>				
<b>1963:</b>				
June 12 (low balance for June).....	\$4.2	\$305.3		
June 30.....	11.1	306.1		
July 15.....	7.7	306.0		
July 31.....	6.2	305.1		
Aug. 15.....	5.1	305.0		
Aug. 31.....	4.4	306.8		
Sept. 15.....	4.4	307.5		
Sept. 30.....	8.9	307.0		
Oct. 15.....	5.1	306.8		
Oct. 31.....	3.7	306.8		
Estimates based on projected actual cash balance:				
<b>1963:</b>				
Nov. 15.....	3.3	307.9		
Nov. 30.....	4.2	308.5		
Estimates based on constant minimum operating cash balance of \$4 billion:				
<b>1963:</b>				
Dec. 15.....	4.0	310.7	\$3	\$313.7
Dec. 31.....	4.0	307.6	3	310.6
<b>1964:</b>				
Jan. 15.....	4.0	310.4	3	313.4
Jan. 31.....	4.0	309.5	3	312.5
Feb. 15.....	4.0	310.6	3	313.6
Feb. 28.....	4.0	310.1	3	313.1
Mar. 15.....	4.0	312.9	3	315.9
Mar. 31.....	4.0	307.9	3	310.9
Apr. 15.....	4.0	311.5	3	314.5
Apr. 30.....	4.0	310.7	3	313.7
May 15.....	4.0	310.8	3	313.8
May 31.....	4.0	311.4	3	314.4
June 15.....	4.0	314.2	3	317.2
June 30.....	4.0	309.1	3	311.1

Secretary DILLON. The second column shows the estimated size of the debt at semimonthly intervals, assuming at each date a cash balance of only \$4 billion—well below the amount we normally maintain, and equivalent to less than half of our average monthly expenditures. Actually, we know that our debt cannot be adjusted abruptly in response to short-lived, but frequently very large, swings in receipts and expenditures from one day to the next, or from week to week, as these estimates assume. Even with the most careful planning, we must frequently carry a substantially larger cash balance. But without any allowance for that contingency, or for other unforeseen developments, our debt will reach successively higher peaks of more than \$310 billion in mid-December, nearly \$313 billion in March, and more than \$314 billion by June 15.

These figures are consistent with our latest review of the outlook for both receipts and expenditures. This review indicates that our deficit for the current fiscal year should approximate \$9 billion, substantially less than the \$11.9 billion estimated last January in the

President's budget. That decided improvement reflects both higher receipts and smaller expenditures than originally foreseen.

Our current estimates of fiscal year receipts take into account the impact of the tax program passed by the House of Representatives in September and now being considered by your committee. We estimate that this program, with the rate reductions becoming effective on January 1 of next year, would entail a net revenue loss of \$1.8 billion during fiscal 1964 after allowing for the stimulus to the economy and the larger base of taxable incomes that would result. That revenue loss from the tax program is \$900 million smaller than the \$2.7 billion estimated in January, when the program was proposed, because the rate reductions in the House bill are scheduled to take effect 6 months later than originally anticipated.

I should point out that the tax program, because it affects revenues only with a lag, has very little bearing upon the amount of our cash needs through mid-March, when borrowing needs are seasonally high. It would add approximately \$1.6 billion to our needs by June 15, when the debt will reach its peak for the year. The primary effect of the tax bill on fiscal year 1964 revenues would come through the proposed reduction in withholding rates.

The revenue outlook has also been improved because economic activity, profits, and personal income will clearly be significantly higher in calendar 1963 than we anticipated at the time of the President's budget message. These factors are the principal determinants of fiscal 1964 revenues, and we expect the result will be an additional \$1 billion in receipts. Consequently, total receipts are now projected at \$88.8 billion—\$1.9 billion higher than estimated in January.

Meanwhile, the reductions in appropriations by the Congress, together with the continuing, intense efforts of the administration to achieve every practicable economy within the framework of congressional authorizations, are being reflected in a significantly lower rate of spending than originally estimated. Sizeable savings are spread through a number of programs. These savings will more than offset increased costs in two areas—for interest on the public debt and for farm price support programs—which are expected to exceed earlier estimates. As the Director of the Budget will outline in greater detail, our expenditure estimates in some respects must still be considered tentative, largely because the Congress has not yet taken final action on some appropriation bills. But, there is a clear prospect that total spending in fiscal 1964 can be held to \$97.8 billion, or approximately \$1 billion below the figure estimated in January.

The resulting budgetary deficit of \$9 billion would actually be less than the \$9.2 billion estimated last January in the absence of any tax reduction.

The debt limit legislation passed by the House on November 7 and now before your committee provides for an increase in the temporary ceiling to \$315 billion through June 29, 1964. The bill then provides that the limit would return to \$309 billion for 1 day—June 30—before expiring. As indicated by the table, this authorization to issue additional debt will meet our calculated needs through the remainder of the fiscal year only on the assumption that the cash balance can be maintained at \$4 billion, and only by cutting deeply into the customary and highly desirable margin for contingencies and flexibility during our period of peak needs in March and June.

I must point out that, over the past 10 years, the final estimates of both revenues and expenditures contained in the January budget document for the fiscal year which is then more than half completed have each had an average error of \$1½ billion. The comparable error in the estimates of the net deficit or surplus has averaged \$1.3 billion. Therefore, I believe that the \$315 billion limit provided by the House bill is the very minimum that can be accepted.

It must be recognized that a ceiling so close to our projected needs entails definite risks, particularly at the time of our peak requirements next June. Those risks can be prudently accepted only because experience during the first quarter of next year, particularly in connection with the usual heavy March corporate profits tax payments, will provide a basis for reappraising our needs in ample time to enact appropriate new legislation, if that should become necessary. Of course, if the tax program were not to be enacted by January 1 and its impact on revenues delayed, the allowance for contingencies would then be somewhat larger. However, during the middle of June, the period of peak need, the allowance would still be below what has always been considered normal in the past.

I must also point out that, because of the extremely large receipts that flow into the Treasury during the latter half of June, it will be impracticable to reduce the cash balance on June 30 to less than \$5 billion, which would be necessary to stay within a \$309 billion debt ceiling on that day assuming a budgetary deficit of \$9 billion, as presently estimated.

Including allowance for the usual retirement of tax anticipation bills during that period, that is, during the last 2 weeks of June, income substantially exceeds current cash needs. These surplus funds are, however, quickly required to meet our obligations in early July, when receipts are seasonally very low. This recurrent pattern means that cash balance must temporarily rise over the end of the fiscal year, to something like \$7 billion, if we are to avoid changes in the outstanding debt so large and abrupt as to be seriously disturbed to the market. Under these circumstances, the debt limit of \$309 billion provided in the House bill for June 30 will not be adequate unless the budgetary deficit is reduced substantially below the \$9 billion figure presently foreseen.

With this caveat, I believe that the House bill provides an acceptable debt ceiling for the remainder of the fiscal year. It is certainly fully expressive of the compelling need and desire, shared by the Congress and the administration, to maintain restraints on expenditures. In so doing, it does entail risks in impairing the usual margin for unforeseen contingencies and flexibility.

Experience has shown us the extra and highly undesirable costs and difficulties of managing a debt when it is pressing closely against the ceiling. It is essential that we maintain a margin for financing flexibility, not only to make it possible to take advantage of favorable financing opportunities when they present themselves, but also to permit us to allow for a normal range of uncertainty in gauging the response of the market to our necessarily huge financing operations. In recent years, the necessity to maintain a reasonable equilibrium between the level of short-term rates in our market and markets



abroad to minimize disturbing capital flows between countries has sometimes required a substantial increase in our sales of short-term securities on short notice, adding to the need for operating flexibility. And, whenever the debt rises very close to the ceiling, and our financing flexibility is thus exhausted, the danger arises that planning and executing acquisitions of Treasury debt for the Federal trust funds, as required by our trustee function, will be adversely affected by our inability to issue additional debt to them.

For these reasons, I could not contemplate discharging my responsibilities for managing the finances of our Government prudently and economically within a debt ceiling any lower than that provided in the House bill. With the understanding that present estimates indicate the likelihood that it will be necessary to make the fiscal year 1965 legislation effective next June 30 rather than July 1, I recommend enactment of this bill in its existing form. You may be assured that the executive branch will strive in every practicable way to realize a budgetary outcome that will enable us to maintain our debt within this tight ceiling.

Thank you, Mr. Chairman.

The CHAIRMAN. Thank you, Mr. Secretary.

Mr. Secretary, how often have you asked for an increase in the debt ceiling since you have been Secretary?

Secretary DILLON. I would have to refer to the records for that. It has increased every year, but a number of times the Congress felt it advisable to make only semiannual time authority increases, so the number of times I have had to ask for an increase has been more than two times what would otherwise be normal. This is the fifth time, Senator, that we have asked for an increase.

We have had six requests; we have already had five actual debt ceiling bills, but the one, as you recall, last August did not ask for an increase. It asked merely for the continuation of the previous limit, so this would be the fifth time we have asked for an increase.

The CHAIRMAN. How many months have you been in office?

Secretary DILLON. I have been in office for not quite 34 months.

The CHAIRMAN. So you have asked for an increase in the debt ceiling on an average of once every 6 months.

Secretary DILLON. A little less than that. Actually we asked, if our original requests had been accepted by the Congress, this would only be the third time that I would have asked for an increase; so it would have been once a year, which is the same as has happened in the past. But since the Congress chose to make smaller increases on two occasions, it has added two times.

The CHAIRMAN. To what extent has the sale of securities in the past fiscal year increased the receipts?

Secretary DILLON. Our receipts which affect expenditures in the last fiscal year ending 1963 were something just over \$1 billion. I can supply the exact figure. We estimate something approximately similar for 1964.

(The following material was supplied for the record:)

*Sales of mortgages and other financial assets*

[In millions of dollars]

Agency and program	Fiscal year 1963		Fiscal year 1964	
	Estimated in January budget	Actuals	Estimated in January budget	Revised estimate October 1963
<b>Housing and Home Finance Agency:</b>				
College housing.....			\$50	\$20
FNMA special assistance and other.....	\$50	\$308	199	200
Public facility loans.....				30
Federal Housing Administration.....			60	60
<b>Veterans' Administration:</b>				
Direct loan program.....	18	180	18	160
Loan guarantee program (vedco loans)....	150	270	147	160
Export-Import Bank.....	60	330	540	540
Small Business Administration.....		8	7	7
Federal Home Loan Bank Board: Federal Savings and Loan Insurance Corporation loans.....	3	3		
<b>Total.....</b>	<b>287</b>	<b>1,114</b>	<b>1,021</b>	<b>1,187</b>

Source: Office of the Secretary of the Treasury, Office of Debt Analysis, Nov. 10, 1963.

The CHAIRMAN. Is this a customary practice?

Secretary DILLON. No. This is somewhat larger, I would say, than has been usual, although we have done that in the past. That increase comes from a policy decision, reached after careful review last winter, to allow private credit to finance all needs to the maximum extent possible. This is particularly true in the housing field, where we have been trying to sell extra mortgages to the private area and to avoid financing them through the Government to the maximum extent possible. That is the reason for the large increase.

The CHAIRMAN. When was the last fiscal year that you sold as much as \$1 billion of securities?

Secretary DILLON. I would have to look into that and supply that for the record.

(The following material was supplied for the record:)

Complete data on sales of mortgages and other financial assets prior to fiscal year 1963, are not readily available. However, it would appear that the highest previous sales of such assets occurred in fiscal year 1954, and were less than \$1 billion.

The CHAIRMAN. It has not happened often, has it?

Secretary DILLON. I actually do not recall. I know that the Government sold a considerable number of securities, and there were certain other operations which are not quite parallel which took place in the past where, for instance, when the debt limit was very close, they had to borrow on FNMA collateral in 1957, and 1958, and FNMA reimbursed the Government, which was similar, because it was the sale of an obligation of a subsidiary organization.

The CHAIRMAN. Now, you state that when the budget was presented the expenditure figure was \$98.8 billion, is that correct?

Secretary DILLON. That is correct.

The CHAIRMAN. You say for fiscal year 1964 it will be reduced by approximately \$1 billion?

Secretary DILLON. That is right.

The CHAIRMAN. Is that due to the fact that many appropriation bills have not been enacted and, therefore, the agencies have been working under continuing resolutions?

Secretary DILLON. I think only to a very small extent. The Director of the Budget will be able when he testifies to give you more detailed information on that, but he has informed me that the amount of savings in fiscal year 1964 by holding up enactment of bills has not actually been very large so far because most of the things that are held up, most of the increases that are being held up, are due to longer range expenditure programs that do not affect 1964 but would more likely affect 1965 and 1966.

The CHAIRMAN. So it is not due then to any action of Congress.

Secretary DILLON. Oh, yes. We are estimating that total action of the Congress in reducing appropriations will—and that includes those that are already enacted where, of course, there was a substantial reduction in the defense budget—will reduce expenditures this year by \$1,300 million.

The CHAIRMAN. You asked for new obligational authority this year of \$107-plus billion, is that correct?

Secretary DILLON. The exact figure recommended in the budget was \$107.9 billion plus.

The CHAIRMAN. Then there is \$87 billion of unexpended balances?

Secretary DILLON. That is the figure I think is correct.

The CHAIRMAN. So if the Congress gave you the \$108 billion of new obligational authority in your original requests you would actually have about \$195 billion available for expenditures.

Secretary DILLON. Yes. But I would like to make two comments on that, Mr. Chairman.

In the first place, the indications, according to the chairman of the House Appropriations Committee—who is the best authority I know—are that this new obligational authority will be reduced something over \$5 billion, so I figure it is \$190 billion instead of \$195 billion.

Secondly, that lag—that cannot all be spent in 1 year by any means because, as I pointed out, a great many of these appropriations are for items that take a number of years to spend.

Actually in fiscal year 1964 expenditures that we are going to make in fiscal year 1964, only about half of them will flow from the money that is being appropriated this year. The other half will flow from moneys that were appropriated in past years or from continuing resolutions, such as the resolution for payment of interest on the public debt.

The CHAIRMAN. It may be confusing to some people to find that the sale of certain securities is carried on your books as deductions in expenditures. It would be natural to think that the proceeds from such sales should be shown as receipts.

Secretary DILLON. Well, these particular bookkeeping transactions have been handled for many years in this way, and the reason they have been handled in this way is that when loans are made they are counted as expenditures, and when they are repaid counted as a decrease in expenditures. It is similar to the Post Office function where similar things are done.

There are certain types of assets when they are sold that, of course, are counted as receipts. It is sales of certain mortgages and certain

sales of assets by the Export-Import Bank that reduce the need for the organizations concerned to call on the Treasury for new money or which actually reimburse the Treasury and that are counted as reductions of expenditures. This has been in accordance with accounting policy of the Government for many, many years.

The CHAIRMAN. You sell some securities and show the income as reduction in the expenditures. Does this account for the reduction in expenditures which you mentioned where you estimate that you would spend \$1 billion less?

Secretary DILLON. Oh, no. I do not think that bears on that because the estimate for the sale of securities, the current estimate for the sale of securities, in fiscal 1964, is only about \$200 million higher today than it was last January.

We estimated, I think it was, about \$1 billion last January, and now we estimate about \$1.2 billion because we did a little better in the first quarter.

The CHAIRMAN. What amount of securities do you have on hand that you could sell to show deductions in expenditures when actually you have an increase in agency receipts?

Secretary DILLON. Well, we are required to do this under normal accounting principles. I think it may even be in the law. If Congress wished to change the law as to how a budget is carried, that, of course, is the prerogative of the Congress after consideration of the matter.

We have on hand a very large amount. Figures were furnished to this committee in great detail at the last hearings, and they are in reports and in the records of this committee. There are actually readily available, as I recall, somewhere between \$20 and \$30 billion, but that could not be sold in any quick time, Mr. Chairman. It could only be sold bit by bit, and I think the sales that we have estimated are somewhere around \$1.2 billion for this year, which is about as high as one can go.

The CHAIRMAN. Did you say that you are required to do it by law?

Secretary DILLON. That is the accounting principle, possibly in the laws, yes sir, for these particular things.

The CHAIRMAN. When you sell these securities it is recorded as a reduction in expenditures?

Secretary DILLON. That is right.

The CHAIRMAN. And then when you purchase these securities how do you handle that?

Secretary DILLON. That is an expenditure.

The CHAIRMAN. That is an expenditure.

Secretary DILLON. Actually, although we have an asset it is still called a straight expenditure, and the asset is not counted.

The CHAIRMAN. Was this system of accounting inaugurated by the Treasury Department?

Secretary DILLON. I think that is part of the law, but at least it was the policy established when these original housing institutions—that is where most of it occurs, Mr. Chairman—were set up and method of financing them was established.

The CHAIRMAN. When the money goes out for these programs, it is shown as an expenditure, is it not?

Secretary DILLON. When we make the expenditures they are an expenditure, and they increase our expenditures, so our expenditures are high.

The CHAIRMAN. When the money comes back in as you sell the securities, the proceeds are shown as an expenditure reduction?

Secretary DILLON. Our expenditures would end.

The CHAIRMAN. Expenditures are affected twice—but no effect on receipts is shown?

Secretary DILLON. No, they are added to expenditures when the Government originally pays out the money and receives, in return, a mortgage; and they are deducted from expenditures when that mortgage is sold to private individuals, so what happens is that the money flows out of the Treasury, and when it does, it is called an expenditure, even though the Government has an equivalent asset on hand, and then when that asset is sold it is called a receipt.

The CHAIRMAN. When you put up money in these programs, that is cash out of the Treasury, is it not?

Secretary DILLON. That comes out of Treasury's cash and is an expenditure.

The CHAIRMAN. So you treat that as an expenditure.

Secretary DILLON. Oh, yes, we do.

The CHAIRMAN. Then when it comes back you treat it as expenditure reduction in some other year—not as a receipt?

Secretary DILLON. As a receipt when it comes back. It is an expenditure when it goes out, as anything else is when money goes out. It is a receipt when money comes in.

The CHAIRMAN. But it is not shown as a receipt.

Secretary DILLON. It is a receipt that reduces expenditures.

The CHAIRMAN. It is a receipt, but it is not carried in the budget as a receipt.

Secretary DILLON. No, because it is an offset.

The CHAIRMAN. It is carried on your books as an expenditure item when it comes back.

Secretary DILLON. No, it is carried on our books as a reduction in expenditures.

The CHAIRMAN. It is taken off the expenditures, is it not?

Secretary DILLON. It comes off expenditures as a reduction in expenditures, yes.

The CHAIRMAN. That is what I said.

Secretary DILLON. Well, it is always on the expenditure side either as a plus or a minus item, that is quite correct. It is a plus item when it comes in, it is a minus item when it goes out.

The CHAIRMAN. This is a new—that is an unusual—system of bookkeeping.

Secretary DILLON. Oh, no; it is not a new system. It has been the U.S. Government system for at least 20 or 30 years.

The CHAIRMAN. It may be that a corporation could handle it like that as a capital outlay. Has the Government done this?

Secretary DILLON. They have done that, and this is not new at all.

The CHAIRMAN. It is certainly an expenditure when it is paid out, is it not?

Secretary DILLON. It could be. We do consider it as that, and it is considered an expenditure when the FNMA gets money from the Government and uses that money to buy mortgages, yes.

The CHAIRMAN. It ordinarily would be a receipt, and I must say, that I have always regarded this as peculiar bookkeeping.

Secretary DILLON. All I would like to emphasize is that this is nothing new. This has been Government policy for some 20 years or more.

The CHAIRMAN. But that does not necessarily make it right, or clear.

Secretary DILLON. No, it may not be. We do the same thing in the Post Office Department, Mr. Chairman.

The CHAIRMAN. There are many things in this Government that could be changed for the better.

Secretary DILLON. That is the reason why the President emphasized in his budget last January, and why we like to emphasize the cash budget of the Government rather than the administrative budget because that cash budget shows all outflows and receipts and makes it very clear what is happening, and does not lead to any of the types of confusion that might surround this particular transaction.

The CHAIRMAN. I have just one more question. Is it true that the more of these securities you sell the less the expenditures appear to be on the books?

Secretary DILLON. That is correct.

The CHAIRMAN. I want to ask you this question: What do you estimate the budget in the next fiscal year—to be presented in January—to be?

Secretary DILLON. That has not been determined yet. The President has to determine that, and he has not made his determination. I do not think any of the individual departmental budgets have yet been presented to him.

The Director of the Budget will be in a position to answer that question again, in detail, tomorrow, because he has been working on this at full speed for the last 2 months, but I do not think he has completed any of his departmental budget requests, and he has told me he has not submitted any of them yet to the President, although, in the coming month, they will all be considered by the President and finally determined.

The CHAIRMAN. Didn't you make a statement, a little while back, or you were quoted as making it, that the expenditure budget would be in excess of \$100 billion?

Secretary DILLON. I would like to explain that. That statement arose from, or that understanding arose from, a colloquy I had during the executive sessions of the House Ways and Means Committee with Congressman Byrnes, in which he took our present rate of expenditures for this year and added to it what he deemed to be reasonable, based on expenditure increases in the past.

He took Mr. Stans'—Maurice Stans'—projection just because of natural growth the budget would have to go up \$2½ to \$3 billion a year, and he came out with a figure somewhere between \$101 and \$102 billion as a minimum budget for next year by doing that, and he asked me if his computations were correct, and I said, yes, his computations were generally correct.

But I did not prophesy any particular figure. In fact, I made very clear that I thought that \$102 billion figure was the top figure, an outside figure, and we would probably be under that.

The CHAIRMAN. But you were quoted to that effect, were you not?

Secretary DILLON. I just stated that if this, the increases next year, were held to the minimum normal increase, I think, at that time,

we were estimating expenditures this year somewhat higher than they now seem to be, and the figure would fall between \$101 and \$102 billion.

The CHAIRMAN. The present administration has brought in two budgets.

Secretary DILLON. Yes. Complete budgets; they brought in the budget for fiscal 1963 and for fiscal 1964.

The CHAIRMAN. How much increase occurred in expenditures under those two budgets?

Secretary DILLON. The total expenditures for fiscal 1961 were \$81.5 billion, and estimated expenditures for 1964, which is 3 years later, as I just said, were \$97.8 billion, which is an increase of \$16.3 billion roughly, of which \$12 billion comes in national defense, space, and interest on the debt, and \$3.8 billion in all other functions, and \$350 million contingency allowances that have not yet been distributed.

The CHAIRMAN. That was not exactly what I asked you. I want to know the amount of your expenditure budget for each of the 2 years in which you have been responsible for the spending level; how much was the increase each year?

Secretary DILLON. The 1963 budget, which was brought in, when it came in, showed an increase of \$4.8 billion in actual expenditures over 1962; and 1964 was estimated to be \$6.2 billion over actual 1963, and now that has been reduced by \$1 billion.

The CHAIRMAN. How much higher were expenditures in 1963 than they were in 1962?

Secretary DILLON. Actual expenditures for 1962 were \$87.8 billion, and estimated expenditures brought in in 1963 were \$92.5 billion, and the actual expenditures when we were finished with the year were \$92.6 billion.

The CHAIRMAN. How much of an increase did you have between—

Secretary DILLON. That was \$4.7 billion increase in estimate, and \$4.8 billion actually in expenditures when the year was finished.

This year our estimate, as I said, was \$98.8 billion originally, which was for an increase of \$6.2 billion over the actual, and \$6.3 billion over our original estimate.

The CHAIRMAN. Are you willing to venture a guess as to whether you will make the customary increase in the budget—which, as I understand, has been from \$4 to \$6 billion—in this coming year?

Secretary DILLON. Well, by “customary” we were not referring to an increase in that amount, because I think that these increases have been far more than customary because they included this very sharp buildup of defense and space expenditures.

The customary increase that I was referring to was something more on the order of \$3 billion. It was the amount of increase that, as I say, the Director of the Budget, Mr. Stans, estimated just before his departure, was roughly what would happen through the ordinary growth of Government without new programs.

The CHAIRMAN. When do you predict the budget will be balanced again?

Secretary DILLON. If the tax bill is promptly enacted, we predict that it should be balanced by 1967 or 1968.

Senator WILLIAMS. When do you predict it will be balanced, if you do not get the tax bill?

