

PUBLIC DEBT LIMIT

NOVEMBER 20 (legislative day, OCTOBER 22), 1963.—Ordered to be printed

Mr. SMATHERS, from the Committee on Finance, submitted the following

REPORT

[To accompany H.R. 8969]

The Committee on Finance, to whom was referred the bill (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, having considered the same, report favorably thereon without amendment, and recommend that the bill do pass.

I. SUMMARY

The purpose of H.R. 8969 is to extend the present temporary debt limitation of \$309 billion for the remainder of the fiscal year, but at the same time, provide an additional leeway of \$6 billion to be available during the year for seasonal variations in the receipt of revenues and the payment of bills owed by the Federal Government. This additional \$6 billion limitation, however, will expire on June 29, 1964, with the result that by the last day of the fiscal year the debt subject to the statutory ceiling will be reduced to the present \$309 billion ceiling.

The temporary debt limitation for the fiscal year 1963 was \$308 billion through March 31, \$305 billion from April 1 through May 28, and \$307 billion from May 29 through June 30. The present debt limitation which is applicable to the first 5 months of the fiscal year 1964 (July through November) is \$309 billion. As of December 1, 1963, unless this bill is passed, the debt limitation reverts to the permanent limitation of \$285 billion even though it is expected there will be outstanding at that time a debt subject to the ceiling of \$308.8 billion.

The actual debt limitations, for selected years since 1946, together with the proposed limitation under this bill, are shown in table 1 below.

The Secretary of the Treasury recommended to your committee the acceptance of the House version of this bill, which your committee has done.

TABLE 1.—Statutory debt limitations, specified fiscal years 1946 through 1963 and actual and proposed limitations for the fiscal year 1964

[In billions]

Fiscal year	Statutory debt limitation		
	Permanent	Temporary additional	Total
1946.....	\$300		\$300
1947-54.....	275		275
1955.....	275	\$6	281
1957.....	275	3	278
1959.....	283	5	288
1960.....	285	10	295
1961.....	285	8	293
1962 until Mar. 13.....	285	13	298
1962 from Mar. 13.....	285	15	300
1963 through Mar. 31.....	285	23	308
1963: Apr. 1, through May 28.....	285	20	305
1963: May 29, through June 30.....	285	22	307
1964: July through November.....	285	24	309
PROPOSED			
1964: December through all of June.....	285	24	309
Further temporary amount, December through June 29.....		6	315

II. GENERAL STATEMENT

Action taken earlier this year

Congress has considered the debt limitation on two previous occasions for the fiscal year 1964. Last May, Congress increased the statutory debt limitation for the latter part of the fiscal year 1963 and also provided a temporary debt limitation for the first 2 months of the fiscal year 1964. For July and August 1963, Congress in its May action provided a temporary limitation of \$309 billion. In August, Congress acted to extend the same temporary debt limitation of \$309 billion to the months of September, October, and November, 1963.

While some of the uncertainties which existed this last May and August still have not been resolved, yet in other respects much more information now is available as to the probable course of receipts and expenditures during the remainder of the fiscal year than generally has been known in the past when a debt limitation has been considered. Since 4 months of the fiscal year 1964 have elapsed, it now is possible to obtain a firmer estimate of revenue receipts for the current fiscal year than is usually the case when the debt limitation is considered before the beginning of the fiscal year in question. The revenues which will be received during the fiscal year 1964, for example, are based primarily on two items: First, on the corporate profit level during the calendar year 1963, and, second, to a considerable degree upon the level of personal income during the same period. Since more than five-sixths of the calendar year 1963 is past, it is possible to make a better estimate than usual for the fiscal year 1964.

In the case of expenditure totals for the fiscal year 1964, the major area of uncertainty is the action still to be taken by Congress on the

appropriation bills. However, here too, the fact that 4 months of the fiscal year has already elapsed makes it possible to arrive at a relatively firm expenditure figure for the fiscal year 1964, especially in view of the fact that expenditure totals for these years are to a substantial degree related to appropriations made in connection with the fiscal year 1963.

