

10

PUBLIC DEBT LIMIT

1728-2

HEARING
BEFORE THE
COMMITTEE ON FINANCE
UNITED STATES SENATE
EIGHTY-NINTH CONGRESS

SECOND SESSION

ON

H.R. 15202

AN ACT TO PROVIDE, FOR THE PERIOD BEGINNING ON JULY 1, 1966, AND ENDING ON JUNE 30, 1967, A TEMPORARY INCREASE IN THE PUBLIC DEBT LIMIT SET FORTH IN SECTION 21 OF THE SECOND LIBERTY BOND ACT

JUNE 13, 1966

Printed for the use of the Committee on Finance



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PUBLIC DEBT LIMIT

MONDAY, JUNE 13, 1966

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

The committee met, pursuant to recess, at 10 a.m., in room 2221, New Senate Office Building, Senator Russell B. Long (chairman) presiding.

Present: Senators Long, Smathers, Anderson, McCarthy, Hartke, Williams, Carlson, and Curtis.

Also present: Tom Vail, chief counsel.

The CHAIRMAN. I want to call this meeting to order.

This hearing was called for the purpose of hearing the Secretary of the Treasury on the question of the public debt limit. At this point, a copy of H.R. 15202, which passed the House of Representatives last week by a vote of 199 to 165, will be made a part of the record.

(H.R. 15202 follows:)

[H.R. 15202, 89th Cong., 2d sess.]

AN ACT To provide, for the period beginning on July 1, 1966, and ending on June 30, 1967, a temporary increase 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 July 1, 1966, and ending on June 30, 1967, 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. 757h), shall be temporarily increased to \$330,000,000,000.

Passed the House of Representatives June 8, 1966.

Attest:

RALPH R. ROBERTS,
Clerk.

The CHAIRMAN. This bill increases the temporary debt ceiling for fiscal 1967 by \$2 billion, from \$328 billion to \$330 billion.

Also without objection there will be included in the record a chart showing the development of public debt limit legislation since the second Liberty Bond Act passed in 1917.

(The public debt limit chart follows:)

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

Sept. 24, 1917:	
40 Stat. 288, sec. 1, authorized bonds in the amount of	\$7,538,945,400
40 Stat. 290, sec. 5, authorized certificates of indebtedness outstanding revolving authority	\$4,000,000,000
Apr. 4, 1918:	
40 Stat. 502, amending sec. 1, increased bond authority to	\$12,000,000,000
40 Stat. 504, amending sec. 5, increased authority for certificates outstanding to	\$8,000,000,000

See footnotes at end of table.

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

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 outstanding (established revolving authority) to-----	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 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 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 of \$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

See footnotes at end of table.

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

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-----	*\$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-----	*281,000,000,000
June 30, 1955: 69 Stat. 241, amending Aug. 28, 1954, act by extending until June 3, 1956, increase in limitation to-----	*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, 1953, and ending June 30, 1957, to-----	*278,000,000,000
Effective July 1, 1957, temporary increase terminates and limitation reverts, under act of June 26, 1946, to-----	*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-----	*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-----	*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-----	*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-----	*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-----	*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 to-----	*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-----	*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-----	*308,000,000,000
2. Beginning Apr. 1, 1963, and ending May 28, 1963-----	*305,000,000,000
3. Beginning May 29, 1963, and ending June 30, 1963-----	*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-----	*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-----	*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 29, 1964-----	*315,000,000,000
2. Of June 30, 1964-----	*309,000,000,000
June 29, 1964: 78 Stat. 225, amending sec. 21, for the period beginning June 29, 1964, and ending June 30, 1965 temporarily increasing the debt limit to-----	*324,000,000,000
June 24, 1965: 79 Stat. 172, amending sec. 21, for the period beginning July 1, 1965, and ending on June 30, 1966 temporarily increasing the debt limit to-----	*328,000,000,000

¹ Limitation on issue.

² Limitation on outstanding.

³ Limitation on issues less retirement.

The CHAIRMAN. Mr. Secretary, I see you have with you both the Director of the Budget and also some of your top assistants and we want to welcome all of you to this committee.

As I understand it, you initially asked Congress to raise the temporary debt limit by \$4 billion but only \$2 billion increase was approved by the Ways and Means Committee of the House. You are now going to ask this committee to approve the House bill without changes, as I understand it.

Secretary FOWLER. That is the essence of my statement, Mr. Chairman.

The CHAIRMAN. Will you please proceed?

STATEMENT OF HON. HENRY H. FOWLER, SECRETARY OF THE TREASURY; ACCOMPANIED BY JOSEPH W. BARR, UNDER SECRETARY OF THE TREASURY; FREDERICK L. DEMING, UNDER SECRETARY OF THE TREASURY FOR MONETARY AFFAIRS; STANLEY S. SURREY, ASSISTANT SECRETARY OF THE TREASURY FOR TAX POLICY; HON. CHARLES L. SCHULTZE, DIRECTOR, BUREAU OF THE BUDGET; AND SAMUEL M. COHN, ASSISTANT DIRECTOR FOR BUDGET REVIEW, BUREAU OF THE BUDGET

Secretary FOWLER. Mr. Chairman, members of the committee, I have with me at the table the Director of the Budget, Charles Schultze, who is here to also offer a statement dealing with the expenditure outlook which is a part of the consideration for this determination before the committee. I also have Under Secretary Barr and Under Secretary Deming to assist me in dealing with questions that may come up concerning debt management, technical aspects of debt management, and the participation sales.

Mr. Chairman, there is a prepared statement and I will go through it. I think it is the most orderly way to proceed.

The President in his budget message last January requested legislation that would raise the ceiling on the public debt for the period after June 30, 1966. Existing law provides that the temporary debt limit, now at \$328 billion through June 30, 1966, will revert to the permanent limit of \$285 billion on July 1, 1966, making legislative action essential prior to the end of the fiscal year.

Otherwise the Treasury and the U.S. Government will be in the impossible position of being unable to refinance maturing debt as it comes due and, as our cash balances are exhausted, unable to pay for Government expenditures.

Last year when I appeared before you on the debt limit we indicated a need for a temporary ceiling of \$329 billion to cover the high point of our needs on March 15, 1966. I wish to report that on that date our debt limit need, within the conventional framework of a \$4 billion cash balance and a \$3 billion leeway, or contingency fund, was within \$300 million of our estimate. That is, the actual debt subject to limit was \$323.4 billion, while the cash balance was \$1.2 billion. If the cash balance had been at the normal \$4 billion level, the debt would have been \$326.2 billion—or only \$300 million away from the \$325.9 billion on which we had based our estimated need for a \$329 billion limit.

There was no need to draw upon the leeway for contingencies, so we were able to live with the fact that the House committee, in reducing our request to \$328 billion, actually allowed us only a \$2 billion margin

for contingencies. Following the House action last year I appeared before this committee and, in the interest of prompt action, requested only a \$328 billion ceiling rather than our indicated need for \$329 billion. This shaving of the request entailed some risks but I saw no strong objection and entered none.

This year in our request for a new debt limit ceiling we have as usual assumed a \$4 billion constant cash balance. This, plus the \$3 billion allowance for contingencies, has been the basis for previous requests. However, as the committee knows, the cash balance necessarily fluctuates over a wide range; it will frequently be high after tax dates and new financings and can safely be lower immediately before tax payment dates.

This \$4 billion cash balance base is a conservative number to cover our actual needs. Since the level is necessarily much higher than this after tax dates and major cash borrowing dates, it would have to be considerably lower than this level on many other occasions in order to average \$4 billion. In fact, our average cash balance in fiscal 1965 was \$6.3 billion, and the average was last below \$4 billion in fiscal 1958. I am pleased to report that this year, through vigorous efforts, we will hold the cash balance to an average of about \$5 billion. That is only slightly over half a month's budget expenditures and is about as low as we can go in prudence to economize on our cash balances. At one point this past year our cash balance was down to \$573 million—the lowest level since before World War II. This was certainly an unsustainably low level, but it was indicative of our continuing effort to keep the balance as low as is consistent with sound fiscal management.

The customary \$3 billion debt ceiling allowance for contingencies represents a minimum margin of safety to cover events we cannot now foresee as well as to cover the uncertainties of month-to-month estimates of receipts and expenditures for 13 months in the future. In addition, Treasury borrowing operations were necessarily in large amounts and are attuned to both our needs and favorable market opportunities. Because these borrowings cannot be adjusted perfectly to day-to-day changes in our cash balances, we must have the leeway to cover the temporarily higher debt levels immediately following a financing.

Other than the requirements for a minimum cash balance and a contingency allowance, the debt ceiling requirement depends to a considerable extent on (1) the seasonal imbalance in our receipts and expenditures and (2) the result of the previous fiscal year's receipts and expenditures on the public debt.

On the first point we will have received about 42 percent of our revenues in the first half of fiscal 1966, whereas expenditures will be approximately equal in the two halves of the year. Thus in fiscal 1966, as usual, we have had to borrow heavily in the July–December period and, with large tax receipts in March, April, and June, we will pay off all or a large part of these seasonal needs in the spring months. On the second point—namely, the prior year's fiscal result—the level of the debt at the end of the prior fiscal year determines the starting point for the succeeding year's seasonal needs. Because the peak seasonal needs have not varied greatly from year to year, the sequence

can almost be simplified to the point of adding the prior year's deficit to the prior year's debt limit to get the new year's debt limit. In other words, the deficit for fiscal 1966 added to the \$328 billion limit for 1966 will closely approximate 1967's needs. This rough rule of thumb works well for fiscal 1967 and our more refined estimates produce almost the same number as this guide.

As you know, the President in his budget message last January estimated fiscal 1966's deficit at \$6.4 billion, based on revenue estimated at \$100 billion and expenditures at \$106.4 billion. Since then two changes have occurred in our revenues. First, a more timely payment of withheld income taxes is expected to add nearly \$1 billion to June revenues. About 75,000 larger employers will be required to deposit withheld income taxes twice a month rather than once a month. A similar system will also apply on social security taxes. The first such payment is due on June 20, 1966, at about the time when payments are coming in under the old schedule covering a full month's liability. This one-shot doubling up will affect only 1966 revenues.

Senator WILLIAMS. Mr. Secretary, about how much effect will that have on 1966?

Secretary FOWLER. About \$900 million to a billion dollars.

Secondly, the pace of collections on other taxes has also increased. Individual income taxes not withheld are running in excess of the amount we estimated last January. There has been no change in estimated income in calendar 1965, on which fiscal 1966 revenues are based. Thus it may well be that the marginal tax take from higher income has continued to rise. However, it is not unusual to have revisions in the prior year's income data, and a precise analysis of the reasons for the increase must await the availability of more data.

While a refined estimate of the improvement in revenue is not available, we used \$102.5 billion of revenues as our planning base at the hearings before the House Ways and Means Committee last month. We indicated at the same time that this was a conservative estimate, and that the revenues might turn out as much as half a billion dollars higher—in other words at \$103 billion. As I said, a fully refined estimate is still not possible—the heavy June payments are still ahead of us. On the expenditure side the Director of the Bureau of the Budget has advised me that within a narrow range the \$106.4 billion estimate of the January budget is still a good appraisal of the expenditure outlook for fiscal 1966. However, there are uncertainties still facing us with respect to expenditures and this \$106.4 billion represents the middle of a range rather than a precise forecast. Putting the \$102.5 billion of revenue and \$106.4 billion of expenditures together, we would now look to a deficit of about \$3.9 billion this year, an improvement of \$2.5 billion over the January estimate.

The uncertainties of the future are more cloudy than is normal at this time. To the usual questions of congressional actions on the President's budget requests, must be added not only the uncertainties of Vietnam costs, but also the uncertainties as to the pace and scale of our economic growth—that is whether the rates of growth characterizing recent quarters will be maintained. These factors can have both expenditure and revenue consequences of sizable magnitude. Weighing all the uncertainties and imponderables together, however,

we have preferred to continue to use the \$1.8 billion deficit estimate for fiscal 1967, made last January.

On these estimates for fiscal years 1966 and 1967 and bearing in mind all the uncertainties, we have projected forward the public debt at midmonth and at month-end through fiscal 1967 as shown in the table attached to my statement. The table is similar to the one that accompanied my statement to the House Ways and Means Committee last month. The debt projections are in the same format as in previous debt limit hearings and assume a constant Treasury cash balance of \$4 billion. On this basis the debt will raise to a seasonal peak of \$328.7 billion on March 15, 1967. This prospective level of debt, rounded to \$329 billion, and augmented by the usual \$3 billion allowance for contingencies would under our customary procedures be the basis for requesting at this time a new temporary debt limit of \$332 billion to carry us through June 30, 1967.

As you know, the House Ways and Means Committee has approved an increase only to \$330 billion, and the House has already given its approval to this lower level. At the time of the House committee hearing I indicated great reluctance to accept a limit of only \$330 billion, since on the basis of our estimate then there would have been three occasions during the year when we would come within the \$3 billion contingency reserve, and this represented too thin a margin for prudent operation. I did indicate to the House Ways and Means Committee that we could in all likelihood operate within a \$331 billion ceiling.

I would still prefer a ceiling of \$331 billion but I am prepared to accept a level of \$330 billion, and in the interest of speedy passage of this needed legislation I therefore request that you approve the same ceiling already approved by the House—that is, \$330 billion.

Our estimates show that this will give us a very tight squeeze in early 1967—and as I said earlier the current uncertainties are more than normal at this time of year—but I believe we may be able to operate within this more circumscribed limit. I must tell you, however, that if this should not appear to be working out, because of one or another of the various uncertainties that I have mentioned, we would have to come back before the end of fiscal 1967 for a revision of this limit.

That concludes my statement, Mr. Chairman. I think perhaps you might want to hear from Director Schultze before questions.

The CHAIRMAN. Do you have a prepared statement?

Mr. SCHULTZE. I do, sir. Thank you, Mr. Chairman.

I welcome the opportunity to be here today to help the committee in any way I can in its consideration of the administration's request for an increase in the statutory debt limit.

Secretary Fowler has explained the basis for the requested limit and discussed our current revenue estimates. I will therefore direct my remarks toward the outlook for expenditures as we now see it.

FISCAL YEAR 1966

As I indicated to the House Ways and Means Committee 2 weeks ago, we expect total administrative budget expenditures in fiscal year 1966 to be close to the estimate we had in the 1967 budget last Janu-

ary. Budget data are not yet available for the month of May and much of June is still ahead of us. But on the basis of information through April, the January estimate of \$106.4 billion in total expenditures is still as good an estimate as we can make. Considering the estimating errors possible even this late in the year, this figure should be regarded as subject to some—hopefully relatively small—modifications as later data become available.

While the total estimate is unchanged since January, there are some changes for specific agencies, both up and down. My statement on the next several pages runs through these and I will just let them stand for the record.

(Two pages of Mr. Schultze's prepared statement follow:)

While the total estimate is unchanged since January, there are some changes for specific agencies—both up and down—which I can run through for you briefly. These changes are all in the civilian agencies. Based on the figures available to date, the expenditure total for the Department of Defense could be somewhat above our January estimate. However, there are still so many uncertainties involved that it is not yet feasible to revise that estimate.

Based on actual data through April, increases worth noting are as follows:

NASA outlays for the year now appear to be about \$250 million higher than the January estimate of \$5.6 billion, because more rapid progress than expected has recently been made on several large development contracts which had earlier been moving forward below planned levels.

Sales of individual mortgages and other financial assets are running about \$300 million below the \$672 million level anticipated in the January budget. This has the effect of increasing by \$300 million the net budget expenditures for the two agencies chiefly involved, the Department of Housing and Urban Development and the Veterans Administration. The underrun is in direct sales by these agencies; we still expect the sales of participations in pools of Government loans to approximate the estimate of \$2.6 billion made in January.

Turning now to the major decreases from the January estimate, we have the following:

Agriculture is down by roughly \$300 million from the total of \$6.9 billion estimated in January. This decrease mainly reflects lower expenditures by the Commodity Credit Corporation and is primarily the result of greater commodity consumption (including exports) and a drop in dairy production.

The Office of Economic Opportunity's expenditures are now estimated to be perhaps \$200 million below the January estimate of \$1.2 billion, mainly because of delays in getting underway with some community action and Job Corps programs.

The Department of Health, Education, and Welfare is spending at a somewhat slower rate than assumed last January, mainly in the public health area, with the result that total expenditures by the Department are now estimated to be roughly \$100 million under the budget estimate of \$7.7 billion.

Mr. SCHULTZE. These are numerous smaller changes in addition to the ones I discussed in my prepared statement but all together it nets out to \$106.4 billion as still a reasonable estimate for the year as a whole, remembering always that this estimate must be considered the middle of a range rather than a precise forecast.

FISCAL YEAR 1967

I turn now, if I can, to the next fiscal year, 1967. For fiscal 1967, last January's budget estimated total administrative budget expenditures at \$112.8 billion. This reflected very strong efforts to hold the total as low as possible.

We made an especially hard and thorough review of the agency budget requests this year and the President cut them heavily and more

deeply than in previous years. In view of the budgetary requirements of Vietnam, the rate of advance of many important domestic programs was held below what it would otherwise have been. For example, in those programs of the Departments of Health, Education, and Welfare; Housing and Urban Development; and Commerce, those programs which have specific legislative authorizations.

The CHAIRMAN. Could I just ask, what page are you on in your statement?

Mr. SCHULTZE. Excuse me. Bottom of page 4. I simply skipped over some of the prepared—

The CHAIRMAN. I wanted to skip over your record insertion to where you are reading.

Mr. SCHULTZE. Bottom of page 4, about six lines up starting with, "for example, in those programs."

The CHAIRMAN. Go ahead.

Mr. SCHULTZE. For example, in those programs of the Departments of Health, Education, and Welfare, Housing and Urban Development, and Commerce, those departments which have specific legislative authorizations, the President's appropriation requests were \$2½ billion lower than the authorization levels. Apart from the special costs being incurred for Vietnam, the total of 1967 budget expenditures was estimated to be only \$600 million greater than in 1966.

COST REDUCTION PROGRAM

I should also mention that at the President's direction formal cost reduction programs have now been installed throughout the Government and every agency has intensified its efforts to obtain full value for each dollar spent. Most of the Federal Government's programs provide services, in which productivity improvements are much harder to come by than in mass production manufacturing. Nevertheless, the results of this cost-reduction program have been striking.

For fiscal year 1966 Federal agencies pledged to save \$3.5 billion compared with 1964. Of this total, savings by the civilian agencies will account for \$1.5 billion, consisting of one-half billion dollars from fiscal year 1965 actions having a recurring effect in subsequent years, and \$1 billion in additional cost-cutting actions in fiscal year 1966. On the basis of already established cost reduction targets for fiscal year 1967, savings next year are expected to increase to \$3.8 billion compared to the 1964 benchmark. The planned cost reductions for 1966 and 1967 were taken into account in the budget estimate last January. Let me put this another way. Carrying out the level of activities proposed in the 1967 budget would have cost not \$112.8 billion but \$116.6 billion, had Federal agencies been operating at the 1964 level of efficiency.

The figures cited for cost reduction savings exclude the results of the contractor cost reduction programs of the Department of Defense, National Aeronautics and Space Administration, and Atomic Energy Commission. Based on current estimates, the Government can expect contract costs to be at least \$500 million less than if such efforts had not been made by the contractors. These savings, too, were included in our budget estimates.

EXPENDITURE UNCERTAINTY

Let me turn now to the problem of uncertainty in expenditures. Budget predictions are difficult at best, but this year they are particularly so. The January estimate of expenditures for Vietnam operations represented the best forecast of requirements we could make at that time. That estimate still appears to be the best that can be made. Nevertheless, as the President pointed out in his budget message, the ultimate length and intensity of the conflict in Vietnam is inherently uncertain and unpredictable, depending as it does not only upon our own actions but upon those of our adversaries. This uncertainty has not lessened since the budget was transmitted. Defense expenditures could be higher or lower than the \$58.3 billion we estimated in January. But the degree of uncertainty we still face clearly indicates the prudence of allowing sufficient leeway for sound financial operations within the debt limit.

Leaving aside defense outlays, there is also a considerable measure of uncertainty about the expenditure outlook in the remainder of the budget. On balance, events since last January seem to be pointing toward an increase over the budget figure for nondefense programs. However, much work on the budget remains to be done. Only one appropriation bill for fiscal 1967 has been enacted. The Senate has considered only 2 of the 12 regular 1967 appropriation bills so far this year; 6 have passed the House. Furthermore, a substantial volume of legislation which would affect expenditures is still under consideration. In its actions to date the Congress has provided a number of increases that portend a higher level of total expenditures in fiscal 1967 than we proposed last January. For example:

The GI bill as enacted will cost about one-quarter billion dollars more in 1967 than the \$100 million the President proposed in the budget.

I am still hopeful that the military and civilian pay raises will carry a January 1, 1967, effective date, but the civilian pay bill that has passed the House and the military pay bill now under consideration both carry a July 1, 1966, effective date—with the result of about doubling the costs in fiscal 1967, an increase of almost one-half billion dollars.

The Labor-HEW appropriation bill as approved by the House has added significant amounts to the President's budget for impacted area school aid, college student loans, and the National Institutes of Health.

The House-approved version of the Agriculture appropriation bill has added substantially to the President's request for rural electrification, agricultural research and conservation, and for the school lunch and special milk programs.

There are other increases I could note and, of course, a number of appropriation decreases—although these are considerably smaller in total. Nevertheless, I think these examples illustrate the upward pressures of recent developments on the budget.

CONCLUSION

To sum up, then, given all the unknowns in both defense and non-defense programs, any specific revision of the January expenditure estimate for 1967 at this time would be highly conjectural and pre-

mature. There are signs indicating an upward push in the total as compared with the budget estimate, but we intend to continue pressing our efforts to hold expenditures to a minimum.

In view of the present uncertainties, I believe the wisest course is to use the assumptions which Secretary Fowler has set forth, and in the interest of speedy action, adopt, as he has requested, the \$330 billion debt limit passed by the House.

Thank you, Mr. Chairman.

The CHAIRMAN. Mr. Schultze, in your statement here you somewhat take Congress to task for going beyond the estimates that the President recommended which I am sure you helped prepare for him in certain areas, GI bill, the civilian and military pay raise, and HEW. Were you familiar with these decisions made out at HEW recently by which they agreed to pay out to hospitals \$75 million a year more than they estimated when they brought their program before us?

Mr. SCHULTZE. This is, as I understand it, on the reimbursement for medicare costs.

The CHAIRMAN. Yes.

Mr. SCHULTZE. That is correct.

Senator ANDERSON. No. Changing actual costs to padded costs.

Mr. SCHULTZE. As I understand, the problem at issue is the 2 percent added on to the cost.

The CHAIRMAN. You have got more than the 2 percent. They came in here when the program was being enacted and gave us their estimates on what it would cost. Last month they came back in here and brought us a program—in fact, they told us that they were going forward with their press release and publish their guidelines in the Federal Register—guidelines which cost \$75 million a year more than their estimates.

At the time we passed that bill, not a member so far as I know, anticipated a bonus being paid under medicare. I know of no member on this committee who is against the Hill-Burton program, but that 2-percent bonus is a Hill-Burton program in disguise. And the guidelines do not even require that they use it for facilities.

In addition to that, the guidelines allow them to take depreciation on things that were given to them by Federal and State governments and even on things that are given by charitable donations. Taxwise, these boys at the Treasury would not let you deduct that sort of depreciation. Internal Revenue will not let you deduct depreciation for something you did not pay for to begin with. And in addition to letting them take depreciation, the guidelines let them take accelerated depreciation and depreciation on property that is already fully depreciated. They also let them make advance payments.

So between those three items they increased their cost by \$75 million. Now, did they clear that with you when they made those agreements?

Mr. SCHULTZE. The specific agreement, no, sir. Let me make two points on that. In the first place, although it is irrelevant to the point you are making, these outlays of course come out of the trust funds and are not included in the figures here.

The CHAIRMAN. That does not affect your administrative budget but it sure affects your cash budget. And in any event part of the cost of medicare comes right out of the Federal Treasury.

Mr. SCHULTZE. I agree. In giving the estimated administrative budget totals therefore, I have not taken that into account. The second point is that we were not involved in the specific negotiations. The major thing, as I understand it, in the negotiations with the hospitals, is that the results came out substantially below what the hospitals originally had asked for. I have given no specific clearance or approval of the particular negotiation results.

The CHAIRMAN. I am sure that they told you people down there the same thing they told us when the administration came up recommending medicare as part of its program and I should think when they are going to increase the cost, they would also tell you before.

Mr. SCHULTZE. They told us, that is correct.

The CHAIRMAN. After all, they are working in your shop, work for you first and then for us. I was just curious to know if your folks knew about that down there.

Mr. SCHULTZE. Yes, we did.

The CHAIRMAN. While the administrative budget is one thing, the cash budget is very, very important to you also; is it not?

Mr. SCHULTZE. I agree, sir.

The CHAIRMAN. If you are spending more than you are planning to spend and drawing down your trust fund, to that extent it tends to be inflationary if you are in an inflationary period.

Mr. SCHULTZE. The cash budget does have an impact; that is right, sir.

The CHAIRMAN. That is right. So that the thought that I had in this area was that it seems to us that this is a beginning of what could very well increase the cost of Federal medical programs by billions of dollars. We checked it with GAO. General Accounting Office seems to think that they are within the law although they question HEW's wisdom. The law does not make them do it either and this is an area where if this trend is permitted to continue, by the time they get through negotiating with other groups, the doctors in particular, and by the time they get through in the areas of drugs and other things, this could run the cost up by billions of dollars. I would hope that you are as anxious to keep this cost within bounds as we are.

Mr. SCHULTZE. I am, sir, and you can be assured that we will, of course, be taking a look at all the developments in it.

The CHAIRMAN. Incidentally, the guidelines resulting in this \$75 million increase in cost extend on over to title 19. Now-----

Mr. SCHULTZE. Yes.

The CHAIRMAN. Title 19 is one where the Federal Government pays directly and that does come out of the administrative budget.

I estimate that the increase of \$75 million here may very well cause another increase of \$75 million over in the other areas of the program. In other words, once you buy these guidelines for medicare you are going to have to do the same thing in the other programs and under title 19. You are almost required to do it.

Mr. SCHULTZE. That is generally correct.

The CHAIRMAN. And once you do it for those, you have got uniform standards in all your Federal hospitalization programs now and to follow consistency and the idea of equity, once you agree to do that then you are going to have to extend it over into others. So that is an

increase not of \$75 million but \$150 million and at least half of that is in the administrative as well as the cash budget.

Senator WILLIAMS. Are you aware also that in title 19, even aside from these two items that the chairman has mentioned, that the underestimate of the Department as to the cost of title 19 when it is fully implemented by the 50 States can be as much as \$700 million a year out of line?

Mr. SCHULTZE. Well, how much it can be we do not know yet, Senator.

Senator WILLIAMS. But on a projected basis it is possible that the overall estimate of the medicare program can ultimately, when it is fully implemented, be as much as a billion dollars a year.

Mr. SCHULTZE. Well, as title 19 is finally implemented there can indeed be additional costs but we have not yet been able to pinpoint the amount of this.

Senator WILLIAMS. Do you not think that is a point that the Bureau of the Budget should be giving consideration to?

Mr. SCHULTZE. We are, sir.

Senator WILLIAMS. These estimates were presented to the Congress at the time this bill was passed and a billion dollars a year seems to be a fantastic underestimate.

Mr. SCHULTZE. Well, as I say, of course, we are not yet by any means sure it will be a billion dollars a year. But you are quite right, it is obviously something that the Bureau of the Budget does have cognizance of and we will be taking a look at it.

The CHAIRMAN. One thought that occurs to me is that these complaints that you have here in your statement about the increase in costs are not things that this committee put on you.

Mr. SCHULTZE. No, sir.

The CHAIRMAN. As far as this committee is concerned, the shoe is on the other foot. We have been the ones who have been fighting to try to keep these things within the estimates and frankly we have had a lot of pressure from hospitals and various groups that want more Federal money. It seems to us that we are looking at you in this case saying, "Look, why do you come up and complain about somebody on the Hill passing a law to spend more than you estimate was necessary when you yourself proceed to spend more money than you estimated on your bills"?

Mr. SCHULTZE. Senator, the point of putting this in here was not to complain to this committee but simply to give the committee an impression of what is facing us in terms of budget expenditures.

Secretary FOWLER. I think we are looking for allies in this committee in holding down expenditures, either in the cash budget or administrative budget.

The CHAIRMAN. So are we. Senator Anderson was the grandfather of the medicare program and he was shocked to see HEW come in and report that they just made a simple little decision down there that costs the Government \$150 million a year. He himself can see the prospect as I do of this going over into other fields and costing fantastic amounts of money that we never agreed to buy when we got into it.

There is one other point covered by the statement I wanted to cover and then I will yield to others.

We have this permanent debt limit and I recall how it started. We have one permanent and one temporary and this, as I understood it, we are now still proceeding on the theory that the permanent debt limit would be \$285 billion and that we would permit you temporary authority to have a debt limit of \$330 billion under this bill.

Now, that is a big difference there. It is a difference of \$45 billion. Can you conceive of any way that you could operate under that permanent debt limit unless we passed some additional laws to change the Federal Government's way of doing business or bookkeeping methods or made some drastic change in the authority under which you operate?

Secretary FOWLER. No, sir.

The CHAIRMAN. In other words, as of now, it is totally inconceivable that you could operate under that unless we pass some law to change the whole—

Secretary FOWLER. Change the whole structure.

The CHAIRMAN (continuing). The whole way of the Government doing business.

When we went into that, Mr. Secretary, that appeared to be a good idea. Senator Byrd was the chairman of this committee as you recall, and he was—you were not in Government at that time.

Secretary FOWLER. No, sir.

The CHAIRMAN. You were in private practice of law if I recall correctly. But Senator Byrd was very anxious to keep the pressure on the administrative branch of the Government and from the President on down, he was a very good friend of President Eisenhower, to bring down and reduce expenditures and part of those pressures were that when President Eisenhower would come in here and ask for an increase of the debt limit, Senator Byrd would detect that you would need to have a \$5 billion increase perhaps for now but that at some point in the year you would collect a large amount of taxes and at that point you would not need that much. So he would—I think at one time we got to where we operated on a 90-day basis. Of course, this was something that Senator Byrd was very devoted and sincere about but in fighting for that he was working on the theory that he wanted you to get your spending down to where you could get within that ceiling when the ceiling came down. And I believe at that time it served a purpose in pressing the Treasury and the Bureau of the Budget to be within that low ceiling at a time when there are less funds available and at a time when you did not need a higher ceiling, to have a lower ceiling.

What purpose does it serve now?

Secretary FOWLER. I think it serves two purposes, Senator.

The CHAIRMAN. I mean the permanent debt limit of \$285 billion.

Secretary FOWLER. I think it serves no purpose now except to hold to a concept that there ought to be in the national financial and economic policy some consideration from time to time of the possibility of debt retirement. The question of whether the current level of the permanent ceiling is the appropriate one goes to the question of whether or not it is conceivable that over a period of time we might through debt retirement get back to that level.

Absent, a determination that that is a feasible and a desirable objective, the question comes when and how should the permanent debt

ceiling be modified to bring it up to a level that it would be more realistic to try to come back to.

This question of adjusting the permanent ceiling has been brought up from time to time and, as a matter of fact, last year there was considerable discussion in the Ways and Means Committee hearings on this question. We were asked, together with the Budget Bureau, to develop alternative ways in which the permanent debt ceiling might be adjusted. We have done so. However, it did not come up in any way in the deliberations last month in the House Ways and Means Committee I believe, because of the general impression that it would be very difficult with all the uncertainties that are present now to arrive at any satisfactory alternative for the present ceiling. So the matter has just been deferred.

Senator SMATHERS. Mr. Chairman, may I ask a question at that point?

The CHAIRMAN. Let me just finish this, and then I will turn it over to you, Senator Smathers.

Incidentally, with regard to this \$75 million of added cost passed along to the hospitals under medicare, we asked what could be done with this additional money. They indicated that instead of 60 full days of hospitalization and 30 additional days with \$10 deductible—that is the present law—they could go beyond that to 60 days of full hospitalization plus 120 days with \$10 deductible, or they could substitute for that 100 days fully paid for.

Now, that is what could be provided for people in this program if you use that for the patient instead of for the hospitals. So that is what you are taking away from the old people in the one instance in order to give it to these hospitals.

I am not against the hospitals but I just point out if you put it into care rather than letting them put it into something else, you could have done that much more for older people according to Social Security's own estimates.

Senator Smathers?

Senator SMATHERS. Mr. Chairman, I just wanted to ask the Secretary of the Treasury on the point you raised with respect to the permanent debt ceiling, do you not think, Mr. Secretary, that it would be more realistic and more helpful to the agencies of Government as well as the general public if we just had one realistic debt ceiling such as \$330 billion?

Senator WILLIAMS. You mean eliminate the temporary and make it permanent?

Senator SMATHERS. Eliminate the temporary and have one debt ceiling, \$330 billion or whatever it is.

Secretary FOWLER. I think that depends a great deal on what level the permanent ceiling was fixed at, and what the attitude of the committee would be about annual adjustments of that ceiling. I think that one of the useful byproducts of the temporary debt ceiling approach that Senator Byrd espoused was that it did provide one occasion each year for the Treasury and Budget to meet and consider together with the Ways and Means Committee and the Senate Finance Committee the whole broad spectrum of Government expenditure policy. I think this is a useful and desirable thing because, as our

previous colloquy about hospital costs has indicated, I think we have a mutual interest in holding down expenditures. We do not get together enough on that particular topic and exchange views about what is going on in other committees of the Congress and other departments and agencies of the administration. So I think it is a useful exercise each year to consider the role of expenditures as it relates to the debt.

Senator SMATHERS. Can you foresee at any time when we could ever return to a debt ceiling of \$285 billion?

Secretary FOWLER. No, sir, I do not think that is likely, but I do think that the prospect of some debt retirement is one of the objectives of financial policy that ought to be kept in front both by the administration and the Congress and therefore that one of the considerations, at least, in determining how you would adjust the permanent ceiling is whether you are going to adjust it to a level somewhat higher, but still substantially lower than the temporary limit as something of a long-term objective to get back to.

Senator SMATHERS. Do you believe that if we had a permanent debt ceiling of \$330 billion and we had a limit on it for 1 year that it would forestall our having a meeting next year or the year after to discuss debt management and how we are doing with respect to debt management?

Secretary FOWLER. Well, you could certainly have hearings without the necessity for adjusting the debt limit.

Senator SMATHERS. Do you think that it is more honest—I think that would be the word—with respect to the people of the country to in point of fact have our debt ceiling what it really is—\$330 billion—rather than the \$285 billion?

Secretary FOWLER. I don't believe I see any element of morality involved in having both a permanent ceiling and a temporary ceiling.

Senator SMATHERS. Well, I don't want to get involved in the morality of it. Is it not more easily understood and is it not more frank to just state that we are operating under a debt ceiling of \$330 billion, that we have to have a debt ceiling of \$330 billion to operate this year?

Secretary FOWLER. I think that is the way the temporary ceiling has come to be generally understood and interpreted. I doubt whether the word "temporary" confuses many people sophisticated about it.

Senator SMATHERS. In other words, you don't have any strong feeling about this either way with respect to whether we have a temporary or permanent ceiling or what it is.

Secretary FOWLER. Well, I think, Senator, I would feel that it is desirable at an appropriate time to adjust the so-called permanent ceiling to a more realistic level. I think there are many different approaches, many different alternatives to doing that. But in our studies with the Bureau of the Budget we have not arrived at any particular formula for that adjustment. What we have tried to do is simply develop a series of alternatives that we thought the committees would be interested in weighing when they determined it was timely to make this adjustment.