Secretary DILLON. I would not make a prediction, because I cannot foresee its being balanced without enactment of the tax bill.

The CHAIRMAN. That is a sharp change from the day that the President brought in his first budget. He said he was proud of the fact that he was submitting a budget with a \$500 million surplus.

Secretary DILLON. He was. We were under the impression then that the economy had enough strength in it to recover from the previous recession under its own steam, and reach relatively full employment and full capacity operation. That proved to be an erroneous assumption, and it has proved to be necessary to take other action, and that is why we have recommended the tax reduction.

The CHAIRMAN. We have already had 3 deficit years in succession, have we not?

Secretary DILLON. That is correct.

The CHAIRMAN. And you predict 3 or 4 more?

Secretary DILLON. Well, I predict 1964, which we are already in, and 1965 and 1966. On the other hand, 1967 might be either balanced or very slightly out of balance, and 1968 should definitely be balanced on the basis I say, of passing the tax bill relatively promptly.

The CHAIRMAN. Don't you think it is a little dangerous to predict deficits or surpluses that far in advance? I recall that you predicted the \$500 million surplus, and in October—just 9 months later—you gave out a statement that you had an \$8 billion deficit.

Secretary DILLON. That is what I say—

The CHAIRMAN. You are trying to perceive what is going to happen 4 or 5 years from now. As I understand your position, it is that if there were a tax reduction it may be balanced in 1967?

Secretary DILLON. That is correct.

The CHAIRMAN. You are not certain; but it may be.

Secretary DILLON. That is correct.

The CHAIRMAN. We will add 1 more year. That would be 7 years of consecutive deficits, which has never happened before in the history of the country, except in depression followed by world war.

Secretary DILLON. We have never been in a—

The CHAIRMAN. If we do not have a tax reduction, do I understand you to say, you feel that we would never balance the budget again?

Secretary DILLON. Well, I say I do not foresee how we will.

The CHAIRMAN. You cannot foresee it.

In your opinion we cannot ever have a balanced budget unless taxes are cut?

Secretary DILLON. Well, things can happen. We can have a change in the international situation. All sorts of things could happen that could change the present situation.

The CHAIRMAN. But it is your honest conviction that if we do not add \$11 billion in expenditures or tax reduction to the public debt we won't have a balanced budget again?

Secretary DILLON. No, I did not say "add to the expenditures," but unless we reduce taxes substantially by approximately \$11 billion, and provide that stimulus to our economy so it will reach, have an opportunity to reach, relatively full capacity and full employment, I doubt very much whether we can achieve a balance. It is possible, presumably, to do it once by very drastic action, which would involve throwing the country into a recession which would then create a much larger deficit the following year than would otherwise be the case.



But except for some such action of that sort, which would not be wise because it would involve larger deficits than would otherwise be the case, and unnecessary unemployment, I do not see how we can balance the budget if we do not operate our economy at full employment.

The CHAIRMAN. Is it a fact that you and the President have been predicting that there might be a recession if this tax bill is not passed? It is a very dangerous thing for the head of a government to predict a recession.

Secretary DILLON. I am not predicting—

The CHAIRMAN. Wait a minute. And we have not got a recession. We have got the highest employment we have ever had in the history of the Nation, as you know. The profits of the corporations and the gross national product have gone up higher than they have ever been before.

While you have been predicting a recession if the tax bill is not passed you must admit you have got prosperity now without a tax reduction. It is hard for me to follow that kind of reasoning, but I will not take up any more time.

Secretary DILLON. Mr. Chairman, we have to have the highest employment every year in history if we are going to absorb over a million new people who enter the work force every year just to stay even and maintain the present unacceptable level of unemployment.

I do not think that I have ever prophesied a recession. The President has merely warned, and I said the same thing, that based on past history, unless something unusual is done, we will be making entirely new records if our economy keeps on rising after next April.

I think there has been some additional information which has been very interesting, which has come in recently. The overall forecasts by many business economists at the University of Michigan forecasting conference, which are now available for the first time, show an average of some \$604 billion for next year's gross national product without a tax cut. McGraw-Hill, which is a very good organization, made a similar estimate. These figures can only be achieved with a definite recession in the second half of next year. It is impossible to achieve a figure that low without that.

The CHAIRMAN. And your plan to relieve unemployment is to reduce taxes?

Secretary DILLON. That is correct.

The CHAIRMAN. Mr. Meany does not agree with you.

Secretary DILLON. Mr. Meany does agree. He says the most important—

The CHAIRMAN. Wait 1 minute now. Mr. Meany, in New York last week, at the same time the President spoke, said that automation was becoming a curse to society, and that could lead to a national catastrophe,

Secretary DILLON. That is correct.

The CHAIRMAN. That is pretty strong language.

Secretary DILLON. Mr. Meany also said the one thing that would help unemployment more than anything else would be if Congress would actually reduce taxes as recommended by the President, and he said that many times, and that is the official position of the AFL-CIO.

The CHAIRMAN. To what extent did the 7-percent credit, which you insisted that we pass in the last session, increase automation?

Secretary DILLON. I think that that increases the modernization of equipment. To the extent that it does so it increases automation, and that is something which I think we have to accept because I think we have to be for progress. We just have to have our economy move ahead fast enough to take care of not only of the new people coming into the labor force, but also those who are displaced through automation.

The CHAIRMAN. In other words, you do not agree with Mr. Meany then?

Secretary DILLON. No, I think in that area the administration, and certainly I, would not agree with Mr. Meany's characterization of automation. We do realize that automation is a very real problem and requires attention of the Government, of industry, and of States and localities to take care of it.

One of the things that the Federal Government can do is to reduce the tax burden on the general economy and thereby stimulate it so as to help overcome that problem.

The CHAIRMAN. Please understand me, I am not opposing automation. I did oppose a tax credit for new machinery, and so forth, because I thought automation should come by the natural conditions in many businesses, and not alone by Government incentives. But the administration, led by you, made a great campaign to adopt the 7-percent credit. Mr. Meany, and apparently a great many other people, think that was an incentive to automation beyond the ordinary course of business, and that together with increased depreciation, has cost the Treasury about \$2½ billion; is that not correct?

Secretary DILLON. Including increased depreciation which, of course, is something different from investment credit.

We, as you know, Senator, favored the investment credit to put our industry on a par with that of our competitors abroad, all of whom have such special incentives. We think it is vitally necessary if we are going to maintain ourselves in competition with the rest of the world, both against imports coming into this country and in the export markets, to allow our industry to have the same incentives to modernize as those of their competitors abroad. That is why we supported that, and that is why we still support it, and I think it now has the general support of industry.

The CHAIRMAN. Well, you reduced taxes last year \$2½ billion, which were added to the public debt; and now you propose to reduce taxes again by \$11 billion and add it to a public debt. This means that in 3 years you would increase the Federal debt by \$13.5 billion for tax reduction.

I have nothing further. Senator Douglas.

Senator DOUGLAS. Thank you, Mr. Chairman. As you know, Mr. Dillon, I have a good deal of sympathy with the Treasury Department for the difficulties you have under the debt limit which Congress places upon you, and I also have felt that Congress by extending the debt limit for short periods of time plays cat and mouse with you and compels you to come up here constantly, and makes your lot more difficult, even more difficult than it otherwise would be.

I would like to ask this question: You say you are willing to accept a \$315 billion limit up to June 29. How much did you originally ask for?

Secretary DILLON. From the House, after consultation with the chairman of the Ways and Means Committee, we asked for \$315 billion throughout the whole year. But I would have normally, in view of the need for flexibility, asked for something slightly higher in order to give adequate, or give the usual, flexibility on June 15. But after consultation with the chairman of the committee, who felt that the committee and the House would not be disposed to go that high, we recommended \$315 billion.

Senator DOUGLAS. But you would have preferred \$317 or \$318 billion?

Secretary DILLON. Well, \$317 billion would have given the usual \$3 billion normal contingency, and that would have been more normal and more comfortable.

Senator DOUGLAS. What is the significance of this June 29 date to get \$315 billion up to and through June 29, and then you go back to \$309 billion? Is that because June 30 will bring in large payments?

Secretary DILLON. Senator, no, but there are very large payments that come in during the period beginning on the 15th of June and running through June 29 or 30. During that period the Government runs regularly the largest surplus that it runs at any time of the year because it is the time of our heaviest tax receipts in the whole year; and, therefore, we generally receive many billions of dollars, over \$6 billion more than we spend during that period. That is the reason for the House's action, I suppose, in reducing the debt limit by \$6 billion on June 30. It throws light on the fact that we actually will run a surplus during that period of about \$6 billion or more.

For debt management purposes, however, it is not possible to use that entire surplus in paying off debt during that 2-week period, although we do always sell and plan to retire during that period an amount of tax anticipation bills running around \$2½ billion, something of that order.

To go beyond that would disrupt the markets, and we would have to raise immediately the money and meet our bills in July. So the Government has a relatively high cash balance at the end of June.

Senator DOUGLAS. Would you feel more comfortable if we replaced the date of June 29 with June 30?

Secretary DILLON. I would, as I said, and the chairman of the Ways and Means Committee made clear, both in his report and in talking on the floor, the \$309 billion figure is not practicable if the deficit is going to be as large as \$9 billion. It would have to be a smaller deficit, something like \$7 billion to become a practicable figure. The chairman of the committee indicated that he was recommending this because he felt both that our revenues might be somewhat larger than we expected, and also because he felt that maybe Congress, in handling the remaining appropriation bills, would reduce appropriations somewhat more than the Bureau of the Budget estimated, with the result that it might be possible that we would have a deficit of only something around \$7 billion instead of \$9 billion.

It is our best estimate to show \$309 billion, but he has good information, and on that basis he acted.

Senator DOUGLAS. Do I understand this is the third time since last May you have been up here because you were compelled to ask for an increase in the debt limit?

Secretary DILLON. Yes. It is because that was the wish of the Congress and, particularly, of the House which originated each of these bills. I might say that in his initial exposition to the House, the chairman of the Ways and Means Committee this time apologized to the House and said he wished to apologize for having made them do this three times this year, and he said it was certainly his intention next year to try to so manage things that there was only need for one consideration.

Senator DOUGLAS. Suppose the deficit is \$9 billion for the year 1964. Will you be compelled to come up here for a fourth time prior to June 30?

Secretary DILLON. No, I would not expect so because the Congress would normally have to pass new legislation prior to June 30 to take care of the situation on July 1 when the regular \$285 billion ceiling becomes effective. All that would be necessary would be for that action to be completed 1 day earlier than the final day of the fiscal year. But I think that the Congress often does that, does complete it, a week or so ahead of time; so they could follow really a normal procedure and get the bill to the President so he could sign it some time during the last week in June and have an effective date in it of June 30 instead of July 1. That is all that would have to happen.

Senator DOUGLAS. Mr. Secretary, while I am not an enthusiast for public debt as a value in itself, it seems to me that Congress, through its control over appropriations, on the one hand, and revenue, on the other, is the ultimate determinant of governmental surpluses or deficits, and that we should provide for the debt limit in the light of those circumstances rather than using the debt limit as an added club to force you into certain policies.

It reminds me of the man in Maine—I hope no one takes offense in this—near the town of Bucksport, which is 18 miles from Bangor. Bangor was a wide-open town when Maine had prohibition laws. He was walking down a rural road looking very miserable, and someone said, "Why do you look so bad?" He said, "Gosh, I am going down to Bangor to get drunk and, gosh, how I do hate it."

Sometimes the actions of Congress on these debt limits impresses me the same way. So I have a great deal of sympathy with you, Mr. Secretary, and I do not think we ought to keep you on as tight a rein so far as the debt limit is concerned.

Now, having said that, may I question you about a situation which you did not create in any sense but which you have inherited; namely, the cash balances which I notice you say are going to run about \$4 billion in the months ahead.

Secretary DILLON. Well, no.

First, I would like to comment briefly on what you originally said. I am very familiar myself with that part of the country and with Bucksport, in particular, and I think that is a good statement.

I must say that it is my feeling that what you said was correct, and I further add to that that I do not think that the debt limit is an effective club to make the executive reduce expenditures, because they do not really have adequate authority there after appropriations have once been voted and approved by the Congress. This is the same position that has been taken by every Secretary of the Treasury who has appeared before the various committees of Congress.

Now, as to the cash balance, I want to make very clear that we do not prognosticate a cash balance of \$4 billion, a constant balance. I tried to make that clear in my statement. The cash balance has to be the accor-dion that gives and moves, shrinks and enlarges, as revenues flow in and out.

It is not practicable to make, to change, other things, so we actually vary our cash, but for purposes of these hearings in the past we have assumed a \$4 billion constant cash balance, and that is what we are assuming now.

Senator DOUGLAS. Well, I notice that your table runs from a minimum—

The CHAIRMAN. Will the Senator yield at that point?

Senator DOUGLAS. Yes.

The CHAIRMAN. The Chair would like to recall the fact that the debt ceiling was substituted for the requirement that you get a special act for every increase in Federal indebtedness before you could sell the bonds. Would you prefer the debt limit getting an act of Congress every time you increased the debt?

Secretary DILLON. I think the answer to that is obvious, Mr. Chairman, a debt limit.

However, the debt limit was first enacted during World War I, the Second Liberty Bond Act, when it became obvious that the debt was growing so high that it was impracticable to have an enactment of Congress for every debt transaction.

But it was shortly after World War II that it was attempted to be used as a method of trying to control expenditures or to throw light on the general fiscal situation of the Government. Before that there had always been lump-sum increases that were meant to last for a good number of years.

The CHAIRMAN. That would require legislation.

Secretary DILLON. Yes, each time. But it was only very occasional, and it would be very substantial increases which were meant to last for a number of years.

The CHAIRMAN. I thank the Senator.

Senator DOUGLAS. If we may come back to these cash balances, I notice that in these past months during the current fiscal year they have ranged between a minimum of \$3.3 billion on the 15th of November to a maximum of \$11.1 billion on the 30th of June, and it would seem that the average for the year is somewhere between \$4 and \$5 billion, perhaps \$4.5 billion, probably nearer \$5 billion than \$4,500 million; isn't that true?

Secretary DILLON. I think it would ordinarily be somewhere between \$5 and \$6 billion rather than between \$4 and \$5 billion.

Senator DOUGLAS. Between \$5 and \$6 billion. These cash balances are deposited in private banks?

Secretary DILLON. \$1 billion of it roughly or a little less, is deposited in the Federal Reserve, and the rest in private banks.

Senator DOUGLAS. The remainder in private banks.

Secretary DILLON. Yes.

Senator DOUGLAS. And these deposits draw no interest?

Secretary DILLON. No.

Senator DOUGLAS. And the banks, in turn, probably use the money to invest in short-term governments?

Secretary DILLON. They may do so.

Senator DOUGLAS. Isn't that probably where they put the money?  
Secretary DILLON. Yes.

Senator DOUGLAS. The short-term governments now draw 3½ percent interest approximately, as an average?

Secretary DILLON. Actually at the moment, Senator, they are a little higher than that, about 3½ percent.

Senator DOUGLAS. So that assuming that they put, say, \$4.5 billion securities, this would mean about \$150 million of interest which they draw on the interest-free deposits of the Federal Government.

Secretary DILLON. That would be correct.

Senator DOUGLAS. Both the chairman and I in times past have crusaded on this matter when other men have been Secretary of the Treasury; and I do not want to make you, I will not say, a culprit, but you certainly are not the initiator of this policy. This is a subsidy to the banking system of the country. What happens is the Federal Government gives to the private banks this money, and then they lend to the Government and get interest for it, and it is said to be necessary in order to get flexibility. But—

Secretary DILLON. Well, no. I think there is another item that is always in there, and that is that the banks perform a great many services for the Government on a cost-free basis. The question is whether this is too much compensation for the services they perform. There have been a number of studies made by the Fiscal Service of the Treasury, and they have regularly come up with the conclusion that the banks are not overcompensated. Certainly with the present interest rate that compensation is somewhat higher than it has been in the past, and maybe it is worth having a new study on that basis.

Senator DOUGLAS. Well, of course, during the war when they were helping in the flotation of savings bonds, they did perform a lot of public service.

Secretary DILLON. They worked on savings bonds very much.

Senator DOUGLAS. They also helped by creating monetary purchasing power with which they bought bonds themselves.

Secretary DILLON. That is right.

Senator DOUGLAS. And hence could get compensation on the right hand to balance expenditures which they might have with the left.

Secretary DILLON. That is right.

Senator DOUGLAS. But now their services in the sale of savings bonds are by no means as great as they once were; isn't that true?

Secretary DILLON. They are not as great as they were during the war. They do have substantial services, both in sale and also in cashing them—which they do free of charge; and, of course, there is a larger amount to be cashed in now because there are larger amounts outstanding than there ever have been in the past. So that aspect of what they are doing is probably larger than what it was in the past.

They do a number of other services also in handling Government accounts and Government checks and selling bonds for the Government.

Senator DOUGLAS. Why couldn't some of these Government funds be made time deposits rather than demand deposits, and hence give some interest in return to the Government?

Secretary DILLON. That would be a question of having deposits that were absolutely firm, that we knew would never be withdrawn.

Certainly we would have to have a great deal of more flexibility than we now have under the debt ceiling, I think, to be certain of doing that, since we would have to maintain larger cash balances. That would be a question also of fairness to the banking system, whether they were being overcompensated or whether compensation was adequate.

Certainly, I do not think they should be overcompensated, and since the last study on this matter was 2 or 3 years ago, we will be perfectly glad to have another full review of the matter.

Senator DOUGLAS. Why not split this \$4 billion two ways. Have half on time deposits, and that would save approximately \$70 million a year; and let the banks have \$2 billion on demand deposits, and they could then get \$70 million for their services. Wouldn't this be a tidy way to increase the revenues of the Federal Government?

Secretary DILLON. Of course; the actual increase of revenues presumably would be only half that amount because presumably we now get back maybe a little over half back from the banks. In the case of the large banks, we do get 50 percent of the profits back in taxes. In the case of smaller banks we get somewhat less because they come under the special provisions where the rate is lower for tax.

Senator DOUGLAS. That can be used as an argument against any effort to save money for the Government, to say if we spend lavishly we get half of it back and, therefore, not to make any effort to get the original 50 percent.

Secretary DILLON. I want to make myself clear. This is not any argument against making any effort. We should make whatever effort is necessary.

Senator DOUGLAS. Being an old-fashioned man, \$35 million seems a very tidy sum to me.

Secretary DILLON. It seems a very tidy sum to me, too, Senator.

Senator DOUGLAS. I wish you would pay some attention to that. This is one of the issues that the chairman and I have been very close together on, and I take it he still is of the same feeling.

Secretary DILLON. We will be glad to take another complete review and complete look at it. There has not been a complete review in my administration.

Senator DOUGLAS. Do not turn the review over to the bankers, because I am sure they will solemnly say their costs are equal to the full \$150 million.

Secretary DILLON. The last review was undertaken during the preceding administration, so I think it is probably a good idea to have another one now, and I think we will do that.

Senator DOUGLAS. It all depends on whom you ask to make the review.

Secretary DILLON. We will do it ourselves.

Senator DOUGLAS. Good.

Well, thank you very much.

Thank you, Mr. Chairman.

The CHAIRMAN. I am very glad, always glad, when the Senator from Illinois calls attention to those times when we agreed.

Senator DOUGLAS. There are more than you may think, Mr. Chairman.

The CHAIRMAN. We certainly agree on the matter you were just discussing.

I note here that on one day you had \$11 billion on hand.

Secretary DILLON. Yes. We had that which we discussed earlier, and we said that was much higher than usual for two reasons: For one, we had raised \$2 billion extra in June trying to anticipate July needs. Secondly, our financial situation turned out in the last 2 weeks in June to be about \$2 billion better than we had expected. While we had originally expected it to be something around \$5 billion or a little less, it turned out we had \$11.1 billion.

Actually, looking back on it, it now turns out that our financing in June was probably very advantageous for the Government because it could not have been done on a similar basis, if at all, at a later date, because it was longer term financing. After the change in discount rate in July, it would have been impractical.

The CHAIRMAN. Senator Williams.

Senator WILLIAMS. I will yield to Senator Dirksen who has to go to the floor.

Senator DIRKSEN. Mr. Secretary, I have been intrigued with the continuing use of the word "temporary" in connection with the public debt. I went back to look at the budget summary the other day, and I noticed in 1900 our debt was \$1.2 billion; in 1920 it was \$25 billion; in 1930 it receded to \$16 billion; in 1940 it went back to \$42 billion; in 1943 it was \$136 billion, and that is the first time the debt went over \$100 billion.

In 1944, because of the war, it went to \$201 billion, so that is the first time it was over \$200 billion.

Then successively it went to \$275 billion in 1950, \$286 billion in 1960, and \$289 billion in 1961, to \$298 billion in 1962, \$304 billion in 1963, and now the request is before us for \$315 billion.

So in each decade, or 5-year period, the debt has moved to a new and higher plateau.

Now, I notice in the House report that we started using the words "temporary increase" on August 28, 1954. Then the word "temporary" was included in the act of July 9, 1956, February 26, 1958, September 2, 1958, June 30, 1959, June 30, 1960, June 30, 1961, March 13, 1962, and then again in July and in September of this year.

So now we use the word "temporary" again, and in the House bill, as I read it, it is a temporary increase of a temporary ceiling. Would that be an accurate description: a temporary increase of a temporary ceiling?

Secretary DILLON. This particular House bill that you have before you does involve that because of this return to a ceiling, on June 30, of \$309 billion which happens to be the present temporary ceiling. They so worded the bill that they would carry that through June 30, and then added a temporary increase on that temporary ceiling of \$6 billion. You are quite correct.

Senator DIRKSEN. Well, as I observe the accomplishments of a new plateau every generation, and these temporary increases, I am reminded of an incident in the old play "Adam and Eva." You may recall it was written by Guy Bolton and George Middleton. I do not know whether this uncle lived in Bucksport or in Bangor, but in any event he came to stay for a weekend and stayed for 17 years.

So "temporary" has been with us now 10 years, to my certain knowledge, and I am wondering how much longer we are going to operate in the temporary field; because it occurs to me that with the



1964 deficit, and your estimate of the 1965 deficit, and when you were here as the initial witness on the tax bill, you anticipated a 1966 deficit of unknown dimensions, the only thing I see is that the debt ceiling will temporarily increase in 1965 and in 1966 and maybe in subsequent years.

I am wondering when we are going to get back to the \$285 billion limit, the permanent ceiling?

Secretary DILLON. Well, I think, as you probably agree, that there is not much prospect in any near or reasonably foreseeable future of reducing the debt to that particular level.

The Congress originally chose, I think, to finance the debt ceiling on this temporary basis—I know there were some requests by the previous administration in the 1950's for permanent ceilings—and Congress made some increases in those, but preferred to give the rest of it in the form of temporary increases, and so it has been ever since.

Senator DIRKSEN. But since the permanent ceiling is at the \$285 billion level, and you look at all these prospective deficits, plus the temporary ceiling, actually that permanent ceiling is something of a semantic illusion; is it not?

Secretary DILLON. It does not have much bearing on the present operations of the Government. The Treasury has to operate under a ceiling, whether it is called temporary or permanent, which will give it adequate flexibility to manage the public debt that is required to meet the obligations of the Government. What the permanent level may be does not really have much bearing on that. As long as there is an adequate temporary or permanent figure we can operate equally well under either. We have continued to ask for increases in the temporary ceiling because that has seemed to be, so far, the will of the Congress.

Senator DIRKSEN. Now, this is an unpleasant and \$64 question, but do you foresee a time in the future when revenues and expenditures will reach that degree of balance that we shall ever again see a \$285 billion permanent ceiling on the basis of the way we are spending money and with the budget going up?

Secretary DILLON. Well, I would say, as I said earlier, that would be a long way off. If we reach a balance in 1967 or 1968, as I have felt we would, and then at full employment move into some sort of moderate surplus, I think that the chances are that these surpluses would be very moderate. They would have to go on for very many years and go on continuously before we ever got back to a figure such as \$285 billion.

Senator DIRKSEN. Actually on the basis of expenditures, as we measure them today, it would seem to me it will take 25, 30 years to ever get back to a \$285 billion debt ceiling.

