

PUBLIC DEBT LIMIT

FEBRUARY 17, 1967.—Ordered to be printed

Mr. LONG of Louisiana, from the Committee on Finance, submitted the following

REPORT

[To accompany H.R. 4573]

The Committee on Finance, to whom was referred the bill (H.R. 4573) to provide, for the period ending on June 30, 1967, a temporary increase in the public debt limit set forth in section 21 of the Second Liberty Bond Act, having considered the same, reports favorably thereon with amendments and recommends that the bill do pass.

The amendments are as follows:

Strike out all after the enacting clause and insert:

That, effective on the date of the enactment of this Act, the first sentence of section 21 of the Second Liberty Bond Act, as amended (31 U.S.C. 757b), is amended by striking out "\$285,000,000,000" and inserting in lieu thereof "\$336,000,000,000".

Amend the title so as to read: "An Act to provide a permanent increase in the public debt limit set forth in section 21 of the Second Liberty Bond Act."

I. SUMMARY

H.R. 4573 provides a temporary debt limitation of \$336 billion, beginning on the date of enactment of this bill and ending on June 30, 1967. The administration initially recommended a debt limitation of \$337 billion for this period. However, the Secretary of the Treasury in testimony before your committee requested the Senate to approve the \$336 billion ceiling passed by the House. Your committee accepted this ceiling of \$336 billion, but has amended the bill to make this a permanent, rather than a temporary, ceiling. Thus, under your committee's amendment, the debt limitation effective on the date of enactment of this bill will be \$336 billion from that time forward, instead of reverting to \$285 billion on July 1, 1967, as would be provided by the House bill.

The temporary debt limitation for the fiscal year ending June 30, 1967, is currently set at \$330 billion. In the months of December 1966

and January 1967, over \$329 billion of debt subject to the limitation was outstanding. Under ordinary circumstances, the public debt reaches a peak for the fiscal year during the months of March and April. It is expected that the Treasury Department will be unable to meet all the Government's commitments promptly during these months in the current fiscal year unless the statutory limitation is increased.

The actual debt limitations for selected years since 1947, together with the proposed limitation under this bill, are shown in table 1, below.

TABLE 1.—Statutory debt limitations, selected fiscal years 1947 to date, and proposed limitation for the remainder of the fiscal year 1967

(In billions)

Fiscal year	Statutory debt limitation		
	Permanent	Temporary additional	Total
1947-54.....	\$275	\$275
1950.....	275	6	281
1957.....	275	3	278
1960.....	285	10	295
1961.....	285	8	293
1962 through Mar. 12.....	285	13	298
1962: Mar. 13 through June 30.....	285	15	300
1963 through Mar. 31.....	285	23	308
1963: Apr. 1 through May 28.....	285	20	305
1963: May 29 through June 30.....	285	22	307
1964 through Nov. 30.....	285	24	309
1964: Dec. 1 through June 28.....	285	30	315
1964: June 29 and 30.....	285	39	324
1965.....	285	59	324
1966.....	285	43	328
1967.....	285	45	330
PROPOSED BY HOUSE			
1967 from date of enactment of H. R. 4573 through June 30.....	285	51	336
PROPOSED BY FINANCE COMMITTEE			
1967 from date of enactment of H. R. 4573 on.....	336	0	336

II. GENERAL STATEMENT

Action taken last year

In June 1966, Congress increased the temporary additional statutory debt limitation from \$43 billion (for the fiscal year 1966) to \$45 billion for the fiscal year 1967. This action raised the combined permanent and temporary debt limitation to \$330 billion for the fiscal year ending on June 30, 1967.

The \$330 billion debt limitation was enacted in June 1966 on the basis of the estimates of fiscal year 1967 administrative budget expenditures and receipts which had been presented in the President's budget message in January 1966. Those estimates projected expenditures of \$112.8 billion, receipts of \$111.0 billion, and a deficit of \$1.8 billion.

It was noted last spring that actual expenditures might be substantially above the initial budget estimates for the fiscal year 1967 because the scale of the escalation in expenditures for Vietnam operations was not yet clearly foreseen.

In the event that a sharp increase in expenditures for Vietnam should not only become necessary but also exceed any rise in receipts, it was understood that Congress would reevaluate the \$330 billion limitation and take whatever action would become necessary. This was indicated by the following statement in your committee's report last year:

Should this ceiling prove to be too low, because of various contingencies which may arise, it will of course be possible to reconsider the debt ceiling at a later time.