Senator SMATHERS. In other words, you would leave that determination to them. Of course, they have to pass the law, but you have no particular recommendation.

Secretary FOWLER. I do not, sir—not at this time. If I have any recommendation at all, it would be that given the uncertainties of the situation in which we are operating with southeast Asia still very much an undetermined element, that perhaps in a more normal time one could fix the permanent ceiling to better advantage.

Senator SMATHERS. I didn't apologize for not having had the opportunity of hearing your opening statement, but I recall that you testified before the House that you needed, in order to operate the Government, \$332 billion. The House gave you \$330 billion. I gather this morning you said you could live with \$330 billion.

First can I ask you why briefly did you change your belief with respect to the difference between \$332 and \$330 billion?

Secretary FOWLER. Well, at the time of the House hearing I did indicate that I thought it would be feasible to live with \$331 billion. After the House made its determination, I indicated great reluctance to accept the limit of \$330 billion since on the basis of our estimates there would be three occasions during the year when we would come within the \$3 billion contingency reserve. This seemed to me to be too often to be sticking close to that margin.

I would still prefer a ceiling of \$331 billion, Senator, but in the interests of a speedy passage of this needed legislation, I would request that you approve the same ceiling as approved by the House, \$330 billion. I stated in my statement that that does indicate a very tight squeeze for us. There are many current uncertainties that are more than normal at this time. I hope we will be able to operate within the circumscribed limits, but if it doesn't appear to be that way, we will simply have to come back some time before the end of the fiscal year and ask for an adjustment.

Senator SMATHERS. If President Johnson submits a supplemental budget with respect to Vietnam, actually at that time you will have to come over and ask us for an increase in the national debt limit, is that true?

Secretary FOWLER. Not necessarily. It would depend upon the magnitude and the pattern of when those expenditures would be likely to come.

Senator SMATHERS. Suppose he came in and asked for an increase of some \$3 billion to finance the war in Vietnam. Would that require your appearance over here?

Secretary FOWLER. I don't believe I could answer that in terms of any particular figure, Senator Smathers.

Senator SMATHERS. In other words, you are leaving it as "maybe."

Secretary FOWLER. Right. Maybe.

Senator SMATHERS. All right. Let me ask you this question. I noticed in the paper that in the hearing before the Ways and Means Committee the question came up whether or not Congress should remove this $4\frac{1}{4}$ ceiling on long-term Federal securities. Would you advise us what the administration position now is with respect to this removal of this limitation?

Secretary FOWLER. Yes, sir. As I indicated in regard to the question when it was raised before the House Ways and Means Committee, we would welcome some greater flexibility in financing the debt beyond the 5-year area, although we wouldn't be attempting, I don't

believe, any larger volume of long-term debt at the very high current yield.

I expressed a hope at that time that Congress would give careful attention before many more months have passed to the question of how some greater flexibility to borrow long term might be provided. For example, we would welcome temporary authority in this coming fiscal year to sell up to \$5 billion of bonds of any maturity at rates that might except the 4¼-percent ceiling. It is not that we would necessarily seek to sell that amount, the full amount, if we had the authority, but it would be useful to have some degree of flexibility.

I am not requesting action at this time because this matter doesn't command the same degree of urgency as the debt ceiling question that is before you, but we do have a matter of timing very much in mind and would welcome provision of some measure of temporary—

Senator WILLIAMS. Would the Senator yield? Do I understand you are going to come back and ask for repeal of that 4¼-percent interest ceiling?

Secretary FOWLER. I haven't determined on the exact manner of making our feelings known, whether to be specific or not, Senator.

Senator SMATHERS. You indicate in your statement that you do have it under discussion—you would like to have it—but you apparently are not going to originate it. If somebody over here originates it, that would suit you fine.

Secretary FOWLER. That would suit me fine but I am not going to cross the river on whether if it isn't originated over here, we wouldn't originate it back at the Treasury.

Senator WILLIAMS. Do I understand you would like to have it but you are ashamed to ask for it?

Secretary FOWLER. No, sir, not at all. I just didn't want to ask for it now and create a situation which this bill—which has a June 30 deadline—would be compounded with a lot of what I know will be extended hearings and perhaps somewhat of a controversy.

Senator WILLIAMS. I understood. That is the reason I was asking you, were you coming back in later to ask for it?

Secretary FOWLER. Well, I think my answer stands. I may well be.

Senator SMATHERS. Maybe. You might do it.

Let me ask you one other question and then I will stop. Do you foresee any time in the near future that the budget could be balanced?

Secretary FOWLER. Yes. Senator Smathers, I think it would be depending somewhat on events in Vietnam. I would say that had it not been for Vietnam, it would have been quite feasible to balance the budget in the fiscal year that we are currently in, fiscal year 1966.

Senator SMATHERS. It would have been balanced in 1966 had it not been—

Secretary FOWLER. I didn't say it would have been. I said it would have been feasible to balance the budget in fiscal 1966 assuming the level of current expenditures in the non-Vietnam segment of the budget—without the increases of roughly \$4.7 billion that has been included in the administrative budget as a result of the acceleration of activities over the last year. I am merely putting forward a hypothetical conjecture that had revenues moved up the way they have, and the President's initial target of \$99.7 billion of expenditures

for fiscal year 1966 been held to, we might well be in a surplus situation at this time.

The same general conjecture might be made with reference to next year. For example, we have not made any reestimate of the 1967 revenue picture. I have indicated in my statement here we are still holding to the original estimate of a deficit of \$1.8 billion. However, the staff of the joint committees, as I know you are familiar with, has made an estimate of the revenues in 1967 and estimate that they will be substantially in excess of the \$112.8 billion of present expenditures.

Whether that increase in revenues in fiscal 1967 will occur, or whether there will be countervailing increases in expenditures because of Vietnam or because of some of the matters Director Schultze has referred to, is also a matter of conjecture, but it would seem to me to have been feasible to balance the budget in 1966 had it not been for these developments in Vietnam. It would seem to me that it might be feasible in 1967.

Senator SMATHERS. But it is contingent upon what happens in Vietnam.

Secretary FOWLER. Precisely.

Senator SMATHERS. And I gather from what you say, if conditions—

Secretary FOWLER. And to some extent, Senator Smathers, on what happens in the appropriation and legislative processes during the remainder of this session. That could be a very material factor.

Senator WILLIAMS. It is also a material factor to the extent that the executive branch asks for additional expenditures, both the executive and the legislative have got some responsibility.

Secretary FOWLER. Oh, very definitely. This is a joint problem and I think that, as I suggested, I would like to make some common calls with members of this committee in that area.

Senator SMATHERS. I said I would only ask one more question, but if the chairman will permit me to ask still one more—now that the situation in Europe has taken a change with respect to France and NATO, etc., if we should bring home the troops that we now have in France, what would that do to our balance-of-payments situation? Would that give us a level balance of payment or not?

Secretary FOWLER. Senator Smathers, I don't know what the military alternatives are in redeploying the forces that are presently operating on French soil. I think the only information I can give you is to say that we sustain a gross balance-of-payments cost of approximately \$200 million annually as a result of our operations in France.

Senator SMATHERS. Not asking you about whether it is advisable militarily or not, but if those troops were brought home, are you saying that—those in France, that it would save us \$200 million?

Secretary FOWLER. Not quite, since not all of the \$200 million relates to maintenance of troops, but it would be a substantial part of the \$200 million.

Senator SMATHERS. That is all, Mr. Chairman.

The CHAIRMAN. Senator Williams?

Senator WILLIAMS. Mr. Schultze, in the budget that was submitted to the Congress, as I understand it, you estimated that there would be

\$2.6 billion sales of participation certificates and \$672 million in direct sales, or a total of \$3,300 million in sales of assets.

Now, to the extent that those are sold, they automatically reduce the deficit as it is reported and automatically reduce the need of increasing the debt; is that not correct?

Mr. SCHULTZE. Correct, yes.

Senator WILLIAMS. Now, the estimate was \$3.3 billion and I asked the Secretary to furnish me a report which I received this morning and it shows that we have sold a total of \$4.715 billion in these assets during fiscal 1966 thus far instead of \$3.3.

Mr. SCHULTZE. No.

Senator WILLIAMS. That is an additional \$1.4 billion over and above the estimate.

Now, to that extent that \$1.4 will reduce the deficit as it was estimated in January, will it not?

Mr. SCHULTZE. No, sir. The estimate that you first referred to of \$3.3 billion referred to sales of financial assets. Of that \$3.3 billion we have now sold approximately \$2.9 billion. Our estimate for the year as a whole is in that same vicinity, between \$3.0 and \$3.3 billion. As to the additional assets—I have not seen the paper you are referring to, but I presume you must be talking about sales from the stockpile, not financial paper.

Senator WILLIAMS. I am talking about FNMA which included the sale last week.

Mr. SCHULTZE. All I know, Senator, is that we do not figure on exceeding \$3.3 billion of financial asset sales this fiscal year. I am not sure exactly what—

Senator WILLIAMS. Well, I hope you get together with the Secretary of the Treasury because the letter that I received from him, in it it implies—I will give you the list—I don't want to go into detail on them here but it comes to a total of \$4.7 billion.

Mr. SCHULTZE. That is—

Senator WILLIAMS. Fiscal 1966.

Mr. DEMING. May I comment, Senator? The material covered in the participation certificate sales covers just what FNMA has sold and that totals up to about \$1.8 billion in fiscal year 1966. In addition to that there are Export-Import Bank sales which aren't included in these tabulations, and Director Schultze's figure of \$3 billion is—

Senator WILLIAMS. My inquiry to you never mentioned the Export-Import Bank. Did you include those figures in the report, in the letter you gave me dated June 6?

Mr. DEMING. No, sir. The Export-Import Bank sales are not in there. These are just the participation sales through the FNMA operation.

Senator WILLIAMS. I will withhold the question at this time and suggest you get together.

Mr. SCHULTZE. As I understand the explanation I just received on this point, the figures are quite consistent but the \$4.7 billion goes to a different concept and in particular, includes sales of FNMA debentures and notes.

Senator WILLIAMS. That is right.

Mr. SCHULTZE. The sale of FNMA debentures and notes is not reflected in the administrative budget. These sales don't affect the

deficit and debt limit estimate that the Secretary is talking about, and therefore are not included.

Senator WILLIAMS. Some of them don't but they are all included in the \$3.3 billion.

Mr. SCHULTZE. No, sir.

Senator WILLIAMS. Direct sales.

Mr. SCHULTZE. The FNMA debenture sales to support its secondary market operations are not included in the \$3.3 billion of asset sales.

Senator WILLIAMS. How about debenture sales? Were there—

Mr. DEMING. We didn't give you a total, Senator.

Mr. SCHULTZE. We will furnish for the record a reconciliation.

(The following was subsequently inserted in the record:)

The President's 1967 budget estimated that financial asset sales during fiscal year 1966 would total \$3.3 billion. In arriving at a total asset sales figure for the current fiscal year, Senator Williams apparently added the budget estimate of \$3.3 billion for financial assets sales of all types and for all agencies to the net increase of \$1.4 billion during fiscal year 1966 to date in outstanding debentures and discount notes of the FNMA Secondary Market Operations Trust Fund. The latter items represent borrowing (not asset sales) by a trust fund. They are not included in the administrative budget, and thus have no impact on the deficit.

Senator WILLIAMS. I wish you would because to the extent they have been increased, they would have the effect of reducing the debt and in addition, the Executive order for the acceleration of the payments by larger employers on their withholding tax and social security tax will bring an extra \$1 billion in during current fiscal 1966, would it not?

Secretary FOWLER. Yes.

Senator WILLIAMS. And to that extent that accounts for some of this \$2 billion reduction in the budget.

Secretary FOWLER. No, sir, Senator.

Senator WILLIAMS. Well, now, does it increase the budget or does it reduce the amount of the deficit?

Secretary FOWLER. The deficit has been reduced by reason of a re-estimate in my statement of revenues from \$100 billion to \$102.5 billion; \$1 billion of that \$2.5 billion is accounted for by the acceleration of tax collections.

Senator WILLIAMS. That is what I said.

Secretary FOWLER. The other billion and a half dollars are accounted for by increased revenues coming in the form of taxes.

Senator WILLIAMS. We will explore that after we can get together on these reports which I asked to be furnished. You know, I agree with both you and Mr. Schultze that Congress should hold down these expenditures and I am delighted to have you as an ally.

Now, in connection with any of the numerous increases Congress made over the President's request. Do you recall any of these so-called increases that were passed by Congress which the President vetoed?

Mr. SCHULTZE. No, sir.

Secretary FOWLER. We are talking about action this year.

Senator WILLIAM. That is right.

Secretary FOWLER. The one that has been passed, which was the GI bill of rights, the President did not veto.

Senator WILLIAMS. He signed and boasted about the fact that it was a meritorious bill.

Now, the pay raise bill has an effective date of July 1, which I think is objected to by the administration.

Mr. SCHULTZE. Correct.

Secretary FOWLER. Yes.

Senator WILLIAMS. In the event that Congress passes it with that July 1, it would necessitate an additional \$500 million, I believe you said, in the fiscal year over and above what it would—

Mr. SCHULTZE. The effect of both the military and civilian pay bills, \$470 to \$480 million.

Senator WILLIAMS. Yes. Now, if the event Congress approves the July date would you recommend a veto?

Mr. SCHULTZE. Exactly as to what we recommend, I think it is too early to say at this time, but certainly we would have to take a look at the entire fiscal implications of that bill.

Secretary FOWLER. Senator, I will answer that question. If I thought there was any substantial chance that the veto would be supported by either House, I would recommend it to the President. I wouldn't recommend that he do a vain thing and the voting up to now has not been very encouraging in this regard.

Senator WILLIAMS. Well, of course, I hear that same excuse on the floor of the Senate occasionally when we offer some amendments to cut. Some Members say, if I thought we had the votes, I would vote to cut it but since we don't have the votes, I will vote with the majority.

Is that a proper way for the Members of Congress or the administration to act? Shouldn't they act only on the merits of the proposal and not figure just to try to ride the crowd?

Secretary FOWLER. Well, I think there is more to it than the way you phrase it. I would like to talk with you about the possibilities in this particular area.

Senator WILLIAMS. To the extent that we are financing debt through the sale of FNMA participation certificates, it does reduce the reported deficit and the need of borrowing the money.

Secretary FOWLER. Let me clear up what we are talking about, Senator. To the degree that sales by FNMA as an agent under the Participation Sales Act, if we can confine it to that area and get away from the secondary, normal secondary market operations of FNMA, the answer is, Yes.

Senator WILLIAMS. That is the point.

Now, last Friday FNMA sold \$530 million in participation certificates. I notice that on a 1981 issue they paid 5.37 to 5.40 interest rates. Now, regular Government bonds with the same maturity are selling slightly less than 4.70. Now, that means that it is costing in that instance, seven-tenths of a percent more to finance the debt than it would have done if you had financed it and sold normal Government certificates. Computing that one issue alone, and these are noncallable as I understand it, it is an extra \$38,640,000 interest that the Government paid, or will pay on that one sale. This is completely unnecessary if you were financing in an orthodox manner.

Now, do you agree with that?

Secretary FOWLER. Senator Williams, I would like to have Under Secretary Barr to deal with this question.

Senator WILLIAMS. Before that, before getting into the merits of it, do you not agree that it is costing from six-tenths to seven-tenths of a percent interest more to finance the Government through the secondary sales than it does if you were selling direct Government bonds? Has that not been the record?

Secretary FOWLER. The figures that you indicated speak for themselves, Senator Williams. We all draw different conclusions from them.

Mr. BARR. Senator Williams, if I may speak to this point, it seems to me that Congress since 1917 has had a very specific purpose in establishing the Federal Land Bank, the Bank for Cooperatives, Federal Intermediate Credit Bank, the Federal Home Loan Bank, and so forth. All these programs are quasi-private programs.

The Congress has never extended the full faith and credit of the U.S. Government to these obligations, because these particular programs go to particular segments of the economy, not to everyone. So I think what we have to do is to equate the cost in this program, not with Government bonds, but with General Motors or A.T. & T.

I would say to you, Senator Williams, that in this last issue of FNMA, the Government did as well with the pool of small business loans as General Motors, A.T. & T., Ford Motor Co., Chrysler, any AAA corporation in the United States.

Senator WILLIAMS. But, Mr. Barr, the U.S. Government has always historically been able to borrow money cheaper than the commercial interests.

Mr. BARR. Not in these private sectors. The Federal Land Bank, the Federal Intermediate Credit Bank, the Home Loan Bank Board will pay the same price.

Senator WILLIAMS. In the interests of getting done by June 30, I hope we don't go back to 1917. You and I both know that this question of sales of participation certificates has developed in the last few years. Let's not get back to the cooperative banks and all the rest. I am going to be here in July but I don't think you want to be here on this subject, and I am not going to let you filibuster it off with an answer to a question that hasn't been asked. I am speaking of participation certificates and FNMA.

The CHAIRMAN. Let me just intervene here for just a second now as chairman of this committee. I once served on the Foreign Relations Committee and participated in a hearing where I tried to insist that the witness be permitted to answer the question, to answer the question in his own way. I had the experience of watching a witness sit there and listen to a Senator make a 10-minute speech and then not even be permitted to respond to it. I am not here to seek to deny any committee member the right to make his position clear.

Now, on this committee may I say on occasion as a member of this body I have tried to make a witness answer the question the way I wanted him to answer it, and I have had the distinguished chairmen, Republicans and Democrats alike, sit there and say, "Senator, let that man answer the question the way he wants to answer it." And sometimes I have done, just as the Senator from Delaware has the right to do, come back and meet all afternoon or the next day, and if need be, preside myself until I got the information I was looking for, but I

do think the Senator should have his position stated if he wants to state it, and he ought to also let the witness state his position, and then we can come back if we don't get it.

Senator WILLIAMS. I agree with the chairman. You can go back to 1917 and come forward, but when you get through I am still coming back to last Saturday's deal. I have got all this month.

Go ahead, take your time.

The CHAIRMAN. May I say this: I am convinced of two things. First, the Senator from Delaware is not going to convince Under Secretary Barr of the Senator from Delaware's views. Second, Under Secretary Barr is not going to convince the Senator from Delaware about his views. But one of them may convince the rest of us, and I think he ought to have a chance to do that.

Go ahead, John.

Senator WILLIAMS. I am waiting for you to go back to 1917.

Mr. BARR. I am merely trying to say that in the programs which the Congress has enacted to help special sectors of the economy—farmers, small businessmen, education, housing—it has very clearly said that these are to be treated not as full faith and credit obligations of the United States but that they are to be moved over toward the private sector of the market.

In farming it has been done that way since 1917. All of the rest of them are gradually shifting in that direction. That is what we are doing in the Participation Sales Act.

The decision we had to face was, do we come to the Congress and ask for the taxes to raise this \$350 million that the Small Business Administration needs if they are going to get any money to operate? Do we come to you and ask for taxes or ask for authority to borrow through the general debt, or do we go to the market and pay what the market says is a fair price? I say that the criterion—we will probably disagree—in this particular instance is that if we can take this pool of small business loans and get the same rate that General Motors would get if it sells its finance company paper tomorrow, that is all I am saying, that if we can do that, I say we have a fair deal and we should go that route rather than coming to Congress to raise or spend the money through taxes or through the general debt. That is our position.

Senator HARTKE. Will the Senator yield?

Senator WILLIAMS. Yes. I would like to just make this comment. You are the second man that has come before a congressional committee and said that what is good for General Motors is good for the country, and I am noting that comparison.

Senator HARTKE. I was wondering, Mr. Barr, do you mean to say that you consider that the investment security; that is, the security of the General Motors investment is equivalent to that of the U.S. Government security?

Mr. BARR. Senator Hartke, all I am saying is that if we are going to move these securities into the private sector, we are going to have to treat it as a private sector and we are not supposed to be relying completely on the guarantee of the United States.

Now, the guarantee of the United States does follow, that is true, but the legislative history has moved in the direction that there are private

sales. That is where we equate rates. These issues do not yet have the marketability or the distribution of our Government securities. As more of the securities are sold, I think the spread will lessen, but it is going to take time. In the meantime, the issue is whether we pay the price of the marketplace or raise the money to keep small business alive through taxes or general debt obligations.

Senator WILLIAMS. We are all for small business and motherhood, but I ask again, when did Congress pass the bill that authorized you to sell small business loans under FNMA?

Mr. BARR. It passed the bill in May.

Senator WILLIAMS. May of 1966.

Mr. BARR. That is correct.

Senator WILLIAMS. Now, I will go back. What does 1917 have to do with what we are doing under this law?

Mr. BARR. As I look at this, this is a straight progression of congressional intent.

Senator WILLIAMS. Some of us pointed out then that if that bill was considered, it was going to cost more money to finance than it would through the normal channels. The Bureau of the Budget and the Treasury said it would be a quarter of a percent difference.

Mr. BARR. That is right.

Senator WILLIAMS. They were wrong. They broke down this sale of \$510 million, \$430 million and 350 of them are the participation certificates of the Small Business obligations. You paid five and three-quarters percent interest rate on that.

Mr. BARR. Yes, sir.

Senator WILLIAMS. Now, General Motors bonds are selling on the same day for just slightly around 5 percent, or lower than—

Mr. BARR. Not in this area.

Senator WILLIAMS. Since you are comparing the two, I note that General Motors has a preferred stock, 5 percent, which is selling on the market today for \$104, selling at a premium. Yet you sold last Friday at par Government-guaranteed obligations under this and you pay 5¾ percent interest and the extra interest that you paid is \$38,640,000. Assuming you had sold regular U.S. Government bonds this extra cost could be avoided. I am only quoting what the Democratic majority in 1958 said when they lectured the Republican Secretary of the Treasury on this same proposal, and I agreed with them then. I agree with them now. But I don't know why you slipped by the wayside since.

Now, interest rates—much has been said about—

Mr. BARR. No. I don't intend to engage in a debate on this subject. If I can answer Senator Williams' questions and tell him why we did what we can, I will limit it to that. I will leave the debating up to the Secretary.

Secretary FOWLER. We can save a lot of time here if we would operate under the ground rule that occasionally I have operated under in other committees; that silence from this side does not necessarily imply consent.

Senator WILLIAMS. Now, does the chairman have a comment he would like to make? He had a lot to say about the high interest a few years ago. They are even higher today.

The CHAIRMAN. No. Let me say I am going to have more to say about high interest rates and I hope the Treasury doesn't take the point of view of some of those who want it still higher than it is. I would like to seem them come back to what we started from. If I had my way, we would put them back where we were when Harry Truman went out. But failing that, I would like to do what I can to exercise a restraining influence on these increases in interest rates.

I am not—but I am frank to say that I hope that never on this committee will I see witnesses treated like I have seen them on other occasions when a witness sat there and was made to listen to a lecture and when he would liked to have responded, he was denied opportunity. John Williams wouldn't do that as chairman but let me say this, that Senators get excited and convinced that they are correct on something, so much so that they want to win the debate even though they have to make the other fellow quit talking to do so.

I want to say I would like to hear both sides of the argument. The witness didn't care to respond but I want to say if he did want to, he had a chance to do it and I stand on that basis.

Senator WILLIAMS. I am not trying to restrict the witness nor the chairman. I am perfectly willing for him to talk all day.

Senator CURTIS. Will the Senator yield?

Senator WILLIAMS. Sure.

Senator CURTIS. These obligations of the Small Business Administration that were sold to the public are drawing 5¾. Was that the amount?

Senator WILLIAMS. That is right.

Senator CURTIS. How much are the businesses and individuals paying to the Small Business Administration on those loans?

Mr. BARR. Most of these loans are 5½ percent. I can submit for the record a precise description of the pool. They range from 5½ percent down to disaster loans which are around 3 percent, Senator Curtis. I can submit for the record a complete description of the prospectus and the loans in the pool.

(The following excerpts are taken from the prospectus of June 9, 1966 covering the offering of \$180 million participation certificates in the Government mortgage liquidation trust, Federal National Mortgage Association, trustee and \$350 million participation certificates in the small business obligations trust, Federal National Mortgage Association, trustee, and the trust indenture of June 1, 1966, entered into by the Administrator of the Small Business Administration and the Federal National Mortgage Association:)

From the prospectus:

SMALL BUSINESS OBLIGATIONS TRUST

Pursuant to amendments to section 302 of the Federal National Mortgage Association Charter Act effected by the above referred to Participation Sales Act of 1966, the Administrator of the Small Business Administration, as Trustor and Original Beneficiary, and FNMA, as Guarantor and Trustee, created as of June 1, 1966 the Small Business Obligations Trust.

The Trust is under and in accord with the fiduciary powers vested by such section 302, as amended, in FNMA, under its Management and Liquidating Functions, being created by Trust Indenture dated as of June 1, 1966. FNMA is the Trustee of the Trust. The beneficiaries are the holders of Participation Certificates from time to time outstanding as well as the Trustor, but Participa-

tion Certificate holders, having equal and proportionate benefit one with another, enjoy complete preference, priority, and distinction over the Trustor as beneficiaries or otherwise. The Trustor that created the Trust is the Administrator of the Small Business Administration, and the Trust Indenture provides that the Trust may be opened for the issuance of additional Participation Certificates on the basis of obligations then subject to the Trust and other assets held by the Trustee and additional obligations made subject to the Trust by the above Trustor or any executive department, instrumentality or other agency of the United States.

In connection with the \$350,000,000 principal amount of Participation Certificates in the Trust offered hereby, the Trustor has conveyed to the Trustee, in Trust, as of June 1, 1966 all of the Trustor's right, title and interest in and to not less than \$520,000,000 aggregate principal amount of obligations owned and held by him. The Trustor retains custody, control and administration of the obligations so transferred and has agreed to forward to the Trustee all payments of principal and interest on such obligations. However, the Trustee has the right to assume custody, control and administration of the obligations in the event of any default in payment of outstanding Participation Certificates or if the Trustee determines that such default is probable. The Trustor has guaranteed to the Trustee that all obligations subject to the Trust will be paid in accordance with their tenor. The Participation Certificates represent beneficial interests in the obligations subject to the Trust and other assets held by the Trustee including the right of the Trustee, as the holder of title to the obligations, to receive from the Trustor principal and interest payments on such obligations.

Proceeds from the sale of the Participation Certificates offered hereby will be paid to the Trustor and will be applied by him to reduce amounts borrowed from the United States Treasury or otherwise to reduce the use of United States Treasury funds.

As payments on the obligations are received from the Trustor, they will be held by the Trustee and will be used to pay principal and interest on the Participation Certificates. To the extent that payments exceed the amount needed for principal and interest on the Participation Certificates, funds may be held in the Trust and invested as part of the corpus, or the Trustee, in its discretion, may return to the Trustor any funds which it deems to be surplus.

As an incident to the Trustee's consent to the sale or conversion of obligations by the Trustor or for purposes of compliance with the maximum limitations on outstanding Participation Certificates described below, the Trustee is authorized, in its discretion, to require the Trustor to subject additional obligations to the Trust, pay cash or securities into the Trust or purchase, through the facilities of the Trustee, outstanding Participation Certificates.

The Trust Indenture defines obligations to include "participating interests held by the Trustor in loans originated pursuant to the Trustor's statutory authority".

A copy of the Trust Indenture may be obtained from the Trustee or the Underwriters.

Maximum of Outstanding Participation Certificates

Under the Trust Indenture, FNMA, as Trustee, is empowered to issue Participation Certificates to the public, provided that the aggregate principal amount of Participation Certificates outstanding at any one time may not exceed 80% of the aggregate of the outstanding principal balances of the obligations set aside for the Trust and other assets held by the Trustee. Similarly, should the Trust be opened to an additional Trustor or Trustors, the Trust Indenture provides that, with respect to each Trustor, the aggregate principal amount of Participation Certificates outstanding at any one time as to such Trustor may not exceed 80% of the aggregate of the current outstanding principal balances of the obligations made subject to the Trust by such Trustor and other assets held by the Trustee attributable to such Trustor.

As required by the Trust Indenture, maximums on amounts of outstanding Participation Certificates, including the \$350,000,000 principal amount of Participation Certificates in the Trust offered hereby (based on the not less than \$520,000,000 aggregate principal balances of obligations subject to the Trust), have been established by the Trustee, as follows: with respect to the Trust as an

entirety the aforesaid \$350,000,000 principal amount of Participation Certificates offered hereby, all of which amount is with respect to the Trustor, the Administrator of the Small Business Administration. No assurance is given that the ratio of principal amount of Participation Certificates outstanding after this offering to aggregate principal balances of obligations subject to the Trust and other assets held by the Trustee will be maintained throughout the life of the Trust. Such a change may come about by the issuance of additional Participation Certificates based on additional obligations made subject to the Trust on a ratio different from the above or because the above maximum is changed by determination of the trustee as permitted by the Trust Indenture or for other reasons, subject always to the observance of the 80% ratios referred to above.

From the trust indenture :

Now, THEREFORE : The parties to this Trust Indenture, in the several capacities hereinabove set forth and described, do hereby declare and establish the trust provided for herein, and undertake and otherwise agree as follows :

1. The name of the trust established by this Trust Indenture is and shall be "Small Business Obligations Trust", hereinafter called the "Trust". The Trust shall continue and have duration so long as any participations issued by the Trustee hereunder shall remain outstanding, not paid in accord with the terms thereof, and so long as the purposes of the Trust shall be otherwise unfulfilled or unaccomplished, and until the Trustee shall have made a final accounting to the Original Beneficiaries hereunder at the time of termination.

2. (a) For the purposes of this Trust, the Trustor does hereby transfer, assign, set over and otherwise convey to the Trustee all the Trustor's right, title, and interest in and to the following described obligations (including the right to receive all interest and principal payments made on such obligations on and after May 1, 1966, exclusive of reasonable servicing compensation in amount concurred in by the Trustee) :

Obligations in the following groups held by him at the close of the day preceding the date hereof (each of which obligations has been appropriately identified on the records of the Trustor as being subject to the Trust created hereunder) with aggregate principal balances of not less than \$520,000,000 :

A group of 5½% local development company loans originated pursuant to Section 502 of the Small Business Investment Act, as amended, with aggregate principal balances of not less than \$12,000,000 ;

A group of 5½% business loans originated pursuant to Section 7(a) of the Small Business Act, as amended, with aggregate principal balances of not less than \$29,000,000 ;

A group of 5% local development company loans originated pursuant to Section 502 of the Small Business Investment Act, as amended, with aggregate principal balances of not less than \$9,000,000 ;

A group of 5% business loans originated pursuant to Section 7(a) of the Small Business Act, as amended, with aggregate principal balances of not less than \$9,000,000 ;

A group of 4% local development company loans originated pursuant to Section 502 of the Small Business Investment Act, as amended, with aggregate principal balances of not less than \$18,400,000 ;

A group of 4% business loans originated pursuant to Section 7(a) of the Small Business Act, as amended, with aggregate principal balances of not less than \$153,000,000 ;

A group of 3½% displaced business disaster loans originated pursuant to Section 7(b) (3) of the Small Business Act, as amended, with aggregate principal balances of not less than \$1,600,000 ;

A group of 3¼% displaced business disaster loans originated pursuant to Section 7(b) (3) of the Small Business Act, as amended, with aggregate principal balances of not less than \$6,000,000 ;

A group of 3% disaster loans originated pursuant to Sections 7(b) (1), (2), and (4) of the Small Business Act, as amended, with aggregate principal balances of not less than \$82,000,000 ;

A listing of which obligations is a part of the records of the Trustee maintained at its principal office.

Senator CURTIS. And is that true of the other obligations that have been sold?

Mr. BARR. The other obligations were VA mortgages, sir, usually carrying a rate of 5½ percent.

Senator CURTIS. And they were sold for a little over 5½.

Mr. BARR. No, sir. They were sold at a little less. It ranged from 5.375 to 5.40 percent.

Senator CURTIS. What obligation, if any, does the Federal Government have, having resold or sold these evidences of indebtedness, that it didn't have before?

Mr. BARR. It has no additional obligation, sir. It has the money, but it also has the guarantee of these obligations and service of the obligations.

Senator CURTIS. Well, was there any new guarantee given?

Mr. BARR. No, sir. There is a technical—

Senator CURTIS. You sell them without recourse, then.

Mr. BARR. Yes, sir. No. They are sold with recourse because behind these obligations goes the guarantee of the Congress, not in this particular instance but in all subsequent sales, that there will be the guarantee of the Congress as evidenced by an appropriation. Secondly, there is the guarantee of FNMA who has the right to draw on the Treasury for the principal and interest to pay off these obligations. So in effect there is a double guarantee—(a), the appropriating act of the Congress of the United States, and (b), the ability of FNMA to draw on the Treasury to meet the principal and interest.

Senator WILLIAMS. Mr. Chairman, I agree fully that this discussion on the interest has no direct effect on the subject before us, if we could have it understood that the Secretary and the Director of the Budget would be called back at some later date at which time we could discuss this whole problem of finance. I really thought we were going to proceed under the resolution offered by the Senator from Florida. If we could have an understanding that we would go into this problem later, I would be willing to withhold this line of questioning at this time, but I do think this is something that we should explore. I am thoroughly convinced that under the present system we are monetizing our Federal debt by confining our refinancing solely to short-term securities, and the statistics that are furnished by the Department bear this out, and in addition to that, it is actually resulting in us paying more interest.

I am not unmindful that in 1961 the total interest charges were \$8,957 million. This year they are estimated around \$12 billion and next year \$12.75 billion.

The CHAIRMAN. May I just say—

Senator WILLIAMS. Surely this is something we should explore. Our average interest rates on the national debt are the highest today that they have ever been and in recent years—

Secretary FOWLER. Senator Williams, you have certainly recourse to call the members of the Federal Reserve Board in here and examine the why's and wherefore's.

The CHAIRMAN. Let me say that I personally think that we ought to go into this and I want to go on a broader basis than that. I would like to look at this whole interest problem.

Now, I am not too much concerned about the fellow who has got a billion dollar corporation and borrows that money and simply passes on the increase in interest rate to the people that do business with

him. I am concerned about that fellow who in the last analysis is paying all that interest—the working man or the person who has to go down and borrow money on one basis or another, and the question I raise is couldn't we better have some credit controls to limit the amount of indebtedness that individuals would incur and have some control on borrowing and inflation spending in that respect? Shouldn't we even consider repealing some of the tax advantages we have given to large corporations to go ahead and increase their investments? Couldn't we take that approach, at the same time exerting pressure to bring interest rates down, and even instructing the Federal Reserve Board by act of Congress to bring them down to where they came from rather than have an approach that simply makes the wealthy more and more influential and more and more well to do while the working class of people who are paying for all these high interest rates keep getting it heaped upon them in heavier and heavier fashion.

That is the part that concerns me, and this \$30 million, this \$38 million is a very important item, but I am not as much concerned about that as I am the more than \$6 billion of difference in interest rate that you would be paying if you had the Truman level of interest rates rather than the existing level of interest rates that we are paying, and I would like to take a look at the whole case and I want the other man heard but I would like to be heard, too, in connection with it, and I would be glad to call a hearing and go into this general subject and cover everything the Senator wants about interest rates, and I want to raise a few questions myself that haven't been raised until he got into the subject.

Senator CARLSON. Would the chairman yield? The chairman suggests we go back to the Truman administration on interest rate. Why not go back on the debt limit to the Truman administration.

The CHAIRMAN. If you cut these interest rates down, that might help you get there.

Senator CURTIS. Would the Senator from Delaware yield?

Senator WILLIAMS. Sure. I yield.

Senator CURTIS. I would like to ask Mr. Schultze a question.

The CHAIRMAN. John, if you would like to have a hearing on the interest rates—

Senator WILLIAMS. Not necessarily on the interest rates but on the whole monetary policy. I would like to know, Is it the plan of the chairman to hold hearings in connection with the Smathers resolution or is that going to be bypassed, and if so, when would we be holding them? That might answer a lot of questions.