Improvement in current budgetary situation

The budget presented by the President this last January forecast administrative budget receipts of \$86.9 billion, expenditures of \$98.8 billion, and a deficit of \$11.9 billion. A deficit of \$9 billion is now anticipated by the Treasury Department for the fiscal year 1964. This decrease of \$2.9 billion in the estimated deficit is attributable both to an improvement in anticipated revenue collections and also to a decrease in estimated expenditures. A comparison of the fiscal year 1964 receipt and expenditure estimates now anticipated with those expected this last January is shown in table 2.

TABLE 2.—Comparison of January and present estimates of fiscal year 1964 budget totals

(In billions)

	Estimates in January	Current figures	Increase (+) or de- crease (-)
Expenditures.....	\$98.8	\$97.8	-\$1.0
Receipts.....	86.9	88.8	+1.9
Administrative budget deficit.....	11.9	9.0	-\$2.9

Receipts for the fiscal year 1964 are now estimated by the Treasury Department at \$88.8 billion, or \$1.9 billion above the January estimate. Its estimate takes into account the effect of the Revenue Act of 1963 as passed by the House. Of the increase, \$900 million is attributable to the fact that the tax bill passed by the House provided no tax reductions until the beginning of the calendar year 1964, whereas under the original Treasury proposal about one-fourth of the total reduction would have been effective for the calendar year 1963. As a result, the fiscal year 1964 revenue cost of the tax bill taken into account in the above receipt figure is \$1.8 billion rather than the \$2.7 billion reflected in the budget as initially presented by the President.¹

The remaining \$1 billion of additional revenues now expected by the Treasury Department in the fiscal year 1964 is attributable to the improvement in economic activity over the level anticipated by the administration last January when the budget was presented. Last January, the personal income level for the calendar year 1963 upon which the revenue estimates were based was \$459 billion. The current estimates assume a personal income level for the calendar year 1963 of \$462.5 billion with personal income at annual rates for the first two quarters of the calendar year 1965 at \$482 billion and \$492 billion. Corporate profits before taxes, taking into account the effect of the revised depreciation guidelines remain as in the earlier estimates at \$50.5 billion.

¹ Both the \$1.8 billion and the \$2.7 billion figures take into account the rate reductions and structural changes provided by the tax bill after reduction for the "feedback" in revenues rising from the bill.

The Director of the Bureau of the Budget in his statement to your committee estimated that expenditures for the fiscal year 1964 will amount to \$97.8 billion. This is \$1 billion below the \$98.8 billion estimated in the budget presented last January. The changes in the 1964 administrative budget expenditures are summarized in table 3 below. This table indicates that the \$1 billion reduction in expenditures is made up of a series of decreases aggregating slightly over \$2 billion offset by increases of slightly over \$1 billion. The major decrease is a reduction of \$1.3 billion, the estimate of the reduction attributable to congressional action on appropriations, including both those which have already been reduced and those which it is anticipated will be reduced during this session. This \$1.3 billion is much smaller than the anticipated congressional reduction in appropriations, however, since 1964 appropriations will have their major impact on expenditure levels in the fiscal year 1965 and later years.

TABLE 3.—Changes in outlook for 1964 administrative budget expenditures forecast by the Bureau of the Budget

[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, reestimate 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

Other areas of reduction include, first, amendments to the 1964 budget sent by the President to the Congress. These reduce requests for new obligational authority by \$620 million and are expected to reduce 1964 expenditures by about \$200 million.² Second, economies of \$400 million have been made by the Secretary of Defense in Defense Department expenditures over and above those attributable to appropriation action. Third, it now appears that sales of mortgages and other financial assets in the fiscal year 1964 will total \$200 million more than estimated last January. The increased sales are expected primarily by the Veterans' Administration from its direct loan portfolio. These three categories of decreases, together with those attributable to appropriation cuts, are expected to result in an aggregate decrease of \$2.1 billion.