Current budgetary situation for fiscal 1967

The time for a reevaluation of the debt limit is now. Estimated expenditures for the fiscal year 1967 have risen by \$13.9 billion, from \$112.8 billion to \$126.7 billion while receipts are expected to increase by \$6 billion, from \$111.0 billion to \$117.0 billion. The deficit accordingly can be expected to increase from \$1.8 billion to \$9.7 billion, an increase of \$7.9 billion. The substantially larger deficit now expected, which is the outcome of the greater increase now anticipated in expenditures than in receipts, requires that the limitation on the public debt be raised very soon if the Federal Government is to meet its financial obligations.

TABLE 2.—*Estimated administrative budget receipts and expenditures for the fiscal year 1967*

[In billions]

	Budget estimates		
	January 1966	January 1967	Change
Receipts.....	\$111.0	\$117.0	+\$6.0
Expenditures.....	112.8	126.7	+13.9
Deficit.....	-1.8	-9.7	+7.9

Source: Bureau of the Budget.

The bulk of the \$13.9 billion expenditure increase, nearly \$10 billion, is attributable to higher defense expenditures, with most of the rest, \$3 billion, being attributable to the effects of the tight money market last summer. Other changes in expenditures, for the remaining budget programs, account for additional net increases of slightly over \$1 billion.

The major portion of the expenditure increase, the \$9,650 million estimated increase in defense expenditures, consists of \$9,084 million in support of Vietnam operations and \$566 million primarily from increased military and civilian pay. Your committee was informed that the substantial underestimate of expenditures 1 year ago was due to the fact that the buildup of men and equipment in Vietnam was just beginning when the fiscal year 1967 budget estimates were prepared, and accurate projections could not be made at that time concerning the level of requirements or the duration of operations. Moreover, for the purpose of budgetary planning, military requirements were forecast on the assumption that hostilities would cease by June 30, 1967. The uncertainties which underlay these estimates were emphasized by the President in his budget message in January 1966 and in other

statements and by administration officials in their testimony before congressional committees. Secretary of Defense McNamara stated, in appearances before two different Senate committees in February and in August 1966, that supplemental appropriation requests would be necessary for the fiscal year 1967 when it became clear that Vietnam operations would extend beyond June 30, 1967, and when reasonable estimates could be made about the level of operations to be maintained after that date.

The supplemental appropriation for the fiscal year 1967 in part is needed to provide funds for items to be purchased now for use in possible Vietnam operations beyond June 30, 1967. Purchases of equipment must be made before that date to insure its availability during and after the fiscal year 1968.

Your committee was informed that the estimates presented with the fiscal year 1968 budget encompass fewer uncertainties than the estimates made last year because they are based upon a longer period of combat experience in Vietnam, which provides more accurate data for forecasting, and because the additions of manpower and equipment from this point on can be expected to be more gradual.

The tight money situation this last summer accounts for most of the expenditure increase, \$3 billion, not accounted for by defense expenditures. This is attributable to higher costs for operating Federal credit programs and to the larger payments of interest on Federal debt. Higher interest rates raised the interest payments on the public debt by \$650 million. Also, sales of financial assets are now expected to be \$800 million less than the January 1966 budget estimate because of the relative scarcity of funds in the private money market. Moreover, the scarcity of private financing required additional outlays of \$1.5 billion for various Federal credit programs to maintain the underlying private expenditures in these areas. These programs included (1) crop loans by the Commodity Credit Corporation under the price support program; (2) mortgage financing by the Federal National Mortgage Association; and (3) Export-Import Bank financing of export loans.

A variety of other changes in expenditures affecting the remaining budget programs contributed a net increase of somewhat more than \$1 billion. The underlying changes involved increases and decreases in several programs which reflected changing workloads—such as the dramatic increase in the volume of mail—, higher Federal matching payments under Federal-State grant programs—like the medical assistance grant program—, and deliveries by contractors earlier than expected of equipment ordered by the National Aeronautics and Space Administration. There were other expenditure changes which essentially offset each other and which are a combination of congressional changes in the President's 1967 budget requests and the President's decisions to defer new programs.