The CHAIRMAN. I haven't turned anybody down for a hearing on this subject.

Senator WILLIAMS. I wasn't suggesting that. I was just seeking information.

The CHAIRMAN. As I say, I would like also to be in the position of exploring the other things that are relevant to it.

Senator SMATHERS. In my resolution we had interest rates there. That is part of the resolution.

The CHAIRMAN. That is right. And may I say to the Senator that we have had some discussion on this and we would be holding hearings on it right now if he had thought that he wanted to proceed with it as the first order of business.

Now, it does occur to me that perhaps we should narrow it some because what he had in mind would cover the whole outdoors as far as fiscal and monetary policy is concerned. He so well knows that.

Senator SMATHERS. I would like on that line, if the Senator doesn't mind, if some day we could have an executive session and decide whether the resolution should be modified in any form, and when we would have the hearing. I think it would be very helpful.

Senator CARLSON. Mr. Chairman, since the debt limit in the Truman administration was mentioned just for the record, shouldn't the amount be stated? In 1950 it was \$257,377 million. I realize we are not going back to that.

The CHAIRMAN. I assume when the Senator talks about that he is going to broaden the generalities. May I say, Senator, I started this hearing by putting in the record what the debt limit was from 1917 up to the present date. It does include those years.

Senator CARLSON. Good.

Senator CURTIS. Would the senior Senator from Delaware yield?

Mr. Schultze, referring to your statement on page 5, the paragraph appearing at the bottom half, the first sentence says this:

For fiscal year 1966, Federal agencies pledged to save \$3.5 billion compared to 1964.

Then the third sentence says this:

On the basis of already established cost reduction goals for fiscal 1967, savings next year are expected to increase to \$3.8 billion compared to the 1964 benchmark.

And the last sentence is:

To put it another way, carrying out the level of activity proposed in the 1967 bill, it would have cost not \$112.8 billion but \$116.6 billion for the Federal agencies operating at the 1964 level of figures.

Now, what Federal agencies are spending any less money in 1966 than they spent in 1964?

Mr. SCHULTZE. In 1966 than in 1964? I don't know, Senator. I will put the reply in general. You will not find many of them spending absolutely less.

Senator CURTIS. Well, if you would supply them for the record.

Mr. SCHULTZE. Yes, sir.

Senator CURTIS. Would you supply for the record a list of the Federal agencies who are spending more money?

Mr. SCHULTZE. Yes, sir.

Senator CURTIS. Both for 1966 and 1967 than they spent in 1964.

Mr. SCHULTZE. Yes, sir.

Senator CURTIS. This paragraph wasn't intended to imply that these agencies are spending less money, was it?

Mr. SCHULTZE. What it is saying is that these agencies have substantially increased responsibilities with the growth in population and business carried on by the Federal Government and they are carrying it out with an increase in efficiency, thereby reducing the costs of meeting that growth in population, income, and the business carried on by the Federal agencies.

For example, the budget originally submitted for fiscal year 1964 was \$98.8 billion. This is the budget essentially that President Johnson was faced with when he came into office. For fiscal 1967 the President's budget proposal outside of Vietnam called for an expenditure

of \$102.3, roughly a \$3½ billion increase, and yet over those same 3 years the cost of just increased pay and interest alone comes to more than that.

At the same time, the Federal Government activities in the nondefense sector and non-Vietnam sector are up substantially, as I say, reflecting an increased workload. There are some new programs, and yet this is being done with a very small increase in total outlays. The reason for that is precisely in case after case there has been greater efficiency in carrying out higher levels of activity. It doesn't mean, however, that the Federal Government agencies are spending absolutely less than they were 3 years ago.

Senator CURTIS. They are spending more.

Mr. SCHULTZE. Correct, to meet increased—

Senator CURTIS. New agencies have been created.

Mr. SCHULTZE. Yes, sir.

Senator CURTIS. Would you list all the new agencies that have been created?

Mr. SCHULTZE. Yes, sir.

Senator CURTIS. For the record.

(The information referred to above follows:)

Comparison of fiscal year 1964 with fiscal year 1966 and fiscal year 1967 expenditures

(In thousands of dollars)

	1966 expenditures in 1967 budget	1966 revised	1967 expenditures in 1967 budget	1964 expenditures	Difference between 1964 and 1966 revision	Difference between 1964 and 1967
Legislative branch.....	101,210	191,210	204,665	151,512	+39,098	+53,153
The Judiciary.....	83,920	83,920	83,421	65,819	+18,101	+27,602
Executive Office of the President:						
The White House Office.....	2,926	2,926	2,945	2,705	+221	+240
Executive Mansion.....	702	702	692	662	+40	+30
Bureau of the Budget.....	8,169	8,169	9,165	6,636	+1,533	+2,529
Council of Economic Advisers.....	746	746	781	613	+133	+168
National Aeronautics and Space Council.....	505	505	505	419	+86	+86
National Security Council.....	658	658	654	515	+143	+139
Office of Emergency Planning.....	11,619	11,619	12,980	8,925	+2,694	+4,055
Office of Science and Technology.....	1,074	1,074	1,350	823	+251	+527
Special Representative for Trade Negotiations.....	574	574	576	400	+174	+176
Funds appropriated to the President:						
Disaster relief.....	150,461	150,461	43,000	21,191	+129,270	+21,809
Emergency fund for the President.....	1,000	1,000	1,000	509	+491	+491
Expenses of management improvement.....	400	400	370	181	+219	+189
Expansion of defense production.....	-123,137	-123,137	-147,894	90,883	-214,020	-238,747
International financial institutions.....	10,000	10,000	80,000	111,656	-101,656	-31,656
Military assistance.....	1,275,000	1,275,000	1,150,000	1,485,277	-210,277	-335,277
Economic assistance.....	1,100,000	2,100,000	2,200,000	1,996,793	+103,207	+203,207
Peace Corps.....	84,000	84,000	83,000	60,397	+23,603	+27,603
Office of Economic Opportunity.....	1,210,000	1,010,000	1,600,000	-----	+1,010,000	+1,000,000
Southeast hurricane disaster.....	30,000	30,000	5,000	-----	+30,000	+5,000
Public works acceleration.....	125,000	125,000	8,073	331,820	-206,820	-323,747
Translation of publications and scientific cooperation.....	247	247	243	661	-414	-418
Transitional grants to Alaska.....	4,566	4,566	-----	19,430	-14,864	-19,430
Department of Agriculture.....	6,888,648	6,588,648	5,798,314	7,896,894	-1,308,210	-2,098,550
Department of Commerce.....	808,059	808,059	923,421	686,344	+121,715	+237,077
Department of Defense:						
Military.....	52,925,000	52,925,000	57,150,000	49,759,598	+3,165,402	+7,390,402
Civil:						
Department of the Army:						
Cemeterial expenses.....	14,819	14,819	15,824	10,891	+3,928	+4,933
Corps of Engineers—Civil.....	1,245,000	1,245,000	1,290,000	1,092,708	+152,292	+197,292
Ryukyu Islands, Army.....	13,634	13,634	22,962	16,806	-3,172	+6,156
The Panama Canal.....	40,512	40,512	40,139	32,569	+7,943	+7,620

Comparison of fiscal year 1964 with fiscal year 1966 and fiscal year 1967
expenditures—Continued

[In thousands of dollars]

	1966 ex- pendi- tures in 1967 budget	1966 revised	1967 ex- pendi- tures in 1967 budget	1964 ex- pendi- tures	Differ- ence between 1964 and 1966 re- vision	Differ- ence between 1964 and 1967
Department of Health, Education, and Welfare.....	7,662,447	7,562,447	10,191,120	5,497,732	+2,064,715	+4,693,388
Department of Housing and Urban Development.....	436,108	586,108	-413,663	328,127	+257,981	-741,790
Department of the Interior.....	1,242,357	1,202,357	1,322,043	1,123,784	+168,573	+198,259
Department of Justice.....	383,954	383,954	404,898	327,994	+55,960	+76,904
Department of Labor.....	522,018	522,018	521,543	370,415	+151,603	+151,128
Post Office Department.....	878,039	878,039	754,029	577,699	+300,340	+176,930
Department of State.....	407,293	407,293	404,826	347,126	+60,167	+57,700
Treasury Department.....	13,429,435	13,429,435	14,247,339	11,947,349	+1,482,086	+2,299,990
Atomic Energy Commission.....	2,390,000	2,390,000	2,300,000	2,764,565	-374,565	-464,565
Federal Aviation Agency.....	800,000	800,000	840,000	750,550	+49,450	+89,450
General Services Administration.....	597,849	597,849	682,988	592,020	+5,829	+40,968
National Aeronautics and Space Administration.....	5,600,000	5,850,000	5,300,000	4,170,997	+1,679,003	+1,129,003
Veterans' Administration.....	5,177,473	5,327,473	5,718,500	5,478,101	-150,628	+240,399
Independent agencies:						
American Battle Monuments Commission.....	2,183	2,183	2,062	1,786	+397	+276
Administrative Conference of the United States.....	248	248	248	-----	+248	+248
Atlantic-Pacific Interoceanic Canal Study Commission.....	5,925	5,925	6,775	-----	+5,925	+6,775
Civil Aeronautics Board.....	90,568	90,568	85,219	94,145	-3,579	-8,926
Central Intelligence Agency.....	675	675	1,290	285	+390	+1,005
Civil Service Commission.....	124,084	124,084	129,065	111,418	+12,666	+17,647
Commission of Fine Arts.....	115	115	115	87	+28	+28
Commission on Civil Rights.....	1,023	1,023	2,892	817	+506	+2,075
Commission on International Rules of Judicial Procedure.....	25	25	-----	7	+18	-7
Export-Import Bank of Wash- ington.....	-531,521	-531,521	-308,950	-701,784	+170,263	+392,834
Equal Employment Opportunity Commission.....	3,703	3,703	5,801	-----	+3,703	+5,801
Federal Development Planning Committees for Alaska.....	150	150	170	-----	+150	+170
Federal Radiation Council.....	113	113	125	-----	+113	+125
Farm Credit Administration.....	-10,258	-10,258	-8,435	-8,897	-1,661	+162
Federal Home Loan Bank Board.....	-262,234	-262,234	-351,774	-248,420	-13,814	-103,354
Foreign Claims Settlement Commission.....	1,852	1,852	1,984	8,924	-7,072	-6,940
Federal Reconstruction and Development Planning Commission for Alaska.....	-----	-----	-----	-30	+30	+30
Federal Coal Mine Safety Board of Review.....	76	76	61	64	+12	-3
Federal Communications Commission.....	17,146	17,146	17,170	16,717	+429	+453
Federal Maritime Administration.....	3,152	3,152	3,308	2,611	+541	+697
Federal Mediation and Conciliation Service.....	6,603	6,603	7,077	5,702	+901	+1,375
Federal Power Commission.....	13,568	13,568	14,342	12,324	+1,242	+2,018
Federal Trade Commission.....	13,752	13,752	13,991	12,118	+1,634	+1,873
General Accounting Office.....	47,625	47,625	48,930	45,116	+2,509	+3,814
Indian Claims Commission.....	347	347	438	294	+53	+144
Intergovernmental Commissions:						
Advisory Commission on Inter- governmental Relations.....	395	395	418	366	+29	+52
Interstate Commission on the Po- tomac River Basin.....	5	5	5	5	-----	-----
Delaware River Basin Commission.....	140	140	160	153	-13	+7
Appalachian Regional Commission.....	1,000	1,000	1,100	-----	+1,000	+1,100
Commission on the Status of Puerto Rico.....	357	357	49	-----	+357	+49
Interstate Commerce Commission.....	27,268	27,268	27,745	24,378	+2,890	+3,367
National Capital Planning Commission.....	2,187	2,187	4,716	735	+1,452	+3,981
National Capital Housing Authority.....	37	37	37	43	-6	-6
National Capital Transportation Agency.....	3,500	3,500	10,450	982	+2,518	+9,468
National Labor Relations Board.....	28,497	28,497	30,270	22,049	+6,448	+8,221
National Mediation Board.....	2,065	2,065	2,085	1,939	+126	+146
National Science Foundation.....	385,000	385,000	425,000	310,072	+54,928	+114,928
National Commission on Food Market- ing.....	1,492	1,492	100	-----	+1,492	+100
National Commission on Technology, Automation, and Economic Progress.....	691	691	-----	-----	+691	-----

Comparison of fiscal year 1964 with fiscal year 1966 and fiscal year 1967 expenditures—Continued

[In thousands of dollars]

	1966 expenditures in 1967 budget	1966 revised	1967 expenditures in 1967 budget	1964 expenditures	Difference between 1964 and 1966 revision	Difference between 1964 and 1967
National Council on the Arts.....	47	47	-----	-----	+47	-----
National Foundation on the Arts and the Humanities.....	1,500	1,500	8,400	-----	+1,500	+8,400
President's Commissions on Law Enforcement and the Administration of Justice and on Crime in the District of Columbia.....	835	835	665	-----	+835	+665
Public Land Law Review Commission.....	613	613	1,282	-----	+613	+1,282
President's Advisory Committee on Labor-Management Policy.....	145	145	9	113	+32	-104
Railroad Retirement Board.....	16,558	16,558	17,201	-----	+16,558	+17,201
Renegotiation Board.....	2,516	2,516	2,485	2,509	+7	-24
St. Lawrence Seaway Development Corporation.....	1,200	1,200	100	164	+1,046	-64
Securities and Exchange Commission.....	16,280	16,280	17,570	14,337	+1,943	+3,233
Selective Service System.....	60,230	60,230	52,949	40,936	+19,294	+12,013
Small Business Administration.....	-44,596	-44,596	-323,378	132,933	-177,529	-456,311
Smithsonian Institution.....	40,562	40,562	42,684	21,791	+18,771	+20,893
Subversive Activities Control Board.....	475	475	280	348	+127	-68
Tariff Commission.....	3,437	3,437	3,551	2,932	+605	+619
Tax Court of the United States.....	2,200	2,200	2,325	1,928	+272	+397
U.S. Arms Control and Disarmament Agency.....	8,900	8,900	9,400	6,195	+2,705	+3,205
U.S. Information Agency.....	170,838	170,838	178,778	161,109	+9,729	+17,669
Tennessee Valley Authority.....	57,000	57,000	84,000	59,291	-2,291	+24,709
U.S. Study Commission, Southeast River Basins.....	-----	-----	-----	165	-165	-165
U.S. Study Commission, Texas.....	-----	-----	-----	5	-5	-5
Water Resources Council.....	293	293	2,502	-----	+293	+2,502
District of Columbia (Federal funds).....	64,829	64,829	111,426	57,474	+7,355	+53,952

Mr. SCHULTZE. The major one was the establishment of the Housing Department.

Senator CURTIS. And the Federal Government has been expanding into new areas, too.

Mr. SCHULTZE. Either that or in areas where it was before, it has additional programs. That is correct, sir.

Senator CURTIS. So all this paragraph amounts to is a claim that we are operating more economically.

Mr. SCHULTZE. That is correct. I agree again with your facts but not your interpretation. You say that is all that it amounts to. General Motors, for example, if we are sticking with General Motors, has increased employment, increased activity over the years, but it has increased its productivity. That increase in productivity; namely, doing more work with a smaller increase in people than work, is something to be proud of, to point to. It is the source of our increase in living standards in the private sector. I think it is an important thing to point out in the—

Senator WILLIAMS. And they did it with a surplus rather than a deficit. I see they operated during those years with a substantial surplus.

Mr. SCHULTZE. If they put their investment expenditures into their profit and loss statement, I am not sure they would be operating at a surplus, and we put our investment expenditures into our profit and loss statement.

Senator CURTIS. It is a little bit hard for me to understand just what this paragraph means. I hate to go back home and tell my people, when they see new agencies everywhere they look, all around them, when they see Federal Government spending money for every human activity imaginable, and then tell them that the Government is operating with a saving over 1964. The fact of the matter is the Government has grown—

Mr. SCHULTZE. Correct, sir.

Senator CURTIS (continuing). Tremendously.

Mr. SCHULTZE. As the Nation has grown. That is correct.

Senator CURTIS. Well, not necessarily. The Government has grown. It is doing things for people and for groups and for cities that it never did before.

Mr. SCHULTZE. That is correct, sir.

Senator CURTIS. And our people see those things. They see the money spent in a community, the increase in the number of Government employees, activities in the field that the Federal Government never got into before, and this paper argument here, about operating at a savings over 1964, would require considerable qualification, I would think.

Mr. SCHULTZE. You might also point out, Senator, when you are pointing these things out, that over the 3-year period involved, from 1964 to 1967, outside of the cost of the Vietnam war, Federal expenditures have gone up to the neighborhood of about \$4 billion, slightly more than 1 percent a year, compared to a much larger increase in every other indicator of the activity in the American economy. It seems to me that it has gone up, there is no question, there are new programs, meeting very important needs, but the savings have made it possible to do that at a much lower increase in Federal expenditures.

Let me illustrate—

What happens in this case is that—

Senator CURTIS. How much less does it cost to deliver a letter now than it used to?

Mr. SCHULTZE. I don't know. I would have to take a look. The productive figures, the output of mail delivered per man has gone up in the Post Office Department. I don't have the exact—

Senator CURTIS. Postal rates have gone up, too.

Mr. SCHULTZE. Correct. Since 1964. Not since 1964—

Senator CURTIS. Postal rates are not in the budget.

Mr. SCHULTZE. They net out. In other words, the expenditures are in, the receipts are in, and they net out to whatever the postal deficit is. But the savings are spread throughout the Federal Government and they are generally the summation of a number of small savings in the big numbers. I can give you some examples if you would like, Senator.

Senator CARLSON. I regret to break in but what would the Post Office deficit be on January 30, 1967?

Mr. SCHULTZE. There are two, essentially two definitions of the postal deficit, one of which I can give you now. This is simply the excess of expenditures over receipts; \$755 million estimated for 1967. However, of that—

Senator CARLSON. As of June 30, 1966.

Mr. SCHULTZE. The figure for 1967. You want the 1966 one? It is \$878 million.

Senator CARLSON. \$878?

Mr. SCHULTZE. Correct. Now, in turn, however, the Congress by statute has provided that only a portion of that shall be charged against the profit and loss statement and part of it will be a deliberate subsidy of particular groups of mail recipients.

Senator CARLSON. Now we have reference to public service.

Mr. SCHULTZE. Correct.

Senator CARLSON. This, of course, does not include, or does it include, anticipated pay increases?

Mr. SCHULTZE. Yes, except on a January 1 effective date rather than July 1 effective date.

Senator CARLSON. \$400 million.

Mr. SCHULTZE. Yes. Not all that is Post Office.

Senator CARLSON. That is right.

That is all.

The CHAIRMAN. Senator Anderson.

Senator ANDERSON. Well, on this question of whether the debt is permanent or temporary, do I understand you don't mind it being changed to a permanent basis? I ask that because in 1963 I made a motion in this committee that you increase the permanent ceiling from \$285 billion to \$300 billion, and the chairman of this committee at that time was—he was a very fine citizen, a very fine chairman, but he was quite upset by the suggestion. Do you object to turning it up to a recent figure?

Secretary FOWLER. No, sir.

Senator ANDERSON. I am going to vote to give you an extension of this debt limit. But I do believe there are places where money could be saved that might help. The recommendation by Chairman Long is a very good one. The things in the medicare bill regulations which are very costly, should not be there; for example, depreciation on gifts. If a hospital costs \$10 million, part given from Hill-Burton funds, they are still allowing depreciation, even accelerated depreciation, on Federal funds. I hope that can be stopped. Many of us do.

We had an agricultural program the other day that provided for extension of payments to people who never even planted their crops. Senator Williams and I tried to help, but that is impossible. Those things really throw the budget out of balance, don't they?

Mr. SCHULTZE. They are characteristic of it.

Senator ANDERSON. I do hope we have this hearing on the 4¼-per cent limitation. I think it is strange that men throughout these days, with opportunities to buy bonds guaranteed by the Federal Government—three-quarters of a percent permanent interest, a very high figure—I would like to see it come down.

The CHAIRMAN. Senator Carlson?

Senator CARLSON. I would like to ask the Secretary if he is concerned with what I believe to be an inflationary trend that really can have disturbing effects not only on the national debt limit but expenditure of the Federal Government. Are you concerned about it? What can we do to prevent it?

Secretary FOWLER. Yes, I am concerned about it, Senator, and I think one of the first and most important things to do to prevent it

would be to hold down any increases in the fiscal 1967 budget that are in excess of the President's recommendation.

Senator CARLSON. What about the trend nationally in regard to wage increases? We have contracts recently entered into that exceed the guidelines? The Director of the Budget, who has been before our committee dealing with Federal employees, stressed the fact that we must hold pay increases down to 2.89 or 2.9; yet I notice last week that Western Union made a settlement of 4.7. I notice while the contracts have not been signed that a commission or at least individuals appointed by the President on an airline pilots' contract, it is 5 percent. Is that of any concern?

Secretary FOWLER. It is a matter of very great concern. I think the pattern of wage increases in any important sector, particularly the negotiated ones, which exceed the general levels of increases in productivity, whatever they may be in a particular case, is a serious matter and does give inflationary bias to our economy.

By the same token, if prices are increased, or if prices hold to the same level, despite increasing productivity and increasing profits and some share of those profits are not shared with consumers and purchasers of the products, that, too, tends to—in an overall sense—destabilize our so-called price-wage pattern and leads to inflationary pressures. These are very serious things and no one could gainsay the fact that they present a disturbing phenomenon.

I would only comment that since the last time I appeared before this committee, we have been encouraged, at least in a short term sense to see the wholesale price index remain fairly constant—indeed, decline slightly. I would say it has held stable in the last 4 months.

Senator CARLSON. Would that be true of the retail price level?

Secretary FOWLER. No. The so-called consumer price index has continued to increase. However, this has been characteristic of the Consumer Price Index pretty much all the way back through the years. Many people believe that there is a built-in inability in the index to reflect changes in quality. My own preference in terms of measuring changes in price movements is to look at the wholesale price index.

Senator CARLSON. I have noticed that it has been the policy of the Government and the Administration to use wholesale prices but that is not what the consumer or individual buys on on the open market, and I think it must be generally agreed that there have been some rather substantial increases in retail prices.

Secretary FOWLER. There have been, Senator. I think there have also been increases in the quality of the goods, a given item, that the change in the price index does not reflect. I think this is generally understood that the Consumer Price Index does not completely reflect those changes in quality. So my own preference in appraising this situation, agreeing that it is not the way the consumer looks at it, is to look at the wholesale price index.

Senator CARLSON. The reason I mention it, and I do happen to have some knowledge of and interest in the pay increases for Federal employees, it has been stated at the present rate of increased costs, consumer costs, by October 1 we should reach a 3-percent increase in consumer costs which would automatically give Federal employees a 3-percent increase. I mention that because it was brought out in our hearings, and I remember it, and there is a general—

Secretary FOWLER. Well, this is undoubtedly a factor to be taken into account. I also think it is desirable to try to hold the overall total of expenditures in the budget down—at least to the levels that were recommended. These two factors are weighted differently by different people. I think it is a very desirable thing to hold down the level of expenditures in the non-Vietnam sector of the budget to the originally projected figure.

Senator CARLSON. This is probably not the place to bring it up but I assume as the chairman has stated that we might well hold a hearing on our entire fiscal problem which gets into costs of Government, also gets into balance of payments which doesn't seem to be improving at the present time either.

Secretary FOWLER. No, sir; it does not.

Senator SMATHERS (now presiding). Senator Hartke.

Senator HARTKE. Mr. Secretary, do we have any real hard evaluation at the present time as to the length of the war in Vietnam in regard to how it is going to affect the budget?

Secretary FOWLER. I have no hard impression of that, Senator Hartke.

Senator HARTKE. Do they anticipate it will be a short war or a long war?

Secretary FOWLER. I have no particular view or feeling. I think that is a matter that the Secretary of Defense and the Secretary of State are much more cognizant of. Perhaps Director Schultze might wish to comment.

Mr. SCHULTZE. My comment would be the same as the Secretary's. I think, as you know, Senator, for purposes of making up the budget an assumption had to be made about the war. That assumption essentially involved continuation all the way through fiscal 1967.

Senator HARTKE. That estimate which is based through 1967: is it based on a troop commitment of 200,000 or 400,000 men?

Mr. SCHULTZE. A specific number, Senator, I am not in a position to indicate.

Senator HARTKE. Because of security reasons?

Mr. SCHULTZE. Well, there are security implications, but also, as a general proposition, you can't tie the budget that closely to a specific number of men overseas. In general, budget estimates relate to overall Armed Forces manpower levels more than they do to oversea developments.

Senator HARTKE. Well, General Westmoreland stated that he expects the buildup to be to 400,000 troops in Vietnam. How can you submit a budget estimate on the cost of Vietnam when you say you have uncertainties, which would make it possible to come to within any degree of accuracy, without making some assumptions along this line?

Mr. SCHULTZE. My point on that is the Secretary of Defense has explained in sessions with the committees of the Congress the assumptions on which the budgets were made up in some detail. Those were appropriately classified or not classified as the case might be, and I just wouldn't feel free to go into speculation with respect to the particular buildup in Vietnam.

Senator HARTKE. Well, let me ask you, is a supplemental appropriation now being formulated or being worked on either to your direct knowledge or indirect knowledge?

Mr. SCHULTZE. I have no indication of changes in the budget estimate that we now have at this time.

Senator HARTKE. I didn't ask about changes in the budget.

Mr. SCHULTZE. That is what I mean by a supplemental budget estimate.

Senator HARTKE. I understand that. I am trying to find out whether or not there is any preparation of figures whatsoever in regard to supplemental appropriations.

Mr. SCHULTZE. Again on this, all I can say to the best of my knowledge, is "No." But I simply don't want to speak for the Secretary of Defense on precisely what contingencies he is planning for. I simply don't know at this time.

Senator HARTKE. I am not talking about speculating, and I am not talking out of school when I say that in the public testimony of Secretary McNamara, he plans to increase our total military personnel to 2,987,000 by the middle of this year, and plans to add 160,000 in addition to that by June 30, 1967. This represents an actual increase of 425,000 troops from May of 1965.

Now, has that increase in military personnel been taken into consideration in your budget preparation?

Mr. SCHULTZE. Yes, sir, the budget was presented in terms of the total increase in military personnel over and above what was pre-Vietnam. The 1967 budget was based on an increase of 440,000 military personnel from the end of fiscal 1965 to the end of fiscal 1967.

Senator HARTKE. Did you also include in that the addition of 100,000 civilian personnel for the Military Establishment?

Mr. SCHULTZE. Yes, sir. The additional personnel for the Defense Establishment, both for the military increase in Vietnam and for substitution of civilian for military personnel, a program that the Secretary is carrying on, are taken into account in the budget.

Senator HARTKE. So, in other words, we can assume these increases in total personnel were taken into account in your calculations?

Mr. SCHULTZE. In total personnel, that is correct.

Senator HARTKE. All right. Now, in regard to Vietnam itself and in regard to the troops there, are you familiar with the estimates which have been made as to the cost for military personnel, operation and maintenance, and procurement there?

Mr. SCHULTZE. Yes, sir. You mean in Vietnam or for the Defense Department as a whole?

Senator HARTKE. For Vietnam. But let me come on back. Isn't it true that we have a budget which was submitted in two parts, one of them without Vietnam and the other a separate increase requirement due to Vietnam?

Mr. SCHULTZE. No, sir. What we did was to estimate for purposes of clarification in the budget what the overall additional cost of Vietnam was, but the specific appropriation accounts that were set up along the lines of procurement, operation, and maintenance did not break Vietnam out separately.

Let me doublecheck that. Mr. Cohn points out, of course, that there was a supplemental for fiscal 1966. You are talking about 1967.

Senator HARTKE. That is right.

Mr. SCHULTZE. For 1967, they were together. In other words, operation and maintenance, procurement, the whole Department of Defense operation.

Senator HARTKE. Yes, but when you submit these figures, you say without Vietnam it would have been about \$10 billion less?

Mr. SCHULTZE. \$10.3 billion.

Senator HARTKE. \$10.3 billion less in expenditures?

Mr. SCHULTZE. In expenditures, not appropriations.

Senator HARTKE. I understand. So really, what you said, your estimate of the cost of Vietnam was \$10.3 billion.

Mr. SCHULTZE. That is correct. Including AID, the number turns out to be \$10.5 billion.

Senator HARTKE. That is because you have about \$527 million I think in military assistance—I mean, in foreign aid assistance.

Mr. SCHULTZE. Foreign economic aid, about \$200 million of which is additional. That is right.

Senator HARTKE. Yes. So now what you have is a figure of \$10.3 billion based on current estimates, but that is also based on the basis of 200,000 men, isn't it?

Mr. SCHULTZE. No, sir; let me make myself quite clear. The estimate for the Defense Department budget including the Vietnam increment submitted in January of this year, provided fully for the costs of adding to the Armed Forces 440,000 men over the June 1965 level. Military personnel are paid, clothed, fed, and so on whether they are stationed in the United States, or overseas.

Senator HARTKE. In other words, you contend that the \$10.3 billion includes the total cost of Vietnam at the present time?

Mr. SCHULTZE. I am saying it is the best estimate of added costs that we could make, given our assumptions with respect to the duration, scale, and intensity of the conflict.

Senator HARTKE. And the assumption of an increase, as General Westmoreland said, is to 400,000 troops.

Mr. SCHULTZE. The specifics with respect to the number of men operating in Vietnam and with respect to the intensity of the conflict I am not in a position to give you. I can only relate our assumptions concerning the overall size of the Armed Forces and the arbitrary end date for the conflict used for planning purposes. This is what was in the budget.

Senator HARTKE. Mr. Schultze, I am not trying to have you reveal anything out of secrecy. The only thing I am trying basically to show is that in spite of the fact that you have come up with \$10.3 billion, a more nearly correct figure for this year would be probably in the neighborhood of about \$20 billion. I don't expect you to accept that or agree with me exactly, but I want to take you through the process here to try to establish some of the basic elements of where we are going.

Now, are you familiar with the Fortune magazine article which was done by a team consisting of Mr. William Bowen, who is the prominent professor from Princeton and now editor there; and Alan Greenspan, president of Townsend-Greenspan & Co., consultants; and P. Bernard Nortman, independent economic consultant; Sanford S. Parker, of Fortune's economic staff; and Research Associate Karin Cocuzzi. Are you familiar with that article at all?

Mr. SCHULTZE. I know of the article; I have not read it.

Senator HARTKE. Just for the sake of this discussion, let me point out that according to the article, the present rate of expenditure for

200,000 troops is costing us \$2,275 million. Operation and maintenance costs about \$3,315 million. Procurement, \$4,400 million, which leaves alone for military operation in Vietnam at the present time, a total of \$10,440 million. Then you have an additional building of personnel construction there of about \$1,400 million, which leaves you over \$11 billion. But just taking the military construction portion out of it, this gives us an estimate based upon their analysis of the actual figures of over \$10,400 million, which is very close to your estimate of \$10,300 million; isn't that right?

Mr. SCHULTZE. All I can say is the two numbers you cite are the same, but what the implications are I don't know.

Senator HARTKE. I understand that, but the point of it is that if you increase that to 400,000 troops, which is the number which General Westmoreland indicated he was interested in having, and which apparently we are well headed for even though it would be done on a gradual level, this means that we would bring the cost to \$20 billion by September 30, 1966.

Now, would you say those estimates are wrong?

Mr. SCHULTZE. All I can say is that I am not familiar with the Fortune estimates, and the estimates we have in the budget do provide for the total military personnel increase of 440,000 by the end of fiscal year 1967 and for some increase in the level of intensity of the war through July 1, 1967, should that be necessary. The estimates represented our best judgment of the added budget costs clearly attributable to the Vietnam conflict as we foresaw the course of that conflict in January. That is essentially all I can say.

Senator HARTKE. All right.

Mr. SCHULTZE. Remember also, Senator, that since we started our military buildup in Vietnam, the scale of the Vietnam conflict has increased. The additional appropriations requested are some \$23.5 billion. The spending out of that comes through, as you know, as you go through time—

Senator HARTKE. I understand.

Mr. SCHULTZE. And the budget fully provided for very substantial increase for this financing along the lines I have indicated.

Senator HARTKE. But the point still remains that if these figures do not include—and I do not think they do, but you say they do—the cost of 400,000 military troops, then this means that the estimate is going to be a low by roughly about \$10 billion. This means that it is going to cost about twice as much for the Vietnam war on the annual level than it has during the past year, isn't that right?

Mr. SCHULTZE. Senator, if you look at page 76 in the budget, the budget document, you will find a statement labeled "Summary of Active Forces." This is a document published along with the budget. That shows that the actual troop strength, not Vietnam, total troop strength of the U.S. Defense Establishment is 2,653,000 on June 30, 1965.

Senator HARTKE. Two million what?

Mr. SCHULTZE. 2,653,000.

Senator HARTKE. In June 1965.

Mr. SCHULTZE. That is right; June 30. And on June 30, 1967, which is the year the budget refers to, it moves up to 3,090,000, an increase of 440,000 men.

Senator HARTKE. I said 425,000.

Mr. SCHULTZE. This is 440,000.

Senator HARTKE. So I am 15,000 men off.

Mr. SCHULTZE. All I am saying is that was laid out in the budget, and that is what the budget numbers support.

Senator HARTKE. That is what I was trying to get back to. The point about it is, if you just take the figures in the article, which I cannot find any error in, and which I have gone over rather extensively, they point out at the present level with 200,000 men and with 2,640,000 people, total military personnel, that the annual expenditure for Vietnam will be \$10,400 million with 200,000 men in the field. If those figures are right, increasing that figure to 400,000 men in Vietnam would mean that the cost of Vietnam, instead of being increased to \$13-plus billion, which is anticipated for 1967, is probably going to be closer to \$23 billion.

Mr. SCHULTZE. Senator, I don't know how to—

Senator HARTKE. You don't agree. All right.

Mr. SCHULTZE. All I can say is that we have taken our numbers from the estimates of the Secretary of Defense.

Senator HARTKE. One other point. Does this take into consideration the fact we have been using stockpiled materials, stockpiled ammunition, and that we have been using personnel which has been in reserve here in the United States for other purposes? Does the increase in Vietnam take that into consideration? The fact that we have been living out of the warehouse, so to speak, on men and material?

Mr. SCHULTZE. No, sir. They are already in being and we don't have to buy them additional. Of course, the budget provides for needed replenishment of stocks drawn down.

Senator HARTKE. I know that, but when we started this war in Vietnam, and when this question was raised and brought out in some of the committee hearings, for example, that we had a shortage of bombs, and the rate of ammunition used, it was brought out that a lot of this was used out of the stockpile, the so-called warehouse facilities.

Mr. SCHULTZE. Yes, sir.

Senator HARTKE. Has that been taken into consideration?

Mr. SCHULTZE. Taken into consideration; yes, sir.

Senator HARTKE. And it is reflected in the budget itself?

Mr. SCHULTZE. Yes. The whole procurement that is necessary to carry on activities, including what happens to stocks and the buildup of those stocks.

Senator HARTKE. But, at the present time, as far as the financing is concerned, all you are doing is making an anticipation through 1967, is that right?

Mr. SCHULTZE. Through the full fiscal year. Let me, of course, point out as we pointed out in the budget, and I think I said in my testimony, admittedly these numbers are uncertain.

Nobody can sit here and predict the course of events over the next year. The budget figures may be wrong. If truce breaks out, they may err on the high side, and clearly if it turns out to be necessary to extend the length of the war, they will err on the low side. But there are great uncertainties and I can't pin them down.