Secretary DILLON. I would think that would be a reasonable estimate.

Senator DIRKSEN. I have one other question. I notice you speak about financing rather substantial sums by the end of this month. I do not suppose that is a classified figure, is it—

Secretary DILLON. No.

Senator DIRKSEN. As to what you have to refinance.

Secretary DILLON. While it has not been announced, we will need extra funds during the first week in December. What we have ordinarily been doing so far this fiscal year is putting what have been up

to this time quarterly issues of 1-year bills on a monthly basis. There were quarterly issues of about \$2½ billion, and we are retiring them as they come due, and substituting a monthly 1-year bill of \$1 billion, which seems to be more acceptable and a better tool for the market than the larger issue coming only four times a year. We would expect to make an offering of that type, and we would have to get the money early in December. We will have to make an announcement before that, presumably even before this legislation is acted on, so we will have to say in this announcement that we are offering these securities for sale subject to the approval by the end of this month of adequate, of new, debt authorization or a new debt ceiling, because if it is not done we obviously could not sell the bonds.

Senator DIRKSEN. Assuming your deficit in 1964, 1965, 1966 in the range of what you anticipate, what kind of a ceiling would you have to request, let us say, after the date of June 29 next year and June 30, 1965, and June 30, 1966? Obviously, it is an estimate for each year.

Secretary DILLON. That is right. You can take a high figure that you are estimating here of \$314.2 billion on June 15 for the debt and for computing purposes, call that \$314 billion. The President has pledged a number of times that, if the tax bill is enacted as scheduled, he would bring in a budget that would have a deficit of less than the \$9.2 billion that had been estimated earlier for this year without the tax bill. So let us assume for the maximum amount \$9 billion. You would add that to \$314 billion, and you would get \$323 billion, but that would give no allowance for contingencies whatsoever. So if you added the normal \$3 billion for contingencies, you would get a figure of \$326 billion for next June for the following year.

Now, it is not an estimate but just based on our estimates for this fiscal year, and what the President has said, and our normal balance for the flexibility the Congress has always given us when they made a debt ceiling as far ahead as a year. So that would be normal.

Now, for beyond that, for 1966, it is too difficult to estimate. The increase would naturally be much less for two reasons: both because we would have a full contingency allowance of \$3 billion built in already, and also the deficit would be much less. It would only be the size of the deficit. Assuming the deficit was maybe half the size what it had been before, it would be something like \$330 billion.

Senator DIRKSEN. So for 1966, assuming a deficit one-half of that estimated for 1964 and 1965—

Secretary DILLON. Yes.

Senator DIRKSEN (continuing). The debt ceiling could conceivably rise to \$330 billion.

Secretary DILLON. It could conceivably for 1966; yes.

The CHAIRMAN. Mr. Secretary, in line with the questioning of Senator Dirksen, I would like to put in the record at an appropriate place, an estimate of the rate of interest to be paid, and an estimate of the interest payments for those years that he mentioned.

Secretary DILLON. Yes, we will be glad to do that.

(The information referred to follows:)

*Interest payments on the public debt and interest rates as of selected years*

(Dollar amounts in millions)

Fiscal year	Interest on the public debt <sup>1</sup>	Interest rate <sup>2</sup> (percent)	Fiscal year	Interest on the public debt <sup>1</sup>	Interest rate <sup>2</sup> (percent)
1900 .....	\$40	3.278	1950 .....	\$5,750	2.200
1920 .....	1,020	4.225	1960 .....	9,180	3.297
1930 .....	659	3.807	1961 .....	8,957	3.072
1940 .....	1,041	2.583	1962 .....	9,120	3.239
1943 .....	1,808	1.979	1963 .....	9,891	3.360
1944 .....	2,609	1.929			

<sup>1</sup> Before 1955, interest was reported on an actual payments basis; since 1955, interest has been reported on an accrual basis.

<sup>2</sup> Before 1916, the interest rate was computed by dividing the annual interest charge by the par amount of the loans outstanding. Since 1916, the interest rate has been calculated by dividing the computed annual interest charge for the total issues by the corresponding principal amount. The computed annual interest charge represents the amount of interest that would be paid if each interest-bearing issue outstanding at the end of the year should remain outstanding for a year at the applicable annual rate of interest. The charge is computed for each issue by applying the appropriate annual interest rate to the amount outstanding on that date. The aggregate charge for all interest-bearing issues constitutes the total computed annual interest charge.

The CHAIRMAN. Senator Talmadge?

Senator TALMADGE. Mr. Secretary, to what extent is our national debt reflected in our monetary system?

Secretary DILLON. The Federal Reserve banks own some \$32 billion, I think it is, based on the latest figures of our Federal debt. There is also a substantial amount owned by our commercial banks. But I would think that you refer to the Federal Reserve holdings, which would be \$32 billion.

Senator TALMADGE. Has that gone up in recent years?

Secretary DILLON. It has increased somewhat, several billions. We will give you those exact figures.

Senator TALMADGE. What happens to the monetary system when the Federal Reserve bank buys additional Government bonds?

Secretary DILLON. If I may first give you the figures, in June of 1961 the holdings were—it probably would be better to use the end of the year because they are higher then—in December of 1960 they were \$27.4 billion; in December of 1961 they were \$28.9 billion, the Federal Reserve. They went up \$1½ billion that year. The next year they were \$30.8 billion. They went up \$1.9 billion in that year; and so far this year they are about \$32½ billion. They have gone up about \$1¼ billion.

Senator TALMADGE. What happens when the Federal Reserve System buys an additional \$1 billion in bonds, what happens to our monetary system?

Secretary DILLON. This gives a similar reserve credit to our banking system, which provides the base for substantial additional amounts of loans and deposits, up to something like 10 times the amount, depending on the type of bank and type of deposit.

Senator TALMADGE. Approximately 10 times?

Secretary DILLON. Yes.

Senator TALMADGE. In other words, each additional \$1 billion owned by the Federal Reserve System will reflect \$10 billion worth of additional credit in our monetary system.

Secretary DILLON. Up to something of that order, yes.

Senator TALMADGE. Is that limited solely to the Federal Reserve bank or other banking systems involved in a similar situation?

Secretary DILLON. I think this multiple expansion process is primarily applicable to the Federal Reserve bank purchases. Actually, however, the holdings of our commercial banks of Government bonds have not gone up. They have actually, if anything, decreased since the end of 1960, so the entire increase thus far has been in the Federal Reserve.

Senator TALMADGE. What the commercial banks have sold then the Federal Reserve System has bought, is that correct?

Secretary DILLON. The commercial banks have stayed about level or a little bit less, and the Federal Reserve has bought more than that amount. However, most of the increase in the Federal debt has gone to the other private sources.

Senator TALMADGE. What happens to our monetary system if a commercial bank buys \$1 billion worth of bonds? Of course, that is a very large sum. Make it \$1 million.

Secretary DILLON. Well, if they buy \$1 million worth of bonds from the Treasury, they may get an added deposit on their books of \$1 million when these bonds are bought if they have the reserves, and they then have this \$1 million, of added deposits.

Senator TALMADGE. How much could they lend then on that \$1 million?

Secretary DILLON. I would have to refer you to a Federal Reserve expert to get the full analysis.

Senator TALMADGE. It would not be as high as 10 to 1?

Secretary DILLON. No.

Senator TALMADGE. You do not know what the figure would be?

Secretary DILLON. The net effect of their operations would depend on the reserve ratio—I am told there would not be any base for further loan expansion.

Senator TALMADGE. Nothing at all?

Secretary DILLON. No.

Senator TALMADGE. In other words, he could lend \$1 million on it, I presume, but not in excess thereof.

Secretary DILLON. No, nothing in excess of the initial \$1 million bond purchase.

Senator TALMADGE. So the national debt, I take it from your response, would be inflationary only as it is reflected in the Federal Reserve System; would that be an accurate statement or not?

Secretary DILLON. No; because it is also—it can be looked upon as inflationary or expansionary under some conditions to the extent that commercial banks purchase Government bonds by creating new deposits without using savings of their depositors.

This is rather complex, because they have both demand deposits and savings deposits. If they use, which is perfectly proper and which they all do, if they use the savings deposits and time deposits of their depositors to purchase Government bonds, that would not ordinarily be inflationary. But if they merely bought Government bonds from the Government by creating deposits to the account of the Government, that would tend to be inflationary in some circumstances.

So, generally, it is looked on as potentially inflationary if the commercial banks buy Government securities—but not to the same extent as the Federal Reserve. It is generally looked upon as being

best, if you are going to avoid inflation, to avoid too rapid an increase in holdings of Government bonds by the commercial banking system as well as by the Federal Reserve, and that is why it is important and significant that in the last 2½ years the commercial banking system has not increased their holdings.

I think you could say that they have made some investments in Government bonds which is true. They have lengthened their holdings. They have bought some longer bonds which, presumably, were offset against their savings and time deposits, and they have reduced their holdings of shorter or more liquid type of Government bonds, which would be potentially the more inflationary type.

So I think your earlier statement that as far as inflationary aspects are concerned, that they have, in effect, liquidated, and the Federal Reserve has bought, which is probably an accurate picture.

Senator TALMADGE. Why have the commercial banks reduced their holdings? Is it because they can make better investments elsewhere?

Secretary DILLON. That is correct. The big change, I think, occurred at the time some 2 years ago when the Federal Reserve System revised their regulation Q to permit banks to compete more effectively with other savings institutions for savings accounts and time deposits, at that time the banks began to compete very aggressively.

There has been a very substantial rise in their deposits of this nature, which required them to pay substantial interest, so, to cover the earnings for this they have increased, their activity in buying mortgages and in buying municipal bonds and, to a moderate extent, in buying slightly longer Treasury bonds. I think the reason, as you said, is that they could get higher interest returns by investing in mortgages and municipal bonds. So they went that way more than they have done in the past because they needed it to support the requirements of paying interest on these savings and time deposits.

Now, savings and time deposits are more permanent, so it is all right up to a point for a bank to make the longer term investment to back them up.

Senator TALMADGE. To what degree do you think the increase in the national debt in the last 30 years, which has gone from about \$16 billion, I believe, to \$315 billion has contributed to the erosion involved in that same period of time which reduced in value more than half?

Secretary DILLON. Well, I think it was clear that the great increase that we had in our debt during World War II was inflationary, although the inflationary impact was maintained or contained during the wartime by controls on prices. But when they were taken off after the war, the price level responded very rapidly in the next few years, and again as a result of stimulation during the Korean war, and while we were still working out of World War II up through 1957. Since then, increases have not been inflationary because the economy has been operating below capacity, and there has as a result been no change in price level and no inflationary impact.

But during that period between 1940 and 1956 or 1957 the debt, primarily that incurred during World War II, did have a very marked inflationary effect.

Senator TALMADGE. I draw the conclusion then that the national debt is inflationary only if it is reflected in the Federal Reserve System.

Secretary DILLON. I think that is largely the case. Also to some extent it is in commercial banks as I mentioned earlier. But to the extent that our national debt is sold outside, it is not likely to be inflationary, and it is not likely to be inflationary at all when the economy is operating below capacity, below full employment. That has been the record in the last few years.

Of course, if we were operating at anywhere near full capacity and had deficits with resulting increases in the debt, such as we are now having, they would be very inflationary.

The reason that we contemplate, as we move back toward full employment, coming into balance and even a moderate surplus, is that it is absolutely necessary or you would be in an inflationary situation.

Senator TALMADGE. Thank you, Mr. Secretary.

I have no further questions.

The CHAIRMAN. Senator Williams?

Senator WILLIAMS. Mr. Secretary, you just answered the Senator from Georgia and suggested you may later recommend a surplus, if necessary, to contain inflation. Are there not other reasons to balance the budget?

Secretary DILLON. I did not say that at all. Of course there are other reasons. As I said, we expect to come back to a balance in either 1967 or 1968, as I explained earlier.

Senator WILLIAMS. Now, if I recall correctly, this is the third time that you have been before the committee asking for an extension in the debt ceiling in the past 6 months; is that correct?

Secretary DILLON. That is quite correct, and I probably deplore that frequency just as much as you do, Senator.

We did make a request originally which, if it had been accepted, would have avoided this extra time.

Senator WILLIAMS. Well, yes and no. You made the request, but you changed your mind and backed away from it, did you not, because when the House extended it for 60 days, after your request of June 30, and it came over to this committee, and I sponsored the amendment which would have made this a full 1-year extension. Some of us felt that was proper on the basis that we thought it was an imposition upon your time to come before the committee every 60 or 90 days for an extension.

At first, you went along with it, and then you changed your mind and exerted all the pressure the administration could bring to bear to have this full-year extension reversed on the floor of the Senate; is that not correct?

Secretary DILLON. That is correct.

There was one overriding reason for that, and that was that we were within a day or two of running over the then existing debt ceiling, and the leadership of the House advised there simply was no time to have a different type of debt ceiling voted in the Senate and go to conference and get this thing reported prior to—actually signed and enacted prior to—the 1st of June. We would have been in very grave trouble because, even as it was, we went over the ceiling that we had had on the 31st of May, which was the day that the President signed the new debt ceiling legislation. So that was the reason.

Senator WILLIAMS. Well, it still gets back to the point though that the Treasury Department will have to assume its part of the responsibility for these irresponsible 60-day extensions. There is no way that either one of us knows whether or not the House would have accepted that suggestion had it passed.

But anyway, the Senate itself—

Secretary DILLON. We know because the leadership of the House stated that they did not want to do it.

Senator WILLIAMS. Well, we often do things we do not want to do.

Secretary DILLON. Well, they said they would not.

Senator WILLIAMS. Do you accept their suggestions as final always?

Secretary DILLON. No, not always. But under this circumstance there just was not any time to go through the conference procedure. The Senate was quite right to feel that this was an unfair thing at that time, and later in the extension in August, and again this time they have acted more promptly to give the Senate more time, and I think the House felt that they had been a little remiss in delaying their action as late as they had in May as far as the prerogatives of the Senate were concerned.

Senator WILLIAMS. Do you think it is realistic to talk about going back to \$285 billion after June 30 or do you think this bill should be amended to at least bring the permanent debt ceiling up to say, \$300 billion, and let the rest of the increase be on a temporary basis?

Secretary DILLON. I would have no objection to that at all. I have been asked that question a number of times in the Ways and Means Committee, and I think here I have said as long as I have an adequate debt ceiling to operate under, with enough flexibility, how much of it is labeled as temporary and how much is labeled as permanent is a matter for the Congress to decide and is not material to actual management of the debt. We would have no objection. In fact, it would be fine if Congress decided to make it \$300 billion permanently.

Senator WILLIAMS. If this committee decided to raise the permanent to \$300 billion, which would be more realistic, and then to make the extension above that amount temporary, whether it be \$312 or \$315 billion, but to make it on a temporary basis, you would go along with such a suggestion; is that correct?

Secretary DILLON. I would have no objection. I would hope if the committee wanted to do that they would act very promptly and bring this bill very promptly to the floor of the Senate so there would be adequate time, which there would have to be, for a conference.

We will have the same problems we have had before, even though there seems to be more time. But in view of the schedule that has been announced by the leadership of the Senate that the Senate intends to adjourn for recess next Wednesday prior to Thanksgiving, that means the time is not as long as it otherwise would be. The Congress will not be up here on Friday the 29th, so this bill would have to be completed and enacted by next week to meet the Senate schedule.

Senator WILLIAMS. How much of this \$315 billion is to take care of the recommended tax cut in the next fiscal year?

Secretary DILLON. Well, as I pointed out, you could say either \$1.8 billion or none of it, the reason being that we have accepted a ceiling of \$315 billion for June 15, which is only \$800 million over our estimate.

This is an inadequate allowance for contingencies in view of the fact, as I pointed out, that the average error of estimates made as late as January when the budget goes up, which is about 2 months later than now, has been \$1.3 billion.

Therefore, if the tax bill were not enacted at all we would have increased the allowance on that particular day, by about \$1.6 billion. It is \$1.8 billion for the year, but only \$1.6 billion comes up by that time. So if you added that to the \$800 million, you would have \$2.4 billion as an allowance for contingencies, which is less, as I pointed out, than the normal \$3 billion.

Now, of course, if the Congress does enact the tax bill, as seems to be indicated, and I hope very much they do, but if the enactment does not take place prior to January 1, and takes place sometime in the first 3 months of the year, then the withholding rates will not go into effect until a later date then revenues would be increased, depending on when this happened, by something less than the \$1.6 billion.

So our contingency allowance would be increased by something less than that, and would be probably less than \$2 billion.

Senator WILLIAMS. Would you have any objection to the committee taking that portion of the debt ceiling which would relate to financing the tax cut and subtract it from this bill and then add as a new amendment on to the tax bill to raise the debt ceiling enough to finance the tax cut and let each ride on its own merits?

Secretary DILLON. Well, let me see where we stand.

Senator WILLIAMS. In other words, pull a couple of billion off this extension, and when the tax bill goes through, let us have a new section to add the necessary amount to finance the tax cut. It would show the American people a little more clearly what you are doing, that is, raising the debt so that you can borrow the money to finance the tax cut, and it would be all in one package. I am sure that would be your desire to make it clear to the people.

Secretary DILLON. I would have no objection to that.

I would only point out, as I made clear in my statement, that the tax cut, as we have estimated it, would have very little effect on the peak which comes in March 15. The primary effect is to increase the June 15 peak over the March 15 peak. We would need \$313 billion to meet the March 15 peak, without a tax cut—in fact that would only give us \$100 million flexibility, which is clearly inadequate, I would say.

So I would say that unless the Congress wanted to start increasing the debt in amounts of less than \$1 billion, which I would not think would be the case, then if they wanted to follow your suggestion, the maximum they could reduce our request would be to \$314 billion. This would give us a \$1 billion leeway.

Senator WILLIAMS. That is on the assumption that the tax bill will be passed during this calendar year.

Secretary DILLON. No. I say even if it is not passed, we will have the same need of approximately \$313 billion on March 15. Even if it is passed in this calendar year and became effective for withholding purposes on the first of the year, there is a lag of a month or more before the Treasury begins to receive those receipts. So it would not have much effect. It would be about 1 month's effect by March 15, which is very low.



Senator WILLIAMS. But if it is not passed until next year, the withholding more than likely would not go into effect before April 1, is that not correct?

Secretary DILLON. If it went into effect on April 1 it would have, as I say, an effect of some kind. We have those figures readily available. If it went into effect on April 1, our net increase in revenues would be, for the year, about \$1.1 billion. But none of that would take effect, practically none of it, to meet this March peak. It would all affect the June 15 peak which then would be identical with the March peak instead of being higher.

Senator WILLIAMS. If we add it in as an amendment to the tax bill, it could be provided—

Secretary DILLON. That would take care of the June peak, but it is about \$1 billion rather than \$2 billion. That is the point I wanted to make.

Senator WILLIAMS. Do you think there is a Chinaman's chance of this tax bill being passed this calendar year?

Secretary DILLON. Enacted into law? I would have to say from my experience with legislation that I think it highly unlikely, at the present date, that consideration by this committee would be completed and the bill could be debated on the floor of the Senate and carried through conference and all done before December 20.

Senator WILLIAMS. That was my opinion, and I thought we might just as well get that clear, because I think it is no more than right to let the American people know that all this talk about getting a bill through at this session of the Congress or even trying to do it is just wishful thinking, and not something that anyone who is aware of the situation even thinks is remotely possible.

Secretary DILLON. Well, I think that the President was asked a similar question at his news conference, the last one, and I think he indicated at that time that he agreed that it was unlikely that the bill could be passed during the course of this calendar year and enacted into the law.

Senator WILLIAMS. I think you answered this question earlier, but I am not sure. Do you have any idea as to what the next year's budget is going to be?

Secretary DILLON. No, I have no idea. All I can say is what the President pointed out, the commitment he made, which was that he would send up a budget with a deficit of less than \$9.2 billion, provided a tax bill was enacted into law as provided in the House bill.

Senator WILLIAMS. Well, this is approaching the 1st of December. If we do not have an idea as to what next year's budget is going to be, how can you be so certain on how much of a debt ceiling you are going to be needing by June 30?

Secretary DILLON. By June 30?

Senator WILLIAMS. Next year. You are projecting your needs, your expenditures, and your income until next June and your deficits until 1968.

Secretary DILLON. That is right.

Senator WILLIAMS. I do not see how you can project those estimates unless you have some idea as to the budget for next year and the expenditures.

Secretary DILLON. Well, the budget for next year has nothing to do at all with any expenditures we would make prior to June 30. It

would merely appropriate moneys to be spent after June 30, so naturally—

Senator WILLIAMS. That is true. But it would govern to some extent your rate of expenditures in the succeeding year. If you are going to reduce the budget next year, you would more than likely start putting the brakes on earlier. If you were going to accelerate you would start expanding.

Secretary DILLON. I think the point there that has been made, and it has been made very clearly and in great detail by the chairman of the House Ways and Means Committee in his presentation of this bill to the House, and with many tables which are in the Congressional Record. In his opening statement he showed how many programs of the Government are dependent on financing through appropriations that were made a long time before, were of relatively unchangeable character by law, such as pay scales, pensions, grants to States that are matching, and things of that nature. So that what is controllable by the executive after moneys have once been appropriated is very little except in the defense area where, of course, the President has, as Commander in Chief, full freedom to cut any expenditure that he considers under the circumstances to be unwise. But I doubt if the Congress and the people would feel that there should be any substantial changes made in the defense picture.

So the flexibility in the rest of the budget for the President to change congressional appropriations is really very small, and I have tried to point that out in a number of statements I have made. Really the most important budget control is in what the Congress appropriates because that is the only place expenditures can come from, and if those appropriations are held relatively level, spending will become relatively level a year or two later. There is that much lag in expanding over appropriations.

Senator WILLIAMS. Approximately how much is the interest on the national debt for the past year?

Secretary DILLON. For the past year it was about, just under \$10 billion, and it is estimated this year at between \$10.5 and \$10.6 billion, somewhere in there.

Senator WILLIAMS. And this additional \$500 to \$600 million is to pay the interest on the additional debt, that has been created or is it as a result of higher interest rates?

Secretary DILLON. Well, I would say it is largely as a result of higher interest rates. The short-term interest rates were increased and did increase substantially as a result of the change in the Federal Reserve rediscount ceiling last July. That is substantially the major reason, substantially the entire reason, for the error in our January estimate—where we thought it would be just over \$10 billion, and it turns out to be \$10.5 billion.

Senator WILLIAMS. What was the interest in the preceding year, 1962?

Secretary DILLON. The interest expenditure in 1962 was \$9.1 billion.

Senator WILLIAMS. How much was it in 1961?

Secretary DILLON. In 1961 it was \$9 billion, and in 1960 it was \$9.2 billion.

Senator WILLIAMS. And this year it is approximately \$10 billion; and next year?

Secretary DILLON. \$9.9 for 1963, and now it is estimated at \$10.5 billion for 1964.

Senator WILLIAMS. As a comparison it is interesting to note that the total expenditures of the Government in the year 1940 which, by the way, was an alltime high except in World War I, were only \$9,055 million, but our interest on the national debt today exceeds the total expenditures during any of the years in the 1930's and early 1940's; is that correct?

Secretary DILLON. I think that is—I do not know about the early forties, but certainly right up to World War II.

Senator WILLIAMS. But prior to World War II?

Secretary DILLON. Yes.

Senator WILLIAMS. You say that is largely, a substantial part of this interest, at least a part of it, would be as the result of increased interest rates.

Secretary DILLON. This year there was a very substantial difference. Nearly half a billion dollar difference which flows from the fact that short-term interest rates, which means everything up to a year or 18 months, increased or have been increased by something over a half of 1 percent as a result of the Federal Reserve rediscount change.

Senator WILLIAMS. Do you have there handy the interest rates of all of the Government obligations for the years 1961, 1962, and 1963?

Secretary DILLON. Yes, I do.

The total interest-bearing debt average, I have it both by months and by ends of the fiscal year—

Senator WILLIAMS. By years.

Secretary DILLON. The end of fiscal year 1960, the total interest-bearing debt as of June 30, 1960, averaged 3.3 percent; in 1961 because we had entered a period of recession, and interest, short-term interest, rates were drastically reduced, that average dropped to 3.07. In 1962 it increased by the end of June to 3.24. Now, 1963, it was, this last June it was, 3.36, and as of the end of October, 2 weeks ago, it was 3.46 percent.