Economic growth and the public debt

The growth in the public debt, as large as it may be, has not been as fast as the growth of national output since 1946. As a percent of gross national product, the debt has fallen from 133.9 percent at the end of fiscal year 1946 to 45.0 percent at the end of fiscal year 1966. Despite the sizable increase in the debt during the current fiscal year, it is estimated the percentage relationship will decline to 42.9

percent. The limitation on the public debt proposed in this bill will be 44.1 percent of the estimated average level of gross national product during fiscal year 1967. The data shown in table 3 clearly indicate that the relationship of the public debt to gross national product has been falling steadily since the peak of the public debt was reached in 1946. It also should be noted that the relationship of the public debt to gross national product at the end of fiscal year 1940 was 51.1 percent, which is a higher relationship than that anticipated in 1967. Thus the debt as a percent of GNP in 1967 is expected to be below the relationship existing before the beginning of World War II.

TABLE 3.—Public debt and the gross national product, 1940-67

(In billions of dollars)

Fiscal year	Gross national product	Public debt at end of year ¹		Fiscal year	Gross national product	Public debt at end of year ¹	
		Amount	Percent of GNP			Amount	Percent of GNP
1940.....	95.0	48.5	51.1	1954.....	362.1	271.3	74.9
1941.....	109.4	55.3	50.6	1955.....	378.6	274.4	72.5
1942.....	139.2	77.0	55.3	1956.....	409.4	272.8	66.6
1943.....	177.5	140.8	79.3	1957.....	431.3	270.6	62.7
1944.....	201.9	202.6	100.4	1958.....	440.3	276.4	62.8
1945.....	216.8	259.1	119.5	1959.....	469.1	284.8	60.7
1946.....	201.6	269.9	133.9	1960.....	495.2	286.5	57.8
1947.....	219.8	258.4	117.5	1961.....	506.5	289.2	57.1
1948.....	243.5	252.4	103.6	1962.....	542.1	298.6	55.1
1949.....	260.0	252.8	97.2	1963.....	573.4	306.5	53.4
1950.....	263.3	257.4	97.7	1964.....	612.0	312.5	51.1
1951.....	310.5	255.3	82.2	1965.....	651.8	317.9	48.8
1952.....	337.2	259.2	76.8	1966.....	712.0	320.4	45.0
1953.....	358.9	266.1	74.1	1967 (estimate).....	762.5	327.3	42.9

¹ Includes Government enterprise debt guaranteed by the U.S. Treasury.

Source: Budget of the United States for the fiscal year 1968, p. 454.

Debt formation is a development necessary to finance increasing economic activity and a rising gross national product in all sectors of the economy. Since 1964, the net ¹ public (including Federal, State, and local governments) and private debt has increased at a rate close to \$2 of debt to \$1 of gross national product, as can be seen in table 4. On December 31, 1946, total net debt was 179.5 percent of gross national product, and on December 31, 1966, the same percentage relationship stood at 178.9 percent. On the same date in 1940, total net debt was 176.5 percent of gross national product. In contrast to the decreasing importance of the publicly held net Federal debt (that is, the Federal debt held outside of U.S. Government trust funds and other investment accounts), the net debt of other sectors of the economy has been increasing relative to gross national product. Table 4 shows that since 1946, the net debt of State and local governments has doubled, rising from 6.1 to 13.2 percent in 1966; the corporate net debt has increased by more than half—from 42.2 to 65.5 percent; individual and noncorporate debt has grown from 27.4 to 64.3 percent—more than double the 1946 level.

¹ See explanation of net public and private debt in footnote 2, table 4.

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TABLE 4.—Ratio of net public and private debt to gross national product, end of the calendar year, 1946-66¹