Senator HARTKE. If you have peace, hopefully they would at least cut down on the amount of money that is being spent in that part of the world.

Secretary FOWLER. I think that what the Director wanted to underline is that the assumption that combat operations would terminate on June 30, 1967, which I believe Secretary McNamara has indicated is one of his underlying assumptions, that assumption can be tested and determined with much more assurance later on than right now.

Senator HARTKE. I didn't understand that. You said his assumption is that the war would be terminated by June 30, 1967?

Secretary FOWLER. The funds he is asking for are based on that assumption. If that proves not to be a reasonable assumption, as events go on, the amount of funds requests might have to be modified.

Senator HARTKE. But there still is no estimate as to the length of the war other than just merely budgetary ones through 1967; June 30.

Mr. SCHULTZE. Correct, sir.

Senator HARTKE. Most of what we are doing, then, as far as Vietnam is concerned, is sort of an exercise in futility here in going over these figures, is that true?

Mr. SCHULTZE. No, sir. I don't believe it is an exercise in futility. I think we are making the best estimates that can be made at the moment.

Let me point out that what has been done here is to provide what is necessary to meet all of our obligations and commitments. As things develop and we have to change assumptions, we will, but at this stage, it seems to me, not a futile exercise, but an exercise in going through what we cannot foresee.

Senator HARTKE. All right. Aside from Vietnam for the moment, I would like to take up one thing which Senator Williams was talking about on these participation certificates. I do not know if Senator Williams asked this question, but has not the sale of these participations been somewhat slow?

Mr. SCHULTZE. No, sir. Mr. Barr may want to elaborate on this, but—

Senator HARTKE. Did you ask that?

Senator WILLIAMS. I asked the question, but the chairman answered it. I don't think the director has had an opportunity yet. I would be glad to hear from him.

Senator HARTKE. Are you the chairman now?

Senator WILLIAMS. No. Senator Long gave his answer in the record but I don't think that the Department answered.

Mr. SCHULTZE. Your question, Senator Hartke, was have they been slow, is that correct?

The FNMA participations up until last month over the life of the program had amounted to \$1.6 billion, I believe. There have been no occasions in which they have been slow. Last week FNMA concluded another sale of \$530 million. The distribution of those securities have gone quite well, although there still may be some not yet distributed.

Mr. Barr may have an up-to-date figure, but I think they have been quite well—

Mr. BARR. \$40 or \$50 million of the \$430 million aren't sold.

Senator HARTKE. The New York Times yesterday said the 1980 issue was sluggish or sticky, I have forgotten which word, one of those terminations. Is that a correct statement? Usually the Treasury gives the New York Times correspondent the story to use, and I just wondered whether that was false or not.

Secretary FOWLER. Senator, that is one statement that I want to correct. There is an awful lot that appears in the New York Times that doesn't come from the Treasury.

Senator HARTKE. I haven't found very much in the financial field that hasn't been said to them, and I just wondered if they had been given this information and if they had reported it accurately.

I read where they predicted the outcome of the action I had asked for after one of the hearings I held in the Finance Committee. It was predicted what was going to happen in that committee. I was glad to hear it. I thought there was a chance for my import resolutions being reported. But this saved me a lot of time and a lot of work. I just wondered if this was the same type of reliable information that was——

Secretary FOWLER. Your reading of the Times and mine are quite different.

Mr. BARR. Senator, if I may comment, if the Times reported that, they were in error because the long issues in 1979, 1980, 1981, were sold, almost at once.

Senator HARTKE. Maybe I had the year wrong, but I thought it said 1981, maybe it said 1980 issues.

Mr. BARR. No. There were three issues out of the long area, 1979, 1980, 1981, if I remember correctly, and then there were five issues in the short area, 1967, 1968, 1969, 1970, and 1971.

Senator HARTKE. I should have brought the article with me, and then there would not have been any question. They did use the word sluggish, did they not? Have you read it?

Mr. BARR. No, I didn't read the article.

Senator HARTKE. You ought to read the New York Times. It is a good paper.

Senator WILLIAMS. If the Senator will yield, I think he will find Secretary Barr is correct, that the 1979 and 1981 issues were sold out promptly at about 5.40 percent yield, and they are noncallable Government-guaranteed bonds, which is about seven-tenths of a percent higher than the prevailing rate had the Government financed them direct. I made that point earlier. I think the other issues are practically sold and they were 5¾ percent which is a rather liberal yield for a Government-guaranteed bond.

Senator HARTKE. Well, maybe I can ask either the Secretary of the Treasury or Senator Williams what is the estimate of the increase in interest costs as a result of this type of financing?

Senator WILLIAMS. I would like to hear the Secretary answer because he hasn't had a chance. I figured it out to be \$38,640,000 more than it would have cost when I compared with Government bonds of the same maturity, as quoted the same day that this sale was made.

Now, that is one of the points that the Secretary didn't get a chance to comment on.

Secretary FOWLER. I haven't had a chance to compute the difference, Senator. So I have no reason to quarrel with your appraisal.

Mr. BARR. The Senator from Delaware is well acquainted with agriculture, I am sure, and I would like to point out that the Bank for Coops this last quarter issued securities in the amount of \$605 million; the Federal intermediate credit banks sold \$1,091 million, the Federal Land Bank \$517 million, and the Federal Home Loan Bank Board \$2,606 million. All of these are rather closely related, I would think, to the area of the market that we are talking about, and they are paying approximately the same prices.

Senator WILLIAMS. And that is the point that I made when this bill passed, that you would have to pay about the same rate, and these are direct Government-guaranteed bonds. This is an expensive way to finance the Government and it is something that you should have known because historic record bore it out based on all your expenditures.

Mr. BARR. The only point I am making is that I would be the last one to recommend that we throw this \$2,006 million Federal Home Loan Bank Board and, roughly, \$2 billion in the agricultural area, back into the budget of the United States and raise the money through our general line of credit or through taxes.

Senator WILLIAMS. That was not the question that I asked, nor is it the question that the Senator from Indiana asked. We are both discussing the sales of assets as the result of a bill passed by Congress in May 1966, and that is the first time you had the authority to sell any small business obligations. You sold them. Your experience has it that it costs you about seven-tenths of a percent more. Now, do you dispute that fact?

Mr. BARR. No, sir.

Senator WILLIAMS. And that is what we are talking about. Based on the experience with the others is the reason that some of us said it was going to be more expensive.

Secretary FOWLER. Senator Williams, I think the record ought to be clear that assets of the Federal Government of this general character have been sold directly beginning in 1954-55, and at various times in intervening years. What the act in question that you referred to does is to facilitate a better method of disposing of these assets by pooling them, and disposing of them against a pool of assets rather than directly. It will prove, I believe, over the long run to be a more efficient and a less costly method of disposing of these assets.

Senator WILLIAMS. Well, I will quote from your letter of January 27. The last paragraph on the first page:

In the past several years the government-wide effort has been made to sell assets including loans and mortgages from the portfolios of federal agencies to provide the investors. Public Law 88-560 approved September 2, 1964, vested fiduciary powers in FNMA to provide means of substituting the funds of private investors for the U.S. Treasury investments in mortgages owned by FNMA or any other United States agency, and this was done in February 1964, and it was expanded in May 1966.

Now, I am not arguing the merits of the principle. They are the same and I opposed this principle as being an excessive cost to the Government. That same position was taken solidly by the membership of the Democratic Party in the Senate in 1958. I was with them,

as one of the minority. I still take the position that it is a more expensive way of financing the U.S. Government. I am only quoting what you gentlemen said when the Republicans were in power but the party has since switched positions.

Secretary FOWLER. I wasn't here, Senator Williams.

Senator WILLIAMS. Then your predecessors.

Senator HARTKE. Well, Mr. Barr, I think you are the expert in these participation certificates, and a good friend of mine from Indiana, so we can kind of talk man-to-man.

Isn't the money market extremely tight?

Mr. BARR. Some parts of it are extremely tight, Senator Hartke. Some of the short areas are tighter than the rest of the market.

Senator HARTKE. And the reason that you have to pay these high interest rates is very simple. The fact of the matter is that money, like any other commodity, when it is in short supply can ask for a higher price.

Mr. BARR. Senator Hartke, the money supply has increased rather substantially this year. However, supply is a relative factor. You have to equate it with demand, and demand has just been staggering, especially from industry as it tries to increase its plant capacity. That brings great pressures on the market. However, the supply by any historic standard has been very large.

Senator HARTKE. I understand that, but one of the problems still is that you wouldn't have this high a return on the interest rates if you had an easier money situation.

Mr. BARR. That is correct, Senator Harke. I think, however, if we had an easier money situation today, it would not be translated into additional production, but would be translated into higher price.

Senator HARTKE. I wasn't going back into the economic theory. I was just going back to the question that we are still where we are.

Mr. BARR. Right.

Senator HARTKE. But did you sell all of these, this last offering, at the—this last offering that you had—when was it last week?

Mr. BARR. Yes.

Senator HARTKE. You sold everything?

Mr. BARR. Everything sold. The last report I saw was Friday night, Senator Hartke, and there was only \$30 million to \$50 million left. They are probably gone today.

Senator HARTKE. If they were not sold last week—

Mr. SCHULTZE. As far as the Government is concerned, they are all sold.

Senator HARTKE. Yes, I understand. Technically, they are all sold, but they have not been picked up in the marketplace.

Mr. BARR. That is right.

Senator HARTKE. But the truth of it is that you are paying a higher rate of return, as Senator Williams indicated, than you are on normal obligations of the United States, which is adding to an increased cost of running the Government; isn't that right?

Mr. BARR. Senator Hartke, there are all sorts of ways of looking at this. As I have tried to say, it seems to me the Congress has followed the thesis that in the farming area, in the housing area, and in other areas where benefits do not go to everybody, it has been clearly under-

stood, over the years, that these operations pay the going rates in the market. That is all we are doing here. So I don't think you can equate it, Senator HARTKE, with the cost of Government obligations which you, as a member of the Finance Committee, control through the taxing mechanism, and through the public debt.

Secretary FOWLER. Sometimes some of these special facilities are provided by the Federal Government for these special sectors and are stipulated by the Congress to be available at 3 percent, something far less than the going rate of the cost to the Government. It is an element of subsidized credit. Some of these, too, will be included in these participation sales, but always, after this fiscal year, pursuant to determinations made through the appropriations process of the Congress. So to this extent, I think we are dealing with a special area of Government financing which, for one reason or another, Congress has decided to break channels from the private credit market to these special credit demands. And in the process of doing so, sometimes the Government, in effect, passes on the going rate. In other cases, it subsidizes the rate, but in either event, we think this is a move to improve the efficiency and the methods of enabling private credit to participate at least, in carrying the assets.

Mr. BARR. Senator Hartke, in support of what the Secretary says, one reason SBA is out money was Hurricane Betsy, which occurred in the State of the chairman, Louisiana. Substantial volumes of loans were made at rates ranging from 3 percent to 3 $\frac{7}{8}$ percent.

Senator HARTKE. Now, I didn't say a word during all these replies for the very simple reason I didn't want the Chairman here to reprimand me for trying to interrupt an answer when it was in response to a question. The question was a very simple one, and that was the result of an action, and I got a reason which was the reasons for the action, not the results. All I said and all I asked was a very simple question which you said you had several ways of looking at. I cannot see but one way of looking at this fact of life, and that is that this has resulted in an increase in the cost of operating the U.S. Government which, in turn, has resulted in an increase to the taxpayers of whatever the difference was in the rate which you could have borrowed, using general obligations of the U.S. Treasury, and what was the resulting price from the sale of these participation certificates.

I think this is the question that Senator Williams asked a while ago. I know that the Treasury fears we are trying to get an answer which coincides with what we think the facts are, but if that is not the truth, then you show me where it is not the truth.

Mr. BARR. We are not disputing that it is cheaper to borrow directly through the Treasury. That is the fact. The figures stand for themselves.

Senator HARTKE. Exactly.

Mr. BARR. What we were trying to get on record, the reason for the action.

Senator WILLIAMS. Do I understand you now agree that the sale last Friday will be about \$38 million more expensive to the U.S. Government than it would have had it been financed the other—

Mr. BARR. I would supply that for the record. I am not certain. You must look at this in another way, too. You gentlemen have the power to raise tax money in this—

Estimated additional cost of June 1966 FNMA participation certificates over direct Treasury borrowing

[In millions of dollars]

Term	Interest cost		Amount
	To FNMA ¹	On Treasury ²	
1 year.....	\$4.1	\$3.6	\$70
2 years.....	8.2	7.2	70
3 years.....	12.2	11.0	70
4 years.....	16.3	14.3	70
5 years.....	20.3	17.7	70
13 years.....	42.4	38.0	60
14 years.....	45.6	40.8	60
15 years.....	48.6	43.6	60
Total.....	197.7	176.2	530
Estimated additional interest cost.....		21.5	

¹ Including underwriting spreads.

² Including normal 0.12 percent pricing spread above market rates on new issues.

NOTE.—The above assumes Treasury could put out 13-15-year bonds. As a practical matter substitute Treasury financing could not exceed 5 years. Substituting 5-year issues in the above and rolling these over (at the same rate) as they mature to 1979-81 would raise the estimated Treasury cost to \$181,400,000 and reduce the difference to \$16,300,000.

Source: Office of the Secretary of the Treasury, Office of Debt Analysis, June 15, 1966.

Senator HARTKE. And to lower.

Mr. BARR. The power to raise the revenues of the United States resides in this committee and the Ways and Means Committee. If you raise a dollar of tax revenues today, I raise the question to you gentlemen, what is it worth? It is worth 5¾ percent in the marketplace. That is another way you can look at it.

Senator HARTKE. I understand that, but are you going to recommend an increase in taxes to raise additional revenues?

Mr. BARR. That was not the point. If you want to finance SBA through tax revenues, you equate it with borrowing. If you want to finance the SBA loans through tax revenues, I am saying that the dollars you are using, if you use that route, would be worth 5¾ percent in the market.

Senator HARTKE. It would still be cheaper.

Senator WILLIAMS. Would the Senator yield?

Senator SMATHERS. You meant know. I wish you would put that in the record.

Mr. BARR. No; it would not be cheaper.

Senator SMATHERS. The reporter can't get your headshakes.

Mr. BARR. Because the dollar you raise—if we have a dollar in our Federal balances—if we were to loan that back into the marketplace, that is worth 5¾ percent—roughly the rate we pay. So it would not be cheaper. We can borrow in the marketplace more cheaply, that is correct, but the dollars we raise via the tax route are worth—if we put them back into the market—5¾ percent. So it would not be cheaper to finance SBA through taxes.

Senator WILLIAMS. Heretofore it has been policy to finance these agencies with tax revenues.

Mr. BARR. That is not true.

Senator WILLIAMS. Prior to the sale of these?

Mr. BARR. No, sir. I might, as I—

Senator WILLIAMS. Well, I thought you said had we not sold them we would have to raise taxes to—

Mr. BARR. When you are taking these agencies—

Senator WILLIAMS. Speaking of small business. It has not been financed with tax revenues heretofore.

Mr. BARR. Partly and partly through Government guarantees.

Mr. SCHULTZE. And partly through sales of individual loans.

Mr. BARR. And partly through sales of individual loans as Director Schultze points out. It has been a custom of SBA to sell their loans to banks over many years.

Senator WILLIAMS. This sale of \$350 million last Saturday, was that the result of the law passed last May?

Mr. BARR. Yes, sir.

Senator WILLIAMS. Then it would not have been sold prior thereto.

Mr. BARR. Not in this manner, Senator. Let me give you an illustration of why we thought it was good policy.

Senator WILLIAMS. Go ahead. Then come back to my question. Go ahead and put in your statement.

Mr. BARR. The policy of selling directly to the banks means that you have a cumbersome method of selling. Sometimes it works and sometimes it doesn't. We were trying to devise a certificate that could be picked up by a broad segment of the financial community. In effect, we are doing the same thing. We are creating a broader, deeper, and more viable market. In the case of the mortgages we sold, the mortgages would have been bought by savings and loans, mutual savings banks—people buying mortgages. There is enough pressure on them at the moment. We would have added pressure by going directly to these institutions instead of the whole broad gamut of the market. That is the distinction.

Senator HARTKE. Mr. Barr, may I ask this: What was your estimate of the amount of participation you expected to sell, not alone with the new law, but with the old law in 1966?

Mr. BARR. The estimate in 1966—

Mr. SCHULTZE. \$2.6 billion of participation—

Senator HARTKE. Fiscal 1966. And you sold all of those?

Mr. SCHULTZE. Correct.

Senator HARTKE. That includes all you are going to sell this year?

Mr. BARR. Yes.

Secretary FOWLER. There was also in addition, Senator Hartke, the plans in the budget to sell \$600 million as I recall it direct.

Senator WILLIAMS. And how many have they sold of direct?

Secretary FOWLER. \$300 million.

Senator WILLIAMS. All total—

Secretary FOWLER. So that the sum total of the two, there is a shortfall of \$300 million. The sale of assets as a general category, \$300 million less than the budget contemplated.

Senator WILLIAMS. Now, how about the sale of FNMA notes, short term?

Secretary FOWLER. That is again the secondary mortgage-type operation which isn't in the budget, as I understand.

Senator WILLIAMS. How does that compare—

Secretary FOWLER. That is because the mortgage market has been such that it has placed a larger demand on FNMA to absorb VA and FHA mortgages.

Senator HARTKE. In other words, what you are saying is there have been more foreclosures than anticipated.

Secretary FOWLER. No. Normally those things are sold directly into the market.

Senator HARTKE. I want to come back to this other thing. What do you anticipate in 19—you said you had \$2.6 million to sell in 1966. What is anticipated for fiscal 1967?

Mr. BARR. \$4,205 million in participation sales and \$534 million in direct sales, for a total of \$4,739 million, Senator.

Senator HARTKE. Now, if you sell all those and if you still take this differential which is now costing you about seven-tenths of 1 percent, this means that you are going to have close to \$300 million additional interest cost that you would not have had if you had financed this through the regular process of Government borrowing, isn't that right?

Mr. BARR. Senator, you would have to work the maturities out on what we sold as to how long these last, but if you took it for 1 year—let's just talk about fiscal 1967—the cost would be roughly about \$35 million. Isn't that correct? At seven-tenths.

Mr. BARR. We used the figure of \$20 million when we were testifying on this bill because we were assuming a spread of a quarter to three-eighths of 1 percent. The spread has since moved up. I think some places the range of \$30 to \$40 million would be correct.

Senator HARTKE. The whole point about this is, though, that what you are trying to do here is to move into a tight money market. You are trying to do all you can to accommodate the Government financing to this tight money market. Are you doing anything whatsoever to alleviate this tight money market itself? You were anxious to give us the reasons for the participation sales. Is there any reasoning at present, or any policy thinking at the present time, which would help these corporations which are faced with the same problem of having to pay exorbitant interest rates for their money because of the tightness of the money?

Secretary FOWLER. I think those are questions that go primarily, Senator Hartke, to the Federal Reserve Board. They are charged with this sector of our economy.

Senator WILLIAMS. I think the Secretary has got a vital interest in this question. He had a definite opinion when the Federal Reserve Board acted before, so I would like to have his opinion now.

Secretary FOWLER. Well, my opinion now, as then, was that I would have preferred to approach the problem that we all faced at the end of last year by having before all of us the budget outlook insofar as it involved the increased expenditures for Vietnam and then determining what would have been the most appropriate policy mix as between taxing, expenditure control, and monetary policy.

Senator WILLIAMS. I wasn't speaking of that past decision.

Secretary FOWLER. That was not, however, possible because the action of the Federal Reserve Board on December 6, meant that we had to accept that as a fact of life and tailor the elements of fiscal policy to the existence of the measures that were taken on December 6.

Senator WILLIAMS. If the Senator will yield, I wasn't referring to the past decision. I was referring to the present situation. Is there contemplated an increase in the discount rate? Are you considering it? Have you been consulted on it?

Secretary FOWLER. Not that I am aware of, Senator.

Senator WILLIAMS. Do you anticipate one?

Secretary FOWLER. I do not. But, however, I am just like you, an observer in this area.

Senator HARTKE. As I understood—will the Senator yield?

Senator SMATHERS. Senator Hartke has the floor.

Senator HARTKE. We are not having any difficulty. The point about it is that you say you are an observer. I thought this quadripart had regular meetings once a week.

Secretary FOWLER. Not once a week. I see members of the Federal Reserve Board once a week, as does Under Secretary Deming. We don't have meetings of the quadripart that often—usually about once a month.

Senator HARTKE. They have not advised you whether they do or do not anticipate, or are either thinking of anticipating or not of anticipating?

Secretary FOWLER. I think what the Federal Reserve Board is anticipating or not anticipating is perhaps better revealed by them. They have not revealed to me any intention of increasing the discount rate.

Secretary HARTKE. In May there was—I think May 18, if I recall the date correctly—the New York Times had an interview with an undisclosed banker who said that the discount rate would have to be increased. Are you familiar with that article?

Secretary FOWLER. No, sir.

Senator HARTKE. Are you familiar with the fact that such a statement was made? Mr. Deming, are you familiar with it? You didn't read that either?

Mr. DEMING. No, sir.

Senator HARTKE. This is a good paper. You folks ought to take it.

Secretary FOWLER. Senator, if we worried about comments by undisclosed bankers—

Senator HARTKE. I want to come back to this. This is a remarkable thing. It is quite a lengthy article. He is quoted in it as saying we would have to increase taxes, that there would be tightening of the money, and an increase in the discount rate. All of these things were predicted with accuracy and with all the prestige that this wonderful newspaper has. And it was said this undisclosed banker was quite close to the Federal Reserve Board's thinking.

Do you have any knowledge whatsoever as to how close he was?

Secretary FOWLER. I don't know who he is or how close he was.

Senator HARTKE. This secret agent gave this wonderful, exclusive interview which was quoted with authority, and I know that the Secretary of the Treasury was not a party, but do you know whether or not he was on a Government payroll?

Secretary FOWLER. No. I don't know who he was.

Senator HARTKE. All right. Saying you don't, if you don't know he is on the Government payroll, do you know whether or not he is in fact being paid through the Federal Reserve System?

Secretary FOWLER. Not knowing who he is, I still find it difficult answering the question.

Senator HARTKE. I know that and I understand. What we are doing here is bringing out the fact that this man, according to the information I have, is not alone on the Government payroll, but part of the Government, the Federal Reserve System. He is giving an exclusive interview which is having an effect on the stock market, and which is having effect upon the money market, and giving all that information. Don't you think that people in that position ought to either identify themselves so that we can consider the source, or otherwise they ought not be printing these articles which cause such an upset in the whole economy?

Secretary FOWLER. I agree with the Senator and I think that there is too much of this quoting from undisclosed bankers.

Senator HARTKE. One other point. I am glad to hear you say that. That is right. One other point. As I understand, Chairman Martin made a statement concerning some monetary policies and a tax increase. In a question and answer session in New York, after you had made a speech there, they asked you to comment upon that and you said that you didn't comment—it was not a question of whether you should or shouldn't—but that you did not comment on statements issued by the Federal Reserve Board, something to that effect. Is that correct?

Secretary FOWLER. I don't recall precisely, but I think I said I usually prefer to comment on Chairman Martin's statement after having discussed it with him directly, not just hearing of it on the wire or—

Senator HARTKE. Yes. I fully appreciate what you are saying on that.

Don't you think that in all good conscience, Chairman Martin ought to consult with the Secretary of the Treasury and Director of the Budget before he issues these statements indicating that tax increases are going to be necessary?

Secretary FOWLER. I don't want to pass judgment, Senator Hartke, on the way other people handle their business.

Senator HARTKE. Let me say for the record I wish he would. I wish he would consult with you people. I wish you would have these meetings, have your coffee, and then go ahead and discuss these matters. So that we don't continually find ourselves in the position of trying to interpret what the quadriad believes in, and what the policy of the Government is going to be, especially with regard to a tax increase.

I was in a meeting this morning in which one of the businessmen said, "We have had statements that taxes were going to be increased, are not going to be increased, taxes may be increased, and all these varieties of things which have caused confusion in the business community." Don't you think that we would be better off if we could have less of these secret agents making these disclosures and try to come up with a concrete policy as to where we are going?

Secretary FOWLER. We certainly would be better off, Senator, but I am not very hopeful that we will ever achieve that happy state.

Senator HARTKE. All right. I want to just take up two more questions here. The increase in revenue in 1966 is, as you have indicated—

as the Secretary has indicated—is a one-shot doubling up of 1966 revenues.

Secretary FOWLER. Some part of it is.

Senator HARTKE. The point on the acceleration—

Secretary FOWLER. Of the collections, about a billion dollars.

Senator HARTKE. And also the tax withholdings, acceleration on collections of taxes, and the social security, right?

Secretary FOWLER. Yes.

Senator HARTKE. Both of those.

Secretary FOWLER. One feeds the administrative budget and the other the cash budget.

Senator HARTKE. I understand. But it takes money out of business—

Secretary FOWLER. Right.

Senator HARTKE (continuing). Communities, available cash for the expansion of their business or the operation of their normal manufacturing and commercial enterprises.

Secretary FOWLER. Yes, to that extent I think it would be fair to say that there has been a one-shot withdrawal.

Senator HARTKE. So we took out \$1 billion.

Secretary FOWLER. Yes.

Senator WILLIAMS. Would the Senator yield? I think the 1 billion that he refers to is the 1 billion extra revenue as a result of the Executive order to accelerate the payments on withholding and social security. I think the Secretary will agree that that is the \$1 billion to which he is referring. This last acceleration as a result of the payments of withholding—

Secretary FOWLER. The change in regulations. That is right, which is a difference—

Senator WILLIAMS. In addition to that, there is the acceleration of the corporate payments and withholding.

Secretary FOWLER. Enacted by law.

Senator WILLIAMS. Enacted by law which will bring in around \$5.5 billion extra in 1967, again a one-shot operation, which brings a one-shot in that deal to \$6 billion. Then since we are discussing it there is a billion and a half expected profit on the coinage this year based upon the Secretary's previous letter which brings about \$7½ billion as a one-shot operation that is nonrecurring income, and when we speak of a \$2 billion deficit next year, it is the result of taking into consideration these one-shot operations which, without it, you would have around a \$9 to \$10 billion deficit. I summarize that so we don't let the American people get too confused. The President said we wanted to get truth in packaging, in lending, and government, and I want to help him.

Secretary FOWLER. I hope my previous statement about silence not giving assent also is recorded here.

Senator SMATHERS. Duly recorded, Mr. Secretary.

Senator WILLIAMS. Do you have any further explanation to make?

Secretary FOWLER. Less than a complete appraisal of the situation—

Senator HARTKE. What I want to go back to is this. As I understand your calculations of tax revenue, heretofore you have always

been faced with this problem of having a greater collection in the first quarter.

Secretary FOWLER. First quarter of—

Senator HARTKE. In other words, your greatest collection was not in the first quarter, but the first half, roughly around April.

Secretary FOWLER. Of the fiscal—

Senator HARTKE. But to the extent that there has been an accelerated withholding, that will help alleviate that situation, and to the extent that there is graduated withholding of personal taxes, that is also a part of that problem, too, and it will alleviate that problem too, will it not?

Secretary FOWLER. Yes. In a good degree it will, insofar as—

Senator HARTKE. So therefore the statement here that you are looking back—

Secretary FOWLER. Withholding.

Senator HARTKE. Either you or Mr. Schultze, one of you in your statement made reference to the fact that you were looking back to the prior history of collections. That will not really in effect be true in 19—from the period of this year and ensuing years.

Secretary FOWLER. I think if I follow the line of your question, the statement was made in my remarks that normally the last year we collected 42 percent of the revenue in the first 6 months of the fiscal year; that is, from July 1 to December 31, and then we collected the preponderant part, 58 percent, in the last 6 months of the fiscal year. I think the same general pattern will prevail in this coming fiscal year, although perhaps not to quite the same degree because of this change in the graduated withholding.

Senator HARTKE. That was the very purpose of instituting this action, in addition to whatever effect it had upon the so-called overheating of the economy.

Secretary FOWLER. I think its primary purpose as a long-term tax measure was to diminish the levels of overpayments and underpayments, that the taxpayer would have to settle—

Senator HARTKE. Not alone that, but also help the Treasury in having an even flow of tax revenue.

Secretary FOWLER. That is right.

Senator HARTKE. Now, I think it is Mr. Schultze I want to come back to and then I will let you go. You say there have been certain cutbacks in the domestic programs. Is that true?

Mr. SCHULTZE. Yes, sir.

Senator HARTKE. Is this in line with the President's state of the Union message in which he said that we could have the Vietnam war and the Great Society, too?

Mr. SCHULTZE. That is correct.

Senator HARTKE. Pardon?

Mr. SCHULTZE. Correct. The Federal budget for fiscal 1967 has some significant increases in the Great Society programs imbedded in the budget, offset almost fully but not completely by reductions in economies elsewhere. That is quite consistent.

Senator HARTKE. What about construction? Is there a cutback in construction? In governmental construction?

Mr. SCHULTZE. Yes, sir.

Senator HARTKE. Hospitals?

Mr. SCHULTZE. Hospitals; no, sir.

Senator HARTKE. No cutback in Hill-Burton funds.

Mr. SCHULTZE. None, sir. I believe we put in \$170 million. I will have to check that number for the record, but there is no cutback. In fact, I am almost sure there is a modest increase. But for construction across the board, there is a reduction.

Senator HARTKE. These are cutbacks in office construction, things of that sort?

Mr. SCHULTZE. No. The main ones that come to mind immediately are, first, the Secretary of Defense deferred through fiscal 1966 into the end of fiscal 1967, I believe, some \$620 million worth of non-combat-essential construction. In the case of the Corps of Engineers new starts, the number of new starts proposed for 1967 is approximately 25 compared to about 65 in the prior year, taking into account both what we submitted and what the Congress put on top of it. In the case of the small watershed projects, compared to 80 starts this year, the budget calls for 35 starts in 1967.

Senator HARTKE. All these are also the price of Vietnam.

Mr. SCHULTZE. What one attributes this to is another matter. In terms of making up the total budget in the context of the economic situation and taking into account Vietnam, this is what we came up with.

Senator HARTKE. The Secretary has indicated that if it would not have been for Vietnam, I think he used the word "possibly," we might have had a surplus in the budget—

Mr. SCHULTZE. Right. Correct.

Senator HARTKE. Instead of a deficit.

One other matter. As I understand, in your statement, Mr. Schultze, you have asked that—you anticipate and hope—I have forgotten which one of those words you used—that civilian and military pay increases will be withheld until January 1, 1967, is that correct?

Mr. SCHULTZE. That is correct.

Senator HARTKE. And do you have any real anticipation with the action that the House already took approving a July 1 deadline, and the Post Office and Civil Service Committee having only one vote in favor of the January 1 date, do you still anticipate that this will be effective on January 1, 1967, instead of July 1?

Mr. SCHULTZE. "Anticipate" is a strong word. What I am saying is, first I am hopeful that the Senate will take a very hard look at it, and I believe it would be most appropriate in the light of the Nation's fiscal position to do so. If you are asking me to predict, that is another matter.

Senator HARTKE. But the guidelines were imposed on the civilian workers even without the effective date, isn't that true?

Mr. SCHULTZE. In other words, within the guideposts, 3.2 percent for the total cost.

Senator HARTKE. And the 3.2 percent still left the Government people without comparable pay for what is equivalent in the civilian market or in the—

Mr. SCHULTZE. In terms of strict comparison, that is correct, although as we discussed in the hearing, there has been a substantial move up toward comparability.

Senator HARTKE. I understand, but the point still remains that what you are saying is that in order to—even though the President's Commission has approved an increase, as Senator Carlson said, up to and above the guidelines, the military—I mean the civilian workers of the U.S. Government—are being asked to abide by a decision in which they have no hope of appeal, and to postpone their increase in pay even beyond that which normally would have given them a guidepost increase and which would be effective back until December of 1965, is that right?

Mr. SCHULTZE. I am not sure about how you get the guidepost calculation going back to December 1965.

Senator HARTKE. Isn't that the latest figures you submitted on—

Mr. SCHULTZE. This is where the comparability figures come from, but if you look, for example, at what has happened—I just took a look at the May Economics Indicators. The figure for the rate of increase in straight-time wages moving over the past year, is approximately between 2.9 and 3 percent. So the percentage increase in the past year, the increased proposed by the President, is right in line with that in the private sector.

Senator HARTKE. This is another part of that sacrificial lamb that has to be paid for Vietnam. The governmental worker is expected to sacrifice himself as well as the conservation programs and the school money and lunch programs. These are all sacrificial lambs for south-east Asia, isn't that correct?

Mr. SCHULTZE. Senator, you may want to call them sacrificial lambs. I wouldn't. I would say the entire budget was put together, including the pay increase, the increase in the Great Society, in the context of the Vietnam program. I would not label them sacrificial lambs.

Senator HARTKE. Did you take into consideration any effect of any slowdown in the economy in your budget compilation?

Mr. SCHULTZE. I am not sure exactly—

Senator HARTKE. Slowdown—there has been a slowdown in automobile production which is a major factor, is that not true?

Mr. SCHULTZE. There has been a slowdown, that is correct. You will recall—

Senator HARTKE. There has been a material slowdown in new home construction, isn't that true?

Mr. SCHULTZE. There has been some, that is right. On the other hand—

Senator HARTKE. These are two major industries of the United States.

Mr. SCHULTZE. They are two major industries.

Senator HARTKE. Is there any consideration given to this slowdown? Do you anticipate any slowdown at this time?

Mr. SCHULTZE. Let me—

Secretary FOWER. May I comment on that just briefly? In my statement beginning at the bottom of page 6, I said:

To the usual questions of congressional actions on the President's budget requests must be added not only the uncertainties of Vietnam costs but also the uncertainties as to the pace and scale of our economic growth—that is, whether the rates of growth characterizing recent quarters will be maintained. These factors can have both expenditure and revenue consequences of sizable magnitude. Weighing all the uncertainties and imponderables together, however, we have preferred to continue to use the \$1.8 billion deficit estimate for fiscal 1967, made last January.

The economic factors that you mentioned are illustrative I think of the uncertainties.

Mr. HARTKE. I understand that. You say that is "whether" the rates. What is your anticipation? I want to know what the "whether" is.

Secretary FOWLER. Well—

Senator HARTKE. What the climate is. Is the "whether" one which you anticipate the growth to be maintained or will not be maintained?

Secretary FOWLER. I would say I do not anticipate that the rate of growth that characterized the fourth quarter of last year and the first quarter of this year, in the neighborhood of \$17 billion per quarter, is likely to be maintained. I say that, Senator, because, although we haven't used up all of the slack that existed in the form of unemployment or the lower rates of utilization of manufacturing capacity, we have used up a very substantial portion of it, and somewhere along the line in real growth terms I think we are going to have to look in the direction of a rate of growth which is, say, $4\frac{1}{2}$ percent in real terms rather than the $5\frac{1}{2}$ percent that characterized 1964 and 1965—which included using up a lot of the slack resources, which, of course, was a very desirable thing.

We want to continue to maintain the rate of growth in the economy at a level which will result in lower rates of unemployment and reasonable and profitable rates of utilization of manufacturing capacity. I just don't think that the rate of real growth that we have had in the last quarter of last year and the first quarter of this year can continue.

Senator HARTKE. Do you see a recession?

Secretary FOWLER. No; I do not. I see some elements of adjustment which I would characterize as adjusting the economy to these real factors which I have indicated.

Senator HARTKE. Let's hope this adjustment is not too severe.