Senator WILLIAMS. Then it could be safely assumed that some of those who had been complaining so much about high interest rates under the preceding administration have come around to the conclusion that money is a commodity and, as you borrow more of it, and as the Government has these large deficits to finance, you have to pay the going rate in the market; is that not true?

Secretary DILLON. We certainly have to pay the going rate in the market. But I think that certainly the Federal Reserve, by its policy, on credit, can help to influence the rate and, as you know, we have, for balance-of-payments reasons have, concentrated on the short-term area. This change in the rediscount rate was unique in that for the first time it was made for balance-of-payments reasons primarily, rather than for internal U.S. inflation or credit reasons. What has actually happened is that interest rates on short-term debt have gone up very drastically, whereas the rates on longer terms have not increased.

Actually the rates on mortgages, FHA mortgages, have continued to decrease, and reached a new low in September, which they maintained in October, and the only place where the increase has been substantial has been in the short-term area.

So actually, as of the end of October, as compared to the lowest level of the last recession, which was February 1961, mortgage rates were nearly half of 1 percent lower. Corporate bonds and municipal bonds were essentially the same; long-term Treasury bonds were one-quarter of 1 percent higher, and short-term bills were about  $1\frac{1}{4}$  percent higher.

Senator WILLIAMS. Well now, 1960 and 1961 you had some outstanding 5 percent bonds and 4%.

Secretary DILLON. The 5 percents are still outstanding. They are due next year. Some  $4\frac{3}{8}$  we were able to retire.

Senator WILLIAMS. Retired this year.

Secretary DILLON. Retired this month, just last Friday.

Senator WILLIAMS. That is correct. To that extent they would pull the average down.

Secretary DILLON. Yes, just last Friday. They were retired by  $3\frac{3}{8}$  notes.

Senator WILLIAMS. Yes.

That is all.

The CHAIRMAN. Senator McCarthy?

Senator McCARTHY. I do not have any questions.

The CHAIRMAN. Senator Hartke?

Senator HARTKE. Mr. Secretary, all I can say is that with your usual patient, good nature, intelligent presentation, without attempting to mislead anyone, I want to commend you for making these pilgrimages up here to Capitol Hill. I only hope that we can some day understand that this debt limit has no real relation whatsoever to the debt itself.

First, I want to be really effective in cutting the debt, which probably the best way would be just to vote against appropriation bills; isn't that right?

Secretary DILLON. That is correct.

Senator HARTKE. Thank you, sir.

Secretary DILLON. Thank you.

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

The meeting will recess until 10 tomorrow morning.

Secretary DILLON. Thank you, sir.

(Whereupon, at 12:40 p.m., the committee was recessed, to reconvene at 10 a.m., Tuesday, November 19, 1963.)

## PUBLIC DEBT CEILING

TUESDAY, NOVEMBER 19, 1963

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

The committee met, pursuant to recess, at 10:13 a.m., in room 2221, New Senate Office Building, Senator Harry F. Byrd, (chairman) presiding.

Present: Senators Byrd, Smathers, Talmadge, McCarthy, Ribicoff, Williams, Carlson, Bennett, Curtis, and Morton.

Also present: Elizabeth B. Springer, chief clerk.

The CHAIRMAN. The committee will come to order.

The first witness this morning is Mr. Kermit Gordon, Director of the Bureau of the Budget.

Mr. Gordon, you may proceed.

### STATEMENT OF KERMIT GORDON, DIRECTOR, BUREAU OF THE BUDGET, ACCOMPANIED BY CHARLES L. SCHULTZE, ASSISTANT DIRECTOR, AND SAMUEL M. COHN, OFFICE OF BUDGET REVIEW

Mr. GORDON. Thank you very much, Mr. Chairman.

I have a brief statement here which I will be happy to read if you would like me to.

The purpose of my testimony today is to support the Treasury's request for approval of a debt limit of \$315 billion for the remainder of fiscal year 1964. To aid in your appraisal of that request, I will review the current expenditure situation and outlook and outline some of the policies being followed by the administration to maintain strict control of expenditures.

*The January budget for fiscal year 1964.*—In the budget submitted last January, expenditures for fiscal 1964 were estimated at \$98.8 billion. Apart from outlays on defense, space, and unavoidable interest charges, that budget proposed lower expenditures than during the prior year. Since a tight budget does not imply an equal degree of restrictiveness in all programs, regardless of merit, some increases were provided for programs of particular importance to a growing economy—education, manpower retraining, public health and research are examples. Other increases in outlays had to be provided to take care of the rising workloads which accompany a growing population and income—between 1962 and 1964, for example, visitors to our national parks will increase by 5½ percent, the number of patents granted will rise by 17 percent, the volume of mail will grow 6.4 per-

cent, the number of people receiving veterans' pensions will rise by 11 percent, and passports issued will increase by 27 percent. Accommodating these increases within a civilian agency expenditure total lower than 1963 required a very tight screening of agency budget requests. As a result of that screening, some \$6 billion was cut from those requests before the budget document was submitted to Congress.

*Current estimate of fiscal 1964 expenditures.*—Our latest evaluation of the 1964 budgetary outlook foresees expenditures of \$97.8 billion—\$1 billion lower than the January budget estimate. Of the total reduction, more than half occurs in civilian programs. Taking this latest estimate into account, it turns out that Federal expenditures, outside of defense, space, and interest, will have risen by only \$3.8 billion over the entire 3-year period from 1961 to 1964, compared to a rise of \$5 billion over the preceding 3 years.

As you know, around this time of the year, the Bureau of the Budget would normally have prepared revised estimates of current-year expenditures in some detail—estimates based on final congressional action. However, congressional action on 1964 appropriations is still incomplete. As of today, only 4 of the 12 regular appropriation bills have been enacted by Congress. Two others have been passed by both Houses and are now in conference.

In addition, there is still before the Congress some substantive legislation which may be enacted this session. Accordingly, the expenditure estimates I am presenting today cannot be regarded as precise. Undoubtedly, before we finish preparing the 1965 budget document, there will be a number of changes—both up and down—in the components of 1964 expenditures. Nevertheless, I believe that the shape of events is now clear enough to enable a reasonable overall expenditure estimate for the fiscal year to be made. While the specific figure which I have given is inevitably uncertain, I am confident that the probable range of error around that figure is relatively small. It is within the normal range of uncertainty for which a contingency allowance must be provided in establishing a debt limit.

The major area of uncertainty relates to future action by the Congress on appropriation bills. Taking into account actions to date, and remembering that for the long leadtime items, which bulk so heavy in many large programs, appropriation action in 1964 affects mainly expenditures of later years, we have been able to make a reasonable estimate of fiscal 1964 expenditures.

The lower level of expenditures which we are now projecting seems likely despite some unforeseen increases, and takes into account the effects of amendments to the 1964 budget thus far submitted by the President, reductions already made by the Congress, and possible further reductions, as well as other factors.

The following table, which was also supplied to the committee in my statement on the tax program, summarizes the main elements of the change since January in the estimate of administrative budget expenditures in 1964.

The table referred to follows.

*Changes in outlook for 1964 administrative budget expenditures*

[Billions of dollars]

Expenditures as estimated in January.....	98.8
Change since January:	
Presidential budget amendments.....	-0.2
Expected effect of congressional action on appropriations.....	-1.3
Additional reductions in Department of Defense, excluding those resulting from appropriation cuts.....	-0.4
Additional sales of mortgages and other financial assets.....	-0.2
Commodity Credit Corporation farm price support program, reesti- mate based on later information.....	+0.4
Interest on the public debt.....	+0.5
All other, net.....	+0.2
Net change.....	-1.0
Current expenditure estimate.....	97.8

Since January, the President has sent to the Congress several amendments to the 1964 budget which reduced the requests for new obligational authority \$620 million below the budget estimates. These are estimated to reduce 1964 expenditures by about \$200 million.

The expenditure effect of congressional reductions in the four appropriation bills thus far enacted and the possible effect of future congressional action is tentatively estimated to amount to about \$1.3 billion in 1964. There are several factors which explain why expenditure reductions in 1964 will be substantially less than the total cut in appropriations:

First, some programs have a long leadtime between obligations and expenditures, and a reduction in appropriations for such programs in one fiscal year often does not result in a reduction in expenditures until later fiscal years. For example, most of the expenditure effect of appropriation reductions in foreign aid, in NASA, and in defense procurement and research and development would occur after fiscal 1964.

Second, some reductions in appropriations will not directly affect spending at all. For example, a \$100 million reduction by the Senate for reimbursement of net losses already realized by the Commodity Credit Corporation will have no impact on expenditures.

Third, some reductions in appropriations represent a difference of opinion between the Congress and the administration on the probable cost of programs which are mandatory under the law. For example, it appears that a large part of the \$175 million reduction in the appropriation for State grants for public assistance will be needed and will have to be restored next year.

Other changes in the expenditure outlook stem from a number of factors. Expenditure reductions in the Defense Department, over and above those due to appropriation action, are estimated to total an additional \$0.4 billion. Moreover, it now appears that sales of mortgages and other financial assets in fiscal year 1964 may total \$0.2 billion more than estimated in January, and net budget expenditures will thereby be reduced by this amount. The increased sales now foreseen would be primarily by the Veterans' Administration from its direct loan portfolio.

On the other hand, expenditure estimates have been increased in two areas because of developments since January. The interest cost on the public debt is estimated to be up by \$0.5 billion, mainly reflect-

ing a higher average level of short-term interest rates. The latest information from the Department of Agriculture on crops and related data indicate that the cost of the farm price support program may also be \$0.4 billion more than had been estimated in January. These higher outlays reflect larger-than-anticipated expenditures on cotton and feed grains, partly offset by larger commodity sales abroad.

Consideration of the uncertainties in this estimate—as in all such estimates—along with those related to revenues as estimated by the Treasury, would argue strongly for a debt limit which provides for a significant margin against unforeseen developments during the fiscal year as well as for flexible debt management. As Secretary Dillon has noted, the Treasury's calculations of its revenues and cash balances indicate that the contingency allowance provided for by the House bill is exceedingly thin. A ceiling of \$315 billion will therefore require continued tight control over spending and a smaller-than-customary margin for contingencies and flexibility. Accordingly, I believe a debt limit of \$315 billion for the remainder of the fiscal year 1964 is as low as prudence will allow.

*Budgetary policies.*—Before concluding, I should like to spend a few moments in outlining some of the more important general policies which we have been applying, and shall continue to apply, in formulating our budget proposals. Our basic policy—particularly in the context of the tax program now before your committee—continues to be that only those expenditures will be proposed which meet strict criteria of satisfying pressing national needs.

We are continually exploring the possibilities of getting the private sector to undertake needed activities which it can appropriately carry out, or to participate more fully in Federal programs. In the area of Government lending, for example, over \$1 billion of Federal financial assets was sold to private holders in fiscal 1963, and we expect to increase this amount in 1964. The President has also proposed legislation for a new program of mortgage insurance on farm and rural homes, which will replace a large part of the direct loans now made by the Federal Government with private insured lending, and, at the same time, substantially expand the availability of mortgage credit to our rural citizens.

Our efforts to increase private participation are not confined to the credit field alone. For example, the Civil Aeronautics Board has prepared a report, now being reviewed, which sets forth a program for gradually reducing Federal operating subsidies to local service airlines. Private industry is carrying an increasing percentage of our national outlays directed toward civilian use of atomic energy, with a corresponding decrease in Federal involvement.

We have also been guided by the belief that, to a greater extent than is now the case, the costs of programs which provide special benefits or privileges should be borne by the particular individuals or groups receiving the benefits, rather than by the general taxpayer. In the 1964 budget, for example, the President recommended a series of user charges for commercial and general aviation and for transportation on inland waterways, so that passengers and shippers would bear a more equitable share of the costs of the services provided by the Federal Government. He has also recommended an increase in patent fees. We shall be recommending further new or revised user charges as justified.



In his budget message in January, the President said:

We shall maintain pressure on each department and agency to improve its productivity and efficiency. Through improved management techniques, installation of modern equipment, and better coordination of agency programs, important productivity gains have already been realized, and further advances will be forthcoming. I mean to insure that in each of the various Federal programs, objectives are achieved at the lowest possible cost.

Sustained and effective efforts are being made throughout the executive branch to improve management, control Federal civilian employment, and reduce costs. The most dramatic of these, of course, is Secretary McNamara's cost-reduction program in the Defense Department. This program resulted in savings of more than \$1 billion during fiscal year 1963, and the Secretary estimates that actions planned for 1964 and 1965 will ultimately bring savings to almost \$4 billion a year. Although the efforts in Defense are the most widely known, many improvements have also been made by other agencies to increase efficiency and save money. For example, in the Treasury Department, the number of man-hours needed to issue a given volume of checks and bonds is only one-third as great as 10 years ago. In the Bureau of Old-Age and Survivors Insurance, an increase of 5.5 percent in the output per worker was achieved in fiscal 1963, thereby substantially reducing the number of new employees needed to handle rising workloads. Because of greater productivity, the Post Office Department was able to reduce the number of its employees by 1,300 in fiscal 1963, although postal volume rose by 1.2 percent. These are only a few of numerous examples which can be cited.

Control over Federal civilian employment has been made a matter of major concern within each executive department and agency. In October 1962, the President announced a 5-point program to control and improve the use of manpower throughout the executive branch. Employment is being held substantially below the levels estimated in the January budget. Indeed, in the last year, Federal employment in the executive branch declined by 242 persons. State-local employment, meanwhile, has been growing by roughly 300,000 per year.

The President has recently reiterated his determination to hold Federal employment to the lowest possible level. In a statement to the Cabinet on September 23, the President said:

In the present fiscal year, and the next, I ask every Cabinet member and every agency head to make certain that there is no slackening in our efforts to improve the control and utilization of manpower. In view of last year's achievement, the year-end employment estimates for the present fiscal year which appear in the January budget are already obsolete. I have asked the Budget Director to take the lead in developing new and tighter employment targets for the end of the present fiscal year, and to set them at levels which cannot be realized except through the introduction of further improvements in manpower management.

Lower employment targets are now being worked out with the agencies.

We attach great importance to cost reduction and greater efficiency throughout the Government. The Government should lead, not lag, in the development and adoption of better management techniques. And the savings that are realized are needed to finance the expanded public services which are demanded by a nation growing constantly in population and living standards.

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

Senator Curtis has another engagement, another committee meeting of importance, and he is very desirous of asking some questions. Unless there is some objection on the part of the committee, the Chair recognizes Senator Curtis.

Senator CURTIS. I thank you, Mr. Chairman, and I will try to be as brief as possible.

I do have some figures here which I would like to have reconciled, Mr. Director. The Secretary of the Treasury has testified in these hearings that there was a deficit of \$3.9 billion in fiscal 1961, a deficit of \$6.4 billion in the fiscal year 1962, a deficit of \$6.2 billion in fiscal 1963, and that there will be a deficit of some \$9 billion in fiscal 1964 with the proposed tax cut.

Mr. GORDON. Those figures are correct.

Senator CURTIS. And another deficit in the order of \$9 billion in the fiscal year 1965, and there will certainly be another deficit in 1966, fiscal 1966, and another deficit is likely in 1967.

Do you agree with the Secretary's figures, past, present, and future?

Mr. GORDON. I would certainly agree that the past figures which you gave, Senator, are correct. The deficit for this year as you say, is estimated at about \$9 billion, assuming enactment of the tax cut. On the basis of a Presidential letter to the chairman of the House Ways and Means Committee, it can be said that the deficit in fiscal 1965 will not exceed this year's currently estimated deficit. It may be lower.

Senator CURTIS. That is a goal.

Mr. GORDON. That is a goal, correct.

Senator CURTIS. You do anticipate a deficit in fiscal 1966 and 1967. do you not?

Mr. GORDON. I would think a deficit is highly likely in fiscal 1966. Fiscal 1967 seems to me to be the first possible year when we can reasonably hope to get the deficit down to a very modest figure, and perhaps with good fortune even to achieve a balanced budget.

Senator CURTIS. No surplus and maybe a small deficit is what your —

Mr. GORDON. Well, here I think I would agree it is very dangerous, of course, to try to forecast such difficult matters this far ahead.

Senator CURTIS. I agree with that.

Mr. GORDON. Because I would agree with the Secretary of the Treasury's view, which is that we can reasonably look forward to the achievement of balance in the Federal budget in the fiscal years 1967 or 1968, more likely in the latter but possible in the former.

Senator CURTIS. Now, you were quoted in the Washington Post on January 30, this year, as telling the Joint Economic Committee, and I quote from that article:

A balanced budget would lead to increased unemployment, higher taxes, and a general economic decline.

Are these your views now?

Mr. GORDON. They were not my views then, Senator. That was an erroneous newspaper story. It differed not only from other newspaper stories which were written to cover the same testimony, it also differed with the record of the Joint Economic Committee, and I would be very happy to submit for this record the actual transcript

of what I said at the Joint Economic Committee. This is quite an erroneous quotation. It was not a direct quotation, by the way. It was a paraphrase and I am afraid the reporter misunderstood what I was saying.

Senator CURTIS. Concisely can you state what was your correct statement?

Mr. GORDON. Yes, I will be happy to. I was being questioned by a member of the Joint Economic Committee who wanted to know my estimate of the amount by which taxes would have to be increased in fiscal 1964 to achieve a balanced budget in fiscal year 1964. This is a very difficult estimate to make. It involves a number of judgments about the effects of the increase in taxes on the level of economic activity and on the size of the tax base. I made a rough estimate which I think on later reflection was not too far off, but I estimated that—we were then estimating, as I remember, an \$11.9 billion deficit in the budget for fiscal 1964—I estimated at the time that the amount of the tax increase which would have to be enacted in order to achieve a balanced budget in fiscal 1964 would have to be considerably larger than that because, of course, the effect of the tax increase would have been to curtail the level of spending and economic activity and create a smaller tax base from which these increased taxes would have to be derived.

Senator CURTIS. Now, of course, there are two ways to balance the budget, aren't there?

Mr. GORDON. I am not sure I follow you, Senator.

Senator CURTIS. What I mean, you can increase taxes but you can also reduce expenditures.

Mr. GORDON. Yes. And this was a part of the question that was addressed to me. The question was also—

Senator CURTIS. Are you saying, then, to do either one would create unemployment?

Mr. GORDON. My answer, and this is an answer which I would still affirm, would be that either to increase taxes sufficiently in 1964 to achieve a balanced budget in 1964 or to reduce expenditures sufficiently in 1964 to achieve a balanced budget in 1964, would have had the effect of reducing the level of economic activity, yes, indeed. That was the nature of my response.

What I was saying, if I may summarize briefly, Senator, was what I had already stated, incidentally, in my testimony at the Joint Economic Committee, that I favored a balanced budget and felt that the soundest way to achieve a balanced budget was to generate an expansion in economic activity which would yield the revenues necessary to balance expenditures, and this, of course, is a basic part of the rationale of the tax cut.

Senator CURTIS. Well, we are all short of time. I have always noticed that this expansion of the country's economic growth is always surpassed by an expansion of Government to that—

Mr. GORDON. I don't think that is a correct statement, Senator.

Senator CURTIS. Well, I think it is. I think it is.

Mr. GORDON. If you look at the relation today between expenditures in the administrative budget and the gross national product, it is almost exactly where it was 7 or 8 years ago.

Senator CURTIS. I realize that, but you also realize, do you not, that in initiating new programs, and there are many of them pending,

there is a big lag between the outflow of money from the Treasury and the initiating of that program, isn't there?

Mr. GORDON. Oh, yes, this is true of many new programs.

Senator CURTIS. The first year or two doesn't amount to anything. It dribbles along and many programs hit their peak of spending 5 to 7 years afterward and in case of a social program, tied to social security, it is apt to be 20 or 30 years.

Mr. GORDON. I would certainly agree that with respect to most new programs, the major expenditure impact is not felt the first year. In some it will be the second year and in others it will be later.

Senator CURTIS. When the Secretary of the Treasury appeared before this committee in 1961 requesting an increase in the statutory debt limit, he expounded at length, and this is on page 4 of the hearings of June 27, 1961, on the theory of balancing the budget over the years of a business cycle. He quoted at length from the President's speech of March 26, 1961, on the same subject and the Secretary concluded by saying, and I quote:

This statement by the President which was on balancing the budget over a cycle clearly outlines our budgetary policy from which we have not wavered.

Your predecessor, Mr. David Bell, as Director of the Budget repeatedly promised a balanced budget over the years of a business cycle. We have already had Federal deficits in consecutive years since 1960. We have them planned as a basis for this bill until 1967, or according to you at least 1966.

What do you regard as the number of years in a business cycle?

Mr. GORDON. The number of years in a business cycle, Senator, is a subject on which you can always generate a lively argument among economists.

Senator CURTIS. Well, we won't argue. Just what do you think? What do you think?

Mr. GORDON. A simple way to answer your question is to take an arithmetic average of business cycles in past experience. It seems to me, however, that the central point to be made here is this. Traditionally in thinking about the business cycle—here I am referring to economic and business thinking that goes back for 50 years—it has always been assumed that the top of a cycle is a period characterized at least by full employment and reasonably full utilization of capacity. Often it has been characterized by more than that. It has been characterized by inflation.

Now, we have come into a period since 1957 in which we are dealing with quite different phenomena. We are dealing with a so-called business cycle which terminated in 1960 at a level substantially short of full employment and full capacity utilization, so that I am not sure whether you would date the cycle, the submerged peak in 1960, as the end of a business cycle or not. It is not a normal period—we didn't reach full employment and full utilization.

Now, I would much rather associate, and I think historically this bears up, I would much rather associate the achievement of a balanced budget and even a surplus not with the top of a business cycle but with the achievement of full employment and reasonably full utilization of capacity, and I think if you look back over recent years you will find that the years in which we achieved a balanced budget are precisely those peacetime years in which we do have full employment and reasonably full utilization of capacity.

Senator CURTIS. Now, on that point we then would balance our budget in peak years and add to the debt in less than peak years. When would we ever pay any of the debt?

Mr. GORDON. Well, as I said, in the past a balanced budget, or even better, a surplus, has been associated with years of full employment. Now, you see, Senator, to talk of peak years suggests that inevitably after we reach full employment and full utilization, we are going to have a decline. I don't think there is anything inevitable about such a pattern of economic activity. The Europeans have licked it. Since the war the European economy by and large has not been subject to the kind of periodic fluctuations in economic activity that we have. I think there is nothing inevitable about it, and I think we need not look forward to circumstances in which every time we reach full employment, full utilization, the economy will then tail off.

Senator CURTIS. Coming back to my question, what do you regard as the number of years in a business cycle? Is it your answer that there is no such thing?

Mr. GORDON. I would say that my own opinion, Senator, is that there is no standard period for a business cycle. You can take arithmetic averages of past periods and say this is the average, but I don't think this is very—

Senator CURTIS. Give me a maximum and a minimum in your opinion.

Mr. GORDON. Well, we have had expansions that have run, oh, for 40 months, perhaps as much as 45 months. We have had on the other hand expansions which terminated within 25 months. This again is just a matter of historical averages.

Senator CURTIS. Two to four years.

Mr. GORDON. What is that?

Senator CURTIS. Two to four years.

Mr. GORDON. Something like this.

Senator CURTIS. Apparently the theory of balancing the budget over the period of a business cycle was abandoned some time ago. The Bureau of the Budget shifted gears somewhat over a year ago to place emphasis on three budgets instead of one. The regular administrative budget, the cash budget, and another arrangement of figures called the Federal sector of national income accounts.

Even with all the confusion caused by three budgets for the current fiscal year, you show a deficit in all three of these budgets, do you not?

Mr. GORDON. In the current fiscal year?

Senator CURTIS. Yes.

Mr. GORDON. Yes, sir.

Senator CURTIS. The President in his September 10 speech in paragraph 23 talked about another kind of budget balance. He said, he repeated his pledge to "achieve a balanced Federal budget in a balanced full employment economy."

What is a balanced full employment economy?

