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PUBLIC DEBT LIMIT

JUNE 24, 1964.—Ordered to be printed

Mr. BYRD of Virginia, from the Committee on Finance, submitted the following

REPORT

[To accompany H.R. 11375]

The Committee on Finance, to whom was referred the bill (H.R. 11375) to provide for the period ending June 30, 1965, a temporary increase 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. 11375 is to provide a temporary debt limitation of $324 billion beginning with the date of enactment of this bill and ending on June 30, 1965.

The temporary debt limitation for the fiscal year 1964 was $309 billion for the period of July through November 1963, $315 billion for the period December 1963 through June 29, 1964, and $309 billion on June 30, 1964. On July 1, 1964, unless this bill is passed, the debt limitation reverts to the permanent limitation of $285 billion. It is necessary that the statutory debt ceiling contained in this bill become effective before the present ceiling of $309 billion for June 30 becomes effective, since it is now estimated that on that date the actual debt will be $311.8 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 $324 billion debt limitation provided by this bill is in accordance with the recommendations of the administration.

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TABLE 1.—*Statutory debt limitations, specified fiscal years 1946 through 1964, and actual and proposed limitations for the fiscal years 1964 and 1965*

[In billions]

Fiscal year	Statutory debt limitation		
	Permanent	Temporary additional	Total
1946	$300		$300
1947 to 1954	275		275
1955	275	$6	281
1957	275	3	278
1959	283	[illegible]	288
1960	285	[illegible]	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
1964: December through June 29	285	30	315
1964: June 30	285	24	309
PROPOSED			
1964: Latter part of June from date of enactment	285	39	324
1965	285	39	324

II. GENERAL STATEMENT

Current status of debt ceilings

Congress considered the debt limitation on three different occasions for the fiscal year 1964. In May of 1963, 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. At that time, for July and August 1963, Congress provided a temporary limitation of $309 billion. In August, Congress extended this same temporary debt limitation of $309 billion to the months of September, October, and November 1963. In November 1963, Congress provided debt limitations for the remainder of the fiscal year, December 1, 1963, through June 30, 1964. At that time, it provided a temporary debt limitation of $315 billion from December 1, 1963, through June 29, 1964. For the last day of the fiscal year 1964, June 30, it restored the debt limitation of $309 billion which had applied during the first 5 months of the fiscal year.

As of July 1, 1964, the statutory debt ceiling reverts to the permanent ceiling of $285 billion.

Anticipated budget status for the fiscal year 1965

The budget presented by the President this last January forecast administrative budget receipts of $88.4 billion for the fiscal year 1964 and $93 billion for the fiscal year 1965. Expenditures at that time were estimated at $98.4 billion for the fiscal year 1964, and $97.9 billion for the fiscal year 1965. Thus, this last January a deficit of $10 billion was anticipated for the fiscal year 1964 and a deficit of $4.9 billion for the fiscal year 1965.

A deficit of $8.8 billion is now anticipated by the administration for the fiscal year 1964, a decline of $1.2 billion from the January estimates, and a deficit of $5.8 billion is now expected for the fiscal year 1965, an increase of $900 million from the level anticipated in January. A comparison of the fiscal years 1964 and 1965 receipt, expenditure, and deficit estimates now anticipated with those expected this last January is shown in table 2.

TABLE 2.—*Administrative budget receipts and expenditures, fiscal years 1964 and 1965*

[In billions]

	January budget estimates		Current estimates	
	1964	1965	1964	1965
Expenditures	$98.4	$97.9	$98.3	$97.3
Receipts	88.4	93.0	89.5	91.5
Deficit (−)	−10.0	−4.9	−8.8	−5.8

As had been anticipated this last January, the deficit for the fiscal year 1965 is still expected to be substantially less than in the fiscal year 1964. Moreover, the combined deficit now forecast for the 2 fiscal years; namely, $14.6 billion, is $300 million less than that anticipated this last January.