Secretary FOWLER. Yes. I think there is a very real problem that in the process of adjustment. When other economies have attempted the process of adjustment, such as Italy and France, they have moved down. They lost the rate of growth that was desirable and went either to, say, $2\frac{1}{2}$ or 2 percent in the case of France for several years, and in the case of the Italian economy, I think it was a movement down. That we certainly want to avoid. We want to try to hit a medium between the scale that would lead to an exhaustion of these resources and serious inflationary condition.

By the same token, we don't want to come down to anything like a scale that characterized the late fifties.

Senator HARTKE. Yes; but what you are saying is that in this adjustment that you can have this paradox. It is that you can have in some areas what amounts to a recession for specified industries or groups of industries.

Secretary FOWLER. I think it would be much more desirable, Senator Hartke, if that adjustment could be more widespread across the entire economic spectrum rather than concentrated in housing or automobiles or any particular sector.

Senator HARTKE. But you can have this adjustment which is a paradoxical situation that can occur with this high level of expenditure in Vietnam, which is high, admittedly, even though we may disagree as

to what it is. It is very high, and it is an abnormal and nonproductive expenditure. It is a nonproductive expenditure as contrasted to other production.

Secretary FOWLER. Yes.

Senator HARTKE. Now, you have this paradoxical situation of having an adjustment which could be equivalent to a recession for some industries or group of industries such as housing, and at the same time an increase in prices.

Secretary FOWLER. Yes. As a matter of fact, we had that situation in 1957.

Senator HARTKE. I was just going to say. And the fact is we do not need to go back to ancient history to find out that the 1957-58 situation was exactly that. We had an increase in unemployment, had a recession, and at the same time we had increased prices or at least not a fall in prices.

Secretary FOWLER. Well, we had a substantial increase in prices in 1957 and at the same time, in the latter part of the year, a real tailing off of the economy.

Senator WILLIAMS. Would the Senator yield? As I understand it, what you are suggesting is you would like to see a rolling adjustment rather than a recession.

Secretary FOWLER. That is right. I think that would be a fair characterization.

Senator WILLIAMS. I thought that was what you were getting to because that is the same phrase that Secretary Humphrey used to characterize the 1957-58 recession.

Secretary FOWLER. I wouldn't so characterize it. My definition of a rolling readjustment involves a higher rate of growth for that period.

Senator SMATHERS. Senator Hartke?

Senator HARTKE. Just one final factor and that is unemployment. Although 1 month does not make a trend, unemployment was up last month.

Secretary FOWLER. It was.

Senator HARTKE. And that, with the decrease in automobile production and with the substantial drop in housing, are matters of concern.

Secretary FOWLER. Very real matters of concern.

Senator HARTKE. Let me ask you, then, the \$64 question. In light of this, do you anticipate we will have a tax increase? Won't there be a request for one?

Secretary FOWLER. Senator Hartke, I tried to give as clear and concise an answer on that as I could early in May in talking about the long-term problem of adjustment that we have been discussing here. I don't believe my views have changed on what the prospects are since those comments were made in New York the day that Chairman Martin was quoted as advocating a tax increase.

Senator HARTKE. You see, this presents a real problem. I would hope that Chairman Martin would either temper his remarks or else consult with the Secretary of the Treasury. I still have great faith in the Secretary of the Treasury.

Senator SMATHERS. Thank you, Senator Hartke.

Mr. Secretary, it is 5 minutes of 1. Senator Williams still has at least 30 or more minutes of questions that he wants to put to you. Would it be convenient for you to come back here at 2:30?

Secretary FOWLER. Yes, sir.

Senator SMATHERS. All right. The committee will stand in recess until 2:30.

(Whereupon, at 12:57 p.m., a recess was taken until 2:30 p.m., the same day.)

AFTERNOON SESSION

The CHAIRMAN. Mr. Secretary, I wanted one question asked in my behalf by Senator Smathers, and if you did not have it, maybe you have it now.

STATEMENT OF HON. HENRY H. FOWLER, SECRETARY OF THE TREASURY, ACCOMPANIED BY JOSEPH W. BARR, UNDER SECRETARY OF THE TREASURY; FREDERICK L. DEMING, UNDER SECRETARY OF THE TREASURY FOR MONETARY AFFAIRS; STANLEY S. SURREY, ASSISTANT SECRETARY OF THE TREASURY FOR TAX POLICY; HON. CHARLES L. SCHULTZE, DIRECTOR, BUREAU OF THE BUDGET; AND SAMUEL M. COHN, ASSISTANT DIRECTOR FOR BUDGET REVIEW, BUREAU OF THE BUDGET—

Resumed

The CHAIRMAN. I want to know what is the total private debt, public and private, State, Federal, county, public, and private, in all respects, as of now.

Secretary FOWLER. All right, sir. I have it right here, Senator. Suppose I give it to you in terms of Federal debt, State and local debt, corporate debt, and individual debt.

The CHAIRMAN. If you have one of your human calculators down there add that up for me, then I will know what the total is.

Secretary FOWLER. All right. I have it through 1965. I have it through 1960. I have it through 1946. Would you like it for those three dates?

The CHAIRMAN. Well, I would like to know what it is now.

Secretary FOWLER. All right. Federal debt as of December 1965 was \$321.5 billion.

The CHAIRMAN. You do not have the total figure all in one place?

Secretary FOWLER. Yes. \$1.430 trillion.

The CHAIRMAN. Well, I am somewhat pleased to hear you make that statement because the last time I asked the question, it was about \$1.4 trillion. That was about a year ago. And in previous years it had been going up by the rate of a lot more than that.

Suppose you give me the total public and private debt figure, if you would, just for those previous years.

Secretary FOWLER. For the previous years, the total—December 1964, the total debt—

The CHAIRMAN. Now, the \$1.430 trillion is as of what date?

Secretary FOWLER. As of December 1965.

The CHAIRMAN. Well, that is 1965. Now—

Secretary FOWLER. As of the end of last year—

The CHAIRMAN. Now, you do not have it beyond that.

Secretary FOWLER. I do not have it readily available here. I may be able to arrive at an estimate of it.

The CHAIRMAN. Would you see if you could get that estimate for us or have somebody get it for us?

Secretary FOWLER. Will do.

The CHAIRMAN. \$1.480 trillion.

Secretary FOWLER. 1964, December, that was \$1.326 trillion and a half. December 1960, \$1 trillion and—

The CHAIRMAN. 1960.

Secretary FOWLER. 1960. \$1.016 trillion.

The CHAIRMAN. Do you have any earlier figure that that?

Secretary FOWLER. Yes. December 1946, going way back, at the end of the war, it was \$446 billion.

The CHAIRMAN. Well, now—

Secretary FOWLER. I can give you the Federal debt figures within those components.

The CHAIRMAN. That would give the impression that it has been going up at a rate of around \$100 billion a year. Would that be correct? Now, of course, that is from 1960 to 1965. \$100 billion.

Secretary FOWLER. About \$200 billion a year.

The CHAIRMAN. From 1960 to 1964 it jumped \$300 billion.

Secretary FOWLER. About \$50 billion a year over a 20-year period and about—

The CHAIRMAN. Since 1960 it would appear to be—

Secretary FOWLER. \$60 billion during that period, roughly.

The CHAIRMAN. Yes. Now, the thought that concerns me is that while the Federal debt is advancing by a few—by a few billion dollars a year, that this public and private debt has been expanding by, oh, roughly \$80 billion a year.

Secretary FOWLER. I think the percentage comparisons will be interesting there. In 1946, the Federal debt was 58 percent of the total and now it is 22 percent of the total. In 1960, it was 29 percent of the total.

The CHAIRMAN. The thing that somewhat bothers me, and I would like your reaction, is to what extent the prosperity of this country relates itself to a steady increase, not of the national debt so much as a steady increase of the total public and private debt in all sectors.

Secretary FOWLER. Well, I think there is a relationship, Senator, that characterizes the situation and is illustrated by these particular figures, that as the private sector grows, or as the combined sector grows, the amount of outstanding debt, Federal, State and local, corporate and individual, increases. I think we do have to watch and be concerned with the rate of that increase in debt. In other words, whether the debt is going forward at an unsustainable rate. We had some discussion of this last year in the hearings either on the debt limit bill or on the tax bill, and I think that while there is general recognition of the fact that growth of the economy spells a growth in debt, there is concern as to a proper relationship between the growth of the economy and the growth in debt. No one has arrived as yet, so far as I know, at the standard or accepted norm as to what that relationship should be, but most of the discussion and debate does not have to do with the fact that the amount of debt is increasing. That is generally accepted as the normal pattern, but the rate of the increase—

The CHAIRMAN. In other words—let me retrace this. Your economists advise you that as the economy grows, as the gross national product grows, that we can expect the credit structure, of which debt is one side of the coin, to grow, the whole thing grows together.

Secretary FOWLER. That is correct.

The CHAIRMAN. Generally speaking when we are looking at our public and private debt we are talking about money that somebody owes somebody else so that while that represents a debt in the hands of one person, it represents an asset in the hands of the other, the person to whom that money is owed.

Have you made any studies or had any studies made as to how this debt structure would compare to the gross worth or the net worth of the debtors, which is more or less the entire public and private sector of the United States?

Secretary FOWLER. I do not have any precise figures here today, Senator, but my very definite impression would be that the total net worth of, you might say, the population of the United States has increased very markedly. This has been characteristic of the entire period since the end of World War II. It has been much more marked, I think, in the last 4 or 5 years.

The CHAIRMAN. You were previously reading from a document that had been prepared for you that showed what the public debt, private debt, Federal debt, State debt was, I take it.

Secretary FOWLER. That is correct.

The CHAIRMAN. Is that all in that chart? If it is, perhaps I could just ask that that be put in the record.

Secretary FOWLER. Yes.

The CHAIRMAN. Otherwise I might have to ask that you provide it for us.

Now, you may have this information broken down in greater detail and if you have, Mr. Secretary—

Secretary FOWLER. I do.

The CHAIRMAN. I would like to have that made available also.

Secretary FOWLER. I have it for each year since 1946 if you would like to have that.

The CHAIRMAN. Yes. I would like to have this. If I may have this in the record, I would like to have it, and then I would also like to have greater detail if it looks like the kind of thing I would like to have for the record.

Let me say for the record I can see that you have such a wealth of material there that I think we just confuse the Senate by taking all that to them as a part of these hearings, but I do appreciate your bringing it with you.

Secretary FOWLER. There is one more table, Senator, that might be of some interest to you which reflects the gross Government and private debt, the rate of change in the per capita debt.

The CHAIRMAN. I think it would be good to have that as well because now these are—these are charts to which you make reference from time to time in studying the overall problem yourself, I take it.

Secretary FOWLER. Yes.

The CHAIRMAN. And they are relevant to it.

Secretary FOWLER. They are a standard part of our statistical equipment in watching the trends and developments in the areas indicated.

The CHAIRMAN. Well, while I would dislike to see the national debt rise at all, I think it is somewhat heartening thinking of the national debt only as being 22 percent of the total instead of 50 percent as it was in 1946. It is interesting to note that the private debt, the individual debt, has increased from 13 to 32 percent and the corporate debt is up from 25 to 38 percent.

Now, while I have been somewhat concerned about the increased individual debt, I really do not know of anyone who is very much worried about the increase in corporate debt in the overall economy, do you?

Secretary FOWLER. No. I think most of the concern has to do with the individual debt, the question of whether consumer debt, for example, is rising at too rapid a rate.

The CHAIRMAN. When you really get down to it, in the areas such as corporate and individual debt, where the big increases have occurred, there is no real great worry about the corporate debt. Would you explain why that would be?

Secretary FOWLER. Well, because with the general levels of profitability for business concerns. Generally it is felt that that capital is being put to work in a profitable and productive fashion resulting not only in increased yield to the investor but also to the provision of jobs and utilization of resources.

The CHAIRMAN. Would it not be fair to say that from the point of view of the best business minds we have in America, be they minds in business or minds in government or economists who make themselves available to study the capitalistic system, that this increase in corporate debt is offset by an even greater increase in assets to the extent that the net worth of these corporations has been increasing far greater than the debt of those corporations has been increasing.

Secretary FOWLER. Somebody thinks that those assets or that those debts resulting in creation of assets are producing profits and are good for the business.

The CHAIRMAN. Of course, many of us are concerned about the carrying charges, and the interest, of course, has a very heavy effect on the carrying charge. Insofar as that corporate debt has increased, would not an overall study show that these corporations have been able not only to pay these interest charges but also to pay the increased interest charges that have occurred in recent years and report even greater profits than they have ever had before after paying off those interest expenses?

Secretary FOWLER. That would certainly be the presumption.

The CHAIRMAN. Well, thank you very much, Mr. Secretary.

I will put these exhibits you gave me in the record, because I think they will be useful, Mr. Secretary.

(The documents referred to follow:)

The attached tables provide the requested information on gross public and private debt from 1929 through 1965. It is not possible to include earlier years, as data on a consistent conceptual base are not available for years prior to 1929. The Commerce Department series on public and private debt upon which Treasury Department estimates are based does cover some of the years prior to 1929 but only on a "net" debt basis. The gross national product series as compiled by the Commerce Department begins with 1929.

Estimated total U.S. debt, by major categories

	December 1946		December 1960		December 1964		December 1965	
	Billions	Percent of total	Billions	Percent of total	Billions	Percent of total	Billions	Percent of total
Federal debt.....	\$259½	58	\$290½	29	\$318½	24	\$321½	22
State and local debt.....	16	4	69½	7	95	7	102	7
Corporate debt.....	110½	25	369½	36	493½	37	547	38
Individual debt.....	60½	13	286½	28	419½	32	460	32
Total.....	446½	100	1,016	100	1,326½	100	1,430½	100

NOTE.—Detail may not add to total due to rounding.

Source: Office of the Secretary of the Treasury, Office of Debt Analysis, June 14, 1966.

Estimated total U.S. debt, by major categories

[Dollar amounts in billions]

Dec. 31	Private				Federal	Total	Percent Federal of total
	Individual	Corporate ¹	State and local	Total			
1929.....	\$72	\$109	\$18	\$199	\$16½	\$215½	8
1930.....	71	109½	19	199½	16	215½	7
1931.....	64½	102	19½	186	18	204	9
1932.....	56½	98	19½	174	21	195	11
1933.....	50½	94	19½	164	24	188	13
1934.....	49½	93	19	161½	31½	193	16
1935.....	49½	92	19½	161	35	196	18
1936.....	50½	93	19½	163	39	202	19
1937.....	51	92½	19½	163	42	205	20
1938.....	50	89	19½	158½	44½	203	22
1939.....	51	89	20	160	47½	207½	23
1940.....	53	91½	20	164½	51	215½	24
1941.....	55½	99½	20	175	64½	239½	27
1942.....	50	108½	19	177½	112½	290	39
1943.....	49	112	18	179	170	349	49
1944.....	50½	110½	17	178	232	410	57
1945.....	54½	100½	16½	171½	278½	450	62
1946.....	60½	110½	16	187	259½	440½	58
1947.....	70½	129½	18	218	257	475	54
1948.....	83	140½	20	243½	253	496½	51
1949.....	94	141	22½	257½	257	514½	50
1950.....	109	169	25½	303½	256½	560	48
1951.....	119½	192½	28½	340½	259½	600	43
1952.....	135½	203½	31½	370½	267½	638	42
1953.....	150½	213½	35½	399½	275	674½	41
1954.....	165½	218½	40½	424½	279	703½	40
1955.....	190½	254½	45½	490½	281	771½	36
1956.....	207½	279	50½	537	276½	813½	34
1957.....	221	268½	55	544½	275	849½	32
1958.....	239½	315	60	614½	283	897½	32
1959.....	264	345½	65	674½	291	965½	30
1960.....	286½	369½	69½	725½	290½	1,016	29
1961.....	310½	398	75	783½	296½	1,078	28
1962.....	341½	426	82½	850	304	1,154	26
1963.....	380½	461½	89	931	310	1,241	25
1964.....	419½	493½	95	1,008	318½	1,326½	24
1965.....	460	547	102	1,109	321½	1,430½	22

¹ Includes nonguaranteed Federal agency issues, which amounted to \$1,900,000,000 on Dec. 31, 1929, \$1,200,000,000 on Dec. 31, 1946, \$11,700,000,000 on Dec. 31, 1963 \$12,100,000,000 on Dec. 31, 1964, and \$14,100,000,000 on Dec. 31, 1965.

TABLE I
Gross Government and private debt, 1929-65

End of calendar year	Government debt						Private debt				Total Government and private debt	
	Amounts outstanding (billions)			Per capita ³			Amounts outstanding (billions)		Per capita ³		Amount outstanding (billions)	Per capita
	Federal ¹	State and local ²	Total	Federal	State and local	Total	Corporate business ⁴	Individual and non-corporate business	Corporate business	Individual and non-corporate business		
1929	\$16.3	\$17.8	\$34.1	\$133	\$145	\$278	\$108.9	\$72.3	\$889	\$590	\$215.3	\$1,758
1930	16.0	19.0	35.0	130	154	283	109.3	71.1	884	575	215.4	1,742
1931	17.8	19.6	37.4	143	157	300	102.1	64.4	820	517	203.9	1,637
1932	20.8	19.7	40.5	166	157	323	97.8	56.7	780	452	195.0	1,556
1933	24.0	19.5	43.5	190	155	345	94.2	50.6	747	401	188.3	1,493
1934	31.5	19.2	50.7	243	151	399	92.9	49.5	732	390	193.1	1,521
1935	35.1	12.4	54.5	253	155	427	92.1	49.4	727	391	196.0	1,534
1936	39.1	19.6	58.7	304	152	457	93.2	50.3	725	391	202.2	1,573
1937	41.9	19.6	61.5	324	153	475	92.4	50.9	714	393	204.8	1,582
1938	44.4	19.8	64.2	340	152	492	89.0	49.9	682	382	203.1	1,556
1939	47.6	20.1	67.7	362	153	515	89.0	50.8	676	386	207.5	1,577
1940	50.9	20.2	71.1	384	152	535	91.2	53.0	687	399	215.3	1,621
1941	64.3	20.0	84.3	479	149	628	99.7	55.6	743	414	239.6	1,786
1942	112.5	19.2	131.7	828	141	969	108.3	49.9	797	367	289.9	2,134
1943	170.1	18.1	188.2	1,236	131	1,367	112.1	48.7	814	354	349.0	2,535
1944	232.1	17.0	249.1	1,667	122	1,789	110.2	50.6	791	363	409.9	2,944

1945	278.7	16.2	294.9	1,981	115	2,096	100.4	54.7	714	389	450.0	3,199
1946	259.5	16.4	275.9	1,817	115	1,932	110.5	60.6	774	424	447.0	3,130
1947	257.0	17.8	274.8	1,767	122	1,889	129.5	70.9	890	487	475.2	3,267
1948	252.9	19.8	272.7	1,708	134	1,842	140.3	83.2	948	562	496.2	3,353
1949	257.2	22.6	279.8	1,708	150	1,858	141.0	93.9	937	624	514.7	3,419
1950	256.7	25.6	282.3	1,678	167	1,845	168.8	109.0	1,103	712	560.1	3,660
1951	259.5	28.3	287.8	1,666	182	1,848	192.7	119.9	1,238	770	600.4	3,856
1952	267.4	31.2	298.6	1,689	197	1,886	203.7	135.7	1,286	857	638.0	4,029
1953	275.2	35.3	310.5	1,709	219	1,928	213.6	150.5	1,326	934	674.6	4,188
1954	278.8	40.6	319.4	1,700	248	1,948	218.4	165.5	1,332	1,010	703.3	4,290
1955	280.8	45.6	326.4	1,683	273	1,956	254.5	190.3	1,525	1,141	771.2	4,622
1956	276.7	50.2	326.9	1,629	296	1,925	278.9	207.5	1,642	1,221	813.3	4,788
1957	275.0	54.8	329.8	1,591	317	1,908	298.3	221.2	1,726	1,280	849.3	4,915
1958	283.0	59.8	342.8	1,611	340	1,951	315.2	239.5	1,794	1,363	897.5	5,108
1959	290.9	64.8	355.7	1,622	361	1,983	345.6	264.0	1,927	1,472	965.3	5,381
1960	290.4	69.8	360.2	1,593	383	1,976	369.5	286.4	2,027	1,571	1,016.1	5,573
1961	296.5	75.0	371.5	1,600	405	2,005	396.1	310.4	2,137	1,675	1,078.0	5,817
1962	304.0	82.3	386.3	1,616	437	2,053	426.3	341.6	2,266	1,815	1,154.2	6,134
1963	310.1	89.2	399.3	1,625	467	2,092	461.3	380.3	2,417	1,992	1,240.9	6,501
1964	318.7	95.0	413.7	1,647	491	2,138	493.6	419.3	2,551	2,167	1,326.6	6,856
1965	321.4	102.3	423.7	1,641	522	2,163	547.1	459.8	2,794	2,348	1,430.6	7,306

¹ Gross public debt and guaranteed obligations.

² Treasury estimates based on census data.

³ Debt divided by the population of the conterminous United States and including Armed Forces overseas. Alaska is included beginning in 1959 and Hawaii beginning in 1960.

⁴ Includes nonguaranteed Federal agency debt which amounted to \$14,100,000,000 on Dec. 31, 1965.

TABLE II

End of calendar year	Gross national product (billions) ¹	Percent of ratios of debt to gross national product				
		Federal	State and local	Corporate	Individual and non-corporate	Total
1929.....	\$96.7	16.9	18.4	112.6	74.8	222.6
1930.....	83.1	19.3	22.9	131.5	85.6	259.2
1931.....	66.9	26.6	29.3	152.6	96.3	304.8
1932.....	56.8	36.6	34.7	172.2	99.8	343.3
1933.....	60.3	39.8	32.3	156.2	83.9	312.3
1934.....	68.6	45.9	28.0	135.4	72.2	281.5
1935.....	77.4	45.3	25.1	119.0	63.8	253.2
1936.....	86.5	45.2	22.7	107.7	58.2	233.8
1937.....	87.6	47.8	22.4	105.5	58.1	233.8
1938.....	87.6	50.7	22.6	101.6	57.0	231.8
1939.....	94.8	50.2	21.2	93.9	53.6	218.9
1940.....	107.6	47.3	18.8	84.8	49.3	200.1
1941.....	138.8	46.3	14.4	71.8	40.1	172.6
1942.....	179.0	62.8	10.7	60.5	27.9	162.0
1943.....	202.4	84.0	8.9	55.4	24.1	172.4
1944.....	217.4	106.8	7.8	50.7	23.3	188.5
1945.....	196.0	142.2	8.3	51.2	27.9	229.6
1946.....	221.4	117.2	7.4	49.9	27.4	201.9
1947.....	245.0	104.9	7.3	52.9	28.9	194.0
1948.....	261.2	96.8	7.6	53.7	31.9	190.0
1949.....	260.5	98.7	8.7	54.1	36.0	197.6
1950.....	311.2	82.5	8.2	54.2	35.0	180.0
1951.....	338.2	76.7	8.4	57.0	35.5	177.5
1952.....	361.0	74.1	8.6	56.4	37.6	176.7
1953.....	380.8	76.3	9.8	59.2	41.7	187.0
1954.....	379.8	73.4	10.7	57.5	43.6	185.2
1955.....	409.7	68.5	11.1	62.1	46.4	188.2
1956.....	433.2	63.9	11.6	64.4	47.9	187.7
1957.....	438.1	62.8	12.5	68.1	50.5	193.9
1958.....	469.2	60.3	12.7	67.2	51.0	191.3
1959.....	496.8	58.6	13.0	69.6	53.1	194.3
1960.....	504.4	57.7	13.9	73.4	56.9	201.8
1961.....	542.8	54.6	13.8	73.0	57.2	198.6
1962.....	574.5	52.9	14.3	74.2	59.5	200.9
1963.....	608.8	50.9	14.7	75.8	62.5	203.8
1964.....	649.4	49.1	14.6	76.0	64.6	204.3
1965 ²	705.6	45.5	14.5	77.5	65.2	202.7

¹ Implied level end of year, calculated as the average of the 4th and 1st calendar quarters at seasonally adjusted annual rates for the years 1939 through 1965. Prior to 1939, aver-

ages of 2 calendar year figures are used as the best approximation of Dec. 31 levels.

² Preliminary.

Senator WILLIAMS. Mr. Schultze, I understand you have another meeting at 3:30.

Mr. SCHULTZE. That is correct.

Senator WILLIAMS. I have a couple of questions I would like to direct to you. I want to go back where we left off in discussing the sale of these participation certificates by FNMA. I am not discussing at this time the merits of the proposal—that has been decided by the Congress—but I would like to discuss it as it may affect the budget and deficits as they are reported.

Now, to get the record straight, am I correct in my understanding that there are three methods that FNMA uses to raise its money? One is the sale of notes, short-term notes or certificates, and that has always been resorted to by FNMA over the history of that organization, is that correct?

Mr. SCHULTZE. Yes, by the secondary market trust fund.

Senator WILLIAMS. That is correct, and to the extent they are sold in larger or greater amounts does not affect the deficit as it is reported by the budget.

Mr. SCHULTZE. That is correct.

Senator WILLIAMS. Now, the second category we discuss are the debentures. The debentures, as I understand it, that procedure likewise has been followed over the years in greater or lesser amounts in some years but to the extent—

Mr. SCHULTZE. That is right.

Senator WILLIAMS (continuing). That debentures are sold by FNMA, the proceeds there again do not affect, as I understand it, either the deficit of the Federal Government or the debt in any way. That is, they are outside. Is that correct?

Mr. SCHULTZE. That is correct.

Senator WILLIAMS. So the sales in those two categories are not in any way affected by the issue before us today as it relates to the national debt or to the issue of the deficit as it will be reported at the end of each fiscal year.

Mr. SCHULTZE. In the sense that the Congress has decided to finance FNMA's secondary market operations through these techniques.

Senator WILLIAMS. And that has been followed over the years.

Mr. SCHULTZE. That is correct.

Senator WILLIAMS. By all administrations.

Now, that leads us up to the third method of financing, which does have an effect to the extent that they are sold, of reducing the deficit as it will be reported at the end of the year and also reduces the debt requirements, and that is the sale of these participation certificates.

Mr. SCHULTZE. Not—

Senator WILLIAMS. Am I correct in that?

Mr. SCHULTZE. No, sir.

Senator WILLIAMS. How does it—

Mr. SCHULTZE. In the same sense as the others do not affect the deficit, in that same sense this does. Now, if I may explain, if you decided to include the FNMA debentures and notes in the public debt and count the expenditures from the proceeds as expenditures in the administrative budget, it would show up as a deficit in the debt. The Congress has decided not to do so, so it does not show up.

Now, when we come to the participation sales, precisely the same thing has happened. The Congress has decided, in passing the Par-

ticipation Sales Act, that these are not counted as part of the public debt, nor are they counted in the deficit. I put them exactly on all fours, if you will, with the others, so it is the same thing. Congress, in any one of these three cases, could have decided the other way. It did not. So they all three came out at the same place.

Senator WILLIAMS. I agree Congress could have decided any way it wished, and I wish it had decided differently. I do not want to belabor this point, but I thought we had an understanding how these were handled.

I will go back again.

To the extent that we have sold these participation certificates, I will rephrase that. Was not the first participation certificates as such authorized in 1964 as a result of the law passed?

Mr. SCHULTZE. With respect to FNMA, that is correct.

Senator WILLIAMS. And that was the first sale.

Mr. SCHULTZE. Participation certificates, that is correct.

Senator WILLIAMS. And that was expanded in 1966, in May 1966.

Mr. SCHULTZE. Correct.

Senator WILLIAMS. We were authorizing FNMA to sell additional—

Mr. SCHULTZE. Additional types of assets, that is correct.

Senator WILLIAMS. Now, dealing with only those two types of sales made under those two laws and—

Mr. SCHULTZE. And from the time of the beginning.

Senator WILLIAMS. From the time they have been sold, they have been applied as proceeds to the Government and had had the effect of reducing the deficit over what it would have been had we not made the sale.

Mr. SCHULTZE. Precisely the same thing is the case if the secondary market operations of FNMA had been set up to be within the deficit and debt, they would have been within the deficit and debt. In the case of participations, if the Congress had decided to set them up within the limits of the deficit and debt, both of them would have been reduced from what otherwise would have been the case.

Senator WILLIAMS. To the extent any participation certificates were under either the 1964 or 1966 act they have had the effect of reducing the deficit as it would have been reported had it not been made and they also reduce the debt. I would like to have—

Mr. SCHULTZE. That is correct, sir.

Senator WILLIAMS. Is that correct?

Mr. SCHULTZE. It is a correct answer for all three cases.

Senator WILLIAMS. And the answer is "Yes."

Mr. SCHULTZE. That is correct.

Senator WILLIAMS. Thank you.

The reason I raise that point—there has been much said about the sales in the 1950's. There was an expansion of sales in 1950 for a few years, but they were sales in the field that had been conducted over the years prior thereto and sales which are being conducted today, all under the same procedure.

Now, to what extent have these participation certificates been sold in fiscal 1966?

Mr. SCHULTZE. In fiscal 1966, as of today, there will be—there have been \$2.6 billion of participations sold. Now, of that \$2.6 billion, \$700 million is by the Export-Import Bank and \$1.9 billion by FNMA.

Senator WILLIAMS. \$1.9 billion by FNMA.

Mr. SCHULTZE. \$1.84 billion.

Senator WILLIAMS. That is the figures I have, \$1.84 billion. Now, that \$1.84 billion—and we are dealing now with just FNMA—\$1.84 billion, that was sold in fiscal 1966 thus far has the effect of reducing the deficit as to what it would have been reported had we not made the sales.

Mr. SCHULTZE. What it would have been if we had not made the sales or if Congress had set up the sales differently. That is correct.

Senator WILLIAMS. Perhaps the Secretary would be the one who wants to answer this question, what I am trying to establish is what the deficit this year would have been had it been figured in the normal manner without the one-shot operations.

Secretary FOWLER. I cannot accept the word "normal," Senator, and I will not agree.

Senator WILLIAMS. You can use what description you please, Mr. Secretary. What word would you suggest?

Secretary FOWLER. Well, I would say that according to the pattern—

Senator WILLIAMS. I will accept "the pattern."

Secretary FOWLER (continuing). That there is a one-shot—

Senator WILLIAMS. According to the pattern.

Secretary FOWLER. There is a one-shot operation. We are agreed on that language. There is a one-shot collection of moneys as of June 20 that is perfectly proper, something you yourself I believe—

Senator WILLIAMS. I voted for some of the proposals.

Secretary FOWLER (continuing). Have encouraged in the past. It would be alert to getting the moneys in as quickly as possible, and that does accrue to the benefit of the budget this year and will not accrue in other years because there is no way of further speeding it up.

Senator WILLIAMS. Well, according to the pattern of this one-shot operation—is that a satisfactory phrase?

Secretary FOWLER. Sir?

Senator WILLIAMS. According to that pattern of this one-shot operation as a result of the 1966 Revenue Act and the 1967 Revenue Act, the acceleration in the corporation and the withholding taxes will bring into this Government, based on the estimates that were given at that time, \$4.9 billion which will be a one-shot operation in fiscal 1966, is that correct?

Secretary FOWLER. I think that is a reasonable answer.

Senator WILLIAMS. And your seigniorage on coin, you picked up an extra \$1 billion this year.

Secretary FOWLER. Yes. I do not know what it will be next year. I do not know to what extent that is one shot. I do not know how repetitive that would be over the long pull.

Senator WILLIAMS. In a letter which I have from you it was that it would be approximately \$2.5 billion of which \$1 billion would have accrued in 1966 fiscal year and \$1.5 billion expected in 1967.

Secretary FOWLER. I am saying I do not know to what extent that will be nonrepetitive. We would expect to continue to collect seigniorage which would depend on the volume of coin production in the future years.

Senator WILLIAMS. Then, if you include these one-shot operations, this pattern, and if you include seigniorage, which is a nonrecurring item, it is a one shot, then if you include the \$1 billion which you have picked up as a result of the Executive order to accelerate the payments by the large companies of the withholding and social security taxes—add all of those in, we really have not reduced the deficit to \$2 billion as now claimed. We have on paper, but actually we are spending about \$8 to \$10 billion this year more than we are taking in, as normal revenue is that not correct?

Secretary FOWLER. We have reduced the deficit in the same way that we reduce any deficit, by relating the expenditures for normal functions of Government, for unusual functions of Government such as fighting the war in Vietnam, on the one side, and we balance that by normal collection of taxes which goes on year in and year out and by some of the—as we have agreed—one-shot methods of acquiring revenues to pay our bills.

Senator WILLIAMS. In view of the fact—

Secretary FOWLER. And the results of all those operations, whether they are normal, whether they are repetitive, whether they are the same each year, whether they are different, always gives us a deficit or a surplus depending upon the circumstances. There is nothing unusual or abnormal about it. I think everybody understands what is going on.

Senator WILLIAMS. Oh, I think I understand. I think you understand. And, Mr. Secretary, if the expenditures in the next few years are exactly the same as they are now and if the income is the same except—

Secretary FOWLER. But they will not be.

Senator WILLIAMS (continuing). You will not have these one-shot operations.

Secretary FOWLER. Right. They may be more or they may be less depending on a lot of external events. It depends on a lot of circumstances. If the war in Vietnam is over, there is likely to be a dropoff in expenditures in a very substantial order of magnitude, perhaps even more than the figures you cite.

Senator WILLIAMS. Well, we could balance the budget, could we not?

Secretary FOWLER. We could even despite that, if we could arrive at some of the—

Senator WILLIAMS. I will not press the point. I think we have got the point established. By accepting this as a pattern of operations by this administration it confuses the true deficit. By all lines of reasoning, as I see it, you are spending about \$7 billion or \$8 billion more.

Secretary FOWLER. Senator, I would only ask you, when you make this point, to also recognize that there is a bit of an unusual situation involved in the additional expenditures in Vietnam.

Senator WILLIAMS. I agree with that. I am not questioning that point, but I am just trying to face the facts as to what we are spending.

Secretary FOWLER. Yes, but the impression—

Senator WILLIAMS. And we are not coming up next year with just a \$1.8 billion deficit.

Secretary FOWLER. The impression gets out repeatedly, Senator, that the normal expenditures of Government at this time total \$112.8

billion, and there is no emphasis in these statements that \$102 billion of that goes to what we might think of as the normal expenditures of Government and \$10.3 billion goes to this particular situation we have in Vietnam.

Senator WILLIAMS. Well, when I am speaking of normal, I was not speaking necessarily of peacetime or domestic. I am speaking of the expenditures that have to be made in connection with financing the Government on a situation as it exists now, which includes the Vietnam war. What I object to is this impression that is being put out, that next year we are going to operate on a \$1.8 billion deficit when I do not think there is anyone connected with this administration that even believes it. The \$1.8 billion is arrived at only as a result of taking into consideration the one-shot acceleration of the corporate and withholding, the profit on the seigniorage, plus the sale of these assets which have not been done prior to 1964. I did not support the sale of assets, but it is an accomplished fact. I am not debating the merits or demerits of it. But when we do it, let us call it what it is. Let us not try to confuse the American people that we have suddenly discovered a secret answer to all of the problems of deficit spending because we can sell a couple or more billion dollar assets and have a surplus.

Secretary FOWLER. I cannot accept the fact that the American people have been deceived. Now, the truth of the matter, as we all know, is that as a result of the tax reduction bill, as a result of the confidence of the American people in the state of the economy and in the outlook for the future, we had an increase, a very substantial increase, in the rate of economic activity that produced, despite tax reductions in the order of magnitude of \$20 billion, an additional \$20 billion in revenue since the Revenue Act of 1964 became law. And had we not had the Vietnam war, there is every likelihood that we would have approached budget balance during this year, perhaps could have accomplished it. These deserve equal emphasis to the American people.

Senator WILLIAMS. Is your projection of balanced budget without the Vietnam war based upon and including also the accelerated economy which has resulted from the expenditures of the Vietnam war?