Mr. GORDON. I would say, Senator, it is an economy characterized by sufficient job opportunities to provide productive employment for our labor force, an economy in which we are utilizing at a high rate our productive capacity, and an economy which is otherwise characterized by stable prosperity.

Senator CURTIS. And it is your policy that until we reach that, we should increase the debt.

Mr. GORDON. I would not describe it as a policy, Senator. I would point out that recent history supports the view that it is only in such an economy that we tend to generate a sufficient level of revenues to balance the budget. If you look at the years in which we have balanced the budget since the war, they have with but a single exception, and that is very close, been years of this kind of economy.

Senator CURTIS. Why confine it to recent history? Why not take the history of our Republic? It has been a rather successful venture.

Mr. GORDON. The same generalization might go back a good deal further than the years since the war. I just happened to have checked this through in the years since the war. In the 1920's, for example, the Federal budget was, I think, in every year in balance or surplus and this was a period of prosperity and reasonably full employment.

Senator CURTIS. Now, the President's term, a balanced full employment economy, have we ever had one?

Mr. GORDON. Yes. I am not sure that we have ever had an economic climate which I would describe as perfect, but certainly in the—

Senator CURTIS. Well, have we had one?

Mr. GORDON. For example, in the years prior to 1958 I think our—

Senator CURTIS. Pick out a year when we had a balanced full employment economy.

Mr. GORDON. The years 1955 and 1956 would come pretty close to that.

Senator CURTIS. Well, when can we expect one in the future?

Mr. GORDON. This, Senator, I think relates to the discussion we had a moment ago. With the enactment of the tax bill, I think we can look forward with a reasonable amount of confidence to the achievement of this kind of economy in calendar year 1966. And on the basis of that economy we believe that the economy will generate sufficient revenues to achieve balance or surplus in the budget in 1967 or 1968.

Senator CURTIS. Well, now, are you going to say that we will have a balanced full time economy in fiscal 1966?

Mr. GORDON. A full employment economy?

Senator CURTIS. No. The President said a balanced full employment economy.

Mr. GORDON. It is certainly our hope, Senator, and I think there are good grounds for some optimism here, that the enactment of the tax bill which is now before your committee will help us to reach such an economy by calendar 1966.

Senator CURTIS. Do you mean by this term, a balanced full employment economy, that there is no one unemployed?

Mr. GORDON. No. We will never reach that. We didn't reach that even during the most difficult periods of the Second World War.

Senator CURTIS. Is it desirable to reach it?

Mr. GORDON. It is impossible to reach it.

Senator CURTIS. Is it desirable?

Mr. GORDON. This is a question I have never really thought of before. I usually don't feel that something that is impossible is really subject to a debate about desirability. There must always be a certain volume of frictional unemployment, people between jobs. As

I say, in the tightest period of the Second World War we had one to one and a half percent unemployment, and I doubt if we will ever go below that level. I would hope—

Senator CURTIS. In other words, there has to be some unemployment to accommodate individual and family plans of workers and there has to be some unemployment to accommodate changes in our economy often which mean progress, isn't that right?

Mr. GORDON. That is correct.

Senator CURTIS. And we must face the fact that we have got some unemployables, haven't we?

Mr. GORDON. I am sure there are hard core unemployables, Senator, although what people call unemployable tends to vary.

Senator CURTIS. I do not mean that in a cold disinterested view—

Mr. GORDON. I understand.

Senator CURTIS. That we shouldn't be thinking about them and how they could become employable, but we have some people that in the modern operation of our economy aren't very employable, isn't that true?

Mr. GORDON. I am sure there are always some people who are in your sense, Senator, unemployable, but I think that you will find that the kind of level of skill and intelligence which is regarded as unemployable tends to vary a good deal with the state of the economy. People whom some might now regard as unemployable would not have been regarded as unemployable at the peak of the Second World War. I think this depends on the state of the labor market, but nevertheless I concede that—

Senator CURTIS. When jobs are plentiful, the fellow that is just a little below the mark can get a job and when jobs are rather scarce, the more capable are apt to work.

Mr. GORDON. I think it is awfully important to distinguish what you would call unemployability based on fundamental deficiencies in intelligence and adaptability from deficiencies based on inadequacy of education and training. I think there are a good many people in our economy today who, with further education and training, could be moved out of the category which some would now describe as unemployable into a fully employed group.

Senator CURTIS. I recall having read Will Rogers as saying that in the army of the unemployed there were a lot of volunteers.

Would you agree with Mr. Rogers?

Mr. GORDON. It is a big country, Senator. There are all kinds of people in it. I am sure that there are such people.

On the other hand, I think the way we try to collect our unemployment statistics is designed to minimize the inclusion among the unemployed of those who really don't want to work. The enumerators seek to ascertain whether the person in question who professes to be unemployed and looking for a job has actually made any tangible or concrete effort to find a job. And if there is no evidence of any effort to look for a job, I don't think that person would be classified as unemployed.

Senator CURTIS. I think if we wait to balance our budget until unemployment has substantially disappeared, we are in a sense making the statement we do not ever expect to balance the budget.

Mr. GORDON. We are not talking, Senator, about unemployment substantially disappearing by 1966. I don't think it will. We are

talking about an unemployment level in 1966 which would be associated with a much higher level of economic activity generally—an unemployment rate of about 4 percent. Now, 4 percent, I think, is too high but we are at least associating a 4-percent level of unemployment with a much more prosperous state of the economy.

Senator CURTIS. I was puzzled about the President's choice of words. He said a balanced full employment economy. He didn't say a high employment economy. He said a full employment economy, and full is pretty full.

Mr. GORDON. The difference between these two words is rather an ancient dispute, Senator. They were involved, as you know, in the congressional debates over the enactment of the Employment Act of 1946, as to whether it was to be called full employment. I don't think it is really a very meaningful debate. I don't think anyone argues that we can ever achieve a situation in which everyone has a job. There are always, in a complex economy such as ours, circumstances which will produce some level of unemployment. The question really is what should Government policy be both with respect to the general level of demand in the economy and with respect to the adaptability of the work force and training and that sort of thing, to achieve the lowest possible level of unemployment. I would think that the 4-percent goal that we have been talking about is a reasonable interim goal and I think it can be reached without generating any significant inflationary pressures.

Senator CURTIS. Well, I voted against the act of 1946. I felt it shifted the responsibility from the individual to the Government. As a matter of fact, our unemployment situation is worse now than when we enacted the law, isn't it? It has been.

Mr. GORDON. It was enacted in 1946. I suspect unemployment is higher now, unless there was some high interim unemployment because of the reconversion at that particular time.

Senator CURTIS. On September 10, 1963, also the President made a speech to the so-called Conference of Business Committee For Tax Reduction in 1963 which was held here in Washington. That speech was inserted in the Congressional Record. It is found at pages 85724 to 85726 of the same date.

This was a speech dealing with the Nation's fiscal affairs and the state of the economy. It contained many figures and statements which should be examined closely. I wish to take up a few of them with you.

One of these statements is contained in the 20th paragraph of the speech. It reads as follows:

Last January—

the President said—

I submitted a budget which except for unavoidable defense, space, and interest charges on the national debt was lower than the prior year.

First it should be noted that the President excludes from his comparison the expenditures for defense, space, and interest. And this is done almost invariably by administration spokesmen these days.

This committee is considering a bill to raise the revenue to meet the costs of the Federal Government. Would you agree with the statement that the basic reason for Federal taxes is to meet Federal expenditures?



Mr. GORDON. I am not sure I follow that, Senator. The basic reason?

Senator CURTIS. For Federal taxes is to meet Federal expenditures.

Mr. GORDON. Obviously, Senator, there has to be a close relationship between the level of taxation and the level of expenditures. But I think—

Senator CURTIS. But you would concede that is the reason for their existence, not for some social reason.

Mr. GORDON. Well, I was going on to say that although there is a close and important and vital relationship here, there are also consequences and effects of tax policy which spread out through the economy as a whole and don't directly relate to this single relationship between taxation and expenditures.

Senator CURTIS. I realize it has a widespread effect, but you would agree that the reason for taxes is to meet expenditures.

Mr. GORDON. Well, I suppose if you mean historically in the sense of why we have taxes, I am sure the reason historically is that, of course, taxes were a means of raising revenues in order to finance expenditures. That is correct.

Senator CURTIS. You say "historically." Has it changed?

Mr. GORDON. Well, it is a more complicated issue than that. I think there are matters involved in tax policy other than the simple one-to-one relationship to expenditures, although this is an important part.

Senator CURTIS. What is another reason for taxes?

Mr. GORDON. The other, of course, is the effect of tax policy on the level of economic activity and the rate of growth, and these are I believe very important consequences of tax policy.

Senator CURTIS. Now, the cost of defense, space, and debt—they are major Federal expenditures, are they not?

Mr. GORDON. Indeed they are.

Senator CURTIS. You do not think these items can be excluded from consideration of the requirements for revenue, do you?

Mr. GORDON. No. I don't think it was the President's intention to imply that they should. I think what he was doing was analyzing the composition of the budget and showing that the major increases in the budget in this administration have been in the category of defense, space, and interest—actually more than 70 percent of the increases—and he was calling attention to the rest of the budget, sometimes called the civilian or welfare program, on which so much interest focuses. He was focusing on the fact that in that area he was actually asking for less than he did for 1963.

Senator CURTIS. Well, I will come to that.

When you read what was said in that statement, it is easy to be misled. On close reading you find that the President was comparing his expenditure estimates for the current fiscal year 1964 with his estimates of last January for fiscal year 1963 which ended June 30. I am referring to the September 10 speech. The fact is that this speech was made on September 10 and on that date the actual spending figures for fiscal year 1963 had been available for 2 months. If the President had compared his spending estimates for the fiscal year 1964 with the actual figures for fiscal 1963, which were available to him, the picture would have been different. The facts are as com-

pared with actual figures for fiscal year 1963, the President's estimates of expenditures for the current fiscal year 1964 show an increase of \$6.2 billion in the total, an increase of \$4.4 billion for defense, space, and interest; an increase of \$1.9 billion in items other than defense, space, and interest.

Mr. GORDON. Now, you are comparing that, aren't you, Senator, with the 1964 expenditure estimates which were contained in the budget submitted to the Congress in January of 1963, not with the revised figures which I have presented here today and presented previously to this committee.

Senator CURTIS. When were they presented?

Mr. GORDON. They were presented in the statement which I filed for the record on the tax bill.

Senator CURTIS. When? As of today?

Mr. GORDON. October 21.

Senator CURTIS. Yes. But I am talking about what the President said on September 10 that the only increases would be in defense, space, and interest. Well, if you would compare his "then" budget expenditure estimates with what was actually spent, there was an increase of \$6.2 billion, almost \$2 billion of which had nothing to do with defense, space, and interest.

Mr. GORDON. Because through reductions in expenditures which we achieved in fiscal 1963, the comparison you are making deals with a lower 1963 base. That is correct. As you know, we managed to reduce expenditures in 1963 some \$1.7 billion below the figure which we estimated last January, and so that changed the base for your comparison. But I must say, Senator, that the essential point that the President was making there was fully accurate. It not only describes what his plan for the 1964 budget was at the time he submitted the 1964 budget, but if you look at it over a longer period, over the whole period of this administration from 1961 to 1964, and based on our present 1964 estimates, you will find that the total increase in expenditures on everything in the budget other than defense, space, and interest is up \$3.9 billion over the 3-year period. This compares with an increase in that category of \$5 billion in the preceding 3 years, 1958-61.

Senator SMATHERS. You said \$3.8 in your statement.

Mr. GORDON. I am sorry; \$3.8 is correct.

Senator CURTIS. But I can't get away from this basic fact, Mr. Gordon. Regardless of how we pick out this year or that year and compare it, when we enlarge the Government it costs more money. The President has advanced one of the most ambitious programs that any President has ever advanced. There are many different aspects of it. And there are people who agree with him. But the fact remains it is going to increase the cost of Government, isn't that right?

Mr. GORDON. No question about it, Senator. I think, apart from basic changes in our international relations which can have a fundamental effect on our defense budget, that the likelihood—

Senator CURTIS. And whenever we move from a doctrine of balancing the budget now to balancing the budget sometime, whether it is a business cycle or as the President said a balanced full employment, and in the interim when we follow the second course, we increase the debt. Every time we increase the debt by a billion dollars we have to raise about \$33,360,000 for interest, and that goes on and on and on.

Mr. GORDON. That is correct.

Senator CURTIS. Mr. Chairman, I will submit these not as the witness' figures but just about three lines of breakdown of the figures that I gave here. I would like to have it printed in the record at this point.

The CHAIRMAN. Without objection.  
(The document referred to follows:)

(In millions)

Category	January estimate, fiscal year 1963	Actual, fiscal year 1963	January estimate, fiscal year 1964	1964 estimate compared with—	
				January estimate, fiscal year 1963	Actual, fiscal year 1963
Total.....	\$94,311	\$92,590	\$98,802	+\$4,461	+\$6,212
Defense, space, and interest.....	65,020	65,161	69,520	+4,500	+4,359
Other than defense, space, and interest.....	29,291	27,429	29,282	-9	+1,853

Senator CURTIS. Now, Mr. Gordon, I will hurry on.

In his September speech before the businessmen, the President, among other things, talked about civilian employment in the executive branch of the Federal Government. He spoke in terms of last year. I take it he was talking about the past fiscal year which ended—

Mr. GORDON. What was the date of that speech, Senator?

Senator CURTIS. September 10.

Mr. GORDON. Well, if he said in the last year, I suspect he was speaking about the last year; that is, the change from August 1962 to August 1963.

Senator CURTIS. August?

Mr. GORDON. Yes. That was probably the last month available at the time he gave the speech. As you noticed, the figure I gave—the comparable figure I gave in my statement today—also refers to the last year. The latest data we now have are September. And I have compared September of 1962 with September of 1963.

Senator CURTIS. Well, I don't know what he is talking about but moving it back 2 months to the first of July—here is what it amounts to. He said:

Last year if the Federal civilian employment had increased at the same rate as population growth, it would have increased by 42,000 employees. It actually increased—

the President said—

by only 5,600.

Mr. GORDON. That refers to fiscal year 1963.

Senator CURTIS. Now, the monthly report of the Federal employment by the U.S. Civil Service Commission for June 30, 1962, shows the executive branch employment as of that date totaled 2,484,654. A year later the same report showed 2,497,706. These official reports by the Civil Service Commission show an increase during the year referred to by the President of 13,052.

Mr. GORDON. I will have to verify those figures. I am sure the figures the President used were accurate. I think the question probably is the inclusion or exclusion of special direct Federal employees on accelerated public works projects.

Senator CURTIS. I am coming to that. Now, this is the Civil Service report which I do not think includes those.

Mr. GORDON. The Civil Service report, I think, does include them, Senator. If I am wrong, I will correct that for the record, but I think it does include special Federal employees working on accelerated public works projects.

Senator CURTIS. Well, now, the Civil Service Commission report shows that 7,411 persons were employed in Federal agency projects under the accelerated public works program as of June 30, 1963.

Mr. GORDON. That is correct.

Senator CURTIS. If these 7,411 employees were added to the President's increase figure, the total would be 13,011.

Mr. GORDON. I think this is about correct, Senator.

Senator CURTIS. As compared to the Civil Service increase figure of 13,052. It comes out that close, the two methods of computation.

Mr. GORDON. Yes.

Senator CURTIS. It appears that the President did not choose to count Federal agency employment paid for with accelerated public works funds when he used the figure 5,600; isn't that correct?

Mr. GORDON. That is right, yes.

Senator CURTIS. The President spoke about civilian employment in the executive branch again on September 19 in a nationwide broadcast. Near the end of that address in the promotion of his tax bill the President said:

Those who were opposed to this bill talk about skyrocketing Federal employment when in fact we have steadily reduced the number of Federal employees serving every 1,000 people in the country.

In fact, he said there were fewer Federal civilian employees than there were 10 years ago.

This statement merits some examination and all the figures I shall use are taken directly from official published reports of the U.S. Civil Service Commission. You have no reason to dispute such a source.

Mr. GORDON. No. They are very good figures, Senator.

Senator CURTIS. On June 30, 1953, which was 10 years ago, for the purpose of the President's comparison—that was approximately the date of the end of the Korean war, wasn't it?

Mr. GORDON. Yes. Very close to that.

Senator CURTIS. Now, on June 30, 1950, before the start of the Korean war, Federal civilian employment in the executive branch totaled 1,934,040. On June 30, 1953, at the end of the Korean war, the total was 2,532,150. This was an increase of 598,110, which was a wartime employment and apparently what the President used in comparing what happened 10 years ago because—

Mr. GORDON. If I may comment, Senator, the basic point that the President made in that speech was wholly correct. He was pointing to a trend, a downward trend, in the relationship of Federal employment to the U.S. population. In 1953 there were about 16 Federal workers for each 1,000 people. By 1957 this was down to about 14. By 1963 it was down to 13. So this is not a comparison of one point in time with another point in time. It is a trend.

Senator CURTIS. Well, his 10-year growth figure was a wartime figure. And I also remind you and wish to make it at this point in the record, that earlier in our colloquy we were both agreed that when

new programs are instigated, there is a lag before they really start to cost money.

Mr. GORDON. For most programs that is correct.

Senator CURTIS. Now, the Eisenhower administration had been in office 6 months on June 30, 1953. On January 31, 1961, when the Eisenhower administration left office, civilian employment in the executive branch totaled 2,341,084.

In these 7½ years between June 30, 1953, and January 31, 1961, the civilian employment was decreased by 191,066.

Mr. GORDON. Isn't that the same comparison you were objecting to just a moment ago, Senator?

Senator CURTIS. Yes.

Mr. GORDON. With a base that happened to be a wartime period?

Senator CURTIS. Yes. That is right. As of June 30, 1963, civilian employment in the executive branch—that is June 30 this year—totaled 2,497,706. Between January 1961, when the Kennedy administration came to power, and June 30, 1963, civilian employment in the executive branch increased then by 156,622.

Would you agree to that?

Mr. GORDON. That is about right, Senator. I wasn't able to follow your numbers exactly as you went along.

Senator CURTIS. On the basis of the figures already cited, it is clear that in order for President Kennedy to make his statement there were fewer employees on June 30, 1963, than 10 years before, he had not only to go back to the Korean war period but he also had to take credit for whatever reductions were made in the Eisenhower administration. Isn't that correct?

Mr. GORDON. If he covered a 10-year period, this covered both the Eisenhower administration and, of course, the Kennedy administration.

Senator CURTIS. Now take these figures one step further, still using Civil Service Commission reports.

On January 31, 1961, when the present administration came to office, civilian employment in the Department of Defense totaled 1,032,835. On June 30, 1963, civilian employment in the Defense Department totaled 1,050,007. This was an increase in civilian employment in the Defense Department during this administration of 17,172.

Mr. GORDON. I think if I may say so, Senator, that is a very good example of the excellent management job that Secretary McNamara has been doing in the Defense Department.

Senator BENNETT. In other words, it should have been 50,000 instead of 17,000?

Mr. GORDON. There has been a very substantial increase, Senator, in defense expenditures, in the defense program. I think this increase has been in the order of some \$8 billion over the period. Such a small increase in employment, I think, is testimony to the excellent management job which is being done in the Defense Department today.

Senator CURTIS. Well, our total military contingency has been reduced, hasn't it? In personnel?

Mr. GORDON. You are talking about members of the armed services?

Senator CURTIS. Yes.

Mr. GORDON. No. It has been increased very substantially. We have many more members in the active Armed Forces today than we did in January 1961.

Senator CURTIS. Do you know whether this figure includes the selective service?

Mr. GORDON. No. That would not include selective service. That is not a part of the Defense Department.

Senator BENNETT. Yours are civilian.

Senator CURTIS. Yes.

On January 31, 1961, when the present administration came into office, civilian employment agencies other than the Defense Department totaled 1,308,249. On June 30, 1963, civilian employment in agencies other than the Defense Department totaled 1,447,699. So the increase in civilian employment in Federal agencies other than the Defense Department during this administration or a part thereof increased by 139,450.

Mr. GORDON. I think that number, Senator, might well be compared with the fact that the population of the United States from January 1961 to the end of this fiscal year will have increased by 10 million people.

Senator WILLIAMS. Does that mean there will never be a reduction in Federal employees? There will be a continuous increase in years to come?

Mr. GORDON. No; it doesn't, Senator. As I said a moment ago, so much depends on what happens to the defense program. The defense program, as you know, is more than half the budget. And you can conceive of circumstances in which, if there is a sharp decline in defense expenditures, this undoubtedly will be reflected in defense employment.

Senator WILLIAMS. But these increases are largely in civil employment, I mean of these civilian agencies, not defense.

Mr. GORDON. I can tell you, Senator, of one period in which we have had a decline in civilian employment—the last 12 months. As I said in my statement, employment has declined by 242 persons in the 12 months ending September 1963.

Senator CURTIS. The point is that while there has been great emphasis on the military program, the number of new people hired in the nonmilitary category are eight or nine times the increases in the military.

Mr. GORDON. That is perfectly correct, Senator. There is no secret about the composition of Federal employment. We have about 2½ million Federal employees. One million of those are civilian employees in the Defense Department.

Senator CURTIS. But the new Kennedy program hasn't even been enacted and it will take several years to get it in motion.

Mr. GORDON. 1 million of those—

Senator CURTIS. And what I am saying here is that if the program and policy is adopted, it is going to be a tremendous increase in government employment.

Mr. GORDON. I don't think that is so, Senator. I think that we have shown in the last year that the tighter manpower controls are having an effect on the level of employment, and I think that on the basis of the clear orders we have from the President on limitation of

manpower increases in the future, we can hold increases in Federal employment to a very modest level.

We have made a good record in the last year. I think we will come out this year with an equally good record.

Senator CURRIS. When we come to the President's statement in his September 19 speech:

We have steadily reduced Federal employment serving every 1,000 people.

And the Civil Service Commission and the Census Bureau figures are interesting. The fact is that the President was relying more on increase in population than he was a decrease in Federal employment. Federal employment in the year between June 30, 1962, and June 30, 1963, increased by 13,052 people. The population increased by more than 2.5 million. On this basis Federal civilian employment in the executive branch per 1,000 people averaged 13.32 on June 30, 1962, as compared to 13.20 on June 30, 1963. This is a reduction of twelve-one hundredths, or about one-eighth of an employee.

Do you regard this as a reduction that the President of the United States should make a nationwide broadcast about?

Mr. GORDON. It certainly shows movement in a desirable direction.

Senator CURRIS. And again I remind you that these fewer employees is before any of these programs are ever set in motion. The Federal employment figures for the years reported by the Civil Service Commission and the population figures are in a table and, Mr. Chairman, I ask unanimous consent without inferring any answers on the witness concerning them but they relate to the figures I used. I request that this be inserted at this point in the record.

The CHAIRMAN. Without objection.

(The table referred to follows:)

*Federal employment figures for the year, as reported by the Civil Service Commission, and population figures, as reported by the Census Bureau*

	June 30, 1962	June 30, 1963	Change
Federal employment.....	2,484,654	2,497,706	+13,052
Population.....	180,501,000	189,278,000	+2,687,000
Federal employees per 1,000 population.....	13.32	13.20	-0.12

Senator CURTIS. And, Mr. Chairman, I thank you for taking me out of order. I do appreciate it.

Senator WILLIAMS. If I may, Mr. Chairman, I would like to ask that page 48 of the budget estimate as submitted for 1964 outlining the employment records for fiscal years 1962, 1963, and the estimate for 1964 be printed at this point in the record.

The CHAIRMAN. Without objection.