Most of the increases in budget expenditures are expected to arise in two categories, interest on the public debt and Commodity Credit Corporation farm price support program. These two account for \$900 million of the increase of \$1.1 billion expected. The interest payments on the public debt are expected to be \$500 million higher than anticipated last January primarily because of the rise in the short-term interest rate. More recent information from the Department of Agriculture on crops indicates that the cost of the farm price support program also may be \$400 million more than anticipated in January.

² This does not include requests of the President for new obligational authority in the case of programs not authorized by Congress.

Public debt limitation required at the end of fiscal year 1964

Based upon the \$9 billion deficit now forecast by the administration for the fiscal year 1964, the Treasury has prepared a table, shown below as table 4, indicating the debt limitation required on a semimonthly basis for the fiscal year 1964. The cash balance and debt subject to limitation through October 15 shown in this table are the actual figures. The table projects this cash balance and public debt limitation on a similar basis through November 30, 1963, taking into account expected variations in the cash balance during this period. Beyond November, however, a constant cash balance of \$4 billion is assumed and also a \$3 billion allowance for flexibility in financing and for contingencies, in the same manner as has previously been assumed in prior years when Congress provided increases in the debt ceiling. On this basis, the table indicates a statutory debt which increases from \$307 billion on October 31 up to \$317.2 billion on June 15, 1964, then declining to \$311.1 billion on June 30, 1964.

TABLE 4.—*Estimated public debt subject to limitation for the fiscal year 1964*

[In billions. Assumes constant cash balance of \$4,000,000,000, leeway for contingencies of \$3,000,000,000, and that tax cut is effective on Jan. 1, 1964]

	Operating cash balance (excluding free gold)	Public debt subject to limitation	Allowance to provide flexibility in financing and for contingencies	Total public debt limitation required
Actual:				
June 12, 1963 (low balance for June).....	\$4.2	\$305.3	-----	-----
June 30.....	11.1	306.1	-----	-----
July 15.....	7.7	306.0	-----	-----
July 31.....	0.2	305.1	-----	-----
Aug. 15.....	5.1	305.0	-----	-----
Aug. 31.....	6.1	306.8	-----	-----
Sept. 15.....	4.4	307.5	-----	-----
Sept. 30.....	8.9	307.0	-----	-----
Oct. 15.....	5.1	306.8	-----	-----
Oct. 31.....	3.9	306.8	-----	-----
Estimates based on projected actual cash balance:				
Nov. 15.....	3.5	308.1	-----	-----
Nov. 30.....	4.6	308.8	-----	-----
Estimates based on constant minimum operating cash balance of \$4,000,000,000:				
Dec. 15.....	4.0	310.7	\$3.0	\$313.7
Dec. 31.....	4.0	307.6	3.0	310.6
Jan. 15, 1964.....	4.0	310.4	3.0	313.4
Jan. 31.....	4.0	309.5	3.0	312.5
Feb. 15.....	4.0	310.6	3.0	313.6
Feb. 28.....	4.0	310.1	3.0	313.1
Mar. 15.....	4.0	312.9	3.0	315.9
Mar. 31.....	4.0	307.9	3.0	310.9
Apr. 15.....	4.0	311.5	3.0	314.5
Apr. 30.....	4.0	310.7	3.0	313.7
May 15.....	4.0	310.8	3.0	313.8
May 31.....	4.0	311.4	3.0	314.4
June 15.....	4.0	314.2	3.0	317.2
June 30.....	4.0	308.1	3.0	311.1

Source: U.S. Treasury Department.

Holding in abeyance for the time being the fluctuations within the year, this table suggests increasing the present temporary debt limitation of \$309 billion to approximately \$311 billion at the end of the fiscal year. However, the House bill which has been accepted by your committee provides a debt limitation of only the present \$309 billion for the end of the fiscal year 1964.