End of calendar year—	Gross national product ² (billions)	Ratios of net debt to gross national product (percent)				
		Federal	State and local	Corporate	Individual and non-corporate	Total ³
1940.....	\$107.6	41.6	15.3	70.3	49.2	176.5
1945.....	196.0	128.9	7.0	43.5	27.8	207.3
1946.....	221.4	103.7	6.1	42.2	27.4	179.5
1951.....	338.2	64.6	6.9	48.0	35.4	154.9
1952.....	361.0	61.7	7.1	47.4	37.5	153.8
1953.....	369.8	63.2	7.9	49.8	41.6	162.6
1954.....	379.8	60.6	8.8	48.1	43.6	161.1
1955.....	409.7	56.5	9.4	51.8	46.5	164.1
1956.....	433.2	52.0	9.8	53.5	47.9	163.3
1957.....	438.1	51.2	10.6	56.3	50.5	168.7
1958.....	469.2	49.6	10.8	55.3	51.0	166.8
1959.....	496.8	49.0	11.2	57.0	53.2	170.3
1960.....	503.4	47.9	11.9	60.2	56.0	176.8
1961.....	542.8	45.7	12.0	59.7	57.2	174.6
1962.....	574.7	44.5	12.8	60.6	59.4	177.4
1963.....	611.3	42.7	13.0	61.5	62.2	179.4
1964.....	652.5	41.0	13.0	61.7	64.3	180.0
1965.....	712.8	37.8	13.3	62.5	64.5	178.2
1966 ³	765.0	35.9	13.2	65.5	64.3	173.9

¹ Net public and private debt outstanding is a comprehensive aggregate of the indebtedness of borrowers after elimination of certain types of duplicating governmental and corporate debt. For the Federal Government, debt issues held by trust funds and other governmental investment accounts are deducted from the gross Federal debt.

² Implied level end of year, calculated as the average of the 4th and 1st calendar quarters at seasonally adjusted annual rates.

³ Preliminary.

Source: Economic Report of the President, January 1967, p. 278.

The interest cost of maintaining the public debt during the past 10 years has remained at a fairly constant level relative to the gross national product. As shown in table 5, the ratio has fluctuated between 1.68 and 1.77 percent, except in 1959 and 1960, when the ratios were 1.62 percent and 1.85 percent, respectively. The ratio rises to an estimated 1.76 percent for the fiscal year 1967. It falls slightly to 1.75 percent for the fiscal year 1968, when \$805 billion is employed as the estimate for gross national product in the fiscal year.

TABLE 5.—Ratio of interest payments on the public debt to gross national product, fiscal years 1957-68

Fiscal year	Gross national product (billions)	Interest on the public debt		Fiscal year	Gross national product (billions)	Interest on the public debt	
		Amount (millions)	Percent of GNP			Amount (millions)	Percent of GNP
1957.....	\$431.3	\$7,244	1.68	1963.....	\$573.4	\$9,895	1.73
1958.....	440.3	7,607	1.73	1964.....	612.0	10,666	1.74
1959.....	469.1	7,593	1.62	1965.....	651.8	11,346	1.74
1960.....	495.2	9,180	1.85	1966.....	712.0	12,014	1.69
1961.....	506.5	8,957	1.77	1967 ¹	762.5	13,400	1.76
1962.....	542.1	9,120	1.68	1968.....	² 805.0	¹ 14,050	1.75

¹ Bureau of the Budget estimates.

² Estimate based on administration estimates through December 31, 1967. The last 6 months assumes modest increases in gross national product.

Source: Budget of the United States for the fiscal year 1968, pp. 454, 459.

Administration estimates of the statutory debt ceiling required for the remainder of the fiscal year 1967

The outstanding amount of the public debt subject to limitation has been very close to the existing statutory ceiling since late November 1966. As a result, the Treasury has at times been forced to operate with very low cash balances and virtually no margin for flexible debt management or contingencies. On December 15, 1966, for example, the debt subject to limitation was \$329,851 million, only \$149 million below the statutory limitation. At the same time, the Treasury's operating cash balance was only \$916 million. Since Federal expenditures are currently running at a rate slightly in excess of \$10 billion a month, such a balance represents the cash requirements of only a few days and is far short of the level which the Treasury Department believes is required for prudent cash management.

The inflow of corporate estimated tax payments in December produced a temporary improvement in the situation. By the end of the year the debt subject to limitation declined by \$303 million, and the Treasury's cash balance increased to \$4,511 million. Expenditures once again exceeded receipts in January, however, and by the 18th of the month the debt subject to limitation was only \$75 million under the statutory limitation while the operating cash balance had shrunk to \$2.5 billion.

The Treasury anticipates that its supply of usable cash will be exhausted by the end of February unless additional borrowing is permitted. The situation will become even more acute in the first half of March.