Secretary FOWLER. Of course, that would have to be discounted to some extent.

Senator WILLIAMS. That would have to be discounted.

Secretary FOWLER. Of course. I could not predict what the pattern of the economy would be without Vietnam. However, at the rate it was moving, and at the rate it was developing before the acceleration in Vietnam, there is every indication the economy would have been quite healthy and quite rewarding as far as revenues are concerned.

Senator WILLIAMS. Your predecessor, Director of the Budget, Mr. Bell, told this committee that the deficits were planned deficits and he felt there was virtue in a planned deficit. Do you agree with that statement?

Mr. SCHULTZE. I am not exactly sure what my predecessor said or what the conditions were. I think at the time the tax cut that Secretary Fowler refers to was undertaken, everybody knew that in the next year there would continue to be a deficit. If that is what you want to call a planned deficit, then in that sense, yes.

I think the key point was that tax cut taken at the time there was a deficit led to such an increase in the economic activity without Viet-

nam we would have balanced the budget. So in one sense in the initial year it was passed you might say we went into a planned deficit. The key point was not aimed at advancing the economy but bringing the economy back to when we would balance the deficit.

Senator WILLIAMS. Do either of you think that a tax cut at this time would help balance the budget?

Secretary FOWLER. To balance the budget? It might, but I think it would be balancing the budget at this time with rapidly inflating dollars. Therefore I would not—

Senator WILLIAMS. To what extent—

Secretary FOWLER. I would not advocate it, obviously.

Senator WILLIAMS. To what extent are the inflated dollars representing the accelerated economy? To what extent was that true of the last tax cut?

Secretary FOWLER. The so-called implicit deflator for the year 1965 was 1.8 percent.

Senator WILLIAMS. Earlier this year the President—

Secretary FOWLER. That would have to be applied to the total growth.

Senator WILLIAMS. Earlier this year the President made the statement that he was calling on all the Federal agencies to reduce their expenditures by July 1 by \$1 billion. I am not sure the question was not asked earlier but—

Mr. SCHULTZE. I do not recall that statement, Senator. I do believe that the President at one stage—the White House, I am not sure whether it was the President himself—announced something with respect to the fact of a deficit perhaps being \$1 billion lower than had been indicated. I do not recall.

Senator WILLIAMS. In his more recent statement he was calling on the agencies to reduce expenditures by \$1 billion. I was wondering if you were aware of that.

Mr. SCHULTZE. In the first place I do not recall the specific figure of a billion dollars. I do know we have done the following: first, the President has put out a specific order against June buying. Secondly, the President has asked agencies to hold down explicitly with their travel and employment to the maximum extent they can and still fulfill their obligations.

Thirdly, the President has asked each agency to take a look at its construction programs to see what they can do with respect to scheduling those out, deferring where possible, and still at the same time meet their program objectives. All those three things the President has done within the last 2 months.

Secretary FOWLER. Senator Williams, I would just like to say in terms of my own department here that as of last September 30, we submitted to the Bureau of the Budget departmental estimates of what we expected to spend in the fiscal year 1966 and shortly thereafter we received a Presidential request, that I think you referred to, to hold down expenditures to the absolute minimum, and we received some directives from the Bureau of the Budget. As a result, we identified about \$102 million out of our operating budget of about \$1 billion of prospective reductions for the remaining portion of the fiscal year. This represented a reduction of about 7 percent of the estimates that

we gave in September. That was the figure included in the President's most recent January budget. We took another look at our situation in March of this year and found at that point we were only going to achieve \$90 million of our \$102 million reduction target. We took some additional measures, and I am hopeful we will end up June 30 by having achieved that 7 percent reduction.

Senator WILLIAMS. I have here an article from the New York Times, dated December 2 and it quotes the President from Austin, Tex., as stating that he has approved a plan to reduce Federal employment by 25,000 during this current fiscal year. Now, what has been the rate of employment, Federal employment, in the months succeeding December 2. Do you have that?

Mr. SCHULTZE. It has gone up, substantially. Let me point out the following, Senator Williams. In the first place, the President at the time did indicate, and we know we put the budgets together on this basis, that the departments would reduce their employment ceilings by 1 to 1¼ percent; 25,000 positions. It does not mean there would not be an absolute growth. The growth has occurred and 90 percent of this growth has come in three places: The Department of Defense. Obviously with Vietnam you have got to increase your employment. Secondly, the Post Office. The Post Office volume has gone up by 5 percent rather than the 3½ percent we had calculated earlier.

Thirdly, there have been substantial increases in the Department of HEW, primarily in setting up the medicare program. These three account for 90 percent of the increase over last year. It would have been higher had the President not issued that order because we did take that specific directive into account in making up the budget last December and January when we put it together.

Senator WILLIAMS. I raise that point because we hear so much about economy, and I am wondering if the administration is not going to save ourselves from bankruptcy if it keeps on at its present rate.

I notice beginning with July 1965 through April this year, we have added 101,654 employees to the public payroll and we have added 92,000 of those employees since the President said he was going to reduce it by 25,000 I am wondering when you are talking to him if you can ask him not to reduce it again, even if it only means another increase?

Mr. SCHULTZE. No, sir. Again let me point out—

Secretary FOWLER. Senator, would you add to those the number who have been employed in the Defense Department so that the records can show a fair reflection of this?

Senator WILLIAMS. Well, total civilian employment in the military agencies in April increased 12,590. There was a 33,454 increase altogether, which means 21,000 in the civilian employment in April, or one-third of its military.

Mr. SCHULTZE. As a matter of fact, here we had a choice. We could have made a much better record on employment in the case of both the Post Office and military if we wanted to spend more money. In the case of the Post Office we deliberately added more employees and cut down overtime because the overtime employment was costing the Federal Government more and it is cheaper to do it with additional employees.

Secondly, in the military we could have made a good record just for show by not substituting civilian employees for military. You can substitute six civilian employees for seven military and you save money. And we went ahead deliberately with both of those to save the Government money, and even though it added to the total. We could have made a good show. But the Government took a look at it and decided to go ahead.

The CHAIRMAN. Wouldn't you have been compelled to draft more boys into uniform than you had to draft if you hadn't done that?

Mr. SCHULTZE. Correct.

The CHAIRMAN. So in one instance you are able to put six people to work who go to work voluntarily and happy on the job rather than seven who don't want to be drafted.

Mr. SCHULTZE. That is correct, sir.

Senator WILLIAMS. Do I understand the inference here is that the President in his speech in December was suggesting you draft seven people rather than put six men to work?

Mr. SCHULTZE. No, sir.

Senator WILLIAMS. I am only quoting what the President said.

Mr. SCHULTZE. I am saying there are two specific policies that had to be considered.

Senator WILLIAMS. Do you mean the President was wrong?

Mr. SCHULTZE. I am sorry. I don't think I can answer questions like that. What I said was there were two specific policies under consideration relating to adding employment in order to save the Federal Government money. The President could have said, well, what the heck, let's not save the money. Let's save on the employment because it will look better. He didn't. He wanted to save the Federal Government money, so he decided to cut down the overtime and add more employees and substitute civilian for military personnel in order to save the Government money. That is what I said, Senator.

Senator WILLIAMS. Well, I am not getting into the merits of the question.

I ask, Mr. Chairman, that there be placed in the record the New York Times story of December 2, 1965, on the President's promise to cut back employment followed by the most recent report of the Joint Committee on Nonessential Expenditures which shows the increasing employment.

These figures speak for themselves and all I say is that at the time that it was made, there was much ballyhoo about going to roll back Federal employment. Perhaps the press misunderstood what he said. I don't know. But this was the report.

The CHAIRMAN. They will be inserted in the record.

Senator WILLIAMS. Let the record speak for itself. The promise was made that we were going to cut back 25,000 and we added 96,000. (The matter referred to follows:)

[From the New York (N.Y.) Times, Dec. 2, 1965]

PRESIDENT BACKS A CUT IN U.S. JOBS—APPROVES PLAN TO RETIRE 25,000—SPENDS QUIET DAY

AUSTIN, TEX., December 1.—President Johnson approved this afternoon a plan that could eliminate 25,000 Government jobs.

The plan, contained in a memorandum from the Budget Bureau and released here, instructs the heads of Government departments and agencies to reduce

their employment by 1 to 1.25 per cent by the end of the fiscal year 1966, which ends next June 30.

Joseph Laitin, assistant White House press secretary, said the plan did not mean that present employes would be dismissed. It is designed, he said, to take advantage of stepped-up retirements from Government jobs.

These retirements have been increasing because of a new law offering certain inducements, including larger pensions, to employes who retire before the first of the year.

"The vacancies thus created," the memorandum said, "present an opportunity to take new specific action to carry out the President's long-standing instructions to hold Federal employment at the minimum necessary to carry out Government operations effectively."

The President spent a quiet day at his ranch studying reports and preparing for a meeting tomorrow with Secretary of Agriculture Orville L. Freeman and Secretary of State Dean Rusk.

The main topic at the meeting is expected to be the world food situation and Mr. Johnson's forthcoming talk with President Mohammad Ayub Khan of Pakistan.

Mr. Rusk is expected to join Mr. Johnson and Defense Secretary Robert S. McNamara for a discussion of world problems this weekend or early next week. The White House announced yesterday that this meeting would be held tomorrow or Friday. However, officials explained today that administrative work at the Pentagon would keep Mr. McNamara in Washington longer than expected.

The President also spoke by telephone with his special assistant for national security affairs, Mr. McGeorge Bundy. Mr. Laitin, in response to a question, said that the subject of Mr. Bundy's future had not been discussed and that, to the best of his knowledge, the two men had never discussed it. Mr. Bundy has been offered a post as head of the Ford Foundation.

STATEMENT BY HON. GEORGE H. MAHON (D. TEX.), CHAIRMAN, JOINT COMMITTEE ON REDUCTION OF NONESSENTIAL FEDERAL EXPENDITURES, IN RE MONTHLY REPORT ON FEDERAL PERSONNEL AND PAY FOR APRIL 1966.

Executive agencies of the Federal Government reported civilian employment in the month of April totaling 2,644,244. This was a net increase of 33,404, as compared with employment reported in the preceding month of March.

Civilian employment reported by the executive agencies of the Federal Government, by months in fiscal year 1966, which began July 1, 1965, follows:

Month	Employment	Increase	Decrease
July 1965.....	2,542,580	34,471	-----
August.....	2,549,985	7,395	-----
September.....	2,515,886	-----	33,099
October.....	2,528,605	11,809	-----
November.....	2,547,923	19,228	-----
December.....	2,550,742	2,819	-----
January 1966.....	2,555,872	4,830	-----
February.....	2,580,518	24,946	-----
March.....	2,610,780	30,262	-----
April.....	2,644,244	33,464	-----

Total federal employment in civilian agencies for the month of April was 1,543,390, an increase of 20,874 as compared with the March total of 1,522,516. Total civilian employment in the military agencies in April was 1,100,854, an increase of 12,590 as compared with 1,088,264 in March.

Civilian agencies reporting the larger increases were Post Office Department with 13,305, Treasury Department with 2,772, Agriculture Department with 2,317, and Interior Department with 1,204. The increases in the Departments of Treasury, Agriculture and Interior were largely seasonal.

In the Department of Defense the larger increases in civilian employment were reported by the Department of the Army with 5,869, Department of the Air Force with 3,513, and the Department of the Navy with 2,106.

Total employment inside the United States in April was 2,473,113, an increase of 32,709 as compared with March. Total employment outside the United States

in April was 171,131, an increase of 755 as compared with March. Industrial employment by federal agencies in April totaled 576,768, an increase of 5,195.

These figures are from reports certified by the agencies as compiled by the Joint Committee on Reduction of Nonessential Federal Expenditures.

Mr. SCHULTZE. We did. We cut from the employment ceilings necessary to run the Federal Government's program by that amount. They still went up because Vietnam occurred, because Post Office mail volume increased.

Senator WILLIAMS. There was a war going on in December and surely the President knew it.

Mr. SCHULTZE. That is right, and it turns out there is less of an increase than there would have been if the order hadn't been issued.

Senator WILLIAMS. I see. The President added 92,000 employees since then, but when he said he was going to reduce by 25,000, he was actually going to add 117,000 but he added only 92,000.

Mr. SCHULTZE. That is basically correct.

Senator WILLIAMS. I wish I could have worked that scheme to get a dollar out of my father.

The CHAIRMAN. Didn't he have a budget document submitted in January of this year that employment was going to have to go up?

Mr. SCHULTZE. Correct, sir.

The CHAIRMAN. Would you mind finding that because you spent about eight pages discussing that in the budget document.

Mr. SCHULTZE. In two places. On page 51 of the budget document there is a table, agency by agency, which indicated employment was going to go up, and on pages 397 to 405 is a special analysis which discusses this. So nobody is hiding anything from anybody.

The CHAIRMAN. Would you mind referring to the first page where you discussed the reasons why there would have to be increases in the number of Federal personnel, and if I recall correctly, the big item on that—the text I am looking at—

Mr. SCHULTZE. Page 397.

The CHAIRMAN. I think I put this in the Congressional Record myself. Page 397. It is discussed on eight pages. There are eight pages where you are discussing the problem, and here is the analysis of why it would have to go up. It said first the increase in foreign assistance activities associated with heightened conflict in Vietnam requires a rise of 79,000 civilian employees. Now, as I understand it, the main reason you are hiring 79,000 civilian employees is that you would have to draft even more than 79,000 additional young men if you didn't do that.

Mr. SCHULTZE. That is in the next paragraph, sir.

The CHAIRMAN. That is second. A series of management improvement which would reduce Government costs reflecting a reduction in post office overtime and a conversion of a number of Defense Department positions from military to civilian occupancy. You have a civilian instead of a military handling the mail. So at an Army base, and things of that sort, these cost reduction actions will save money but will require in 1966 substitution of 66,000 civilian employees for other higher cost employment services.

So what you are saying is we will have more people on the payroll but we will save money by doing this.

Mr. SCHULTZE. Exactly, sir.

The CHAIRMAN. Now—so one of them is a case of using civilians in place of drafting boys into uniform to do the same job, and another one is the case of using people on regular time instead of using them on overtime, with the result that you do it cheaper that way.

Mr. SCHULTZE. Exactly.

Senator WILLIAMS. May I suggest we let the witness answer. I think in all fairness he ought to have a chance to get his own answer in. The suggestion has been made that some committees don't protect the witness and I would suggest, with all due respect to the chairman, let the witness make his own answers. I want to be sure we are fair in this committee.

The CHAIRMAN. Senator, may I say with all due deference to my outstanding Republican colleague here who someday will be a great chairman of this committee, I am sure, and will do a better job than I do, that the only difference between my approach and yours, you have been trying to make the witness answer the question that would not be a correct answer from his point of view for a number of hours, and I have been suggesting to him what I thought the correct answer was and he agreed that was the correct answer.

Mr. SCHULTZE. I couldn't improve on it, Senator.

The CHAIRMAN. Both of us sought to lead the witness. It just happened that the witness tended to agree with what I was saying rather than you, and I just agree that the witness is right, based on what I have seen and what he is trying to tell us.

Senator WILLIAMS. Does anyone else have a comment on this point, because I want everybody to have ample opportunity? We want to be fair.

I realize that Mr. Schultze has to leave. This is very clear, the President backed a cut in U.S. jobs. It doesn't say if, and, or maybe. He promises to cut 25,000. Since that time he has added an average of 10,000 employees per month. That is 2,500 per week. Figuring the Government on a 5-day workweek, 40-hour a week, that is 500 a day or 1 every minute that has been added, since he made that statement. If that is the way we save money, no wonder we don't balance the budget under this administration.

I appreciate, Mr. Schultze, you being here. I would have a few other question, but I do realize you have another meeting and—

Mr. SCHULTZE. I have to be at another committee hearing at 3:30.

Senator WILLIAMS. I would suggest that we excuse Mr. Schultze.

The CHAIRMAN. He has 10 more minutes available. He is due at another hearing—

Senator WILLIAMS. Maybe I looked at the clock wrong.

Mr. SCHULTZE. I have got to be over in the Capitol. If I may sir—I hesitate to leave because it was getting interesting, but—

Senator WILLIAMS. We will be back where we left off.

Mr. SCHULTZE. I am sure you will, Senator.

Senator WILLIAMS. Mr. Secretary, to go back to the question by Senator Anderson earlier, the bill before us provides for \$330 billion ceiling on a temporary basis and \$285 billion on a permanent basis.

Do you not think it may be the better act of wisdom and better policy to make this just a flat figure and increase the permanent ceiling to be realistic to \$330 billion?

Secretary FOWLER. No, Senator. My preference would be that the same pattern be followed this year and that the members of the committee consider the various alternatives that we have been able to develop, and perhaps others that you could develop yourselves, to arrive at the right process for determining what the permanent ceiling would be. This is not just a mechanical problem. I think there are important elements of policy that are involved in the method by which the permanent ceiling is determined. We have developed about 10 such alternatives without trying to make any judgment as to which one would be preferable.

There may be others that we haven't developed.

So my preference would be to deal with the problem as it have been in the past and arrive at a permanent debt limit ceiling at some later time when the committees have had an opportunity to examine all the alternatives available to them.

Senator WILLIAMS. Well, one of the disadvantages of \$285 billion, it is unrealistic. I think we will agree on that. It is mathematically impossible to go back to \$285 billion June 30 next year or this year.

Secretary FOWLER. That is right.

Senator WILLIAMS. And you are continuously operating on a deadline—now, I realize there is merit to the suggestion that you would come back to this committee on an annual basis, but—

Secretary FOWLER. There is another item.

Senator WILLIAMS. I regret to say that I think you will be back on an annual basis anyway as long as you operate on a deficit, and I don't see much chance to change it. I am not so much concerned with whether you will be back next June as I am whether you will be back before June.

Secretary FOWLER. All I can say is that I think you and your colleagues would find that in the alternatives that are available to you, there are some choices that perhaps ought to receive more consideration than is possible under the timing problem that we have here. There is no reason why it couldn't be done this session. But I think it would take more hearings than are contemplated between now and the first of the month.

Senator WILLIAMS. One suggestion has been made that we put the permanent ceiling—for example, \$330 billion—with an automatic trigger downward each year—to the extent that you have a surplus. For example, if you have a \$4 billion surplus next year, it will go to \$326 billion, and if it has to be raised at any time, let Congress act.

What would you think of such a proposal as that?

Secretary FOWLER. Well, I haven't an opinion offhand, Senator. I think that our staffs could develop with you these alternatives. I have asked them if there was any single one that really stood out that we would want positively to recommend, and I have received no such judgment to that effect.

I will be glad to furnish you with a copy of the study so you can see just what the issues are that would be involved.

Senator WILLIAMS. Sure. I would like to have a copy of it. I made this as a suggestion, I don't think the method in which we are now operating is satisfactory.

Secretary FOWLER. No. I think I would agree that it would be desirable to change it. I think it is, (a) a question of the timing, and (b) a question of method.

There have been a number of suggestions. For example, on the House side, a suggestion was made that in moving the permanent ceiling up it might be desirable to keep the notion of the temporary ceiling but to move the permanent ceiling up to a level of, say, \$320 billion, with the hope that some day this would provide a policy objective of getting back to the \$320 billion level and thereby bring debt retirement into consideration more.

If that approach should be followed, for example, there is the question of whether the permanent ceiling is as of June 30 or December 31, or whether it is true every day during the year, taking into account the seasonal lags.

There is also another alternative that many will espouse—although I wouldn't particularly favor it myself—and that is to put a permanent ceiling at a level well beyond the present debt level and eliminate the temporary limit entirely that way. I personally believe that because the annual debt limit hearings provide a desirable forum for review of Government affairs, I myself don't particularly think that that approach is necessary.

Senator WILLIAMS. One other question, and I am not getting at the moment into the trend of higher interest or lower interest. I am one that thinks that money is a commodity and as long as there is a greater demand for it than there is a supply, interest rates are going to advance, and perhaps one of the reasons that there is great demand is our deficit spending. I am very much concerned, Mr. Secretary, at this trend, an almost impossible box in which you find yourself where you are confined to short-term financing of the national debt. I think that it is agreed that short-term money is more inflationary and has a tendency to monetize our debt, and I don't see any possibility for you getting away from that under the existing circumstances. Seriously, I am now wondering isn't this giving you some concern? Just what plans are you developing in that connection, not with this bill here but I think it is something we are going to have to face.

Secretary FOWLER. Senator Williams, this is a question to which we have given considerable thought, and as I said before, I am glad to have it raised. I don't think the question commands the same urgency as the debt limit itself, the bill we have before the committee today, but we regard it as a matter that shouldn't be neglected too long. Certainly I say this in all awareness that it is a very controversial issue and one which we would much rather didn't exist. No one likes to pay these high interest rates—and certainly when you are charged with the management of a debt of this proportion—the rates are indeed high.

Whatever the contracyclical merits we might see in a policy of aggressive debt lengthening at a time of active business expansion and heavy credit demands, even if there were no limit, we would have to set them off against the disadvantage of building in long term high costs and tending to institutionalize the present level of rates.

Still, I think it would be inconsistent with our stewardship to be confined exclusively during the period ahead to what we call the short

end of the maturity spectrum, and, in effect, the complete concentration of borrowing into shorter maturities which is the sector which is now most overloaded. This means not merely that we give up attempting to use debt management in a contracyclical manner, but we slip into using it in a destabilizing manner, and this could be the end result if we got a truly massive shortening of the debt structure. By borrowing larger and larger amounts at shorter terms, we put the Treasury at a disadvantage vis-a-vis the market. Our rollover risks are increased and our flexibility to handle the rollovers is reduced.

So for these reasons, we have concluded that some limited measure of flexibility to borrow beyond the 5-year area is desirable, even at times when the rates are relatively high.

Now, how this flexibility could be provided through a temporary lifting or modification of the ceiling is the subject we hope Congress will give careful attention to in the months ahead. The debt shortens very slowly, but once it is shortened, it is a very long and arduous process, as we found in the early 1960's, to rebuild it to a better balanced structure. Therefore, we would welcome the temporary authority in the coming fiscal year to issue up to \$5 billion of bonds, at any maturity, at rates that might exceed the 4½ percent ceiling. Should the committee be unwilling to grant this authority, there are other alternatives, also temporary in character, that would enable us to minimize the shortening of the debt in this period ahead.

Senator WILLIAMS. Then, the administration still has no recommendations in that connection, is that correct?

Secretary FOWLER. Not at this time, Senator, except the recommendations that are implicit in the statements I have made before this committee and the House Ways and Means Committee, are explicit.

Senator WILLIAMS. Well, you and I discussed this a couple of years ago before we had reached the 4¼ percent ceiling, I also discussed this with your predecessor. I suggested that I thought it was unrealistic and that it would have been better to have approached the problem before we got into this present situation. But we are here.

I still think that the administration has made a mistake in not dealing with it earlier.

Secretary FOWLER. Senator, I want to be very clear with you. I do not favor a permanent lifting of this 4¼ percent ceiling. I think that it is desirable to keep as our objective, as a matter of policy, a low cost of money. I do not think we should accept the current interest rate levels as a permanent structural feature of the economy. I think our efforts in the post-Vietnam period, in other times and under other circumstances, we should be very concerned with trying to get this interest rate level back down to a much lower area.

Therefore, what I am really asking for is the temporary authority to deal with the period that we are currently in, where there is this impossibility of going out long with the 4¼ percent ceiling.

Senator WILLIAMS. In other words, we would put the interest ceiling back in the same annual category as the debt ceiling?

Secretary FOWLER. That might prove to be the result, but I do not think it will be the case. I think ultimately, the capacity of this country to generate capital, and to generate it in very large quantities, is likely to give us a much lower cost of money than characterizes the current period.

Senator WILLIAMS. Well, I have expressed my own opinion. As you know, I have been concerned over the years, I have mentioned this to your predecessors under this and the other administration. I am not unmindful of the fact that under this present system, while everybody talks about cheap interest—interest rates are advancing.

For example, he figures that you supplied to me, which I will put in the record, show the interest since 1961, the average interest on our national debt jumped from 3.15 to 3.77. This is approximately six-tenth of a percent increase in interest charges. Now, when that is spread across the debt, that means that there are about \$1,900 million extra annual charges that are being paid now as a result of the increased interest charges in the last 4 years.

Secretary FOWLER. Yes, sir.

Senator WILLIAMS. So that while there has been much said about cheap interest, they have not been effective and the total interest charges on our debt have jumped from \$8,957 million annually to \$12 billion this year.

Secretary FOWLER. Well, I think there are two additional points that ought to be noted in that connection, Senator. No. 1 is that this has been a period characterized by an increasing tempo of economic activity. Therefore, there has been an increased demand for credit of all sorts—which is a very healthy and very desirable thing.

The second factor that I think we ought to know in connection with those figures is that it has been the conscious monetary policy, and one which Treasury has concurred in, to keep the interest rates on short-term capital at a somewhat higher rate than would normally be desirable in order to retard the outflow of capital seeking to take advantage of a great disparity in interest rates between this country and interest rates abroad in that short-term area from affecting adversely our balance of payments.

Senator WILLIAMS. You have been extremely successful in expanding the short-term rates and increasing rates. Now, what effect has it had on the balance of payments? Have they improved substantially?

Secretary FOWLER. Coupled with the tremendous demand for credit at home, it has arrested the very sharp increases in outflow of capital that were occurring in 1962, 1963, 1964.

Senator WILLIAMS. It should be pointed out that the \$3 billion extra interest charges currently, as compared with the interest charges 4 years ago, are not altogether taking care of the increased rates in interest being paid. About half of it represents the interest that is being paid on the deficits that have been created in the last 5 years.

Secretary FOWLER. I did not think the proportion was that high.

Senator WILLIAMS. It is about 1.4 interest on the deficit and 1.9 on the increased interest rates. I think that would be about the proper ratio.

I ask, Mr. Chairman, that charts showing the annual interest for the past 10 years, and a chart showing the average annual interest rates on interest-bearing securities for the past 10 years, be printed.

The CHAIRMAN. Without objection, that will be done.

(The charts referred to follow:)

1. The average interest rates paid on the public debt for each of the past ten years, including estimates for fiscal 1966 and 1967:

Average annual interest rate on interest-bearing securities

Fiscal year:	Percent
1956.....	2.46
1957.....	2.07
1958.....	2.70
1959.....	2.71
1960.....	3.21
1961.....	3.15
1962.....	3.15
1963.....	3.30
1964.....	3.48
1965.....	3.61
1966.....	¹ 3.77
1967.....	(²)

¹ Ten-month average.² Not available.

2. The total interest charges on the public debt for each of the past ten years, including estimates for fiscal 1966 and 1967.

Public debt interest payments

[In millions]

Fiscal year:	
1956.....	\$0,787
1957.....	7,244
1958.....	7,007
1959.....	7,503
1960.....	9,180
1961.....	8,957
1962.....	9,120
1963.....	9,895
1964.....	10,066
1965.....	11,340
1966 ¹	12,000
1967 ¹	12,750

¹ Estimated.

Senator WILLIAMS. Mr. Secretary, as we sell Treasury bonds, why has the Treasury Department not converted over to registered bonds rather than coupon bonds? We had a hearing some time ago at which it was suggested a withholding tax upon interest on bonds. The Congress rejected that, or the Treasury withdrew its support. At any rate, they did not act.

But during the course of those hearings much was said by both industry and the Department, as I understand it, about the merit of issuing registered rather than coupon bonds. I notice that many of our major industrial corporations today are selling their bonds on a registered basis rather than coupon. I understand the exchange has now ruled that they must trade on a parity.

Secretary FOWLER. I have no recollection of that, Senator. I do not know whether Secretary Deming has a comment to make on it or not.

Mr. DEMING. We sell, Senator, both registered and coupon bonds. The holder can have either one he likes.

Senator WILLIAMS. I appreciate that, but many of the latter issues that have been sold by the large industrialists—I believe the American Telephone was one—but there have been several sales by major corporations in recent months where they are going entirely to registered bonds. The exchange has been encouraging that.

I thought the Treasury approved that change. Do you, or do you not?

Mr. DEMING. We have no objection to selling registered bonds. I say we offer the purchaser the form that he prefers and most people seem to prefer coupon bonds.

Senator WILLIAMS. Many of the corporates now are insisting on nothing but registered. In several of these issues you could not buy coupon bonds. They have nothing but registered. I wonder why the Treasury has not led that parade, rather than holding back on a 20th century method of financing?

Mr. DEMING. Senator, we can look at this question again. It is a question of marketability, as we see it.

The CHAIRMAN. If I understand correctly, here is what I am trying to understand of the interrogator and the witness. If I understand it, the Senator from Delaware seems to think that the public is nowadays finding the registered bond to be more desirable, I do not know why, but I can think of reasons why I might. I take it that the testimony he has had available to him indicates that the private sector finds that bond more desirable.

Senator WILLIAMS. The general public, over the years, as I understand it, has preferred coupon bonds. They can be transferred without any records. They can be put in a lockbox and transferred easily here and there without records, but they are not insured. Surely the Treasury does not encourage this outmoded policy.

At first coupon bonds sold at a slight premium over registered bonds, but the New York Stock Exchange has now issued a regulation that registered bonds must command the same price and that the buyer must accept either. Many of the major corporate issues that have been floated in the last 6 or 8 months have been strictly registered bonds. I know that somebody, speaking from the administration, was recommending that change, because if you ever decided to put a withholding tax on interest you would have to have registered bonds. You could not possibly put a withholding tax on coupon bonds, we recognize that.

Secretary FOWLER. That undoubtedly accompanied the recommendation in 1961, I guess, but it—

Senator WILLIAMS. I did not think I dreamed all of that.

Mr. DEMING. Senator, you know, they put out the participation certificates you were talking about in registered form. A good many people told us they ought to be in nonregistered form to make them more marketable. I think this is a question where we are perfectly happy to study this some more. But it is a marketability question.

Senator WILLIAMS. Well, will you submit to the committee a statement as a result of your study, and your recommendations in connection with your own activities? This question is coming up, and I know that many of the major industrial bond issues now are being offered on strictly a registered issued.

Mr. DEMING. I will do that, sir.

STATEMENT OF TREASURY POSITION ON THE QUESTION OF WHETHER TREASURY ISSUE SHOULD BE OFFERED IN REGISTERED OR BEARER FORM

The Treasury, at this time, feels that it should continue to offer to investors in its securities an option to buy these issues in either registered or bearer form. The requirements of the different categories of investors are quite different. On one hand many long-term investors such as life insurance companies and pension funds, who plan on holding their investments for a long period of time prefer registered bonds and are willing to accept the added selling cost that will arise at the time that the securities are sold. On the other hand most short-term investors prefer the added marketability of coupon issues. Trading in short-

term coupon issues is more active and markets are broader as a result of not having the encumbrance of a registered feature.

More specifically, trading in registered issues is hindered by the fact that it takes about two weeks in order to change the registration from one holder to another. The dealer would not be able to sell a given security until the registration was changed, he would have his capital tied up during this time, and he would have to assume the added risk of market exposure for this period.

Registered issues are more expensive to handle. Among the extra handling steps, those who make transfers must have a bank affix its seal and thereby guarantee the signature of the seller. This extra step is time consuming and costly. The Treasury, in an analysis made a few years ago, determined that the cost of making an interest payment was 19½ cents if it were done by check, as opposed to 8.4 cents if it were paid by coupon, thereby making this procedure more costly to the government.

At the same time it was determined that while the Treasury makes both registered and bearer bonds available, the ratio of the amount of registered bonds to bearer bonds of new issues has been extremely low. Investor preference has continued to favor coupon issues, and we believe that this will continue to be the case, at least in the short-term area, for many years to come.

Senator WILLIAMS. You are not prepared to make any recommendations, as I understand it, at this time; is that correct?

Mr. DEMING. Correct, sir.

Senator WILLIAMS. Do you have a record, Mr. Secretary, of the business failures for each of the past 5 years?

Secretary FOWLER. I am sure we do have that available.

Senator WILLIAMS. Will you furnish that for the record?

Secretary FOWLER. I will.

Senator WILLIAMS. If you would supply it for the past 10 years, I would appreciate it; we should have them.

Secretary FOWLER. Yes, sir.

(The document referred to, follows:)

Business population and business failures, 1950-C5

Year	Index of net business formation (1957-59=100)	New business incorporations (number) ¹	Business failures ²						
			Business failure rate ³	Number of failures			Amount of current liabilities (millions of dollars)		
				Total	Liability size class		Total	Liability size class	
					Under \$100,000	\$100,000 and over		Under \$100,000	\$100,000 and over
1950.....	102.3	92,925	34.3	9,162	8,746	416	248.3	151.2	97.1
1951.....	102.8	83,649	30.7	8,058	7,626	432	259.5	131.6	128.0
1952.....	108.0	92,819	28.7	7,611	7,081	530	283.3	131.9	151.4
1953.....	103.5	102,545	33.2	8,862	8,075	787	394.2	167.5	226.6
1954.....	99.8	117,164	42.0	11,086	10,226	860	462.6	211.4	251.2
1955.....	107.6	139,651	41.6	10,969	10,113	856	449.4	206.4	243.0
1956.....	103.2	140,775	48.0	12,686	11,615	1,071	562.7	239.8	322.9
1957.....	98.3	136,697	51.7	13,739	12,547	1,192	615.3	267.1	348.2
1958.....	97.1	150,280	55.9	14,964	13,499	1,465	728.3	297.6	430.7
1959.....	104.6	193,067	51.8	14,053	12,707	1,346	692.8	278.9	413.6
1960.....	99.8	182,713	57.0	15,445	13,650	1,795	938.6	327.2	611.4
1961.....	95.4	181,535	64.4	17,075	15,006	2,069	1,090.1	370.1	720.0
1962.....	98.0	182,057	60.8	15,782	13,772	2,010	1,213.6	346.5	867.1
1963.....	100.6	186,404	56.3	14,374	12,912	2,182	1,352.6	321.0	1,031.6
1964.....	104.4	197,724	53.2	13,501	11,346	2,155	1,329.2	313.6	1,015.6
1965.....	106.0	203,897	53.3	13,514	11,340	2,174	1,321.7	321.7	1,000.0

¹ Total for period.

² Commercial and industrial failures only. Excludes failures of banks, railroads, and real estate, insurance, holding, and financial companies, steamship lines, travel agencies, etc.

³ Failure rate per 10,000 listed enterprises.

⁴ Includes data for Hawaii beginning 1950 and Alaska beginning 1960. (Data for 1958 comparable to 1959 are 150,781; data for 1960 comparable to 1959 are 182,374.)

⁵ Includes data for District of Columbia beginning 1963.

Sources: Department of Commerce (Bureau of the Census) and Dun & Bradstreet, Inc.

Senator WILLIAMS. I have one other question. This is in support of the administration. When you were before the committee on a previous occasion, 2 or 3 months ago, we were discussing an amendment that would provide a tax incentive for political contributions up to \$100. The President, since that time, has made a recommendation for a somewhat, slightly different formula, but the same amount.

I am perfectly agreeable to his formula. Although I prefer the one that I suggested, there is not enough difference, so I accept his basis that it be used as a separate deduction. Do I understand that you endorse that proposal as he suggested it?

Secretary FOWLER. Yes.

Senator WILLIAMS. Since this is such a noncontroversial measure would you have any objection to it? Would you have any objection if we put this amendment on this noncontroversial bill and sent it through the Congress to the President?

Secretary FOWLER. I think it would be inappropriate, Senator, to have it considered in connection with the debt limit bill. I would like to elaborate on that comment and give you my reasons.