This \$309 billion limitation should be adequate at the end of the fiscal year 1964, if the deficit for the year is the \$9 billion now anticipated by the administration and a cash balance of \$5 billion is sufficient at that time. The \$309 billion debt limitation at the end of the fiscal year 1964, while the same as the existing limitation, nevertheless as shown by table 4, is in excess of the actual debt at the beginning of the fiscal year 1964 by some \$3 billion. This, therefore, allows for a \$3 billion increase in the debt. In addition, if a \$5 billion cash balance is adequate at the end of the year, this would be some \$6 billion less than the \$11 billion cash balance at the beginning of the fiscal year. Thus, the \$309 billion debt limitation at the end of the year—through a decrease of \$6 billion in the cash balance and through an increase in the actual debt of \$3 billion—will provide for the deficit of \$9 billion now forecast by the administration. On the other hand, if a cash balance at the end of the year of \$7 billion, rather than \$5 billion, should be required, this would require reducing the deficit for the year to \$7 billion.

In this regard, the Secretary of the Treasury in his appearance before your committee made the following statement:

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, 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 the 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 disturbing 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 now foreseen.

Public debt limitation required during year because of seasonal fluctuations

Although the present temporary debt limitation of \$309 billion is believed to be adequate for the end of the fiscal year 1964, it is obvious, in the interval between November and the end of June, that a higher debt limitation must be provided. A higher debt limitation during this interval is required because of differences in the seasonal patterns of the collection of receipts and the paying of bills owed by the Government.

Table 5, which shows the variations by months in the cumulative excess of expenditures over receipts, demonstrates this need. This table presents on a monthly basis the actual cumulative excess of expenditures over receipts for the fiscal year 1963 and either actual or estimated figures for the fiscal year 1964.

It should be noted in table 5 that although the year ended with a deficit of \$6.2 billion, nevertheless, at the end of January and also at

the end of May, the deficit was \$4.5 billion above this level. Similarly, this table shows that the deficit as of the end of May 1964 is expected to be \$3.8 billion above the deficit at the end of June, or the deficit for the entire fiscal year 1964. The excess of expenditures over receipts for the fiscal year 1964 actually is expected to reach its peak, not at the end of May, but rather in the middle of June 1964, just before the large quarterly tax payments are covered into the Treasury. At that time the excess of expenditures over receipts is expected to be more than \$6 billion higher than the deficit estimated for the fiscal year 1964. This shows the need for \$6 billion to cover seasonal fluctuations in receipts and expenditures. It also indicates that such an amount is not required at the end of the fiscal year.

TABLE 5.—*Cumulative excess of expenditures over receipts by months; actual for the fiscal year 1963 and estimated for part of the fiscal year 1964*

[Presented on the budget basis]

	Fiscal year 1963	Fiscal year 1964		Fiscal year 1963	Fiscal year 1964
July.....	-3.7	-4.3	January.....	-10.7	-11.0
August.....	-5.2	-5.3	February.....	-10.2	-11.6
September.....	-2.5	-3.0	March.....	-8.3	-10.0
October.....	-8.0	-8.4	April.....	-10.2	-11.9
November.....	-9.0	-9.2	May.....	-10.7	-12.8
December.....	-8.2	-8.5	June.....	-6.2	-9.0

Source: Prepared from material presented by the U.S. Treasury Department.

This ceiling is very restrictive and provides only the minimum leeway in handling cash balances. Some leeway in cash balances is required to make it possible for the Treasury Department to borrow funds at the most favorable time in the market and consequently at the lowest cost to taxpayers generally. Some leeway in the cash balance is also required to take into account fluctuations in the sale of savings bonds. Payroll savings bond deductions cannot be readily increased or decreased by the Treasury Department and in fact if the Treasury should refuse to sell all of the savings bonds sought under payroll deduction plans, the present deductions would be seriously disrupted and it could be expected that this would result in a lower level of savings bond sales in the future. Still another factor necessitating some leeway in cash balances is foreign transactions, especially those involving the sale of special security issues to foreign central banks. Any restriction in Treasury issues in this area would, of course, have an adverse effect on the balance of payments.