The Treasury Department projections of the anticipated level of the debt in the absence of an overly restrictive limitation were presented in a table which is shown here as table 6. As in the past, the table is calculated by adjusting the operating cash balance to the constant level of \$4 billion. In view of the relatively short time remaining in the fiscal year, however, the \$3 billion allowance for contingencies assumed in previous years is not included in table 6.

TABLE 6.—*Estimated public debt subject to limitation based on a constant operating cash balance and assuming a sufficient statutory limitation, February through June 1967*

[In billions]

Fiscal year 1967, February-June	Operating cash balance (excluding free gold)	Debt subject to limitation after adjusting cash balance to \$4 billion
	(1)	(2)
Feb. 28.....	\$4.0	\$332.5
Mar. 15.....	4.0	336.3
Mar. 31.....	4.0	331.7
Apr. 15.....	4.0	334.8
Apr. 30.....	4.0	327.8
May 15.....	4.0	330.3
May 31.....	4.0	330.3
June 15.....	4.0	333.6
June 30.....	4.0	323.5

Source: Treasury Department.

The table indicates that if a \$4.0 billion operating cash balance is maintained, the public debt of the type subject to statutory limitation would have to rise above the present \$330 billion limitation as soon as February 28. Under the same assumption, the debt will reach a maximum of \$336.3 billion on March 15. The receipt of March, April, and June tax payments will lead to a gradual decline in the required level of the debt during the remaining months of the fiscal year. Not until the very end of the fiscal year, however, will the required level fall substantially below \$330 billion.

The projections in table 6 are based upon both the seasonal pattern of Federal receipts and expenditures and the estimated impact of an overall deficit in the budget accounts. While Federal expenditures are usually spread in a relatively uniform manner throughout the months of the fiscal year, receipts are collected unevenly. Although the revised schedule for the payment by employers of withheld income and social security taxes has eased the problem, tax receipts are still concentrated at the end of the fiscal year. Thus, there is usually a cumulative deficit in the budget accounts during the early part of the fiscal year which reaches a peak sometime in the late winter or early spring. The pattern expected for the fiscal year 1967 is shown in table 7.

TABLE 7.—*Estimated and actual budget receipts, expenditures, and deficit or surplus by months for fiscal year 1967*

[In billions]

	Net receipts	Expenditures	Surplus (+) or deficit (-)	Cumulative deficit at end of month
Actual:				
1966—July.....	\$5.7	\$10.3	-\$4.6	-\$4.6
August.....	7.2	11.0	-3.8	-8.4
September.....	12.5	11.9	+6	-7.8
October.....	5.8	11.0	-5.2	-13.0
November.....	7.4	10.4	-3.0	-16.0
December.....	10.6	9.5	+1.1	-14.9
Estimated:				
1967—January.....	8.9	9.6	-.7	-15.6
February.....	7.8	10.1	-2.3	-17.9
March.....	11.0	10.2	+8	-17.1
April.....	14.5	10.3	+4.2	-12.9
May.....	7.6	10.4	-2.8	-15.7
June.....	18.0	12.0	+6.0	-9.7
Fiscal year 1967.....	117.0	126.7	-9.7

Source: Treasury Department.

During all but 2 of the 6 months of the fiscal year 1967 for which information is available, expenditures exceeded receipts. The cumulative deficit at the end of December was \$14.9 billion. The Treasury estimates that this cumulative deficit will reach \$17.9 billion at the end of February. Not shown in table 7 is the peak estimated cumulative deficit of \$23 billion which is expected to be reached on March 15. The excesses of receipts over expenditures in late March, April, and June are expected to reduce the cumulative deficit to \$9.7 billion, the projected deficit for the fiscal year.

An alternative method of computing the required debt ceiling has been presented in the past. Under this method, the maximum cumulative deficit for the fiscal year is added to the debt outstanding at the beginning of the fiscal year. An adjustment is then made for the difference between the cash balance at the start of the fiscal year and the cash balance at the time of the maximum cumulative deficit.

This alternative computation is presented in table 8 under the assumption that the cash balance at the time of the maximum cumulative deficit will be \$4 billion, although at that time the actual cash balance probably will be appreciably less. The table demonstrates the need on this basis for a statutory debt ceiling of \$336.3 billion.