The increase in the deficit now expected for the fiscal year 1965 is due largely to a shift in revenues from 1965 back to 1964. The withholding-tax-rate reduction provided by Congress in the Revenue Act of 1964 was effective March 5 as contrasted to the effective date assumed in the budget message of early in February. The effect of this was to shift approximately $800 million of revenue from the fiscal year 1965 back to the fiscal year 1964. The action taken by Congress provided a withholding rate of 14 percent effective as of March 5 instead of effective as of the first of February as assumed in the budget message. Thus, the 18 percent withholding rate continued 1 month longer than the budget had assumed and therefore resulted in larger collections in the fiscal year 1964 by this amount. Moreover, since this withholding tax relates to tax returns filed in the fiscal year 1965, it means $800 million less in payments in 1965 than if the 14 percent withholding rate had been effective a month earlier.

In addition, the Revenue Act of 1964 as finally enacted reduced revenues by about $500 million more in the fiscal year 1965 than had been provided in the bill as it passed the Houses. The House version of the bill was the basis for the revenue estimates appearing in the January budget document.

The two factors referred to above account for $1.3 billion out of the $1.5 billion in decreased revenue now expected (relative to the January estimate) for the fiscal year 1965. Minor refinements in the projections of economic activity and taxable income account for the remaining reduction in receipts. However, a reduction of $600 million is now forecast from the level of fiscal 1965 expenditures expected this last January. Thus, the combined effect of the receipt decrease of $1.5 billion and expenditure decrease of $600 million is to increase the anticipated fiscal 1965 deficit by $900 million, or from $4.9 to $5.8 billion.

Statutory debt ceiling for fiscal year 1965

Your committee has approved the House bill without change. Under the bill the ceiling on debt subject to the statutory limitation would be set at $324 billion for the period from the date of enactment through June 30, 1965. Thereafter, under the bill the ceiling would revert to its permanent level of $285 billion. The need for the increased limitation provided by this bill was expressed by the Secretary of the Treasury in open hearing before the committee, in the following terms:

> We simply cannot put the U.S. Government in the impossible posture of being unable to refinance maturing securities or to pay legal obligations as they come due. We can do grave damage to the credit of the United States if we permit the debt limit to be inadequate for even 1 day. The issue goes well beyond the question of sound domestic financial housekeeping to the far greater issue of the financial responsibility or irresponsibility of our Government. In a world which recognizes economic and financial strength as the essential foundation for military and political power, we cannot permit the slightest doubt to arise in any quarter regarding the ability of the United States at all times to meet all of its obligations instantly and fully.
>
> The outlook for the public debt in fiscal 1965 is shown in the attached table which is she same as that presented to the House Ways and Means Committee on May 25. The table gives projected levels of the debt for mid-month and month-end dates through June 30, 1965. It reflects the usual temporary seasonal borrowing requirements as well as the need to finance the deficit anticipated for the year as a whole.

Estimated public debt subject to limitation (based on constant minimum operating cash balance of $4 billion), fiscal year 1965

[In billions]

	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
1964:				
June 30	$4.0	$307.9	$3.0	$310.9
July 15	4.0	311.0	3.0	314.0
July 31	4.0	311.8	3.0	314.8
August 15	4.0	313.5	3.0	316.5
August 31	4.0	314.2	3.0	317.2
September 15	4.0	316.9	3.0	319.9
September 30	4.0	311.2	3.0	314.2
October 15	4.0	315.0	3.0	318.0
October 31	4.0	316.3	3.0	319.3
November 15	5.0	318.1	3.0	321.1
November 30	4.0	317.7	3.0	320.7
December 15	4.0	320.5	3.0	323.5
December 31	4.0	316.0	3.0	319.0
1965:				
January 15	4.0	318.9	3.0	321.9
January 31	4.0	318.0	3.0	321.0
February 15	4.0	319.1	3.0	322.1
February 28	4.0	318.2	3.0	321.2
March 15	4.0	321.0	3.0	324.0
March 31	4.0	315.4	3.0	318.4
April 15	4.0	319.2	3.0	322.2
April 30	4.0	315.6	3.0	318.6
May 15	4.0	316.7	3.0	319.7
May 31	4.0	317.1	3.0	320.1
June 15	4.0	319.9	3.0	322.9
June 30	4.0	313.9	3.0	316.9

The debt projections shown in the table are, of course, based on the same mechanical assumption that has been used in past debt limit hearings; namely, that the Treasury's operating cash balance holds unchanged at $4 billion. On this basis, the table shows that the debt is expected to swing up to temporary peaks of $320.5 billion on December 15 and $321 billion on March 15 before the usual yearend decline brought on by the heavy June tax receipts.