I think this proposed tax deduction for political contributions raises a very vital issue. It is one that has a very real bearing on the promotion of more meaningful participation of people in our electoral processes. While I am happy to concur in the recommendation that has been made, which I think is along the lines you earlier discussed in the hearing, we do expect that many groups will wish to present various other views on the proposal, and some may wish to present alternatives or perhaps modifications. I just feel that this is a subject that deserves full public hearings before both tax-writing committees.

Our proposal, as made in the President's message as I understand it, was that it would not be effective until 1967; therefore, I think there is ample time to enact the legislation, yet have the thorough discussion and consideration that the subject merits.

This bill is, on the other hand, one that must be settled in a couple of weeks. I did concur and approve heartily of the change in the Tax Adjustment Act, which was also a pressing bill. But the matter there involved seemed to me to be one of controlling an abuse situation that we recognized needed to be clarified and straightened out as promptly as possible. Therefore, it was important to act before these practices went too far.

I think it is distinguishable from your previous proposal to amend the Tax Adjustment Act, in that this one involves a wholly new approach and, therefore, it is worthy of full hearings and discussions. We would be prepared to come up any time such a measure was tabled for consideration.

Senator WILLIAMS. Of course I appreciate your caution. If I recall correctly, you expressed the same caution in connection with the proposal dealing with advertising that perhaps there would be a more opportune time. I suggested then that I thought the best time to hitch a ride was when you find a buggy going to the White House. This is not being offered with the intention of delaying the bill, and I would see that it did not delay it. It can be put on the President's desk next week.

I recognize here that this measure has to be acted on, and I assure you that I will not delay this consideration. In fact it will help ex-

pedite it. I understand our committee meets Wednesday. The President, who is so interested in this proposal, would be delighted, I am sure, if we would incorporate this in the bill. It has been suggested, and I am sure that the President would agree with that, that these deductions be confined only to those committees which make reports to the Congress.

You would agree with that change would you not? We would not want to allow these deductions when made to some committee that does not even report its contributions anywhere. The staff has suggested that we provide that these deductions would be allowable only to committees which make their annual reports to Congress in accordance with the Corrupt Practices Act.

Secretary FOWLER. I am not familiar with that particular aspect. It is one of many considerations.

I know the general form that was included in the message was that—

Senator WILLIAMS. It would have to be reported.

Secretary FOWLER. I know that it went to individuals who were candidates for Federal, State, or local elective public office.

Senator WILLIAMS. That is correct.

Secretary FOWLER. Or any organization which is organized and operated exclusively to influence or attempt to influence the election of one or more individuals to any public office. Now, whether that definition would equate to the same reporting requirement as you indicate, I do not know.

Senator WILLIAMS. That is the definition that is in the Corrupt Practices Act for candidates. We are not quarreling with the definition.

Secretary FOWLER. Senator, you may have a lot more knowledge of where this stands as far as the opinion in Congress is concerned than I do. But from the little I know, I would expect to see various alternatives considered and sponsored from various legislators, both in the House and in this body, and that I am just skeptical that it is as easy a matter to resolve in connection with this bill—I do not have the confidence that it would come out as quickly as in connection with the other matter.

Senator WILLIAMS. Well, of course, by nature I am an optimistic individual. I remember that there were a few that thought that this last proposal that I had may be controversial. But, as you know, it went through the Congress without a dissenting vote, and I guess everybody is happy with it now. At least, nobody has suggested that we repeal it.

Secretary FOWLER. I certainly am not.

Senator WILLIAMS. I thought that this too would be such an enthusiastically received proposal. If it is offered in the proper form on the Senate floor, I think you would be surprised how enthusiastically it would be adopted. And if it does not delay the bill, you would have no objection; is that correct?

Secretary FOWLER. I am sure my views on this subject are not going to matter very much, Senator Williams.

Senator WILLIAMS. Oh, yes, I appreciate them. But am I correct that you will not object to this amendment if this does not delay

the bill? After all we are putting on the bill one of the President's proposals?

Secretary FOWLER. I could not object to anything that was in line with the President's recommendation, no, sir.

Senator WILLIAMS. Well, I appreciate that.

Secretary FOWLER. I just, as a matter of preference, express the other concern that I would hate to see this bill risk being held up. I will not sleep very well—between now and June 30—until this becomes law.

Senator WILLIAMS. Well, I will assure you that we will not hold this bill up. I shall try to do my best to put it into shape so that both you and the President can sleep soundly. I think that we could improve it substantially, and this is a most convenient vehicle to put it on.

The President's proposals in their entirety have been introduced in the Senate, but as you know, we cannot originate a tax proposal on this side of the Capitol.

Secretary FOWLER. There is such a large number of tax proposals lurking around that I am a little reluctant to see this particular bill be the train that tax matters become added to. I think the Tax Adjustment Act was different—you expect tax matters to be added under those circumstances.

Senator WILLIAMS. Of course, you and I agreed we should wait until the President had expressed his opinion. We both felt that he would be close to our views. And he is close; I accept his recommendation.

Secretary FOWLER. Senator, as long as there is this temporary limit that we have, I just think that I am going to always have a strong preference not to have anything else mixed up with it.

Senator WILLIAMS. Well, I shall try to assist you in spite of yourself.

Secretary FOWLER. But I will work with you apart from the debt limit.

Senator WILLIAMS. Yes, just as we did before.

Secretary FOWLER. Right, Senator.

Senator WILLIAMS. I shall not delay it further. I do have one other question.

I notice that you were testifying before one of the other committees the other day and recommended a 5-percent ceiling on certificates of deposit of \$100,000 and less. Now, was that a correct statement of your position?

Secretary FOWLER. I appeared before the House Banking and Currency Committee on May 19. I made the positive recommendation—and I want to emphasize that this was a temporary measure to provide temporary relief from the problems of excessive rate competition—that we should not commit ourselves to permanent arrangements that would impede or compartmentalize the financial market.

Specifically, I testified I believed it would be desirable to provide the monetary authorities, on a temporary basis designed to cover this transition period, with the discretion to set a different rate ceiling on time deposits up to the maximum amount covered by Federal Deposit Insurance. Under present circumstances, this would mean a maximum

rate of, say, 5 percent could, and I might say should, be set on time deposits up to \$10,000. For larger time deposits, the first \$10,000 would be covered by a maximum rate which could be set at 5 percent, while the balance would pay interest rates up to those now specified in regulation Q.

Then, at another point in the discussion, I said that while the \$10,000 dividing point tied to the insurance limit makes sense from the standpoint of proven economic policy, a higher limit with discretion for setting the figure given to the appropriate supervisory authorities, but perhaps somewhere in the range of \$25,000 to \$100,000, might also make good economic sense in the present circumstances. I said I would not be opposed to such a limit on a temporary basis, and that this is a point that Congress should consider carefully.

My own preference for this temporary authority is for a link to the maximum insured account.

Senator WILLIAMS. Would that not have the effect of placing a lower rate of return to the small depositors than it would to the large depositors?

Secretary FOWLER. Yes, to the category of depositor who has an insurance against loss. I do not say it is an entirely appealing distinction. I would prefer not to have to make any distinction and keep the situation as it is. It does seem to me, however, that a temporary period of transition that is involved for the S. & L.'s and the mutual banks requires some line. At least one line that could be drawn would be on the basis that the \$10,000 and under depositor gets his savings insured, whereas beyond that amount he does not.

Now, as I say, there may be some good arguments for making the figure higher, and letting discrimination, if it be one, be between the rich and the richer.

Senator WILLIAMS. I am quoting from the Wall Street Journal of June 8:

Treasury officials said that the Department would not object to imposition of the 5 percent ceiling on interest rates banks can pay on certificates of deposits of \$100,000 or less.

It goes on and quotes Joseph W. Barr, the Treasury Under Secretary, as urging the House to avoid setting such a ceiling of 4.5 percent.

Now, was the \$100,000 figure used in the recommendation?

Secretary FOWLER. I have quoted to you from my own comments. Secretary Barr appeared later and he can speak for himself.

Mr. BARR. I repeated the Secretary's recommendation and maintained the same line, for \$10,000, but at the \$100,000 limit we would interpose no objections. So there was no distinction.

Senator WILLIAMS. You did state that you would not object to the ceiling of \$100,000 on 5 percent?

Mr. BARR. That is correct, as the Secretary did.

Senator WILLIAMS. That would do away with part of the Secretary's argument that it would be complying to insured deposits, because the last 90 is not insured?

Secretary FOWLER. That is right. It would leave that basis for drawing the line.

Senator WILLIAMS. That is my understanding, that it was up to \$100,000.

Do you think that is fair to the small depositors, to say you can only get 5 percent when there is a 5.5 percent freely available to the man who has \$1 million?

Mr. BARR. Senator Williams, I stand with the Secretary on this. I think if you are going to draw a line, you should draw a line at the place where there is no risk involved. Now, people say, well, there is not much risk. I happened to be Chairman of the FDIC for a year and closed 12 banks. So you will forgive me for saying there is risk wherever you deposit money in this country.

Senator WILLIAMS. The risk for the second 10?

Mr. BARR. That is right. So I agree with the Secretary that the proper place to draw the line is at the insured limit, because then there is no risk. Anything above it, there is.

Senator WILLIAMS. I can see a line, perhaps, at an insured risk, but I was wondering about this \$100,000 ceiling, and that is the reason I asked you.

Mr. BARR. The reason we are not particularly objecting, Senator, is because it has been pointed out on several occasions that there are two markets. One is the local domestic savings market, and that seems to go up to about \$100,000. Above that is the national and international market of negotiable certificates, which seems to cut off at about \$100,000. Reasonable men can differ on this.

Senator WILLIAMS. The reason I raise this point is that aside from the merit of high or low interest, we have high interest rates. The reason I asked this question is that the buyers of E bonds are getting 4.15 percent. The man with a certificate of deposit is held down, yet the sky is the limit otherwise. I really think that you made a mistake on the 4.15, because this is a type of investor who does not enter the market freely to buy these 5 percent Government bonds or 5.5 Government guarantee FNMA's. I just wondered why this continuous—I do not know whether to use the word "discrimination" or not—we will say pattern of holding down rates for the small investor.

Mr. BARR. I think there was quite a distinction, sir. The U.S. saving bond is instant money. It is, in effect, cash.

Senator WILLIAMS. Of course, a U.S. Treasury bill for 60 or 90 days is likewise cash.

Secretary FOWLER. There are some other features I know you are fully familiar with, particularly the E-bonds, that differentiate in preference to certain savers.

Senator WILLIAMS. That is true to the extent that the savings is always guaranteed, but if he cashes it at the end of 1 year he only gets about 1 percent interest. Last Friday, on FNMA, there was $5\frac{3}{4}$ percent when your mortgage is guaranteed and it can be sold any time you wish.

The stock market in the last few months has dropped 10 or 15 percent. Is there any concern by the Treasury as to this trend, or do you accept this as a normal rolling adjustment?

Secretary FOWLER. Senator, I will never comment on the stock market. We treat it as one of the many so-called economic indicators, which I know you are familiar with. I certainly do not want to express any view on why or what the reasoning of the market is.

Senator WILLIAMS. I was not asking that question, and I was not trying to trap you; but I think you have commented on this prior to

this—whether or not this so-called correction or adjustment, whatever you might call it, is presenting any immediate concern to the Treasury Department.

Secretary FOWLER. Well, I think that the whole area of economic adjustment which was referred to this morning, the state of the housing market, the automobile sales figures for April and May, the increase in the rate of unemployment from 3.7 to 4 percent in the month of May, the fact that retail sales in April and May are off from previous levels, and, that even the rate of industrial expansion is not as high as has been anticipated—all these are matters of specific concern.

As I said this morning, I think if we could have a fairly evenly spread adjustment that would not have a selective injurious impact on particular sectors of the economy, bring us down to a rate of growth, or real growth, of 4.5 percent rather than the 5.5 to 6 percent that has been characteristic of the last 2 years, particularly the last quarter and the quarter before that, it would be a healthy and desirable thing, because I think the present state of the manpower market and the expansions in capacity are sustainable at that level. Whether they could be sustained for any long period of time at the very high levels we have been running is a matter on which a great many people think they would not be. There would be a very real inflation that would be the result if, having used up a large part of this slack, we continue to expand—made the effort to expand, so to speak—at a 6 percent real level.

Senator WILLIAMS. At the moment, do you foresee any possibility or probability before we adjourn this Congress for a tax increase?

Secretary FOWLER. Senator, I think I would want to stand pretty much on the answer of this morning. I will be glad to supply for the record the last two pages of the statement I made.

Senator WILLIAMS. I heard the statement.

Secretary FOWLER. The statement I made in May, which indicated the various factors I think should be considered in making that decision, would answer your question. I have no different view from that which was expressed at that particular time. We are continuing to watch the situation daily and weekly, and study every shred of evidence that becomes available to us for its bearing on this. We are watching very closely the developments in the appropriation process and the other legislation that was referred to this morning. We are watching very closely the pattern of developments in Vietnam, and particularly the individual responses that we have been discussing in the private sector. All of these certainly have a very real bearing on whether or not there should be a recommendation for a tax increase.

Senator WILLIAMS. After the election, when we come back in January, do you have any predictions as to whether we will be—

Secretary FOWLER. No, no predictions then. I think the very same set of factors will then be taken into account, and probably we will have a fairly definite picture on what the outcome was as far as the appropriations and expenditure level go. We may know considerably more about the outlook for the duration of hostilities in Vietnam. But fundamentally, if there is no decision in the meantime—and I do not want to imply that there will or will not be—we will be looking very much at the same factors.

Senator WILLIAMS. Well, I shall not pursue this further.

You mentioned in connection with the President's proposal for a tax incentive for these contributions that you may want to make a statement if there is a public hearing. Will you supply for the record at this point any statement you wish to make in this connection? Because this may be the public hearing that you are referring to.

Secretary FOWLER. I think I will just stand on the President's message.

Senator WILLIAMS. Then you will support the President's message and its enactment?

Secretary FOWLER. Of course.

Senator WILLIAMS. And you are always in favor of enacting the President's proposal as soon as possible. Would that be a reasonable conclusion?

Secretary FOWLER. No; I think that I support the President's message. I think I would reserve on the "as soon as possible."

Senator WILLIAMS. Of course, the President was anxious to have it enacted.

Secretary FOWLER. Well, this question of legislative scheduling is too involved. I do not know his views on this. I am simply giving you my own. I am a little parochial here, because I am really concerned about getting this debt limit bill through.

Senator WILLIAMS. I can understand that. I want to emphasize again, as I did on this bill last March—I told you then I would not try to delay the bill and I did not. I think you will agree with me.

Secretary FOWLER. I agree with you.

Senator WILLIAMS. Right now we are dealing with a measure which not only should be acted upon but it must be. The committee, I understand, will be in session Wednesday. This certainly will not be used as any delaying tactic on the bill, but I am a great believer that the best time to do a job is when you have the opportunity. The Senate right now is in a better position to consider this than it will be later, because they have a very light workload. The Senate was in session 15 minutes today and adjourned until Wednesday. We are waiting for committee action of this bill, so the calendar is clean. The Senate and our committee and the administration has never had a more opportune time when everybody has the time to direct his attention to this most important matter. So I am going to try to cooperate, and you can assure the President that we will try to enact his proposal to help clean up election procedures.

Mr. BARR. Senator Williams, the Secretary has not brought this out, but I would like to remind you that he becomes personally responsible for any debt issued in excess of the debt limit.

Secretary FOWLER. My credit is not very high.

Senator WILLIAMS. That is the reason we know this is going to be done. It would be utterly ridiculous to consider that the Congress would not act; they must act. That is the reason that I really made the suggestion that I think the \$285 billion ceiling is unrealistic, that we should put this on a permanent basis. For example, if it is \$330 billion when you come down here next June, as I am sure you will, we will not be operating under a 24-hour deadline. We would have reasonable time to consider it.

But you are here this year earlier than you have been many years heretofore. We have had this bill on several occasions during the last 2 days of June. This year we have time to act.

(Whereupon, a brief recess was taken.)

The CHAIRMAN. Mr. Secretary, I want to discuss this tax proposal somewhat, because some time ago, I accepted an amendment along that line. I think I voted for it in the committee and supported it in conference, but I have had more and more doubts about it since that time.

Labor is opposed to it, at least as far as the AFL-CIO is concerned. Or do you have any impression about what they think?

Secretary FOWLER. No, I do not know what their position is on the matter.

The CHAIRMAN. Well, my impression is that the AFL-CIO will be opposed to it. If they are not, I will be surprised, because I have talked with some members of the AFL-CIO who indicate that they feel this is tailored for corporations, to put a hustling young junior executive in charge of simply going around to their executives and saying, "Here, it is a matter of Government policy and it is expected that each of you should put up \$100, and we will take that money and put it behind candidates we are to support."

Is there anything to keep that from being done in that proposal?

Secretary FOWLER. In the form that the proposal appears, the manner in which the solicitation of the contributions would be handled is not within the path of the President's proposal. Now, I do not know what will emerge in the course of hearings, as to particular special restrictions and regulations of either corporations or labor organizations, or other organizations as to how the use of this deduction would be restricted.

Senator WILLIAMS. If the Senator would yield, I was the author of this first proposal in this connection and have talked with the Departments as they were preparing this. The intention throughout, as I got it, and certainly it would be so drafted if there is any loophole, is that this exemption would be available only to those individuals who make the contribution direct to the party or the committees outlined of his choice and not as it goes through some secondary committee of some political committee of some nonpolitical committee, whether that be the executive branch of labor or anybody else.

Secretary FOWLER. There has to be an organization which is organized and operated exclusively to influence or attempt to influence the election of one or more individuals for public office.

Senator WILLIAMS. That is correct. Therefore, it could not be collected either by management or by labor as a fund from their employees, or their membership and then put in a pool and distributed, as has been done in the past. The intent was, and it would be very clear in any amendment I supported, that it be available only to each individual as he made the contribution direct to the party or candidate of his choice—made it direct. That could be very clear, and I think you would have to—

The CHAIRMAN. This says here—here is the proposed act:

For purposes of this section, the term "political contribution"—

Which is what is to be treated as though it were a charitable contribution—

means a gift or donation to (1) any committee, association, or organization, whether incorporated or not, organized and operated exclusively for the purpose of influencing or attempting to influence the election of any one or more individuals to any public office or (2) an individual candidate for any Federal, State, or local public office in any general, special, or primary election or in any convention of an organization described in (1) for use by such individual to favor his candidacy.

Now, taking (1), this term, "a political contribution" means a gift to any committee, association, or organization, whether incorporated or not, organized and operated exclusively for the purpose of influencing or attempting to influence of election of one or more individuals to public office.

What in that language is there that would prohibit any group of corporation officers or businessmen from getting together and going around and soliciting people employed in the same company they are employed in?

Secretary FOWLER. I think they could set up an organization for that exclusive purpose and operate it exclusively for that purpose and so qualify. Presumably, this is what would happen in the case of COPE.

Senator WILLIAMS. That is what could happen, as I understand it, under the President's proposal. That could not happen under the proposal as I introduced it, and it will not happen under the one I am introducing here, because I am going to take the President's proposal and carry out what I think he intended. That is, it would have to go direct.

The staff, under Mr. Woodruff, is already in the process of working on an amendment which would be airtight in that connection. They did a very good job on making that last amendment airtight, and I have great confidence in them. I am having them work with both Mr. Surrey and Mr. Cohen in getting clear this interpretation.

If we are going to do this, let us clear it up properly. I am glad this point was raised.

Mr. Chairman, I would like to ask that we have printed at this point in the record that section of the bill which deals with this proposal. And I understand that we are going to meet Wednesday in the committee, and maybe we could have the staff called in. I have not heard of any objections the AFL-CIO or anybody else objects to. I will be here tomorrow. Let us just have hearings tomorrow and have them come in and discuss this. It will be a wonderful time.

I will show you, I will be here even if the chairman is not. We can get some hearings and see how we progress because it could be they would want this. Because I think anybody—in fact, I have not talked to anybody who is not for cleaning up the election situation.

The CHAIRMAN. The Senator is not the witness, but I do not mind his making clear what his views are on this matter. I am pleased he did, because that helps to clarify my mind on one thing. What the Senator wants to rush through without a hearing is not the President's recommendation. He wants to rush through his idea of what he thinks the President's recommendation ought to be after he changes it to correct certain faults that he finds.

I am glad that the Senator would want to do something about this, because it did appear to me that this matter deserved more study than just meets the eye.

Senator WILLIAMS. Will you yield just a moment?

The CHAIRMAN. Furthermore, let me say that I would be happy for the Senator when we hold these hearings, and I would be glad to hold a hearing on it, and I will be glad when we have the hearings for the Senator to testify for his bill or for the amendment he thinks ought to be in this, because I do have some thoughts about it. I would say at least in one respect, he is thinking the same things I am thinking; that is, that this thing is made to order to simply designate a few hustling corporation executives and let them go to all the existing officers, all the retired officers, of this corporation, and say, "give me your \$100, this is deductible."

Insofar as you are giving a deduction to someone who is already making political contributions, you are just giving Uncle Sam's money out to pay for doing what has already happened.

I would like to ask, how do you propose to treat corporate groups—let us take the boys doing business on Government cost-plus-fixed-fee contracts. They get what is estimated to pay their cost plus 7 percent. What do you have in here to keep these fellows from very well seeing to it that those boys do not contribute either toward helping keep in office those who have given them these contracts and make it possible for them to get it, or toward getting in office somebody they think would see that they would get more of these cost-plus-fixed-fee Government contracts?

How are you going to take the hope of personal gain out of a possible collection that occurs in subsection (1) here?

Secretary FOWLER. I am not familiar with the proposal you have in front of you, Mr. Chairman. I have not studied it in connection with my preparation for this particular matter. Therefore, I think I am up to date only insofar as the President's message is concerned.

I do not know whether Mr. Surrey and others are working on this now.

The CHAIRMAN. If I understand your answer, what you are saying is this, that you think that when a hearing is called on this, you would be ready to come and testify on it?

Secretary FOWLER. Indeed.

The CHAIRMAN. You recommended this as something you hoped to see become effective in 1967, and you do not want to delay this measure, which is urgent and must become law within a month, to prejudice in anywise this bill to the President must sign if the Government is to stay in operation.

Secretary FOWLER. That is precisely the problem.

The CHAIRMAN. Here are a few other items that occurred to me on this, Mr. Secretary. We will have a hearing on the bill. I certainly intend it.

Senator WILLIAMS. We are having it.

The CHAIRMAN. Would not this contribution be deductible as a personal deduction?

Secretary FOWLER. Yes. It is, of course, recommended in such a fashion that both those who itemize the deduction and those who use the standard deduction can take advantage of this particular deduction. It is a special deduction in that sense of the word.

The CHAIRMAN. Mr. Secretary, your Department at this time is opposing certain tax deductions based on these expenses of individuals,

such as the expense of moving from job to job, for a man who leaves one job and goes to another and would like to deduct the expense of finding himself another job and moving to that place. How do you enthrone this particular personal expense over this voluntary expense that is not at all necessary as far as that individual is concerned?

Secretary FOWLER. Well, I think on perhaps two grounds: One, that this is a very special sector of our public life which has to do with the participation of the citizen in government. It is somewhat unique in that respect. And, secondly, the amounts that are involved, at least insofar as the President's recommendation is concerned, does not contemplate action that would make such a deduction available until 1967, next year.

The CHAIRMAN. Now, have not the people at Treasury spent a long time trying to cut back on personal deductions?

Secretary FOWLER. We certainly have.

The CHAIRMAN. Insofar as this is an increase in personal deductions, does not that constitute at least to that extent an inconsistency?

Secretary FOWLER. Yes, I think it does, Senator. We have worked and studied on the various alternatives that were available; I think the last time we discussed it before this committee in connection with the Tax Adjustment Act. I remarked to Senator Williams at that time that we were going through a very intensive examination of all the alternatives that were available. The decision was taken to follow this particular course and I will, of course, support the decision. I am not familiar with the detailed implementation of the general recommendation which seems to be an area that would require some examination and perhaps some further hearings. But I do not mean at all to imply in supporting the President's recommendation in this broad, rather far-reaching set of proposals having to do with political campaigns, to imply that Treasury is changing at all its basic philosophy toward deductions.

The CHAIRMAN. You have a revenue estimate on what the annual cost of this measure will be?

Secretary FOWLER. It is very hard to give you a precise one, but we did have one—we think it will vary depending upon the particular year. In the off years, between presidential elections, we would guess, and it is really a guess, that the cost will average about \$20 million. In a presidential year, it might go up as high as \$50 million.

The CHAIRMAN. Just about the amount of interest involved on that issue last Saturday.

Secretary FOWLER. And that would involve, I might say, in addition to the 27 million itemizers, and I am using 1962 figures now, it would involve, out of the total of 63 million filers, we estimate, about 27 million itemizers and about 36 million people who use the standard deduction.

The CHAIRMAN. Mr. Secretary, if the Federal Government is going to contribute \$50 million toward the election of candidates, which way would be preferable if you could work out the mechanics, that that \$50 million would represent the judgment of 50 million people at \$1 apiece, or that it should represent the judgment of 500,000 people at \$100 apiece?

Secretary FOWLER. Well, I think the general principle of spreading as far as we can, not only the voting but the financial participation of

the maximum number of individuals in supporting candidates of their choice, the measure that would involve the maximum number of contributions.

The CHAIRMAN. I have spent a lot of time thinking about this matter since we accepted an amendment of this sort to the Revenue Act of 1964. I hope to submit a proposal one of these days—I have some of our people working on it—that would come a lot more nearer to pursuing the principle that that \$50 million ought to represent the judgment of 50 million people, than the judgment of 500,000 people.

Let me ask you this: If this is going to happen, would it not stand to reason that most of the people who are going to be making these contributions would be people who can afford to make them, and therefore people who are in the income brackets of \$10,000 and better?

Secretary FOWLER. Well, the only facts I can offer on that are some rough calculations we made that for the single person whose taxable income was \$5,000, it would mean 22 percent of the \$100 contribution would be the inducement to make the contribution.

In the case of a single person with \$10,000 of taxable income, the deduction would be worth 32 cents on every \$1, and 22 cents to the married person with the same income; \$50,000 and up, 62 cents for the single person and 50 cents on the dollar for the married person, depending upon his contribution.

The CHAIRMAN. Well, now, thinking of people who hope to contribute because they want the Government run to their advantage, does not this proposal tend to work out that as far as a man who is in the 70-percent bracket is concerned, this proposal sees to it that it only costs him \$30 to put \$100 that he can well afford, while to some little person in that starting bracket, it cost him \$86 to put up \$100 that he cannot afford?

Secretary FOWLER. However, I would think that the fellow who is in the 70-percent bracket is not going to stop with \$100, if he is contributing at all. He is going to go well up. On that part above \$100, he is not going to get any additional benefit. So by placing the \$100 limit on the deduction, you differentiate, it seems to me, from the normal pattern of deductions which, as the rate of income goes up, means that the deduction is much more advantageous. So it is advantageous up to a point, but not a very meaningful point insofar as the very high bracket people are concerned. I doubt whether they fiddle around very much with \$100 contributions.

The CHAIRMAN. In other words, you clearly anticipate that you are still going to have a lot of people to put up large amounts of money where the \$100 deduction is not really going to be important to them at all.

Secretary FOWLER. That is right.

The CHAIRMAN. What you hope to do is encourage a large amount of contributions in the area of people to whom \$100 is important?

Secretary FOWLER. That is right, and who have not contributed up until now. But I think the heading of the President's message gives the key to the policy, "Encouraging widespread citizen participation."

Senator WILLIAMS. That is the whole basis of the President's recommendation of this proposal in the first place, is it not?

Secretary FOWLER. That is right.

The CHAIRMAN. I have spent some time trying to find out what is the best way to reduce unnecessary and improper influence in the Government. It seems to me that if I were to do it, I would start out by saying we would reimburse out of the Treasury for whatever expenses are incurred those people who ran for President, but only to the extent that the public voted for them. If the man got 30 million votes, he could be reimbursed to the extent of \$30 million. That way, he would be just as indebted to Old Grandma Jones, who does not pay any income tax at all, as he would to some fellow who was a Wall Street banker and pays a great amount of money. They would both be treated the same. The relative contribution to the cost of that campaign would be on the principle of one man, one vote. We would tend to stop this thing of the money interests having all the say about who wins the elections.

I do not think you would find Senators and Congressmen asking for it, Mr. Secretary. I think most of them would urge you not to do it for them because it would guarantee all of them very competent opposition every time they ran for office. It would step up competition tremendously, and I do not think they care to have so many opponents every time they come up.

But the President is going to have a first-class competitor every time, anyway, no matter whether it be a Democrat or Republican.

In that connection, it seems we could work out a proposal that would eliminate the need of having people bring in a great amount of campaign money from private contributors who raise large amounts and make it possible to finance a campaign, at least for the President, on a basis where he would be no more indebted for the campaign expenses to one citizen than he would to another citizen who voted for him.

I believe, while I think a plan of that sort needs refinement to meet a number of problems, such as the problem of encouraging splinter parties, I think that it would be possible to work out something that would at least take the influence out of that part of it and say that a person would not have to have a lot of large amounts of money, and that he could make decisions based on what he thought was right, without worrying about who was going to finance the next campaign.

The President's plan, it seems to me, is one that is susceptible of a great deal of improvement. I think something should be done to bring about a Federal contribution, whether it is by means of deductions, tax credits, or direct Federal payments to help pay the expense of at least the President's campaign for office.

I have severe doubt that we ought to spend Federal money to help somebody campaign for county judge or police juror in Louisiana. It seems to me that that should depend on what the State thinks about their problem of getting the State people elected over and above any undue influence.

I should think if we limited ourselves to the Federal area, we could do a good job of taking undue influence out of any achievement that anybody hoped to bring about as a result of contributing to election of Federal officers.

I would hope that you would not be so anxious to get into a pellmell rush about this matter that you could not consider what somebody else

would suggest. I have seen your plan; you have not seen mine. I would be glad to submit one within the next 2 or 3 weeks, and I would like to urge that mine be considered. I would be very surprised if labor goes along with your proposal. I think they would feel that this is just going to make it even more difficult for the working man to have his fair share of influence in Government.

My guess is they will be opposed to it, and for good reason.

But I think that we can work out something that would meet the objection, that would take into consideration all the people and would amount to Federal assistance in campaign expenditures on a fair basis.

Now, if we get into such a hurry to rush down pellmell to do that, all we will do is something that will not achieve the job, lose a lot of revenue, or be a very inefficient way of bringing about what you hope to achieve. I hope you are not going to ask us to move so quickly, act so fast in that field that we do not consider what other people have to offer. I take it you are not asking that.

Secretary FOWLER. No, indeed.

The CHAIRMAN. I take it you are willing to hear my plan and hear what I suggest, and if the AFL-CIO wants to suggest something, you will hear what they have to suggest, and after everybody has had a chance to hear what they want to say, then we can decide who is right.

Secretary FOWLER. Senator, I am here today just concerned with getting this debt limit through. That is my purpose.

Senator WILLIAMS. I want to thank you, Mr. Secretary, both you and the chairman, for cooperating in what has been a most instructive hearing on this particular proposal.

I would like to ask that the President's message, outlining what he wants to accomplish, along with a copy of the bill that he recommended be printed at the beginning of this hearing today. (See p. 90.)

In connection with the suggestion that was made today that we pay out of the Treasury on the one man, one vote—I am somewhat intrigued with that. That would be a rather tremendous windfall in an area where a Congressman has no opposition, would it not, if he could collect a dollar for each vote?

Secretary FOWLER. I am not sufficiently—

Senator WILLIAMS. Then you are still sticking by the President's proposal.

Secretary FOWLER. I have not thought this area through. I did not come up prepared to discuss it.

The CHAIRMAN. Mr. Secretary, you cannot very well discuss my plan, because I have not shown it to you. I just gave you certain facts I had in mind about it. My plan would not contribute anything toward the election of a Senator or Congressman. When I talk about somebody doing something improper in Government, remember that it takes two to tango. It takes somebody in the legislative branch to persuade somebody in the administrative branch to do something that he might not have done without some pressure brought to bear on him.

I do not think that we ought to finance the Congress. I think we could fix it up so that the tremendous, horrible expense of running for President could be handled in such a way that the man elected would not be particularly obligated to any interest. He could just treat them all alike. I think it would be an improvement and achieve a lot more than what we have here.

But I am not going beyond the Presidency. The Senator is in error when he says I am trying to suggest that a Congressman should—

Senator WILLIAMS. No, I just said this one man, one vote would be quite a windfall. I never felt so encouraged. We now all agree that the \$100 limitation is not too high.

Do you agree with that, Mr. Secretary?

Secretary FOWLER. I agree with the \$100. I think this would be an advance over the present system. I think the question that is posed by the chairman's comments is whether this is the end or whether there could be further improvement on the recommendation made.

Presumably, Senator, you feel the same way.

Senator WILLIAMS. The staff is working on other improvements, constructive improvements. I heard the other day some comment about a \$10,000 club. Whereby for \$10,000, you could get an invitation to the White House. Now, when you speak of contributions with the thought of getting something in return, would it not be far preferable to have both political parties financed by the masses of the people, with smaller contributions, so that a man elected on either party, either to the Presidency, to the Congress, or at any other level, would be responsible to the masses of the people, rather than to the larger contributors. To the extent that we can move in that direction, and it would be constructive for our country to do so? Do you agree with that?

Secretary FOWLER. Very definitely, Senator.

Senator WILLIAMS. That is the sole purpose of this proposal. Whether the \$100 is too high, then maybe it should be \$50. The \$100 is the figure I used. I said then there was no magic in it. The principle is what I was after, getting mass participation in the elections and through some form of a tax incentive. The President selected the same figure, and I might say—had he sent down a lower figure, I would accept his suggestion. I thought it was important that we work together to get something accomplished.

As one who was always known to be in the President's corner when he is right, I am going to help him get this bill passed at this time.

Secretary FOWLER. I think we are all happy moving away from the status quo. We may not all be on quite the same road, but we will move down it.

(The document referred to, follows:)

[H. Doc. No. 444, 89th Cong., 2d sess.]

ELECTION REFORM ACT OF 1966

(Communication from the President of the United States transmitting a draft of proposed legislation to revise the Federal election laws, and for other purposes)

(MAY 26, 1966.—Referred to the Committee on House Administration, and ordered to be printed)

THE WHITE HOUSE,
Washington, May 26, 1966.

Hon. JOHN W. McCORMACK,
Speaker of the House of Representatives,
Washington, D.C.

DEAR MR. SPEAKER: Public confidence in the elective process is the foundation of public confidence in government. There is no higher duty of a democratic government than to insure that confidence.

Public participation in the political process is the foundation of that process. There is no clearer responsibility of a democratic government than to advance that participation.

Yet for the decades we have tolerated the growth of seeds of cynicism from the underbrush surrounding our present method of financing political campaigns.

Despite regular rhetoric about citizen involvement, we have done nothing in fact to encourage public support for the nomination and election of public officials.

And despite the soaring expense of political campaigns, we have done nothing to insure that able men of modest means can undertake effective service unencumbered by debts of loyalty to wealthy supporters.

We have laws dealing with campaign financing. But they have failed. Too narrow in their scope when passed, now they are obsolete. Too narrow in their purpose then, now they are inadequate. They are more loophole than law. They invite evasion and circumvention. They must be revised.

In my state of the Union message I said:

"As the process of election becomes more complex and costly, we must make it possible for those without personal wealth to enter public life without being obligated to a few large contributors.

"Therefore, I will submit legislation to revise the present unrealistic restrictions on contributions—to prohibit the endless proliferation of committees bringing local and state committees under the act—to attach strong teeth and severe penalties to the requirement of full disclosure of contributions—and to broaden the participation of the people, through added tax incentives, to stimulate small contributions to the party and to the candidate of their choice."