TABLE 8.—Alternative computation of debt limitation requirement

	Billions
Debt as of the end of fiscal year 1966.....	\$320.1
Adjustments in beginning debt for Mar. 15, 1967, figure:	
(a) Maximum cumulative deficit (Mar. 15) expected during the year.....	\$23.0
(b) Decrease in cash balance from \$10,800,000,000 to \$4,000,000,000.....	-6.8
Total.....	16.2
Approximate estimated debt as of Mar. 15, 1967.....	336.3

¹ This does not take into account possible variations in the uninvested balances of trust funds, in clearing accounts, and in other items that at any given time may affect debt requirements.

Table 9 presents a comparison of Treasury Department projections of the required debt limitation and the actual results during the period from January 15, 1966, through January 31, 1967. Column 4 of this table indicates that the actual debt subject to limitation reached a peak during the spring of 1966. When the debt subject to limitation is adjusted on the assumption of a \$4 billion operating cash balance, it is clear that the peak debt limit requirement during the latter half of the fiscal year 1966 occurred on March 15.

TABLE 9.—Comparison of debt projections with actual results

[In billions]

Year and month	Projections ¹		Actual			Difference (col. 5 compared with col. 2)
	Operating cash balance (excluding free gold)	Debt subject to limitation	Operating cash balance (excluding free gold)	Debt subject to limitation	Debt subject to limitation after adjusting cash balance to \$4,000,000,000 ²	
	(1)	(2)	(3)	(4)	(5)	
1966—Jan. 15.....	\$4	\$322.8	\$2.3	\$321.9	\$323.6	+0.8
Jan. 31.....	4	321.5	4.2	322.1	321.9	+ .4
Feb. 15.....	4	321.6	3.2	321.9	322.7	+1.1
Feb. 28.....	4	321.9	5.2	323.5	322.3	+ .4
Mar. 15.....	4	325.9	1.2	323.4	326.2	+ .3
Mar. 31.....	4	319.5	5.0	321.2	320.2	+ .7
Apr. 15.....	4	323.0	.8	320.7	323.9	+ .9
Apr. 30.....	4	319.0	5.0	319.8	318.8	- .2
May 15.....	4	318.3	5.0	318.5	317.5	- .8
May 31.....	4	320.1	6.9	322.5	319.6	- .5
June 15.....	4	322.8	2.7	322.2	323.5	+ .7
June 30.....	4	313.3	10.8	320.1	313.3	0
July 15.....	4	316.6	7.2	319.0	315.8	- .8
July 31.....	4	316.8	6.4	319.5	317.1	+ .3
Aug. 15.....	4	318.4	3.6	319.2	319.6	+1.2
Aug. 31.....	4	320.3	5.6	324.6	323.0	+2.7
Sept. 15.....	4	323.4	2.1	324.7	326.6	+3.2
Sept. 30.....	4	318.1	7.2	325.0	321.8	+3.7
Oct. 15.....	4	321.9	2.3	323.8	325.5	+3.6
Oct. 31.....	4	322.2	5.0	327.1	326.1	+3.9
Nov. 15.....	4	324.4	2.3	327.1	328.8	+4.4
Nov. 30.....	4	324.6	3.3	329.6	330.3	+5.7
Dec. 15.....	4	327.8	.9	329.9	333.0	+5.2
Dec. 31.....	4	323.0	4.5	329.5	329.0	+6.0
1967—Jan. 15.....	4	325.3	2.6	329.8	331.2	+5.9
Jan. 31.....	4	324.1	4.5	329.1	328.6	+4.5

¹ Jan. 15 to May 31, 1966, projections of May 25, 1965. Remaining projections made on May 23, 1966.

² Adjustment to \$4 billion cash balance places data on basis comparable to projections shown in col. (2).

Source: Treasury Department.

The comparison in table 9 demonstrates that Treasury projections were reasonably close to actual results until the middle of calendar year 1966. As late as July 31, the actual debt subject to limitation was only \$300 million above the level projected.

On March 15, 1966, the debt subject to limitation was virtually at its peak for the fiscal year 1966. It, however, was \$4.6 billion below the statutory limitation for that fiscal year, and there was an operating cash balance on that date of \$1.2 billion. Thus, even on this date, fully \$5.8 billion was available for contingencies. This is \$2.1 billion more than H.R. 4573 provides for March 15, 1967.