The assumption of a constant $4 billion operating cash balance focuses attention on the impact of the projected pattern of receipts and expenditures on the debt and this is appropriate in a debt limit hearing. However, in actual practice it is not feasible to hold the cash balance unchanged, as I am sure the members of this committee are fully aware. The actual operating cash balance necessarily fluctuates over a wide range. Moreover, the $4 billion figure assumed is a very conservative estimate of the average amount needed to permit the day-to-day operations of the Treasury to be conducted in an efficient manner. The Treasury's operating balance has, in fact, averaged substantially higher than $4 billion during each of the past 5 years.

During the past 6 months, for example, a period in which we have made a vigorous effort to hold down the operating cash balance, it has averaged $5.1 billion. With cash expenditures averaging $10 billion per month over the same period, it has not been easy to operate on so tight a rein. It has been safe only because, as an emergency support, we could count on obtaining funds overnight if necessary through the authorization to borrow temporarily from the Federal Reserve banks.

The table also shows the customary $3 billion leeway required for flexibility and contingencies. This provision, regularly requested by both Democratic and Republican administrations, represents the minimum margin of safety needed to cover circumstances which cannot be foreseen, including the inescapable uncertainties in our month-to-month projections of revenues and expenditures. Hardly less important, this margin of flexibility also is needed because of the impossibility—indeed the undersirability—of precisely matching the timing of our borrowing operations to our changing cash needs. Treasury borrowing is necessarily done in relatively large amounts and in an orderly sequence. These sizable financings should be and are timed in such a way as to avoid unnecessary market disturbance and, where possible, to take advantage of favorable market conditions whenever they appear. Our borrowing operations cannot be adjusted to passing changes in our net inflow or outflow of cash, but rather must anticipate needs over a period of time.

The final column in the table shows the debt limit required when we add this $3 billion safety margin to each of the semimonthly projections of the public debt. It is clear from these figures that a $324 billion debt limit is necessary to provide adequate room for maneuver in managing our finances responsibility and economically.

I should emphasize that our peak debt requirements are primarily a reflection of the recurrent seasonal pattern in our receipts and expenditures. And it is this peak requirement which determines the appropriate level for the debt ceiling. As I have pointed out to your committee before, the debt rises substantially during the first half of every fiscal year, in years of budget surplus as well as in years of budget deficit. This is so because we receive only about 44 percent of our annual revenues in the first half of each fiscal year, the July–December period, with the remaining 56 percent flowing in during the second half, which includes the big corporate tax payment months of March and June. As a result, the Treasury always has to borrow heavily in the July–December period but can then, depending on the state of the budget, pay off some or all of this seasonal borrowing out of the heavy receipts which flow in from mid-March to the end of the fiscal year.

This means that the peak of the debt in any given fiscal year is importantly influenced by the previous year's results. Generally speaking, whenever we run a deficit in one year the debt ceiling for the following year must be increased in roughly the same degree. Conversely, a surplus in one year should permit a reduction in the debt ceiling for the following year. Fiscal 1965 is no exception to this general rule. Since we are incurring a substantial deficit in fiscal 1964, a substantial increase in the 1965 debt limit is essential in order to meet the seasonal requirements brought on by reduced receipts prior to the heavy flow of tax payments that begins on March 15. Our need for a $9 billion increase in the debt limit for fiscal 1965 rests largely on this fact and is only influenced in a relatively minor degree by the deficit that is projected for fiscal 1965.

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 indebteness; no change in limitation for the outstanding	[2] 10,000,000,000

See footnotes at end of table, p. 8.

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

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 26, 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 therfor. 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

See footnotes at end of table, p. 8.

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

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	[3] $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, 000, 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 Apr. 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
Nov. 26, 1963: 77 Stat. 342, amending sec. 21, for the period—	
1. Beginning on Dec. 1, 1963 and ending June 30, 1964	[2] 309, 000, 000, 000
2. Providing a further increase beginning on Dec. 1, 1963 and ending June 29, 1964	[2] 6, 000, 000, 000

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

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