I enclose for your consideration the proposed Election Reform Act of 1966. This measure is designed to achieve four broad purposes:

First, it would for the first time make effective past efforts to achieve complete public disclosure of campaign funds. The bill would require all candidates and all committees supporting them for federal office to report, clearly and promptly, the sources of all their funds and how these funds are spent.

Second, it would also require disclosure by Members of Congress of gifts and income.

Third, it would revise existing law and for the first time make effective the ceilings on the size of contributions.

Fourth, this proposal seeks a goal not even contemplated by earlier laws—the active encouragement of widespread public participation in the financing of political campaigns through tax deductions.

I

Campaigns are not merely a periodic political pageant. They are an unparalleled instrument of public education in the issues of the Nation and of the community.

The need for such campaigns, and the need to finance them, are hardly evils. The more people reached by a campaign, the closer we approach the democratic ideal of full participation in the decisions of government.

Yet the more people reached, the more funds required. It is here that there is a potential for danger—the possibility that great wealth can be used to achieve undue political influence.

It is that danger to which Congress responded with Federal Corrupt Practices Act 41 years ago and with the Hatch Act 26 years ago. These measures sought to insure that a tide of funds from the few did not engulf the interests of the many—

By limiting the total amount a candidate or political committee could spend;

By limiting the total amount an individual could contribute to a campaign;

By requiring public disclosure of campaign funds.

These are surely valid aims. But they have not been achieved. Under present law, for example, national political committees can raise and spend no more than \$3 million in any year. But the law does not limit the number of national political committees, nor does it apply at all to committees active in only one State.

Similarly, while present law limits senatorial candidates to expenditures of \$25,000 and House candidates to \$5,000, it does not limit the number of committees that can raise and spend money on behalf of those candidates.

In the light of the accelerating cost of political campaigns, it is hardly surprising that such supporting committees have proliferated. Legal ceilings on expenditures enacted when the possibilities of radio were only faintly glimpsed—and when there was no television—can have small relevance today.

The loophole through which committees have streamed is matched by the loophole in the limitation on individual contributions.

The Hatch Act limits contributions to \$5,000 to a single Federal candidate or to any single political committee supporting that candidate. But it does not limit the number of \$5,000 contributions an individual or single interest can make—to each national committee established for a candidate or party—and there is no limit to the number of such committees.

Neither does present law limit spending by State committees for Federal limit to the number of such committees, candidates. And it does not require these committees to submit any reports, thwarting the aim of full disclosure at the outset.

Even in the case of national committees and candidates who do report, the disclosure may not be sufficient to identify the giver or the particular candidate benefiting from a contribution.

A further, major defect in present law is that it specifically excepts primaries. In many cases primary contests are decisive. In most cases, they are financially burdensome. They remain, however, entirely outside the law.

II

The proposed Election Reform Act of 1966 seeks, completely and systematically, to correct these omissions, loopholes, and shortcomings. It would do so through eight provisions, both corrective and positive.

Complete public disclosure

1. Not only every candidate, but also every committee—State, interstate, or National—that supports a candidate for Federal office would be required to report in detail on every contribution and expense item over \$100.

The treasurer of every political committee would be required to submit complete reports, on standardized forms, four times during the year and on the 15th, 10th, and 5th days before an election.

For the first time, candidates for President and Vice President would be included under this disclosure provision.

2. The present unrealistic exclusion of primaries from the coverage of the law would be ended. This act would bring primary campaigns and convention nomination contests under the disclosure law.

There is a similar omission concerning primaries in connection with criminal laws against vote-buying and vote-selling. These offenses are adequately dealt with when they occur in general or special Federal elections. But they are not covered in Federal primaries. There is no reason for this distinction and the Election Reform Act would make these laws fully applicable to primaries as well.

3. The Election Reform Act would require all gifts of over \$100 received by members of the legislative branch of the Government for themselves, their wives and minor children, and all income from personal services received by such members or on his behalf to be reported annually. Appropriate criminal sanctions would be provided for failure to comply.

In the executive branch, the acceptance of gifts of more than nominal value is already strictly forbidden by Executive Order 11222 of May 8, 1965.

For such reports to be made by members of the legislative branch can do much to demonstrate that wealthy interests are not permitted to affect—or even appear to affect—the conduct of government through their largesse.

Effective and realistic limitations on campaign financing

1. Beyond making political financing public lies the equally demanding task of making it democratic. The act thus would limit to \$5,000 the total amount that could come from any single source to the campaign of any candidate. The present \$5,000 limit could no longer be evaded by putting the maximum amount into different pockets in the same suit.

2. At the same time the act would repeal present ceilings on total expenditures by candidates for Federal offices. As we have learned from experience, artificial limits breed artificial disclosures. And as we have learned, the present limits on total campaign expenses are decidedly artificial.

The cost of campaigning varies from year to year and from State to State, depending on the size of the district and the heat of the campaign. More important, spending limitations defeat the essential purpose of disclosure: to allow public opinion to exert the controlling influence on how much a candidate spends.

3. The act also would extend the present prohibition against political contributions by Government contractors to fully cover corporate contractors.

Under present law, all Government contractors other than corporations are barred from making political contributions at any level of government. But corporations with Government contracts are barred only from contributing to Federal candidates.

Consistency and good sense require that corporations also should be forbidden to make contributions at the State and local level—where finances are, inevitably, related by party to national political campaign finances.

Encouraging widespread citizen participation

These first six steps are essentially corrective, altering or refining present inadequacies. The parallel goal never before established by Federal law is to enlarge the base of widespread financial support for political campaigns.

This is a necessary goal for a practical reason—to meet the financial burdens of modern political campaigning without inviting the undue influence of large contributors.

But widespread support is a worthy goal for a still more important reason—the infusion and involvement of large numbers of citizens into the election process. We propose two steps to expand participation by the great majority of American citizens.

1. We recommend a special tax deduction, in an amount up to \$100, for contributions to any candidate or to any organizations supporting a candidate, in any election campaign or primary—Federal, State, or local.

This deduction would be allowed in addition to the standard deduction and would not be limited to those who itemize their deductions.

There would be a separate line on every tax return for this deduction.

2. As an other means of expanding participation, the act would permit the sale of campaign souvenirs at prices not exceeding \$5. These would become the only items of any kind—including advertising—that any candidate or committee would be allowed to sell.

Broadened financial support is sound for all candidates. For candidates who are not themselves wealthy, it can mean the difference between running and not running.

Finally, one area not covered by the legislation I forward today is the solicitation of political contributions from Federal employees by other Federal employees.

This is not a matter for which legislation is needed. Congress has already passed the laws. I am asking the Attorney General, in consultation with the Chairman of the Civil Service Commission, to conduct a thorough review of all the regulations and memorandums issued pursuant to those laws to make certain that those regulations are sufficiently comprehensive to carry out not only the letter, but the spirit of the laws passed by Congress.

III

There is far more at stake in the proposals I submit today than who wins and who loses a particular campaign. The essence of our democratic system is the clash of ideas between differing men and differing parties.

If lack of funds results in an abridged campaign, the public is deprived of the opportunity to hear all viewpoints fully expounded.

If lack of freedom from ties to wealthy interests discourages able men from seeking elective service, both they and the public are deprived of necessary leadership.

If lack of clear disclosure results in skepticism about the entire political process, the public loses the benefit of its own involvement in and respect for that process.

This Election Reform Act of 1966 seeks to avert those dangers.

It seeks, honest, straightforward disclosure.

It seeks fair restriction on the exercise of mighty influence by the rich.

It seeks to promote the exercise of widespread influence by the many.

It seeks, in short, to enlarge democracy, and I urge its prompt enactment.

Sincerely,

LYNDON B. JOHNSON.

"A BILL To revise the Federal election laws; and for other purposes

"Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That this Act may be cited as the 'Election Reform Act of 1966'.

"TITLE I—AMENDMENTS TO CRIMINAL CODE

"SEC. 101. Section 591 of title 18 of the United States Code is amended to read as follows:

"§ 591. Definitions

"When used in sections 597, 599, 602, 608, and 610 of this title—

"(a) The term "election" includes a general, special or primary election;

"(b) The term "candidate" means an individual who seeks nomination or election as President or Vice President of the United States, Senator or Representative in, or Resident Commissioner to, the Congress of the United States, whether or not such individual is elected;

"(c) The term "political committee" includes any candidate, committee, association, or organization which accepts contributions or makes expenditures for the purpose of influencing or attempting to influence the election of a candidate, or presidential and vice presidential electors;

"(d) The term "contribution" includes a gift, donation, payment or loan of money, or any thing of value, made for the purpose of influencing or attempting to influence the election of a candidate, or presidential and vice presidential electors, and includes a transfer of funds between political committees;

"(e) The term "expenditure" includes a purchase, payment or loan of money, or any thing of value, made for the purpose of influencing or attempting to influence the election of a candidate, or presidential and vice presidential electors, and includes a transfer of funds between political committees."

"SEC. 102. Section 608 of title 18 of the United States Code is amended to read as follows:

"§ 608. Limitations on political contributions and purchases

"(a) Whoever, other than a political committee, directly or indirectly, makes contributions in an aggregate amount in excess of \$5,000 during any calendar year, or in connection with any campaign for nomination or election, to any candidate or to any political committee supporting such candidate, or presidential and vice presidential electors, or to any national political committees, shall be fined not more than \$5,000 or imprisoned not more than five years, or both.

"(b) Whoever, being a candidate, political committee, or national political committee, sells to anyone other than a candidate, political committee, or national political committee any goods, commodities, advertising, or articles of any kind, or any services, shall be fined not more than \$5,000 or imprisoned not more than five years, or both.

"(c) Whoever, other than a candidate, political committee or national political committee, buys from a candidate, political committee or national political committee any goods, commodities, advertising, or articles of any kind, or any services, shall be fined not more than \$5,000 or imprisoned not more than five years, or both.

"(d) Subsections (b) and (c) shall not apply to the sale or purchase of political campaign pins, buttons, badges, flags, emblems, hats, banners, and similar campaign souvenirs for prices not exceeding five dollars each. Such purchases shall be deemed contributions under subsection (a). Subsections (b) and (c) shall not interfere with the usual and known business, trade or profession of any candidate.

"(e) In all cases of violations of this section by a partnership, committee, association, corporation, or other organization or group of persons, the officers, directors, or managing heads thereof, who knowingly and willfully participate in such violation shall be punished as herein provided."

"SEC. 103. Section 609 of title 18 of the United States Code is repealed.

"SEC. 104. Section 611 of the title 18 of the United States Code is amended to read as follows:

“§ 611. Contributions by corporations, firms, or individuals contracting with the United States

“Whoever, including a corporation, enters into any contract with the United States or any department or agency thereof, either for the rendition of personal services or furnishing any material, supplies, or equipment to the United States or any department or agency thereof, or selling any land or building to the United States or any department or agency thereof, if payment for the performance of such contract or payment for such material, supplies, equipment, land, or building is to be made in whole or in part from funds appropriated by the Congress, during the period of negotiation for, or performance under such contract or furnishing of material, supplies, equipment, land, or buildings, directly or indirectly makes any contribution of money or any other thing of value, or promises expressly or impliedly to make any such contribution, to any political party, committee, or candidate for public office or to any person for any political purpose or use; or

“Whoever knowingly solicits any such contribution from any such person, for any such purpose during any such period—

“Shall be fined not more than \$5,000 or imprisoned not more than five years, or both.”

“SEC. 105. So much of the sectional analysis at the beginning of chapter 29 of title 18 of the United States Code as relates to sections 609 and 1611 is amended to read:

“609. Repealed.

“611. Contributions by corporations, firms or individuals contracting with the United States.”

“TITLE II—DISCLOSURE OF FEDERAL CAMPAIGN FUNDS

“DEFINITIONS

“SEC. 201. When used in this title—

“(a) The term ‘election’ includes a general, special, or primary election;

“(b) The term ‘candidate’ means an individual who seeks nomination or election as President or Vice President of the United States, Senator or Representative in, or Resident Commissioner to, the Congress of the United States, whether or not such individual is elected;

“(c) The term ‘political committee’ includes any candidate, committee, association, or organization which accepts contributions or makes expenditures for the purpose of influencing or attempting to influence the election of a candidate, or presidential and vice presidential electors;

“(d) The term ‘contribution’ includes a gift, donation, payment or loan of money, or any thing of value, made for the purpose of influencing or attempting to influence the election of a candidate, or presidential and vice presidential electors, and includes a transfer of funds between political committees;

“(e) The term ‘expenditure’ includes a purchase, payment or loan of money, or any thing of value, made for the purpose of influencing or attempting to influence the election of a candidate, or presidential and vice presidential electors, and includes a transfer of funds between political committees.

“(f) The term ‘Clerk’ means the Clerk of the House of Representatives of the United States.

“(g) The term ‘Secretary’ means the Secretary of the Senate of the United States.

“TREASURER OF POLITICAL COMMITTEE; DUTIES OF TREASURER

“SEC. 202. (a) Every political committee shall have a treasurer. No contribution shall be accepted, and no expenditure made, by or on behalf of a political committee for the purpose of influencing an election until such treasurer has been chosen. It shall be the duty of the treasurer to keep the contributions received by or for a committee in a special account separate from any personal or other funds.

“(b) It shall be the duty of the treasurer of a political committee to keep a detailed and exact account of—

“(1) All contributions made to or for such committee;

“(2) The name and address of every person making any such contribution, and the date thereof;

"(3) All expenditures made by or on behalf of such committee, including the name and address of every person to whom any such expenditure is made, and the date thereof.

"(c) It shall be the duty of the treasurer to obtain and keep a receipted bill, stating the particulars, for every expenditure by or on behalf of a political committee exceeding \$100 in amount. The treasurer shall preserve all receipted bills and accounts required to be kept by this section for a period of at least two years from the date of the filing of the statement containing such items.

"ACCOUNTS OF CONTRIBUTIONS RECEIVED

"SEC. 203. Every person who receives a contribution for a political committee shall, on demand of the treasurer, and in any event within five days after the receipt of such contribution, render to the treasurer a detailed account thereof, including the name and address of the person making such contribution, and the date on which received.

"STATEMENTS FILED WITH THE CLERK AND THE SECRETARY

"SEC. 204. (a) The treasurer of a political committee supporting a candidate or candidates for nomination or election as President or Vice President of the United States or Senator shall file with the Secretary, and the treasurer of a political committee supporting a candidate or candidates for nomination or election as Representative in, or Resident Commissioner to, the Congress of the United States shall file with the Clerk between the 1st and 10th days of March, June, and September, in each year, and also between the 10th and 15th days, and on the 5th day, next preceding the date on which an election is to be held, and also by the 31st day of January, a statement, upon forms prescribed by the Clerk and the Secretary, containing, complete as of the day next preceding the date of filing—

"(1) The name and address of each person who has made a contribution to or for such committee in one or more items of the aggregate amount or value, within the calendar year, or \$100 or more, together with the amount and date of such contribution;

"(2) The total sum of the contributions made to or for such committee during the calendar year and not stated under paragraph (1);

"(3) The total sum of any contributions made to or for such committee during the calendar year;

"(4) The name and address of each person to whom an expenditure in one or more items of the aggregate amount or value, within the calendar year, of \$100 or more has been made by or on behalf of such committee, and the amount, date, and purpose of such expenditure;

"(5) The total sum of all expenditures made by or on behalf of such committee during the calendar year and not stated under paragraph (4);

"(6) The total sum of all expenditures made by or on behalf of such committee during the calendar year.

"(b) The treasurer of a political committee which supports a candidate for President or Vice President of the United States or the Senate and a candidate for the House of Representatives shall file a statement, as required by subsection (a) of this section, with both the Clerk and the Secretary.

"(c) The statements required to be filed by subsections (a) and (b) of this section shall be cumulative during the calendar year to which they relate; but where there has been no change in an item reported in a previous statement, only the amount need be carried forward.

"STATEMENTS BY OTHERS THAN POLITICAL COMMITTEE FILED WITH THE CLERK OR THE SECRETARY

"SEC. 205. Every person (other than a political committee) who makes an expenditure in one or more items, other than by contribution to a political committee, aggregating \$100 or more within a calendar year for the purpose of influencing the election of a candidate, shall file with the Clerk or the Secretary, as the case may be, an itemized detailed statement of such expenditure in the same manner as required of the treasurer of a political committee by section 204 of this title.

"DUTIES OF THE CLERK AND THE SECRETARY

"SEC. 206. The Clerk and the Secretary shall—

"(a) Prescribe standard forms for all statements required to be filed by this title;

"(b) Receive all such statements;

"(c) Maintain all such statements in such manner that they shall be available for public inspection and copying during regular business hours;

"(d) Make copies of all such statements available on request at the cost of reproduction;

"(e) Review all such statements at the time they are filed to determine whether they are timely filed and appear to be complete and consistent with prior statements filed with him by the same committees or other persons pursuant to this title;

"(f) Compile and maintain a list of all statements or parts of statements pertaining to each candidate;

"(g) Preserve for public inspection the statements required to be filed by sections 204 and 205 of this title for a period of two years from the actual date of filing, except that all statements pertaining to a candidate who has been elected shall be preserved during such candidate's continuance in the office to which he has been elected and for two years thereafter.

"STATEMENTS ; VERIFICATIONS ; FILING

"SEC. 207. Statements required to be filed with the Clerk or the Secretary—

"(a) Shall be verified by the oath or affirmation of the person filing such statement, taken before any officer authorized to administer oaths;

"(b) Shall be deemed properly filed when deposited in an established post office within the prescribed time, duly stamped, registered, and directed to the Clerk or Secretary, as the case may be, at Washington, District of Columbia; but in the event it is not received, a duplicate of such statement shall be promptly filed.

"PENALTY FOR VIOLATIONS

"SEC. 208. Any person who violates any of the provisions of this title shall be fined not more than \$1,000 or imprisoned not more than one year, or both.

"STATE LAWS NOT AFFECTED

"SEC. 209. This title shall not be construed to annul the laws of any State relating to the nomination or election of candidates, unless directly inconsistent with the provisions of this title, or to exempt any candidate from complying with such State laws.

"PARTIAL INVALIDITY

"SEC. 210. If any provision of this title, or the application thereof, to any person or circumstances is held invalid, the validity of the remainder of said title and the application of such provision to other persons and circumstances shall not be affected thereby.

"REPEALING CLAUSE

"SEC. 211. The Federal Corrupt Practices Act, 1925, and all other acts or parts of acts inconsistent herewith are repealed.

"CITATION

"SEC. 212. This title may be cited as the 'Campaign Funds Disclosure Act.'

"TITLE III—DISCLOSURE OF GIFTS AND CERTAIN COMPENSATION

"DEFINITIONS

"SEC. 301. When used in this title—

"(a) The term 'income' shall mean all compensation for personnel services, including (but not limited to) salary, bonuses, fees, commissions, honorariums and expenses paid or reimbursed, whether in the form of money or any thing of value, from any source other than the Government of the United States.

"(b) The term 'Representative' shall mean each Representative in, or Resident Commissioner to, the Congress of the United States.

"(c) The term 'Clerk' shall mean the Clerk of the House of Representative of the United States.

"(d) The term 'Secretary' shall mean the Secretary of the Senate of the United States.

"STATEMENT OF GIFTS TO BE FILED BY SENATORS AND REPRESENTATIVES

"SEC. 302. Each United States Senator shall file with the Secretary and each Representative shall file with the Clerk by the 31st day of January a statement disclosing gifts of money or things of value, except contributions as defined in section 201 (d) of title II of this Act, received by him, his wife or minor children, or on his or their behalf during the preceding calendar year or portion thereof during which he held office, containing—

"(a) The name and address of each donor from whom he, his wife or minor children received, or from whom there was received on his or their behalf one or more gifts of money of an aggregate amount of \$100 within the calendar year, together with the amount and date of such gifts;

"(b) The name and address of each donor from whom he, his wife or minor children received, or from whom there was received on his or their behalf, one or more gifts other than money of an aggregate value estimated by the donee of \$100 or more within the calendar year, together with the date and identity of such gifts;

"(c) The total sum of gifts of money received by him, his wife or minor children, or on his or their behalf, during the calendar year and not stated under paragraph (a).

Gifts from a spouse, child, parent, grandparent, brother or sister need not be disclosed under this section.

"STATEMENT OF COMPENSATION TO BE FILED BY SENATORS AND REPRESENTATIVES

"SEC. 303. Each United States Senator shall file with the Secretary and each Representative shall file with the Clerk by the 31st day of January a statement disclosing income received by him or on his behalf during the preceding calendar year or portion thereof during which he held office, containing—

"(a) The name and address of each person from whom he or anyone on his behalf received any such income; the amount or, if not money, the identity and value thereof; and the name and address of each person for whom such service was performed;

"(b) A description of the service performed.

"DUTIES OF THE CLERK AND THE SECRETARY

"SEC. 304. The Clerk and the Secretary shall—

"(a) Prescribe standard forms which must be used for the statements required to be filed by this title;

"(b) Receive all such statements;

"(c) Maintain all such statements in such manner that they shall be available for public inspection and copying during regular business hours;

"(d) Make copies of all such statements available on request at the cost of reproduction;

"(e) Preserve for public inspection the statements required to be filed by sections 302 and 303 of this title during the term or terms of office of the Senator or Representative filing the same and for two years thereafter.

"STATEMENTS ; VERIFICATION ; FILING

"SEC. 305. Statements required to be filed with the Clerk and the Secretary—

"(a) Shall be verified by the oath or affirmation of the person filing such statement, taken before any officer authorized to administer oaths;

"(b) Shall be deemed properly filed when deposited in an established post office within the prescribed time, duly stamped, registered, and directed to the Secretary of the Senate or the Clerk of the House of Representatives, as the case may be, at Washington, District of Columbia; but in the event it is not received, a duplicate of such statement shall be promptly filed.

"PENALTY FOR VIOLATION

"SEC. 306. Whoever, being a United States Senator or Representative to the Congress of the United States, violates any of the provisions of this title shall be fined not more than \$1,000 or imprisoned not more than one year, or both.

"CITATION

"SEC. 307. This title may be cited as the 'Disclosure of Gifts and Certain Compensation Act'.

"TITLE IV—AMENDMENTS TO INTERNAL REVENUE CODE OF 1954

"INCOME TAX DEDUCTION

"SEC. 401. (a) Part VII of subchapter B of chapter 1 of the Internal Revenue Code of 1954 (relating to additional itemized deductions for individuals) is amended by renumbering section 218 as 219, and by inserting after section 217 the following new section:

"SEC. 218. POLITICAL CONTRIBUTIONS

"(a) ALLOWANCE OF DEDUCTION.—In the case of an individual, there shall be allowed as a deduction an amount equal to so much of the political contributions as does not exceed \$100, payment of which is made by the taxpayer within the taxable year, except that in the case of a joint return of a husband and wife under section 6013 the deductions shall not exceed \$100, and in the case of a separate return by a married individual the deduction shall not exceed \$50.

"(b) VERIFICATION.—The deduction under subsection (a) shall be allowed, with respect to any political contribution, only if such political contribution is verified in such manner as the Secretary or his delegate shall prescribe by regulations.

"(c) DEFINITION OF POLITICAL CONTRIBUTION.—For purposes of this section the term "political contribution" means a gift or donation to—

"(1) any committee, association, or organization (whether incorporated or not) organized and operated exclusively for the purpose of influencing or attempting to influence the election of one or more individuals to any public office; or

"(2) an individual who is a candidate for any Federal, State, or local elective public office in any general, special, or primary election, or in any convention of an organization described in subparagraph (1), for use by such individual to further his candidacy.

"(d) CROSS REFERENCE.—For disallowance of deduction to estates and trusts, see section 642(i).'

"(b) The table of sections for such part VII is amended by striking out the last item and inserting in lieu thereof the following:

"Sec. 218. Political contributions.

"Sec. 219. Cross references.'

"(c) Section 62 of the Internal Revenue Code of 1954 (relating to definition of adjusted gross income) is amended by inserting after paragraph (8) the following paragraph:

"(9) POLITICAL CONTRIBUTIONS.—The deduction allowed by section 218.'

"(d) Section 276(a) of the Internal Revenue Code of 1954 (relating to certain indirect contributions to political parties) is amended by striking out 'No deduction otherwise allowable under this chapter' and inserting in lieu thereof 'Except as provided in section 218, no deduction otherwise allowable under this chapter.'

"(e) Section 642 of the Internal Revenue Code of 1954 (relating to special rules for credits and deductions for estates and trusts) is amended by redesignating subsection (i) as (j), and by inserting after subsection (h) the following new subsection:

"(1) POLITICAL CONTRIBUTIONS.—An estate or trust shall not be allowed the deduction for political contributions provided by section 218.'

"TITLE V—EFFECTIVE DATE

"SEC. 501. This Act shall take effect January 2, 1967, except that the amendments made by title IV shall apply to taxable years ending after December 31,

1966, but only with respect to political contributions payment of which is made after December 31, 1966."

Senator WILLIAMS. I would like to ask Mr. Surrey this question: And I am not saying this to pick fault with the President's proposal that comes down. But we all realize that we draft a piece of legislation and then sometimes have second thoughts.

Do you have any second thoughts or any suggestion as to how you can improve, not the purpose, because I think we are generally agreed on the purpose, but the language of the President's proposal? And if you do not now, would you look it over to see if you do have such a suggestion and submit it either to the committee or to the staff? Sometimes a word does make a difference.

I worked with your Department in the preparation of the amendment that did away with the advertising loophole, and I appreciated your cooperation. As a result of our working together, we got a constructive piece of legislation correcting the situation.

I do not think that we in Congress or in the executive department can sit back and say that we subscribe to the present policy of financing political campaigns. If we do not, the next question is, what are we going to do about it? Here is a suggestion. I have made suggestions. The President has come up with one slightly different. It is the same principle and I am willing to accept it. If someone has another suggestion, I would be willing to consider it. I would suggest that we leave this record open, let them submit their proposals and we will include them in this record.

And, Mr. Chairman, could we not have it understood that if anyone wants to testify tomorrow, they could come in and present their testimony. Since this question has proceeded so far and so agreeably, and is moving along so speedily, I would say that if there are those who have any suggestions whatsoever, send them in and we can put them in this record. Or we can hold a hearing tomorrow.

The CHAIRMAN. Let me say this: At this late date, I do not believe we would even be able to get in touch with people, much less give them time to prepare adequately. I think all the different proposals should be suggested and we ought to come up with the best one.

Let me just throw out one, just as a matter of justice and equity. Instead of letting a millionaire get a 70-percent advantage so it only costs him \$30 to put up \$100, and the poor get a \$14 benefit, why not match them 50-50 out of the Treasury? So if Grandpa Jones puts up \$5, you match his \$5 with \$5 of Federal money, and if Banker Smith is able to put \$50, why, you match him with \$50. That is still 10 times as much to help his candidate as Grandpa Jones gets to help his man along with, but at least, it puts them on the same basis. What is wrong with that?

Let me just ask the witness here. As far as I am concerned, anybody from the Treasury can answer.

Secretary FOWLER. I would say offhand, that the matching proposals of the sort you described would represent a substantial advance over the present system. I think the whole point that we are concerned with, is that we want something that is a substantial improvement over the present system so as to encourage wider spread participation in the contributions to political campaigns. Whether

that is the best method or not, or whether there are other alternatives, I simply am trying to indicate is a question on which there ought to be hearings. I cannot say anything more than that.

Senator WILLIAMS. That suggestion was rejected by the Treasury Department, as I understand it, on the basis that you did not want another class of deductions. I had suggested that for the first \$25, you used as a tax incentive the first \$25, where the man would get \$17.50 tax credit, no matter what bracket he was in. If he made \$10 contribution, he would get \$7. I still would prefer that formula, but I am yielding because I think the President did raise, and I think the Treasury Department concurred, some very valid objections to the wisdom of opening a new formula for deductions.

You are debating now between my original proposal and the President's proposal, and either one is acceptable. We are making progress.

Secretary FOWLER. As I understand Senator Long's proposal, it still represents a further variation. Maybe I do not understand it properly. But I know suggestions have been made that the matching system be arrived at without going through the tax system, whether the individual happens to be a taxpayer or not being beside the point. I think your credit proposal would apply only to those who are taxpayers. It would work through the tax system. So here we have at least three different versions of the way of achieving the same result.

Senator WILLIAMS. Which would you prefer, the President's proposal or—

Secretary FOWLER. Well, I am going to be in support of the President's proposal until I see something better come along.

Senator WILLIAMS. Would you consider either of these two proposals, my original or the latter proposal, as better?

Secretary FOWLER. I would want to go back with him, talk with him, tell him about these proposals, and see what his views would be.

Senator WILLIAMS. Mr. Surrey, would you care to comment in connection with these suggestions?

Mr. SURREY. I stand with the Secretary's comment. I presume after any hearings on the matter, all the wisdom that could be shed on a matter would be shed.

The CHAIRMAN. Let me say this: Prior to the time you came down here, you had two suggestions. One was a suggestion that came from—I believe it was Senator Hennings' suggestion. But I would presume that would be a management-type suggestion, give us \$100 deduction and treat that about the way you would treat a contribution to the Community Chest.

If I do say it, that has one big fallacy in it, and that is when you contribute to the Community Chest, people think that is going to charity. In my experience, most \$100 campaign contributions come from people who expect a lot more than \$100 back. They are usually hoping to get a reward that makes that \$100 very small by comparison. It is more in the nature of making a gambling debt deductible. My experience is that most people who contribute to campaigns either contribute for past favors rendered, or future favors hoped for.

At any rate, they contribute it for the personal benefit from it.

But here comes organized labor and they had a substitute plan. I do not know if they ever formalized it, but it was suggested by those

who did some very effective lobbying work for organized labor at that time, said, make it a \$5 tax credit; that would be just great for us, and we can go around among all our members and just tell everybody, "Sign here, give that Democratic candidate my tax credit," if we are still for him. After 14(b), I am not sure they are even for us.

But up to that point, the situation was very promising that the Democrats would get that money if you did it that way. Now, it is suggested that you bypass their suggestion and take the one that originally came out for the \$100 deduction. My feeling is that we can do a good job of it and come up with something better than you have here.

I take it you are not asking us to rush so fast that we do not study it and take everybody's suggestion and try to improve it?

Secretary FOWLER. No.

The CHAIRMAN. Senator Williams picked out a point about my original suggestion that, from my point of view, was an obvious defect that I had corrected in my own thinking a long time ago. When you see what I propose, that defect is not there. I point out what he thinks is a defect in the President's suggestion. Well, my thought is that by the time we get to work in this field, we ought to have something we all agree is good legislation without any serious objection to any part of it. That is why I would hope to work on it and study it, not just grab something and go rushing off and say, in the interest of saving a moment's time, let us get this bill on tomorrow and talk about it later.

Senator WILLIAMS. In fairness to the President, I do not think we should leave a record that he just pulled an idea out of the air without giving this consideration. I have far more confidence in him than that. Surely he has been studying this proposal. He mentioned to Congress that he was going to come up with a suggestion, and he spent about 5 months doing it. I am willing to give the President credit for careful examination of this proposal.

I am also willing to give the Treasury Department credit out of my great respect for all of you, that you, too, have given this proposal careful consideration.

I find myself in disagreement with my chairman again, because I do not think those contributing to some of my opposition are necessarily taking such a tremendous gamble every time they support a member of the Democratic Party. There are some good ones, and I think we should in our defense—

The CHAIRMAN. Be careful about that. That might be an admission that you might regret someday.

Senator WILLIAMS. No, I find myself here trying to defend both the Democratic Party, the administration, the Treasury Department, and everybody, and I am going to try to save you in spite of yourselves.

I will say this, Mr. Secretary, that if there are any other second thoughts that you have on this proposal after talking this over with the Treasury Department, or any recommendations as to any changes that you wish to make in that section of the bill dealing with the tax incentives, will you supply it at this point in the record? If you do not have any, there is nothing to supply. But if you come up with a suggestion, will you furnish it to the committee at this point in the record?

Secretary FOWLER. Yes, if I have any, I would, realizing that you wish it. I would hope that my failure to supply anything would not entail giving up the right to come forward later and comment—

Senator WILLIAMS. I appreciate that. Even if we enact the bill 100 percent in accord with what both you and I will agree on, we may both very well come back a year or two later with suggested changes as a result of the experience. I recognize that. In fact, the President, in his message, made the statement that as a result of our experience, that may happen.

But, if there are any changes that you or the Department have, send them down—otherwise, I would feel inclined to proceed on the premise that we have all found the best bill that we can draft and unless somebody in the testimony comes up with something different let's pass it. If there is no request for any additional testimony or any additional statements placed in the record, I shall proceed on the premise that we are in complete agreement and no one has any better suggestion than that which was before us.

I thank you for your cooperation.

The CHAIRMAN. Let me say, as far as I am concerned, I have another suggestion. I have another plan, and on an appropriate occasion, I will offer it. I had asked some of our staff—rather, some of my staff—to work on it, because it is not entirely a tax matter. But I will certainly have other suggestions to make myself.

Senator WILLIAMS. Of course, the chairman is a member of the committee and we will both be on the committee and we will consider all of the suggestions.

The CHAIRMAN. Even with my own magnificent plan, I would hate to be put in the position of having to speak now or forever hold my peace, because I think I can improve even my plan, given time to work on it.

Senator WILLIAMS. We have talked about this legislation for a number of months. We have postponed—and there does come a time for action. Let us get some action.

I am an optimist. I really think you are going to have this amendment passed and put on the President's desk this month.

The CHAIRMAN. Now, so much for that one.

Mr. Secretary, you furnished us with these charts, and I think that they are very, very good information. This was a part of your fact book that you brought up to discuss the matter. I am going to ask that it be put in the record. (See p. 63.)

The CHAIRMAN. But I would like to ask you to take these charts that you have that go back to 1946, and, if you can, provide this committee with this same information, going back to the turn of the century, if possible.

Now, it is probably available over there.

Secretary FOWLER. Yes.

The CHAIRMAN. If you cannot back it off of 1946, years behind that, you might be able to get this same information—

Secretary FOWLER. I think what you want is to get a picture of the relationship of private to public debt in the 1920's and 1930's.

The CHAIRMAN. I would like to relate the gross national product to the total national debt, public and private. I notice from this chart that the ratio runs about 200 percent, that your public and private debt combined worked out to be about 200 percent of your gross na-

tional product on the average. I would like to have the information to see what that would be if we went further on back. It varied from a high of 204.9 to a low of 176.7, which runs out in about the 200-percent ratio over the whole 20-year period. I would be interested to see if that is the case, because it seems to me it might lead an economist to think that an increase of the gross national product almost requires an increase in the credit in the country and your debt structure is part of it.

I think it would be very fine information to have available. I will ask that these be printed in the record.

Secretary FOWLER. We will try to get that up promptly.

The CHAIRMAN. It might be that if you can get that up, we will put it in the record; otherwise, we will put it in the committee report. (See p. 64.)

May I say with Senator Williams here, having been here for such a long time today, it might be well to read off the honor roll I have been keeping for the hours and minutes members have kept. We started today on the number of hours in hearings. Senator Williams had been here, and he wins the loving cup—he was here 12 hours and 55 minutes, and I was here 12 hours and 20 minutes.

Senator WILLIAMS. And I will be here tomorrow when we resume the hearings, if there is any testimony.

The CHAIRMAN. The chairman, 12 hours and 26 minutes in executive session; Senator Williams, 11 hours, 11 minutes. So I finished ahead on that one, but Senator Williams was the runner-up. I will not say how many hours other Senators were here, unless they want it published.

Senator WILLIAMS. We are adjourned unless somebody wants to testify further on my proposed amendment.

The CHAIRMAN. We stand in adjournment, subject to call of the Chair.

(Whereupon, at 5 o'clock p.m., the above committee adjourned, subject to the call of the Chair.)