Action taken by committee as to debt limitation level

The bill passed by the House, H.R. 4573, provided a temporary debt limitation of \$336 billion for the remainder of the fiscal year 1967. Your committee has approved this action except that (for the reasons given below) it has made this \$336 billion a permanent rather than a temporary limitation.

Your committee has approved the bill passed by the House, H.R. 4573, which provides a temporary debt limitation of \$336 billion for the remainder of the fiscal year 1967.

Your committee is confident that the Treasury Department can manage efficiently during the remaining portion of the fiscal year under the ceiling of \$336 billion. This ceiling is "tight," but nevertheless adequate to allow the flexibility required for efficient management of the debt.

Table 6 indicates that a limit of \$336 billion will not permit the Treasury Department to maintain an operating cash balance of \$4 billion on March 15. While a full \$4 billion operating cash balance is the minimum required for efficient cash management over any extended period of time, at certain times during the year lower cash balances are appropriate. These are the times just before significant tax receipts are expected. March 15 is the date on which end-of-year tax returns for calendar year corporations are due. Shortly after this date, therefore, inflows of receipts will increase substantially and the operating cash balance then can be restored to \$4 billion.

If the existing \$330 billion limitation is still applicable during the first half of March, the Secretary of the Treasury has stated that the Government will have enough to pay only half its anticipated bills. Any delay in payment of expenses connected with the support of our forces in Vietnam would be intolerable. Therefore, payments would have to be deferred for such purposes as the payment of tax refunds, the salaries of Federal employees, public assistance benefits, and the bills of Government contractors for goods delivered, services rendered, or construction completed. It might even be necessary to delay the payment of veterans' benefits and military retirement pay. While payments would be delayed, not canceled, such action could cause personal hardship and would certainly impair this country's position in the world financial community.

The preceding discussion makes it abundantly clear that the Treasury Department will soon be unable to manage the financial affairs of the Government in a reasonable and orderly fashion unless the statutory debt limitation is increased to an appropriate level.

Action taken by committee to make the \$336 billion the permanent limitation

Your committee amended the House bill to provide that the statutory debt ceiling of \$336 billion is to be the permanent, rather than the temporary, limitation. As a result, it will remain in force indefinitely and will not expire automatically on June 30, 1967. Thus, the debt limitation will not revert to the \$285 billion permanent debt ceiling previously provided in the Second Liberty Bond Act after June 30, 1967, but will remain at \$336 billion after that time.

In the opinion of your committee, retention of a permanent debt ceiling of \$285 billion serves no useful purpose. The level of the debt subject to the limitation has risen so substantially above this figure that it clearly is no longer possible to reduce the debt to the \$285 billion level within any short period of time. The substitution of the \$336 billion limitation for the \$285 billion limitation, as the permanent limitation, brings the permanent ceiling into line with reality. Moreover, making the \$336 billion limitation the permanent, rather than merely the temporary limitation, should have the effect of removing the crisis which Congress in the last several years has had to face every June 30 when the limitation automatically reverted to the unrealistic \$285 billion level. While it is clear that even with this new permanent limitation the debt limitation will have to be considered whenever deficits appear likely, nevertheless, the substitution of the higher figure as the permanent limitation means that there will no longer be a financial crisis should Congress find it impossible to complete its action precisely by June 30 of any year in question. As a result, your committee believes that the removal of the unrealistic \$285 billion limitation will be an aid to sound financial management of the debt.

III. APPENDIX

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

Sept. 24, 1917:		
40 Stat. 280, sec. 1, authorized bonds in the amount of...	¹	\$7, 538, 945, 400
40 Stat. 290, sec. 5, authorized certificates of indebtedness outstanding revolving authority	²	4, 000, 000, 000
Apr. 4, 1918:		
40 Stat. 502, amending sec. 1, increased bond authority to	¹	12, 000, 000, 000
40 Stat. 504, amending sec. 5, increased authority for certificates outstanding to	²	8, 000, 000, 000
July 9, 1918: 40 Stat. 844, amending sec. 1, increased bond authority to	¹	20, 000, 000, 000
Mar. 3, 1919:		
40 Stat. 1311, amending sec. 5, increased authority for certificates outstanding to	²	10, 000, 000, 000
40 Stat. 1309, new sec. 18 added, authorizing notes in the amount of	¹	7, 000, 000, 000
Nov. 23, 1921: 42 Stat. 321, amending sec. 18, increased note authority 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

See footnotes at end of table, p. 13.