(The material referred to follows:)

*Civilian employment in the executive branch*

Description	As of June 30		
	1962 actual	1963 estimate	1964 estimate
Executive Office of the President.....	1,073	1,681	1,760
Department of Agriculture.....	110,511	116,268	121,583
Department of Commerce.....	31,417	32,802	36,299
Department of Defense:			
Military functions.....	1,034,186	1,029,247	1,010,111
Military assistance.....	3,946	3,492	3,501
Civil functions.....	31,411	32,260	32,553
Department of Health, Education, and Welfare.....	77,242	83,306	89,237
Department of the Interior.....	64,078	70,721	74,720
Department of Justice.....	32,059	32,607	33,372
Department of Labor.....	8,951	9,620	10,913
Post Office Department.....	588,477	598,603	608,259
Department of State:			
Agency for International Development.....	15,495	16,588	16,540
Peace Corps.....	784	1,051	1,251
Treasury Department.....	83,036	87,494	91,643
Atomic Energy Commission.....	6,863	7,152	7,330
Federal Aviation Agency.....	44,336	48,040	48,666
General Services Administration.....	31,519	34,319	37,557
Housing and Home Finance Agency.....	13,469	14,235	15,037
National Aeronautics and Space Administration.....	23,686	29,147	33,100
Veterans Administration.....	176,562	176,881	177,290
Other independent agencies:			
Tennessee Valley Authority.....	18,600	17,902	17,554
The Panama Canal.....	14,501	14,858	14,832
U. S. Information Agency.....	11,132	11,838	12,524
Miscellaneous independent agencies.....	30,658	39,200	40,524
<b>Total.....</b>	<b>2,484,654</b>	<b>2,531,011</b>	<b>2,570,533</b>

<sup>1</sup> Employment of the Panama Canal and the U. S. Soldiers' Home is included under "Other independent agencies" below.

<sup>2</sup> Excludes project employees for the public works acceleration program which are estimated to total approximately 35,000 by June 1963, and are estimated to be nominal by June 1964, under the existing program.

NOTE.—Although most of the employees shown here are paid from administrative budget funds, some are paid from trust funds; and in the case of some agencies, the table includes employees who are paid from other funds outside the scope of the budget document. The figures include tentative estimates for employment under appropriations proposed for later transmittal. In accordance with definitions of the Civil Service Commission, the figures cover those employees who are working on June 30, and also part-time and intermittent employees who work at any time during the month of June.

Mr. GORDON. May I point out, Senator, that those employment figures, of course, would not be correct either for the fiscal year 1963 or 1964.

Senator WILLIAMS. They may not be correct but they were submitted to the Congress by your Department.

Mr. GORDON. We have done much better.

Senator WILLIAMS. I hope you do do better, but these are your figures.

Mr. GORDON. May I also, Mr. Chairman, submit at this point the actual figures for fiscal year 1963 which, of course, are corrections of figures which appear—

Senator WILLIAMS. Those are already in the record. But I too would like for them to be put in for each of the agencies. Will those be for fiscal year 1963? And will you submit for the record the budget estimates for the various departments, that is, the expenditures for fiscal year 1963 and your budget request for fiscal year 1964 to show the increases or decreases in each of the agencies? Each of the departments?

Mr. GORDON. Do you want us to compare 1963 appropriations with 1964 appropriation requests?



Senator WILLIAMS. No. You will now have 1963 expenditures.

Mr. GORDON. 1963 expenditures with the——

Senator WILLIAMS. With your request——

Mr. GORDON. With the 1964 expenditure implications of our appropriation request?

Senator WILLIAMS. With your requests as submitted to the Congress at the beginning of this year.

Mr. GORDON. Of course, we don't request expenditures. We request appropriations and they have to be translated into expenditures.

Senator WILLIAMS. That is what I am speaking about.

Mr. GORDON. We would be happy to submit a comparison of the expenditures in the 2 years.

Senator WILLIAMS. Now, I didn't ask for that.

Mr. GORDON. Then I am afraid, Senator, I haven't followed you.

Senator WILLIAMS. In your budget message you submitted an estimate for 1963 and an estimate for 1964. Now, at this date you could convert the 1963 estimate to actual expenditures.

Mr. GORDON. Yes.

Senator WILLIAMS. Very properly.

Mr. GORDON. That is correct.

Senator WILLIAMS. You cannot convert the 1964 estimates to expenditures. Therefore, I am suggesting that you use the 1963 expenditures and then use as opposite that your 1964 request as submitted to the Congress in January.

Mr. GORDON. We could do that, Senator, but, of course, the figures would be completely misleading. You would be comparing expenditures in one year with appropriation requests in the next year. These are two different——

Senator WILLIAMS. If you prefer, you can put estimates in both cases.

Mr. GORDON. We do have, of course, expenditure estimates which go with our appropriation requests.

Senator WILLIAMS. They are still estimates and these are your estimates for fiscal year 1964 submitted to this Congress and that is what I would like to put in. If they are incorrect or inaccurate, they are your figures and you submitted them.

Mr. GORDON. I am not suggesting they are inaccurate. I am suggesting you are comparing peaches and apples when you compare expenditures in one year with appropriation requests in another year.

Senator WILLIAMS. I agree, but they both came out of your orchard, so you put them all in the record.

Senator SMATHERS. I think everybody understands that you make an estimate, Mr. Chairman, if I may say so, as to what your expenditures are going to be one year and then as you live through that year; frequently they are changed, are they not, by actual experience.

Mr. GORDON. Well, of course, they are changed, Senator. It happens that the 1964 budget request was for \$107.9 billion of appropriations but only \$98.8 billion of expenditures. These are quite different figures and if we compared 1963 actual expenditures with 1964 appropriation requests, as I say, we would be comparing incommensurables.

Senator WILLIAMS. You can put another peach in there if you want to and use 1963 expenditures, use your estimated 1964 expenditures, and then your budget request for 1964 as submitted to Congress.

Mr. GORDON. That would be fine.

Senator WILLIAMS. And submit all for the record. I have no objection to that, but I do want the three of them together.

Mr. GORDON. That would be fine.

(The matter referred to follows:)

*Administrative budget: New obligational authority and expenditures, by agency*

(In millions of dollars)

	New obligational authority			Expenditures		
	1963		1964	1963		1964
	January budget	Actual (preliminary)	January budget	January budget	Actual (preliminary)	January budget
Legislative branch.....	161	160	149	159	147	155
The Judiciary.....	66	63	69	65	62	69
Executive Office of the President.....	24	24	33	25	23	31
Funds appropriated to the President.....	7,038	6,988	5,189	4,359	3,948	4,375
Department of Agriculture.....	0,753	7,102	8,144	7,493	7,763	6,565
Department of Commerce.....	809	813	981	745	667	895
Department of Defense:						
Military functions.....	49,961	49,794	52,181	48,300	48,249	51,000
Civil functions.....	1,093	1,001	1,140	1,106	1,128	1,140
Department of Health, Education, and Welfare.....	5,393	5,340	7,158	5,048	4,904	5,742
Department of the Interior.....	1,130	1,134	1,279	1,054	1,028	1,165
Department of Justice.....	318	319	355	317	317	337
Department of Labor.....	351	364	527	239	253	433
Post Office Department.....	806	907	565	832	755	554
Department of State.....	427	423	374	457	405	361
Treasury Department.....	10,821	11,048	11,297	10,811	11,024	11,232
Atomic Energy Commission.....	3,135	3,135	2,893	2,870	2,758	2,850
Federal Aviation Agency.....	756	755	810	791	726	801
General Services Administration.....	631	625	659	532	465	594
Housing and Home Finance Agency.....	798	785	829	1,088	400	695
National Aeronautics and Space Administration.....	3,673	3,673	5,712	2,400	2,552	4,200
Veterans' Administration.....	5,595	5,534	5,580	5,532	5,173	5,470
Other independent agencies.....	3,296	1,288	1,481	607	291	355
District of Columbia.....	60	70	67	83	60	86
Allowances, undistributed:						
Comparability pay adjustment.....			200			200
Contingencies.....	100		250	75		175
Subtotal.....	103,192	101,522	107,927	94,937	93,103	99,482
Less interfund transactions.....				640	513	679
Total, administrative budget.....	103,192	101,522	107,927	94,311	92,590	98,802
Less reductions in estimated expenditures, based on latest information as set forth in Director Gordon's statement.....						1,000
Indicated total, 1964 expenditures.....						97,802

Senator SMATHERS. I will be brief. I see the distinguished Senator from Massachusetts sitting out there and so I will just ask three or four questions with respect to the percentage of growth of our population. What did you say that was?

Mr. GORDON. The population is growing at about 1.6 or 1.7 percent a year. This is about 3 million people a year, or a little over, Senator.

So that in the period from the President's inauguration to the end of this fiscal year there will be a population growth of about 10 million people or more than half the population of Canada.

Senator SMATHERS. Can you think of any government anywhere in the whole world who has an increase in population, that the size of its government is not growing to some extent?

Mr. GORDON. I not only can't think of any, Senator, but I think if I researched the problem, I couldn't find any.

Senator SMATHERS. What has been the percentage growth of the Federal Government since 1960 to date, just in round figures, or 1961, we will say?

Mr. GORDON. You are talking now about administrative budget expenditures?

Senator SMATHERS. That is right.

Let's make it 5 years or 10 years. I am just trying to make the point. I don't care whether exactly—

Mr. GORDON. I can certainly provide one answer which I think goes to your point, although it is not precisely responsible to your question. It seems to me one very significant comparison is the relation of total administrative budget expenditures by the Federal Government to the total size of our economy; namely, gross national product. This has been almost stable since the midfifties, averaging about 16.5 percent. It has not varied much up or down since the mid-1950's.

Senator SMATHERS. Can you go back any further than that and, with the exception of the wartime period, show that the cost of the Federal Government, in relation to the gross national product, has been about 16 to 19 percent over the last 100 years?

Mr. GORDON. I am not sure that I could go back that far, Senator. I do remember one figure which seems to me an illuminating one. Of course, you can't talk about the Federal budget or the size of Federal programs without recognizing the enormous increase in our defense program since the Korea period. This swamps almost everything else. But if you just take out of the budget the Defense Establishment, nothing else, not space or anything else, you find that all other Federal expenditures, in relation to gross national product today, are lower than they were in 1949, even lower than they were in 1939. This is nondefense. In other words, Federal nondefense expenditures are a lower proportion of the size of the economy today than they were before the Second World War.

Senator SMATHERS. In the last 5 years what has been the percentage growth of State government?

Mr. GORDON. I think you would find that it has been, in terms of expenditures, employment, and debt, much more rapid than the Federal Government.

Senator SMATHERS. I heard the President say yesterday in a speech in Florida it had grown 137 percent.

Mr. GORDON. That wouldn't surprise me.

Senator SMATHERS. What is the percentage of growth of the cost of local governments in the last 5 or 10 years?

Mr. GORDON. Well, if you just look at what is happening in the State and local government employment, this would give you an index of what is happening to expenditures in that area. As I said a

moment ago, Federal employment has been about stable in the last year, actually down a little bit. State and local—

Senator SMATHERS. My question is directed to State and local. Just answer that question.

Mr. GORDON. State and local employment goes up about 300,000 people every year.

Senator SMATHERS. And it is in the neighborhood of 200 percent, I presume. I guess the President, when he made his speech yesterday before the Florida Chamber of Commerce, got the figures from somebody—

Mr. GORDON. I am sure they are good figures.

Senator SMATHERS. Some department, and it was in the area of 200 percent.

Do you recall how much the growth of individual debt has been in this country in the past 10 years?

Mr. GORDON. It has been a very large multiple of the growth in Federal debt. I don't have it precisely for the last 10 years. Roughly, since the war, total personal and corporate debt including mortgage debt, has increased about 350 percent, whereas the Federal debt, as you know, has gone up about 11 percent in the period.

Senator SMATHERS. That is all the questions I have.

One other question. Do you see—this is a little bit out of your line, but do you see the commitments of the United States of America around the world as the leader of the free world, do you see those commitments lessening any, the obligations lessening any, or decreasing? Do you see the importance and the power of the U.S. relationship with the relationship to the rest of the world—is it lessening or growing?

Mr. GORDON. The importance, I think, Senator, of maintaining and strengthening our relations with our allies and improving our position in tense and difficult areas around the world is at least as great now as it ever was, and very possibly growing.

Senator SMATHERS. You are a very conservative man.

Thank you, Mr. Chairman.

The CHAIRMAN. The Chair suggests—

Mr. GORDON. I wish the chairman said that.

The CHAIRMAN. Senator Williams, any questions?

Senator WILLIAMS. Mr. Director, I understand that you are in the midst of preparing your 1965 budget for submission to Congress.

Mr. GORDON. Senator, if I weren't here this morning, I would be neck deep in the Interior Department budget.

Senator WILLIAMS. Could you give us an estimate as to what the total of that budget may be at this time?

Mr. GORDON. I am afraid I can't, Senator, because we are just about one-third of the way through our intensive review of the agency budget submissions. I think it would be both misleading and unfair to make a guess as to where we are going to come out since we really haven't yet given the agencies a fair review and appraisal of the submittals they made to us.

I might say, Senator, this has been a particularly difficult ordeal because we are in the position of having to develop a defensible plan for the fiscal year 1965 without knowing what the appropriations will be for fiscal year 1964.

Senator WILLIAMS. In your statement you state, and I quote:

Apart from outlays on defense, space, and unavoidable interest charges, the budget proposed lower expenditures than during the prior year.

And I think that is similar to the statement that was—the promise that was made by the President in his message to Congress on January 20 when he stated in substance that expenditures would be lower in all categories except defense, space, and interest charges.

Mr. GORDON. Well, not each category taken separately but in all the other categories taken together, that is correct.

Senator WILLIAMS. Could you just for the benefit—what was the budget for the Department of Commerce this year as compared to last year? Do you have those figures?

Mr. GORDON. I think we have those figures. The Department of Commerce expenditure estimate for the fiscal year 1964 as contained in the budget was \$895 million.

Senator WILLIAMS. And how much was it in 1963?

Mr. GORDON. It was \$745 million.

Senator WILLIAMS. That is an increase of \$150 million.

Mr. GORDON. That is correct.

Senator WILLIAMS. Now, how about HEW's appropriation? Could you give us the figures?

Mr. GORDON. HEW in 1964, \$5,742 million. In 1963, \$5,048 million.

Senator WILLIAMS. That is an increase of \$694 million, is that correct?

Mr. GORDON. That is correct.

Senator WILLIAMS. Now, the Justice Department.

Mr. GORDON. Justice Department shows an increase from \$317 to \$337 million.

Senator WILLIAMS. Now, the Labor Department.

Mr. GORDON. Labor Department has an increase from \$239 to \$433 million.

Senator WILLIAMS. And the Treasury Department?

Mr. GORDON. The Treasury Department, including interest on the national debt, has an increase from \$10,811 to \$11,232 million.

Senator WILLIAMS. And the—that is an increase of \$421 million.

Mr. GORDON. About that much.

Senator WILLIAMS. Now, the Interior Department?

Mr. GORDON. An increase from \$1,054 to \$1,165 million.

Senator WILLIAMS. Or an increase of \$111 million.

Now, where are the reductions?

Mr. GORDON. The reductions, Senator, you will find under Post Office, Agriculture, and some others.

Senator WILLIAMS. Well, the Post Office reduction is based on the reduction in the estimated appropriations to be required after taking into consideration the increase in postage rates, is it not?

Mr. GORDON. It takes into consideration the increase in postal rates, that is correct.

Senator WILLIAMS. Now, on Agriculture, where are the savings in Agriculture?

Mr. GORDON. The Agriculture figure was down from \$7,493 to \$6,565 million.

Senator WILLIAMS. Well, if true that would show on that a reduction of \$928 million.

Now, when the Agriculture appropriation bill passed the Congress it showed an increase of \$38 million over last year. Was the Appropriations Committee, the Senate Appropriations Committee, in error when they reported that bill to the Congress?

Mr. GORDON. Here again, Senator, you have got to distinguish between expenditures and appropriations. As you know, the appropriation composition of the Agriculture budget is a particularly complex one.

For example, in the case of the Commodity Credit Corporation, the Congress appropriates funds to the Commodity Credit Corporation to reimburse them for past losses. So there is, as a matter of fact, no relationship in that particular department between this year's appropriations and this year's expenditures. The level of this year's appropriations to that account relates to prior years' expenditures.

Senator WILLIAMS. It all came from the same report so in reality there is no savings in that department, then, is that true?

Mr. GORDON. No, sir.

Senator WILLIAMS. How do you account for it—your budget is based on requests for appropriations. Is this claimed savings as a result of the fact that we didn't write off all of the loss in the Commodity Credit Corporation or as much of it that has been sustained?

Mr. GORDON. No, sir. This estimate was based in part on assumed lower rates of payment for price-support commodities purchased by the Commodity Credit Corporation. We have since made a reestimate, as you will notice in my testimony today, because now that we have the proper reports, particularly for cotton and feed grains, we find, as is usually the case in Agriculture, that it is a terribly difficult thing to estimate in advance. Because of particularly good growing weather and very high yields per acre, we are finding that the presently estimated rate of price-support payments is higher than is estimated in the budget.

I think there is an increase there of about \$400 million over the figures which were contained in the budget.

Senator WILLIAMS. Which would change this figure of claimed savings—

Mr. GORDON. It still goes down, Senator. You see, there was a reduction there from about \$7.5 billion to about \$6.6 billion. Now, it would be a reduction to about \$7 billion.

Senator WILLIAMS. What is the total value of the inventory of the Commodity Credit Corporation as of the most recent date, figuring that it could be liquidated at the cost to the Government, just assuming that? How much inventory does the Government have?

Mr. GORDON. My recollection is that somewhere in the neighborhood of \$8 billion. It is about \$7 to \$8 billion total investment, including inventory and loans.

Senator WILLIAMS. About \$8 billion. That is assuming that it would bring full market value, is that correct?

Mr. GORDON. This is valued on the basis of purchase price in effect, yes.

Senator WILLIAMS. Now, how much does the Commodity Credit Corporation owe? How much have they borrowed from the Government as of that—

Mr. GORDON. Their borrowings, Senator, as I understand it, are reimbursed through appropriations. It is a revolving fund operation, and when the balance—

Senator WILLIAMS. I understand that. But I am just trying to get for the moment a picture of the financial standing of the Commodity Credit Corporation and they had about \$8 billion in inventories. Now they owed the Treasury how much money about that time?

Mr. GORDON. Let me see if I can find that figure, Senator. For this one we have got to go into the big budget appendix.

Senator WILLIAMS. Does the Commodity Credit Corporation have any contingent liabilities against this \$8 billion which have been borrowed from private sources which would need to be paid assuming it is a corporation which you or I own? I am trying for the moment to project it into that category.

Mr. GORDON. I believe there are other liabilities now, not included in the \$8 billion. This has to do with the method of financing that Commodity Credit Corporation has been using for many years.

Senator WILLIAMS. That is correct. I am not quarreling with the method. Part of this \$8 billion inventory would have been paid for and financed by borrowings from private banks, would it not?

Mr. GORDON. Correct.

Senator WILLIAMS. And part of it from borrowings from the U.S. Government.

Mr. GORDON. That is correct.

Senator WILLIAMS. What I would like to have is an estimate of the borrowings in both categories.

Mr. GORDON. I have the figure on CCC borrowings from the Treasury, Senator. In the January budget, the 1963 estimate was \$13,738 million for the end of the year.

Senator WILLIAMS. And in addition to that there could be added the liabilities which the Commodity Credit Corporation may have established with private banks.

Mr. GORDON. Private lenders. That is right. My recollection is that that runs in the neighborhood of a billion dollars, perhaps a little less.

Senator WILLIAMS. That was my understanding. In other words, if we view CCC as a private company, it is insolvent to the extent of around \$7 billion as of the moment, is that not true, even assuming they could possibly sell all of their \$8 billion inventory at cost, just assuming somebody came in and bought all of the inventory of the corporation, at full cost which we know is impossible, but even on that assumption they are still insolvent about \$6 or \$7 billion, is that not true?

Mr. GORDON. If you regard the Commodity Credit Corporation, which as you know is an instrument that goes way back to the thirties, as comparable to a private profitmaking enterprise, you might well be right. But the CCC is simply an instrument for administering the agricultural policies of the Federal Government and I think a comparison to a private profitmaking corporation is a very remote one.

Senator WILLIAMS. I am only comparing it for establishing the point. Is it not true that we do have losses which have been sustained in prior years approximating \$7 billion which have not been written off by the Congress but which, in order to make this corporation solvent, must be written off at some point in the foreseeable future?

Mr. GORDON. The budget document shows realized losses of the CCC from 1933 to 1962, inclusive, at \$18.3 billion.

Senator WILLIAMS. Some of this has been reimbursed by appropriations. I am speaking of the situation of this CCC as of the most

recent projected date which we are discussing. To bring that up to point, Congress is still about \$6 or \$7 billion behind in its appropriation to make this solvent.

Mr. GORDON. I see your point. The budget shows that reimbursements by the Treasury to the CCC on realized losses totals about \$12.1 billion and we carry in the budget a realized deficit as of June 30, 1962, of \$6.2 billion.

Senator WILLIAMS. That is the point I am making. I am not quarreling with the mechanics of how this operates. That is another point. What I am pointing out is that as far as the taxpayers are concerned, or as far as Congress is concerned, this loss has been sustained; that is, the money has been spent and therefore we really have this savings of \$800 to \$900 million this year in agriculture or maybe a savings which we claimed in prior years is in reality not a savings if both the Budget Bureau and the Congress faced up to its responsibilities and wrote off the losses for each year as they were sustained in that year. We are behind about \$6 or \$7 billion.

Mr. GORDON. I don't think that follows. If you are talking about reimbursing the Commodity Credit Corporation for the losses it sustained, this would require appropriations by the Congress to the Commodity Credit Corporation of about \$6 billion, in that neighborhood.

Senator WILLIAMS. That is what I am pointing out.

Mr. GORDON. But I don't think that relates to the comparison we were making in the budget. We weren't talking about savings. We were simply talking about the change in the rate of expenditures by the Agriculture Department from 1963 to 1964.

Senator WILLIAMS. I realize that but it would raise the amount of the national debt. The criticism which I am making of this procedure, is not necessarily directed to you. It is something that has been with us before.

Mr. GORDON. It is the nature of the institution.

Senator WILLIAMS. Is it not true that neither Congress nor the Budget, your predecessor, or you, have faced up to the fact that we are not charging off the losses as they are being sustained and in reality the agriculture program has cost about \$7 billion which as yet has not appeared on the records anywhere?

Now, I am not arguing whether that was last year or what year it was. They are in prior years, no question.

Mr. GORDON. It appears in the record. We carry each year in the budget an annual balance sheet showing exactly what the status of the CCC is.

Senator WILLIAMS. And this would be one of the contingent liabilities which the Senator from Massachusetts has mentioned on previous occasions but which as yet has not been faced up to by the Congress.

Mr. GORDON. I don't think so. I think he was talking about contingent liabilities for payment to the public in expenditures. This is not a contingent liability in that sense. If I understand it correctly, it is a contingent liability of the Congress to the CCC, assuming that the CCC will continue to work on the same rules.

Senator WILLIAMS. They are in the same category but at least as far as the national debt is concerned, this approximately \$7 billion has gone and that is even assuming that all of the inventory of the CCC to date is still worth full market value. Also, there will be other losses



in years to come as we dispose of the present inventory. But the goods already sold have sustained a loss of about \$7 billion which as yet has not been recognized either by the Congress or the Budget Bureau.

Mr. GORDON. No, sir. I don't think that follows. Every penny of expenditures by the CCC appears in the budget in the year in which the expenditures are made.

Senator WILLIAMS. They appear in the budget but they have not been written off and it would take a direct appropriation by the Congress. We would have to, in order to bring this up to date, appropriate approximately \$7 billion more for the Department of Agriculture this year than we did if we brought this up as of an even date.

Mr. GORDON. To wipe out the accrued deficit, that is correct. It is a curious kind of transaction, though, since it involves no expenditures—no additional expenditures—by the U.S. Government. It is really a kind of bookkeeping transaction designed to wipe out a nominal deficit shown on the books of the CCC.

Senator WILLIAMS. Then why hasn't it been recommended that we bring that up to date?

Mr. GORDON. Senator, if you will notice in my prepared statement, as part of the cut in the budget which the Congress made this year, the Senate reduced our request for appropriations to reimburse the CCC by \$100 million. I point out that this will have no effect on expenditures.

Senator WILLIAMS. I appreciate that, and you are—that \$100 million reduction was in reality not a savings either, was it, as far as—

Mr. GORDON. So far as expenditures are concerned, it has no effect at all.

Senator WILLIAMS. And at some point Congress has got to face up to it and write off this \$7 billion, either that or cancel the notes that are in the Treasury. But the money, the loss has been sustained.