Still another factor requiring a minimum amount of leeway in the debt ceiling is the variation in budget estimates which appears inherent in estimating expenditures and more particularly revenues. Over relatively short periods of time, receipts and expenditures in recent years have unexpectedly varied in such a way as to shift a surplus or deficit by more than \$2 billion from that anticipated.

III. APPENDIX

Debt limitation under sec. 21 of the 2d Liberty Bond Act, as amended—History of legislation

Sept. 24, 1917:		
40 Stat. 288, sec. 1, authorized bonds in the amount of...	1	\$7, 538, 945, 400
40 Stat. 290, sec. 5, authorized certificates of indebtedness outstanding revolving authority.....	2	4, 000, 000, 000
Apr. 4, 1918:		
40 Stat. 502, amending sec. 1, increased bond authority to.....	1	12, 000, 000, 000
40 Stat. 504, amending sec. 5, increased authority for certificates outstanding to.....	2	8, 000, 000, 000
July 9, 1918: 40 Stat. 844, amending sec. 1, increased bond authority to.....	1	20, 000, 000, 000
Mar. 3, 1919:		
40 Stat. 1311, amending sec. 5, increased authority for certificates outstanding to.....	2	10, 000, 000, 000
40 Stat. 1309, new sec. 18 added, authorizing notes in the amount of.....	1	7, 000, 000, 000
Nov. 23, 1921: 42 Stat. 321, amending sec. 18, increased note authority to outstanding (established revolving authority)...	2	7, 500, 000, 000
June 17, 1929: 46 Stat. 19, amending sec. 5, authorized bills in lieu of certificates of indebtedness; no change in limitation for the outstanding.....	2	10, 000, 000, 000
Mar. 3, 1931: 46 Stat. 1506, amending sec. 1, increased bond authority to.....	1	28, 000, 000, 000
Jan. 30, 1934: 48 Stat. 343, amending sec. 18, increased authority for notes outstanding to.....	2	10, 000, 000, 000
Feb. 4, 1935:		
49 Stat. 20, amending sec. 1, limited bonds outstanding (establishing revolving authority to).....	2	25, 000, 000, 000
49 Stat. 21, new sec. 21 added, consolidating authority for certificates and bills (sec. 5) and authority for notes (sec. 18); same aggregate amount outstanding.....	2	20, 000, 000, 000
49 Stat. 21, new sec. 22 added, authorizing U.S. savings bonds within authority of sec. 1.		
May 28, 1938: 52 Stat. 447, amending secs. 1 and 21, consolidating in sec. 21 authority for bonds, certificates of indebtedness, Treasury bills, and notes (outstanding bonds limited to \$30,000,000,000). Same aggregate total outstanding.....	2	45, 000, 000, 000
July 20, 1939: 53 Stat. 1071, amending sec. 21, removed limitation on bonds without changing total authorized outstanding of bonds, certificates of indebtedness, bills, and notes.....	2	45, 000, 000, 000
June 25, 1940: 54 Stat. 526, amending sec. 21, adding new paragraph:		
"(b) In addition to the amount authorized by the preceding paragraph of this section, any obligations authorized by secs. 5 and 18 of this act, as amended, not to exceed in the aggregate \$4,000,000,000 outstanding at any one time, less any retirements made from the special fund made available under sec. 301 of the Revenue Act of 1940, may be issued under said sections to provide the Treasury with funds to meet any expenditures made, after June 30, 1940, for the national defense, or to reimburse the general fund of the Treasury therefor. Any such obligations so issued shall be designated 'National Defense Series'.".....	3	4, 000, 000, 000
Feb. 19, 1941: 55 Stat. 7, amending sec. 21, limiting face amount of obligations issued under authority of act outstanding at any one time to.....	2	65, 000, 000, 000
Eliminated separate authority for \$4,000,000,000 of National Defense Series obligations.		
Mar. 28, 1942: 56 Stat. 189, amending sec. 21, increased limitation to.....	2	125, 000, 000, 000