Mr. GORDON. The losses have been sustained as we have managed a price-support program going all the way back to the 1930's; that is correct.

Senator WILLIAMS. And as far as the bookkeeping system as administered by the Congress and supported by the Congress in the budget, and I am not blaming you altogether with it, that loss has been sustained but we have not faced up to that fact as far as putting it on our bookkeeping records down here as being appropriated. Our debt figures do not reflect this item.

Mr. GORDON. It depends on what you mean by facing up to the loss. It seems to me Congress faces up to the loss each year when they look at the budget which, as I say, includes in the expenditure column every penny of expenditures by the CCC.

Senator WILLIAMS. But the point I am making is—

Mr. GORDON. They are not appropriating—

Senator WILLIAMS. Not appropriating.

Mr. GORDON. To cover the accrued—

Senator WILLIAMS. Deficit.

Had we done that instead of appropriations calling for \$6.5 billion for the Department of Agriculture this year, there would have been \$12.5 billion.

Senator McCARTHY. How would you want that account carried after we appropriate it?

Senator WILLIAMS. It would go to pay off the debt to the Treasury which is owed by the CCC. The Treasury Department holds the notes but the notes in effect are not worth the paper they are written on because the CCC is not solvent.

Mr. GORDON. If the Congress would appropriate that \$7 billion, there would be in effect a payment by the Treasury of \$7 billion to the CCC, which would then pay \$7 billion back to the Treasury Department.

Senator WILLIAMS. That is correct, but it would show up to the American people exactly what this program is costing, \$12.5 billion rather than \$6.5 billion as reported.

Senator McCARTHY. It wouldn't be fair to put it all in 1 year.

Senator WILLIAMS. Maybe not, but it should have been put in the years as it accumulated. But at some time it is going to have to be written off, whether in 1964 or 1984. It is going to have to be faced because there is no possible way the CCC could recover it unless you are going to have a war and double the prices of their inventory. Is that not true?

Mr. GORDON. I would say that unless the CCC is able to sell its inventory at prices higher than the cost of acquisition, I don't see how the CCC—

Senator WILLIAMS. Has to sell at triple.

Mr. GORDON. I don't see how the CCC could pay its entire debt out of the proceeds of sales.

Senator WILLIAMS. No further questions.

Senator McCARTHY. No questions.

Senator CARLSON. I have one or two questions just following along some of the discussion that has taken place this morning. I am looking at your table on page 4 where you show a net change in the outlook for the 1964 administrative budget expenditures of \$1 billion, minus \$1 billion. Had you considered in that \$1 billion the possibility of a Federal employee pay increase of \$600 million which would no doubt be effective January 1, which would be \$300 million?

Mr. GORDON. Senator, the budget document which was submitted in January included an item for a comparability pay increase effective January 1, 1964, which is approximately the size of the pay increase you are talking about.

Senator CARLSON. You mean the comparability pay increase is \$300 million, January 1?

Mr. GORDON. No. The budget estimated about \$200 million.

Senator CARLSON. Just roughly. I wasn't trying to get actual figures.

Mr. GORDON. About \$200 million. I forget the exact number. That was included in the January budget.

Senator CARLSON. Well, I would call this comparability pay increase that we voted in the last session which is a pay increase that the civil service people are supposed to get on January 1, but in my opinion—maybe I am wrong—it does not include the increased salaries that are in the present pay increase bill that is being considered by the House, and—

Mr. GORDON. That is now in the House. And the question is—do you happen to remember what the effective date of that bill is?

Senator CARLSON. It will be on enactment, of course, by Congress, probably 30 days after the first pay period, and I just used the date of January 1 because I know there are many people hoping it will be January 1, 1964.

Senator McCARTHY. Senator Johnston said yesterday he didn't think it would come until 1964.

Mr. GORDON. My memory failed me here, Senator. I can say accurately that the 1964 budget included provision not only for the second stage of the pay increase which was enacted, if I remember correctly, in October of 1962 and which becomes effective January 1, 1964. It also included an additional increment for a comparability pay adjustment.

Now, if I remember correctly, the bill which is now before the House, is about \$80 to \$100 million more than the administration's recommendation. So that there may be that difference between the budget figure and the cost of the bill. But those two components of pay increase were included in the budget.

Senator CARLSON. And would therefore have practically no effect on the \$1 billion reduction that you have on this table.

Mr. GORDON. That is correct.

Senator CARLSON. I just wanted to get that cleared up.

The second item I had in mind, because Senator Saltonstall will discuss here this morning the accrued liabilities in all these retirement funds, we have a liability for which appropriations are not yet made in the U.S. Civil Service Commission retirement fund of about \$34 billion. I can discuss this a little because I am on the Senate Post Office and Civil Service Committee.

I believe we have a bill before our committee to start picking up this deficit on an annual basis over a period of time that has the approval of the administration. Is that correct?

Mr. GORDON. I will have to consult on that point.

Yes. I am informed that a representative of the Budget Bureau did testify in favor of that bill, Senator

Senator CARLSON. Well, I don't know how much the committee is going to recommend. I think we all realize the situation confronting us on the committee because of this ever—there seems to be an ever-increasing liability that Congress, not this year but we might just as well be frank about it, we should have been picking it up for years and have not been doing this. It is one of the things we like to put off. Assuming we voted \$2 billion to be used or paid before June 30, 1964; that would not be in this item.

Mr. GORDON. This wouldn't affect expenditures at all, Senator, as I understand it.

Senator WILLIAMS. You mean an appropriation to the civil service retirement fund would not affect expenditures?

Mr. GORDON. I am sorry. I would have thought the expenditures would reflect benefit payments by the fund but I am informed I am incorrect.

If I remember this, it starts off at a very low rate so it would not have much fiscal impact for the first few years, and then builds up gradually to a level which will restore the deficit.

Senator CARLSON. I don't remember the figures in the bill but I know it has been discussed generally around and it has been before our committee for years, not just this year. And we always talk about

\$1 billion or \$2 billion beginning to pick it up. I don't know what is in this bill but I assume the committee in all fairness, in the interests of the Federal employees, will begin to make some of those adjustments.

Do you have any idea what the figure is?

Mr. GORDON. I am told that the first year effect would be less than \$100 million, and then it grows over a considerable period.

Senator McCARTHY. Does it take into account the possibility that we might sell TVA?

Mr. GORDON. We haven't carried that even as a contingency item.

Senator CARLSON. With that I shall quit. Thank you.

The CHAIRMAN. Mr. Gordon, I have just a few questions.

Senator CARLSON. Sorry, Mr. Chairman.

The CHAIRMAN. No, indeed.

What part of the increase in the debt ceiling that you are asking is due to the tax reduction? In other words, are you anticipating a tax reduction will pass?

Mr. GORDON. That is correct. As the Secretary of the Treasury I think testified, Senator, our plans assume enactment of tax reduction with an effective date of January 1, 1964, and I believe that the net reduction in fiscal 1964 revenues attributable to the tax cut is about \$1.8 billion. I hope that is consistent with what the Secretary said.

The CHAIRMAN. In other words, this increase states that it is a further increase of \$6 billion on June 29, 1964. Would that include the anticipation that the tax reduction would be effective on January 1, 1964?

Mr. GORDON. It would assume the effective date of the tax reduction would be January 1, yes.

The CHAIRMAN. If it isn't adopted effective on January 1, then you won't need quite that much increase in the debt ceiling, will you?

Mr. GORDON. That is why I stressed the effective date. If it were adopted in January or February or March, perhaps even April, and made effective as of January 1, it would probably come out pretty much on the same basis. It would depend exactly how the retroactivity was made effective.

Mr. CHAIRMAN. Have you gone far enough to estimate when the new budget will be presented to Congress, expenditure budget.

Mr. GORDON. When the new budget will be presented? Senator, the law says that we must present the budget not more than 15 days after Congress convenes. I must say that occasionally I have sinking feelings about the possibility of doing a proper job on the budget in these circumstances in which, of course, we don't know what the 1964 appropriations are going to be in many cases. But it is still our firm intention to do our very best to submit the budget by the date the law establishes, which would be the third week of January.

The CHAIRMAN. Would that be about January 15?

Mr. GORDON. Within 15 days after Congress convenes. It will be somewhere in that neighborhood. If it convenes the 3d, that would make it the 17th.

The CHAIRMAN. Just one more question. I have been considerably confused as to the attitude of the administration with respect to reduction of expenditures or holding expenditures at the present level, which is about \$98 billion or so. What is your position about

that? First let me read to you the preamble of the bill as passed by the House where it says:

To further the objective of obtaining balanced budgets in the near future, Congress by this action recognizes the importance of taking all reasonable means to restrain Government spending and urges the President to declare his accord with this objective.

How do you construe that? You are the man who makes up the budget. You construe language as passed by the House and now being considered by the Senate as a direction to you to do what?

Mr. GORDON. As far as construing that as a directive, I think the meaning of what the House said in the preamble is almost exactly the same thing that the President has said on a number of occasions, namely, that we would intend to apply very strict standards of expenditure control in formulating the 1965 budget and subsequent budgets.

The CHAIRMAN. Mr. Heller is the only Government witness that came clearly out and said that it would be a great mistake to reduce the expenditures and not to increase expenditures. He wanted to increase them, not reduce them. What is your view?

Mr. GORDON. I would say, Senator, that barring some completely unexpected set of developments which could affect the basic levels of our defense budget, it is highly likely that the level of expenditures in fiscal 1965 will be higher than in fiscal 1964. I hope that they are not a great deal higher and what we are doing every day in the Budget Bureau is, as we review these agency requests line by line, to try to hold these increases to the absolute minimum. But it seems to me highly likely, barring completely unexpected defense developments, that there will be an increase in expenditures in 1965 over 1964.

The CHAIRMAN. Well, now, the increases in the spending budget have been running from \$4 to \$6 billion in recent years, is that correct?

Mr. GORDON. Yes. I think the increase in the last few years averages over \$5 billion, if I am not mistaken, Senator.

The CHAIRMAN. Is it your intention to make further increases above that \$5 billion average, or try to hold the line?

Mr. GORDON. I am very hopeful, Senator, that we can produce a 1965 budget which reflects a considerably lower rate of increase than has been the case in the last few years.

The CHAIRMAN. A moment ago you said as compared to last year that there would be an increase this year and next.

Mr. GORDON. Lower rate of increase, I said, Senator. We are talking about—

The CHAIRMAN. Do you mean you may reduce the increases?

Mr. GORDON. To hold the level of increase to a considerably lower level.

The CHAIRMAN. Instead of \$6 billion, it might be \$3 or \$4 billion.

Mr. GORDON. To a substantially lower level is the phrase I used. I might explain—

The CHAIRMAN. You are willing to say now that you contemplate increasing the expenditure budget above last year?

Mr. GORDON. I would say that in the absence of very substantial changes in the military outlook, which seem to me unlikely to occur in the time between now and the budget submission, there will be,

in all probability, an increase in projected expenditures in 1965 over 1964. I think it will be a very modest increase, but nevertheless an increase.

I would like to say a word, if I may, Senator, about how we hope to achieve that.

You may have noticed that Secretary McNamara made a very important speech in New York last night in which he talked about the outlook for defense expenditures, and it seemed to me he made one of the strongest and most hopeful statements that I have yet seen on the prospects, not only for stabilizing or even reducing the level of defense expenditures in relation to the gross national product, but even the prospect, the possibility, of achieving a stabilization or reduction in absolute terms.

Now, this is in accord with the thinking we have been doing for a number of months about the defense budget.

As you know, more than 70 percent of the increases in the budget in this administration have been in the fields of defense, space, and interest. I think that if we can hold the level of defense expenditures in 1965 close to the 1964 level, we will be able to come in with a budget which will show a substantially lower rate of increase than we have been showing in recent years.

The CHAIRMAN. In other words you hope the increase will be less than it has been. It has been averaging from \$4 to \$6 billion.

Mr. GORDON. That is correct.

The CHAIRMAN. I want to read you an editorial from the Washington Post, and see whether you agree with it or not:

In his zeal to gain support for the tax bill, Treasury Secretary Douglas Dillon has made statements which are being broadly construed as invitations to make deep cuts in appropriations. Chairman Walter W. Heller of the Council of Economic Advisers set the issue straight when he told the Senate Finance Committee that, while he favors prudence, he is opposed to reductions in Government expenditures.

Mr. GORDON. While he favors what, Senator?

The CHAIRMAN. While he favors prudence. That is a word which is being emphasized now.

The Washington Post goes on to say:

The danger of attempting to appease the fiscal conservatives is very great. If they succeed in matching tax cuts with reductions of expenditures, this year, they will next propose a deflationary program of national debt retirement before the economy has attained a higher level of employment and output. Other administration officials would be well advised to emulate Dr. Heller's candor and fight this issue through.

That is what the Washington Post thinks.

Now, I have been very much impressed, and I think the other members of our committee have been, too, by the number of witnesses who have appeared before this committee, including the organizations of businessmen, and asked for either reductions of expenditures or for holding expenditures on the line where they are. I think the testimony will show that. I don't know any of the witnesses that came before the committee and urged an increase of expenditures, along with a tax cut, except Dr. Heller. So I think many of those for the tax cut are supporting it on the theory that the administration has directly or indirectly made promises that expenditures would at least be held to the present level.

Mr. GORDON. I am not aware, Senator, of any promises to hold expenditures absolutely level from 1964 to 1965. I think that in the face of the steady growth in the workload of the Federal Government, steady growth in population, steady growth in income, it would be almost impossible to achieve that. I think there has been and there continues to be a determination on the part of the administration to run as tight a fiscal ship as it is possible to do and to hold the increase in 1965 expenditures over 1964 to the lowest possible level. And I think that from the comments I have heard, private organizations and other persons interested in the tax program regard the discharge of this commitment as very important and agree that this is a sound commitment to make. I don't think that many people would feel that, unless there is a decrease in the defense budget, with the country growing at the rate of 3 million persons per year, and over \$100 billion in GNP in 3 years, it is reasonable to expect an absolute decline or stabilization of the level of expenditures of the Federal budget.

The CHAIRMAN. Your feeling is that there is no waste or nonessential spending in the Federal expenditures that could be eliminated?

Mr. GORDON. Senator, we are spending almost \$98 billion a year, and I think anybody who said there was no waste in a budget of \$98 billion in a year would not be being very candid. Inevitably there are

The CHAIRMAN. Wouldn't it be a good idea to try to cut that waste out?

Mr. GORDON. Waste and inefficiency in any large organization and they exist in the U.S. Government, and I am both very proud and very pleased with what we have been able to accomplish in recent years to run the business of Government in a more efficient manner. We have got many things yet to do, but I think there are many accomplishments of which we can be proud. The story of the growth of productivity in Federal agencies which has made it possible for us to stabilize Federal employment despite steadily rising workloads, I think, is a very good one.—The management story in Federal Government has improved remarkably in recent years. We have now reached the point where management innovations, developed in the Federal Government, are adopted by private industry. There ought to be more of that, but it is evidence that the Government is increasingly paying attention to and improving the quality of their management performance.

The CHAIRMAN. Have the increases recently been in the military or in the nondefense spending?

Mr. GORDON. About 70 percent of the increase in spending of this administration has been in the national defense, space, and interest categories.

The CHAIRMAN. In the past several years?

Mr. GORDON. Past 3 years; that is correct.

The CHAIRMAN. Seventy percent—

Mr. GORDON. That is right.

The CHAIRMAN (continuing). Has been in the military.

Mr. GORDON. Defense, space, and interest. Interest on the national debt.

The CHAIRMAN. Does that include the foreign aid?

Mr. GORDON. That includes what?

The CHAIRMAN. Does that include foreign aid or not?

Mr. GORDON. No. That does not include foreign aid. Foreign aid is in the other 30 percent.

The CHAIRMAN. Well, has there been a reduction in the nondefense spending?

Mr. GORDON. The budget, Mr. Chairman, that was submitted in January, proposed a reduction in all expenditures taken together other than defense, space, and interest of about \$300 million below the 1963 level. Now, this was based on the figures which appeared in the budget. Actually we were able to reduce 1963 expenditures below the budget figures by \$1.7 billion. The comparison has, therefore, changed since the 1963 base has changed. But, I repeat, it seems to me the significant comparison is to take the whole period of 1961 through 1964, the period of this administration so far, and you find there that expenditures for all programs other than defense, space, and interest have gone up by \$3.8 billion over a 3-year period as compared with the \$5 billion increase in the preceding 3 years, 1958 to 1961.

The CHAIRMAN. Well, what is the budget effect of selling Government agency securities?

Mr. GORDON. Well, the sales of mortgage and other financial assets last year reached about a billion dollars. This includes the Housing and Home Finance Agency, Veterans' Administration, and Export-Import Bank.

The CHAIRMAN. That is shown in the budget as a reduction in expenditures?

Mr. GORDON. That is correct.

The CHAIRMAN. Is it actually a reduction in expenditures when you sell something and get a billion dollars?

Mr. GORDON. It seems to me this is the sensible and sound way of treating it.

The CHAIRMAN. Is that the way that you figure the nondefense spending is lessened?

Mr. GORDON. That was not the whole part of it. Actually of the \$1.7 reduction in spending last year below the budget figure, about half of it represented asset sales and half of it represented reductions in other expenditures.

The CHAIRMAN. That is a confusing way to keep books. That is, to sell an asset and take it off of expenditures.

Mr. GORDON. If I can explain there, these mortgage and other financial asset sales are conducted by revolving funds which the Congress has established. The basic principle of a revolving fund is that you are given so much obligational authority and you can make new loans out of repayments of previous loans. But your management—

The CHAIRMAN. I understand all that. Mr. Dillon tried to explain that. But that is one way in which you now expect to reduce the nondefense spending.

Mr. GORDON. No, sir.

The CHAIRMAN. You collect a billion dollars from the sale of securities and you count that as a reduction of nondefense spending.

Mr. GORDON. That is correct. Of the \$1.7 billion—

The CHAIRMAN. I challenge that statement that this is a reduction in expenditures.

Mr. GORDON (continuing). Reduction in expenditures, half of it represented asset sales, half of it represented other types of reductions.



The CHAIRMAN. I don't care what it represented. You said you have reduced or not increased, nondefense spending. By the way you keep your books you take a billion dollars in receipts and show it as reduction of expenditures.

Mr. GORDON. That is correct. New loans, of course, are being made all the time and these count as positive expenditures. When we make a loan we count it as an expenditure. When the loan is repaid or sold it is counted as a deduction from expenditures. So that the expenditure figure gives you the net increase in lending and you can—

The CHAIRMAN. Do you deduct it twice?

Mr. GORDON. You add it when you make the loan and subtract it when you get the money back.

The CHAIRMAN. Well, then, as I understand it, you feel that the pledges or promises or whatever they may be called, relative to expenditures, refer to the size of the increases in the budget rather than reductions or holding it to where it is this year.

Mr. GORDON. That is correct, Senator.

The CHAIRMAN. And the increase is between \$4 billion and \$6 billion. You have a latitude of \$4 billion to \$6 billion.

Mr. GORDON. I believe over the last three years the increase has averaged a little over \$5 billion but perhaps it has been in the \$4 to \$6 billion range.

The CHAIRMAN. Any further questions?

Senator McCARTHY. I have a question. Mr. Gordon, according to your estimates the March 15 public debt will be \$315.9 which will be \$900 million above the ceiling if we give you \$315 billion as a ceiling. How will you handle the Federal finances between March 15 and 31?

Mr. GORDON. I would suppose, Senator—I am not closely familiar with the day-to-day debt management problems which are the responsibility of the Treasury—but I suppose the only way they can get by in that period is to reduce their contingency figure below the \$3 billion which is shown in Secretary Dillon's estimate.

Senator McCARTHY. The effect of that would probably be to interfere with long-term debt management?

Mr. GORDON. For a short time, I think. Apparently the peak seems to be reached around March 15. For a short time I would think this would limit the flexibility of the Treasury somewhat with respect to debt management, yes, sir.

Senator McCARTHY. Which means Treasury would probably have to finance it with short-term notes.

Mr. GORDON. It may be. This is a technical debt management question that I am not really competent in, Senator, but it seems to me it might mean that if the market circumstances at that particular time happened to be very attractive from the point of view of saving the Treasury money on floating securities to cover future obligations, they might be impeded from acting at that particular point because of the tightness of the debt limit in relation to the actual debt level.

Senator McCARTHY. You figure if they had adequate proceeds high enough it might cause expensive financing on the part of the Federal Government in order to get over that 30-day period.

Mr. GORDON. I think if history in this field proves anything, it proves that when it is necessary to work out devious stratagems to stay within an unduly restrictive debt limit, it usually ends up costing

the U.S. Government more money. I think this was proved pretty conclusively in 1957.

Senator McCARTHY. You were forced—if you were forced to sell FHA mortgages, you might have to sell them—

Mr. GORDON. At a higher rate of interest.

Senator McCARTHY. Or certificates of interest in Commodity Credit Corporation, whatever it might be.

Mr. GORDON. Right.

Senator McCARTHY. The likelihood is that it would be expensive to the government to carry that debt over the 15 days.

Mr. GORDON. I think that was certainly the lesson of 1957.

The CHAIRMAN. Just one more question. It is generally agreed, is it not, that the deficit this year will be \$9 billion?

Mr. GORDON. Our present estimate is \$9 billion; that is correct.

The CHAIRMAN. Assume just for the sake of discussion that in the coming year you increase the expenditures above last year by \$3 billion. We have heard here time and time again, is that the tax reduction will so stimulate the economy that it will create revenue not only to pay for the loss that comes from reducing the taxes but also to cover these built-in losses of \$3 billion a year in expenditures. Is that your opinion?

Mr. GORDON. The question is whether we are assuming that the tax reduction will so stimulate the economy as to generate considerably higher level of revenues. I think that is correct, Mr. Chairman. The best estimate which we have been able to produce indicates, on a reasonable and conservative basis, an estimated increase in gross national product of about \$30 billion stemming from the tax bill over and above what the gross national product would otherwise be, and, of course, when it is realized, this will generate a considerable increase in tax revenues.

Senator WILLIAMS. Do you think you could increase that tax reduction just a little bit and have something to pay on the debt?

Senator McCARTHY. Not right away. If you increased expenditures at the same time, Senator, but you won't go all the way.

The CHAIRMAN. I have here an editorial for the record entitled "Two Chickens in Every Pot." It appeared in the Washington News and seems to disagree with the position of the administration.

(The article referred to follows:)

[The Washington Daily News, Nov. 16, 1963]

#### TWO CHICKENS IN EVERY POT

President Kennedy seemed carried away with the sound of his own voice in his address to the AFL-CIO convention in New York.

For example:

"If we can obtain prompt passage of the pending \$11 billion tax reduction bill, we will be sailing by next April on the winds of the longest and strongest peacetime expansion in our Nation's economic history."

Some of the labor leaders must have knocked wood at this kind of talk, so remindful of 1928—the year before the stock market bust—when we were about to abolish poverty, put two cars in every garage and a chicken in every pot.

For one thing, as the labor leaders well know and as President Kennedy as much as admitted at his press conference the day before this speech, there isn't any chance of prompt passage of this bill.

If we are sailing on the winds of any expansion by next April it won't be because of this tax cut, which hardly can get through the Senate by that time, if ever.

The tax cut, President Kennedy added, will provide 2 to 3 million jobs. These are figures out of thin air. It is something nobody knows and the labor leaders

obviously don't believe. They are advocating a variety of measures, including a shorter workweek, to reduce unemployment.

While viewing with something like awe a prospective \$100 billion gain in gross national product in 3 years, the President noted that the unemployment rate remains at 5.5 percent, substantially the same as in the lean year of 1954.

Since this steep growth in GNP has not provided enough jobs in the past, how can he be so confident that further growth, stimulated by a red ink tax cut, will serve the purpose next year?

Obviously, persistent unemployment is a frustrating, complicated problem which can't be solved, presto chango, by any magic tricks such as the mere infusion into the economy of a few more billions in printing press money.

Even if you classify this speech as campaign oratory, with all the usual allowances for broad statement, it seems to us President Kennedy has taken himself out onto the end of the longest limb yet.

The CHAIRMAN. We will now hear from Senator Saltonstall. Senator Saltonstall, you are recognized.