Apr. 11, 1943: 57 Stat. 63, amending sec. 21, increased limitation to-----	² \$210, 000, 000, 000
June 9, 1944: 58 Stat. 272, amending sec. 21, increased limitation to-----	² 260, 000, 000, 000
Apr. 3, 1945: 59 Stat. 47, amending sec. 21 to read: "The face amount of obligations issued under authority of this act, and the face amount of obligations guaranteed as to principal and interest by the United States (except such guaranteed obligations as may be held by the Secretary of the Treasury), shall not exceed in the aggregate \$300,000,000,000 outstanding at any one time"-----	² 300, 000, 000, 000
June 26, 1946: 60 Stat. 316, amending sec. 21, adding: "The current redemption value of any obligation issued on a discount basis which is redeemable prior to maturity at the option of the holder thereof shall be considered, for the purposes of this section, to be the face amount of such obligation," and decreasing limitation to-----	² 275, 000, 000, 000
Aug. 28, 1954: 68 Stat. 895, amending sec. 21, effective Aug. 28, 1954, and ending June 30, 1955, temporarily increasing limitation by \$6,000,000,000 to-----	² 281, 000, 000, 000
June 30, 1955: 69 Stat. 241, amending Aug. 28, 1954, act by extending until June 30, 1956, increase in limitation to-----	² 281, 000, 000, 000
July 9, 1956: 70 Stat. 519, amending act of Aug. 28, 1954, temporarily increasing limitation by \$3,000,000,000 for period beginning July 1, 1956, and ending June 30, 1957, to-----	² 278, 000, 000, 000
Effective July 1, 1957, temporary increase terminates and limitation reverts, under act of June 26, 1946, to-----	² 275, 000, 000, 000
Feb. 26, 1958: 72 Stat. 27, amending sec. 21, effective Feb. 26, 1958, and ending June 30, 1959, temporarily increasing limitation by \$5,000,000,000-----	² 280, 000, 000, 000
Sept. 2, 1958: 72 Stat. 1758, amending sec. 21, increasing limitation to \$283,000,000,000, which, with temporary increase of Feb. 26, 1958, makes limitation-----	² 288, 000, 000, 000
June 30, 1959: 73 Stat. 156, amending sec. 21, effective June 30, 1959, increasing limitation to \$285,000,000,000, which, with temporary increase of Feb. 26, 1958, makes limitation on June 30, 1959-----	² 290, 000, 000, 000
Amending sec. 21, temporarily increasing limitation by \$10,000,000,000 for period beginning July 1, 1959, and ending June 30, 1960, which makes limitation beginning July 1, 1959-----	² 295, 000, 000, 000
June 30, 1960: 74 Stat. 290, amending sec. 21 for period beginning on July 1, 1960, and ending June 30, 1961, temporarily increasing limitation by \$8,000,000,000-----	² 293, 900, 000, 000
June 30, 1961: 75 Stat. 148, amending sec. 21, for period beginning on July 1, 1961, and ending June 30, 1962, temporarily increasing limitation by \$13,000,000,000-----	² 298, 000, 000, 000
Mar. 13, 1962: 76 Stat. 23, amending sec. 21, for period beginning on Mar. 13, 1962, and ending June 30, 1962, temporarily further increasing limitation by \$2,000,000,000-----	² 300, 000, 000, 000
July 1, 1962: 76 Stat. 124 as amended by 77 Stat. 50, amending sec. 21, for period—	
1. Beginning July 1, 1962, and ending Mar. 31, 1963-----	² 308, 000, 000, 000
2. Beginning April 1, 1963, and ending May 28, 1963---	² 305, 000, 000, 000
3. Beginning May 29, 1963, and ending June 30, 1963---	² 307, 000, 000, 000
July 1, 1963: 77 Stat. 50, amending sec. 21, for period beginning on July 1, 1963, and ending on Aug. 31, 1963-----	² 309, 000, 000, 000
Sept. 1, 1963: 77 Stat. 131, amending sec. 21, for the period beginning on Sept. 1, 1963, and ending on Nov. 30, 1963--	² 309, 000, 000, 000

¹ Limitation on issue.² Limitation on outstanding.³ Limitation on issues less retirement.