### STATEMENT OF HON. LEVERETT SALTONSTALL, A U. S. SENATOR FROM THE STATE OF MASSACHUSETTS

Senator SALTONSTALL. Mr. Chairman and members of the Finance Committee, I have submitted to the members of the committee copies of S. 2281 which was filed by me the other day.

(S. 2281 is as follows:)

[S. 2281, 88th Cong., 1st sess.]

A BILL To clarify the components of, and to assist in the management of, the national debt and the tax structure

*Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,* That the reports required by law to be prepared by the Secretary of the Treasury for the information of the President, the Congress, and the public with respect to the financial operations of the Government shall include a separate semiannual report setting forth—

the aggregate and individual amounts of the contingent liabilities of the Government including without limitation: trust fund liabilities, Government-sponsored corporations' liabilities, indirect liabilities not included as a part of the direct debt, and liabilities of insurance and annuity programs, including their actuarial status on both a balance sheet and projected source and application of funds basis; each agency's statement to show the collateral pledged or other assets available (or to be realized) as security therefor (Government securities to be separately noted), and an analysis of their significance in terms of past experience and probable risk.

The report shall set forth the financial data in a concise form, with such explanatory material as the Secretary may determine to be necessary or desirable, and shall include total amounts for each category according to the agency involved.

Mr. SALTONSTALL. This is the third time that I have been before you on this subject and after listening to the colloquies with the Director of the Budget, I think it is rather pertinent to give the testimony that I am going to give in connection with this bill.

Mr. Chairman, thank you for giving me this opportunity to appear before you again on a major problem facing us in our management of the public debt; namely, to know as exactly as possible what the U.S. Government really owes. At the present time, we receive reports on many aspects of the debt.

1. The statutory debt is known because the Treasury reports it daily.

2. Long-term lease obligations and real estate transactions are annually reported to the Senate Appropriations Committee and so are available to the Members of Congress.

3. Authorizations for so-called back-door spending are also reported to the Appropriations Committee and appear in the combined statement of the Treasury Department.

4. The Treasury has informed me that it is attempting to secure better accounting of our current accounts payable and accruals. The Defense Department, our biggest spender, has difficulty in distinguishing between these two, but is constantly improving its accounting principles and hopes to have them in order by June 30, 1964.

However, we do not receive a combined statement of any sort of the many different contingent obligations the Government has assumed.

In the past two Congresses, I have introduced bills for the better reporting of all the various items presently reported, together with the many contingent obligations which may or will be owed by the Federal Government. Last summer I appeared before your committee to urge that an amendment be added to the debt limit bill to require such a combined report using my bill S. 3035 from the last Congress.

S. 2281, which is presently before you, only concerns the reporting of the contingent obligations of the Federal Government which are not now fully reported. A contingent debt is a sum of money that may or will be owed, but whose size cannot always be determined exactly. However, in many cases, it is certain that some money, often large sums, will have to be paid out in support of these Government programs. This contingent debt takes many forms and today is reported in many different reports, but many parts are very vaguely covered. Many of them have insurance characteristics, such as liability insurance for mortgage or bank deposits, life insurance, health insurance, or retirement annuity insurance. Some of the huge contingent debt is not even reported at all at the present time, but S. 2281 would require it so that we could make better plans for managing the Federal budget.

Certainly in many cases we expect that we will not have to make payments on the various forms of liability insurance, but we can be very sure that we will have to pay on the life insurance and retirement annuities. Actuarial estimates can make these amounts clear. This kind of mathematics is a well-recognized science and I believe the Federal Government should make greater use of such estimates than we do today. If an insurance company can reasonably predict its liabilities, so should the Government.

A report I have received from the Comptroller General indicates there are some 89 programs which have insurance characteristics now administered by 9 Federal departments and 11 agencies. These range from the Foreign Service retirement and disability system, where estimated payments for 1964, through 1968, amount to \$38 million, to military retired pay, where the amount estimated for the same period is \$7 billion and civil service retirement, where the estimated payments are \$8.591 billion. The civil service retirement system holds \$12 billion of Government securities in its investment fund. On the other hand, the Defense Department retirement has no such investments. Such variations in the management of our contingent debt make the problems of determining our total Federal debt more difficult and are a further reason for asking that they be drawn together in a single report.

Now, Mr. Chairman, in this next paragraph it is very difficult to get actual figures but these are the best figures that I can obtain.

How many people actually realize that the actuarial reserve requirements of the social security system for old-age benefits and survivors annuities and disability insurance, for only those persons who are now covered by the system, would require a fund of \$350 billion invested at 3 percent interest, plus all the taxes which will be collected in the future from these same persons? One hundred and ten million people are covered by this insurance.

How many of us realize that the railroad retirement trust fund can look forward to a diminishing number of railroad employees making contributions to the fund, while the number of those collecting from it may rise, depending upon how the railroad problem is handled over the next few years?

Our total obligation to veterans and their families is covered under many different statutes which we have enacted for their benefit. Some of this money is appropriated each year, and we may confidently expect it to rise as our veterans get along in years. It all amounts to an insurance program for health, disability, and other purposes over and above national service life insurance. These people expect Uncle Sam to live up to the statutes now on the books. Actuaries can certainly make a range of estimates of the debt which the Federal Government has assumed in setting up these programs. The amounts are contingent on the people's illness or some other activity; so it has become a debt of Uncle Sam.

Other examples where the Government has a reserve as security for its guarantees are the Federal Deposit Insurance Corporation and the HHFA home mortgages. The actual amount of insured deposits or mortgages is determined in their report. Estimated payments in both cases are low. Veterans life insurance also has ample reserves so that dividends have actually been paid to policyholders regularly.

Mr. Chairman, attached hereto is a letter signed by Mr. Campbell of the GAO on this subject. I also am submitting for your information three appendixes which cover much research on this subject done by the GAO. Out of these appendixes, I take the following four examples: a small and a large unfunded retirement program, third, the funded social security program, and fourth, the funded railroad retirement program.

(The matter referred to follows:)

Name	Revenue, fiscal year 1962	Estimated obligations, fiscal years 1961-68	Investment securities	Persons benefited, fiscal year 1962
Coast and Geodetic Survey commissioned officers' retired pay		4,480,000		117
Department of Defense retired pay		\$7,000,000,000		313,000
Federal old-age and survivor benefits	\$11,085,108,000	80,058,000,000	\$18,435,000,000	16,129,000
Railroad retirement system	1,046,514,000	5,735,000,000	3,972,519,000	841,000

SENATOR SALTONSTALL. Now, Mr. Chairman, that would show in my statement that the Coast and Geodetic Survey, which is a small office, has estimated obligations for the next 5 years of \$4,480,000 and 117 people are receiving benefits now. On the other hand, the Defense Department retired pay, which we passed recently, has esti-

mated obligations in the next 5 years of \$7 billion and 313,000 people are now receiving payments.

The Federal old-age and survivor benefits has revenues of \$11,985 million in 1962, it has estimated obligations in the next 5 years of \$80,058 million, and it has investment securities of \$18 billion, \$18.4 billion, and 16,129,000 people are receiving payments.

Now, the railroad retirement system has revenues of \$1,046 million. It has estimated obligations in the next 5 years of \$5.7 billion. It has investment securities of \$3.9 billion, and 841,000 people are listed as beneficiaries.

Now, the total of payments expected under all 89 programs reported by the GAO to me for the 7 fiscal years, 1962-68, is \$224,380,484,000. Receipts for fiscal 1962 under all these programs were \$17,535,180,000.

So that it is clear that substantial money will have to come from tax revenues.

So today, Mr. Chairman, I appear before you to urge that you include S. 2281 as an amendment to the bill to increase the debt limit, or if that is impractical, and I realize it may be, to report the bill separately. Congress and our citizens should have a better understanding of what our Government really owes directly and on a contingent basis. This can and should be done.

Now, Mr. Chairman, I would submit for the record, and I hope include in the record, a letter from the Comptroller General, Joseph Campbell, dated July 31, 1963, to me. I think you have copies of that before you.

Now, if you will turn to page 2 on that, toward the bottom of the page you see what Mr. Campbell says:

Following is a summary of the estimated obligations, for a 7-year period, under all of the 89 programs reported:

Fiscal year 1962, \$27.2 billion; fiscal year 1963, \$29.2 billion; fiscal years 1964-1968, inclusive, \$167.9 billion, for a total for the 7-year period of \$224,380 million.

I would like to submit that, Mr. Chairman, to be put in the record. (The letter referred to follows:)

COMPTROLLER GENERAL OF THE UNITED STATES,  
*Washington, July 31, 1963.*

HON. LEVERETT SALTONSTALL,  
*U.S. Senate.*

DEAR SENATOR SALTONSTALL: Herewith are certain data assembled pursuant to your letter of June 17, 1963, requesting information on various programs administered by the Federal Government which may be classified as "insurance" programs (five copies of apps. A through C and one copy of apps. D<sup>1</sup>). The material supplied herewith gives recognition to the conversations between a representative of our staff and Mr. William Saltonstall, your administrative assistant.

It is our understanding that you are seeking information regarding all forms of Federal insurance programs and those programs that might be construed to have "insurance" characteristics when compared with similar activities that are conducted by the private sector of our economy. Accordingly, many of the programs reported upon herein are not generally known as "insurance programs" of the Government but do have certain income maintenance or financial protection characteristics that permit their classification as insurance programs. These programs have characteristics which (1) assure income maintenance to individuals who are disabled or have reached retirement age, through systems such as social security, military retired pay, and other retirement and disability plans; the public assistance programs of the Department of Health, Education, and Welfare; and

<sup>1</sup> Appendix D, comprising the original questionnaires, was too voluminous for inclusion in printed record and was retained in the office of Senator Saltonstall.

the compensation, pension, and life insurance programs of the Veterans' Administration, or (2) assure the collectibility of loans or bank deposits, such as Federal Housing Administration insured home loans, the loan guarantee program of the Veterans' Administration, and Federal Deposit Insurance Corporation bank account insurance, or (3) provide a service for which the Government appears to be indefinitely committed, such as the hospitals and outpatient clinics of the Public Health Service and the Veterans' Administration, the Medicare program for dependents of military personnel, and the group health plans for Federal civilian personnel.

We are submitting information for 89 programs administered by 9 departments and 11 independent agencies. The data submitted include certain details regarding each of the programs which we identified as being within the framework of the broad concept of "insurance programs." Among these details, where the information was readily available, are the number of persons benefiting from the program through Federal payments, and the number of persons "covered" by the program where its nature provides a measure of insurance protection to the individual although payments may not have been made at this point in time or may never be made. For example, there are approximately 110 million persons "covered" by the social security program by reason of having earned some wages that were taxable under the program; however, during any given year a majority of these persons do not receive benefit payments, but if eligible under the Social Security Act, they are insured against the possibility of death or disability and are assured a retirement income in later years. The disability insurance benefits would provide income to the wage earners and their families during a period of disability, and the death insurance benefits would provide income to surviving widows, children, and dependent parents.

We have included in the appendix detail a citation to the United States Code or the U.S. Statutes which sets forth the authority to operate each of the programs. This citation will facilitate reference to full details regarding existing law and the legislative history for each program, if needed. We have indicated the date each program began operations and the termination date, if any, provided in law or the probable date of termination if such is determinable; otherwise, we have indicated that the program appears to be perpetual in character. Most of the programs do not have a termination date.

We have indicated the probable obligations for each program for the 5 fiscal years 1964-68. We have shown this type of information for the respective programs since, generally, it is not possible to state the total liabilities of these programs. A program that is perpetual in nature, or for which a liability arises only in the event of a future action or development that cannot be predicted too well at this point in time, cannot be stated to have a specific dollar amount of liability.

If an attempt were to be made to state the liability, then a given time period would have to be elected arbitrarily, and certain assumptions would have to be made regarding the occurrence of events in the future. Therefore, an estimated 5-year total obligation as shown in the appendixes discloses the order of magnitude, and a trend which we believe will serve your purposes when considering these programs in relation to the outstanding Federal public debt. Likewise, wherever possible, we have shown the probable number of persons benefiting from the program in fiscal year 1968, a year that is 5 years removed from today.

Following is a summary of the estimated obligations, for a 7-year period, under all of the 89 programs reported:

Fiscal year 1962.....	\$27, 204, 276, 000
Fiscal year 1963.....	29, 227, 347, 000
Fiscal years 1964 to 1968, inclusive.....	167, 948, 861, 000
7-year total.....	224, 380, 484, 000

Although the commitment and obligation of the Federal Government for these several programs are substantial and from current indications will continue to grow over the years, it is well to recognize that the character of these programs is such that generally the benefit to be received by the Government or the benefit to be received by various segments of the American public (veterans, retirees, the disabled, the ill, etc.) from the operation of such programs will be payable in future years only as events occur to make a person eligible for a benefit. For example, the cost of operating the veterans' and public health hospital programs has not yet been incurred for the forthcoming 5-year period; however, in all probability these programs will continue during the 5-year period and the bene-

ficiaries who incur an illness, disability, or accident will receive the benefits at various times during such 5-year period.

In contrast, the public debt of the Federal Government represents borrowings made primarily from the public (and from many Government-operated trust funds) to meet obligations for goods and services already received by the Federal Government. Accordingly, if there is to be consideration of the obligations under long-range programs already authorized by the Congress in relation to the public debt, it is necessary to recognize the distinction between (1) many of these "insurance" programs, which involve goods and services to be received hereafter by the Government or which involve benefits to be provided in the future, under certain circumstances, to certain segments of our population and (2) other programs under which goods and services have been received but for which the Government owes through the public debt.

The various types of insurance programs for which the Federal Government is committed, the diversity of bases for providing the benefits already authorized by the Congress for these programs, and the uncertainty of future events in many programs make it difficult to tabulate insurance, commitments, or guarantees in some meaningful fashion, and make it impossible to present a grand total figure representing the outstanding commitment or obligation of the Government since there is no clear common denominator that can be applied to all such programs. Accordingly, we are transmitting to you selected data regarding insurance and guarantees in force, without summarization, for each of the programs as shown in appendix B and appendix D. Column 16 of appendix B identifies insurance in force, commitments, guarantees, etc., where applicable to a given program.

Particular attention is invited to the revenue aspects of some of those programs which show that substantial obligations are being incurred. For example, veterans life insurance, housing insurance programs, and others will receive substantial income to offset the obligations incurred; also, some programs, notably social security and railroad retirement programs, receive income in the form of special taxes imposed on wages and salaries received. The amount of revenues from all sources for these 89 programs is shown in appendix C and is summarized as follows:

Fiscal year 1961.....	\$17, 128, 037, 000
Fiscal year 1962.....	17, 535, 180, 000

The material transmitted herewith was compiled by us from a number of sources without any audit or verification. While we have endeavored to use reliable information in making this compilation, the material may contain some inaccuracies or discrepancies, or may be somewhat at variance with other published material. Some of the data were estimated by us. However, we believe that the data are adequate for general purposes and for identifying and disclosing the order of magnitude of the several "insurance" type programs. When using the data, full consideration must be given to qualifying and explanatory footnotes as shown in the appendixes.

We will be glad to discuss this material with you and your staff and to informally provide explanatory information regarding any of the programs.

Sincerely yours,

JOSEPH CAMPBELL,  
*Comptroller General of the United States.*

Senator SALTONSTALL. Now, also you will find on appendix A which follows and is attached to Mr. Campbell's letter, a summary of the obligations and guarantees of the various departments. I will not take your time to read these.

Appendix A is attached and I would like to have that made as part of the record.

(App. A follows:)



APPENDIX A. SUMMARY OF OBLIGATIONS FOR FISCAL YEARS 1962 AND 1963, AND COMBINED FOR FISCAL YEARS 1964-68, CLASSIFIED BY DEPARTMENT AND AGENCY, AND INSURANCE OR GUARANTEES NOW IN FORCE

Federal programs having "insurance" characteristics; summary of obligations and guarantees<sup>1</sup>

[Thousands]

Department or agency	Obligations (fiscal years)			Insurance and guarantees in force, June 30, 1962
	1962 actual	1963 estimate	1961-68 estimates	
Department of Agriculture.....	\$18,670	\$27,929	\$22,500	\$702,000
Department of Commerce.....	857	12,903	4,760	9,122,000
Department of Defense:				
Retired pay.....	895,854	1,029,000	7,000,000	
All other.....	244,947	258,704	1,307,000	2,178,000
Department of Health, Education, and Welfare:				
Old-age, survivors, and disability insurance.....	13,669,000	15,032,000	86,568,000	600,000,000
All other.....	2,665,071	2,535,296	17,085,800	
Department of the Interior.....	8,230	9,382	75,000	1,350
Department of Labor:				
Unemployment compensation.....	134,063	154,100	625,000	
All other.....	63,991	68,143	347,000	
Post Office Department.....	91,149	76,733	400,000	
Department of State.....	5,860	6,735	38,000	796,000
Department of the Treasury: U.S. Coast Guard.....	30,865	32,350	180,388	
Atomic Energy Commission.....				( <sup>2</sup> )
Export-Import Bank of Washington.....	22	64	( <sup>3</sup> )	597,000
Federal Deposit Insurance Corporation.....	442	( <sup>4</sup> )	( <sup>5</sup> )	167,000,000
Federal Home Loan Bank Board: Federal Savings and Loan Insurance Corporation.....	3,201	( <sup>4</sup> )	( <sup>5</sup> )	68,400,000
Housing and Home Finance Agency:				
Federal Housing Administration.....	366,912	451,494	2,685,500	38,318,737
All other.....	180,085	196,639	1,401,000	7,113,669
Interstate Commerce Commission.....	14,676	( <sup>6</sup> )	( <sup>7</sup> )	177,215
Railroad Retirement Board.....	1,238,113	1,237,600	6,525,000	
Small Business Administration.....	2,295	3,122	( <sup>8</sup> )	48,000
Tennessee Valley Authority.....	3,348	3,710	19,800	
U.S. Civil Service Commission:				
Retirement.....	1,063,011	1,221,000	8,596,800	
All other.....	466,628	488,592	2,946,923	15,183,200
Veterans' Administration.....	6,036,481	6,382,839	31,820,390	56,069,000
Total.....	27,204,276	29,227,347	167,948,861	( <sup>9</sup> )

<sup>1</sup> See apps. B and D for more detail and the transmittal letter for explanation and qualification.

<sup>2</sup> Maximum liability for each nuclear incident is \$500,000,000 if occurrence is in the United States and is \$100,000,000 per incident if outside the United States.

<sup>3</sup> Not estimated.

<sup>4</sup> Not significant.

<sup>5</sup> A total for insurance and guarantees in force is not shown, because of the variety of circumstances under which the insurance and guarantees become operative, the varying degrees of probability as to whether or not an obligation therefore may materialize, and the omission of "in force" data for programs where such data is not available or is of a character that estimating the amount is virtually impossible. Therefore, a total figure for insurance or guarantees in force would really have no useful meaning or material significance, and is accordingly omitted.

Senator SALTONSTALL. Now, I have here appendix B, Mr. Chairman, which is a summary of the significant amounts and statistics classified by department and agency and by a specific program. Now, that is the breakdown of what we show in appendix A. I don't ask to have that printed in the record because it is too cumbersome, but I would like to leave it with the committee. I have other copies if any members are interested. I would like to leave it with the committee as a part of my testimony but not ask you to put it in the record, but submit it as an appendix, and it is a breakdown of which appendix A is a summary.

(Apps. B and C were made a part of the committee files.)

So, Mr. Chairman, I just conclude by stating that I believe particularly after listening to the colloquy between Senator Curtis and Mr.

Gordon that we should know more about all of these contingent liabilities and we should have a better record when we try to administer the Federal finances, both revenues and outgo, each year. And as a member of the Appropriations Committee I believe this is of value because we do not get an opportunity to understand these liabilities, to know about these facts, and from your point of view on the Finance Committee I think it is helpful for you to know the statutory debt, the contingent debt, and so forth, in considering what the debt is and also in consideration of taxes.

Thank you very much.

The CHAIRMAN. Thank you very much, Senator.

Senator SALTONSTALL, you know that the chairman has favored the objectives of your resolution the several times you have introduced it. This is the second or third time, isn't it?

Senator SALTONSTALL. Yes, I think I have introduced two bills. This is the third bill that I have introduced. The first two bills concerned all the debt and this time I left that out because I wanted to make it simple, and because the Treasury Department—well, it was critical because it said that these records were now available.

Now, this record, the contingent liability, is the best evidence that I can get and as I say, GAO did really a lot of work on this in my behalf. I don't think that this contingent debt is available to Members of Congress or to the public in any concise form and, in fact, it isn't available at all.

Now, the social security—the figures are perfectly tremendous when they run into \$350 billion. Now, those figures are estimates and the lowest actuarial estimate was somewhere around \$100 billion for those now on the actual rolls, running up to \$350 billion. Then this morning we went into it a little more thoroughly and the best estimate that I can get is that those actually on the rolls are now \$350 billion and I believe that the GAO will support that. Mr. Nelson of the GAO who worked on this is here in the room if the members have any questions to ask him.

The CHAIRMAN. Thank you very much, Senator Saltonstall. The Chair will see that your proposal is presented to the committee.

Senator SALTONSTALL. Thank you for this opportunity.

The CHAIRMAN. Any questions?

Senator SALTONSTALL. I hope I didn't violate my 10 minutes.

Senator SMATHERS. I would like to ask this. First may I say I highly respect the able Senator from Massachusetts and I have much sympathy for this resolution. What year was it that you first put this in?

Senator SALTONSTALL. A number of your staff would know. I think 4 years ago, Senator Smathers. The legislative counsel drafted a bill and this bill that is now before you is a part of that bill. I struck out of that proposal all but what concerned the contingent debt.

Senator SMATHERS. And then you reintroduced it at the beginning of this present Congress.

Senator SALTONSTALL. I did not introduce it at the beginning of this present Congress because I hoped that it could be put onto the bill on national debt. I introduced this the other day, a week or so ago, after consultation with your chairman so that I would have something on which to testify and on which you gentlemen would act.

Senator SMATHERS. But this idea you have been pursuing for a number of years.

Senator SALTONSTALL. Oh, 3 or 4 years. And on the Appropriations Committee trying to get these figures out of the Bureau of the Budget. Mr. Gordon's predecessors and others, under both administrations.

Senator SMATHERS. Right. Thank you very much.

Senator WILLIAMS. I have just one question. I would like to direct it to the Director of the Bureau of the Budget. Would you have any objections to this bill?

Mr. GORDON. Senator, I haven't read it. I don't think that I could fairly comment on the proposal without an opportunity to study it.

Senator WILLIAMS. Well, would you make a study of it and give us the benefit of your recommendations.

Mr. GORDON. I would be happy to.

Senator WILLIAMS. Do you think we would have those in time to consider acting on it as a part of this, as an amendment to this bill? Or could you give us a preliminary recommendation for tomorrow so that we would have that to take into consideration?

Mr. GORDON. I have an awfully tight schedule, Senator. I am not sure I can promise that. Let me plead the poverty of our resources in the Bureau of the Budget. We are trying to put out a 1965 budget now, as you know. I am afraid I would find it very difficult to make a commitment to produce a carefully considered reaction to the bill overnight.

(There was insufficient time before the printing of this record for the preparation of an official report on Senator Saltonstall's bill, S. 2281. When the report is completed, it will be promptly submitted to the Committee on Finance for future consideration.)

Senator SMATHERS. Might I ask a question right there? Isn't it entirely possible you could go for this particular bill but not be for it as an amendment to the debt ceiling for the reason that the amendment would have to be approved by the House conferees which might not give them the opportunity of hearing all the testimony with respect to this bill?

Senator WILLIAMS. Well, I meant for his recommendation without regard to whether it would be—

Senator SMATHERS. Fine.

Senator WILLIAMS. I was just speaking in general. I will refer to it as an amendment to this since the Senator has submitted it on that basis, but as I understand it the Senator from Massachusetts wants it considered either as an amendment or as a separate bill. He leaves it to our discretion.

Senator SALTONSTALL. Thank you very much.

The CHAIRMAN. Thank you very much for a good presentation. Anything further?

Thank you very much.

(Whereupon, at 12:40 p.m., the committee recessed to reconvene subject to the call of the Chair.)