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

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. 31, 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 \$49, 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----- Eliminated separate authority for \$4,000,000,000 of National Defense Series obligations.	2 65, 000, 000, 000
Mar. 28, 1942: 56 Stat. 189, amending sec. 21, increased limitation to-----	2 125, 000, 000, 000
Apr. 11, 1943: 57 Stat. 63, amending sec. 21, increased limitation to-----	2 210, 000, 000, 000
June 9, 1944: 58 Stat. 272, amending sec. 21, increased limitation to-----	2 260, 000, 000, 000
Apr. 3, 1945: 59 Stat. 47, amending sec. 21 to read: “The face amount of obligations issued under authority of this Act, and the face amount of obligations guaranteed as to principal and interest by the United States (except such guaranteed obligations as may be held by the Secretary of the Treasury), shall not exceed in the aggregate \$300,000,000,000 outstanding at any one time”-----	2 300, 000, 000, 000
June 26, 1946: 60 Stat. 316, amending sec. 21, adding: “The current redemption value of any obligation issued on a discount basis which is redeemable prior to maturity at the option of the holder thereof shall be considered, for the purposes of this section, to be the face amount of such obligation,” and decreasing limitation to-----	2 275, 000, 000, 000
Aug. 28, 1954: 68 Stat. 895, amending sec. 21, effective Aug. 28, 1954, and ending June 30, 1955, temporarily increasing limitation by \$6,000,000,000 to-----	2 281, 000, 000, 000
June 30, 1955: 69 Stat. 241, amending Aug. 28, 1954, act by extending until June 30, 1956, increase in limitation to-----	2 281, 000, 000, 000

See footnotes at end of table, p. 13.

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

July 9, 1956: 70 Stat. 519, amending act of Aug. 28, 1954, temporarily increasing limitation by \$3,000,000,000 for period beginning July 1, 1956, and ending June 30, 1957 to-----	¹ \$278, 000, 000, 000
Effective July 1, 1957, temporary increase terminates and limitation reverts, under act of June 26, 1946, to-----	² 275, 000, 000, 000
Feb. 26, 1958: 72 Stat. 27, amending sec. 21, effective Feb. 26, 1958, and ending June 30, 1959, temporarily increasing limitation by \$5,000,000,000-----	² 280, 000, 000, 000
Sept. 2, 1958: 72 Stat. 1758, amending sec. 21, increasing limitation to \$283,000,000,000, which, with temporary increase of Feb. 26, 1958, makes limitation-----	² 288, 000, 000, 000
June 30, 1959: 73 Stat. 156, amending sec. 21, effective June 30, 1959, increasing limitation to \$285,000,000,000, which, with temporary increase of Feb. 26, 1958, makes limitation on June 30, 1959-----	² 290, 000, 000, 000
Amending sec. 21, temporarily increasing limitation by \$10,000,000,000 for period beginning July 1, 1959, and ending June 30, 1960, which makes limitation beginning July 1, 1959-----	² 295, 000, 000, 000
June 30, 1960: 74 Stat. 290, amending sec. 21 for period beginning on July 1, 1960, and ending June 30, 1961, temporarily increasing limitation by \$8,000,000,000-----	² 293, 000, 000, 000
June 30, 1961: 75 Stat. 148, amending sec. 21, for period beginning on July 1, 1961, and ending June 30, 1962, temporarily increasing limitation by \$13,000,000,000 to-----	² \$298, 000, 000, 000
Mar. 13, 1962: 76 Stat. 23, amending sec. 21, for period beginning on Mar. 13, 1962, and ending June 30, 1962, temporarily further increasing limitation by \$2,000,000,000---	² 300, 000, 000, 000
July 1, 1962: 76 Stat. 124 as amended by 77 Stat. 50, amending sec. 21, for period—	
1. Beginning July 1, 1962, and ending Mar. 31, 1963-----	² 308, 000, 000, 000
2. Beginning Apr. 1, 1963, and ending June 24, 1963-----	² 305, 000, 000, 000
3. Beginning June 25, 1963, and ending June 30, 1963---	² 300, 000, 000, 000
May 29, 1963: 77 Stat. 50, amending sec. 21, for period—	
1. Beginning May 29, 1963, and ending June 30, 1963--	307, 000, 000, 000
2. Beginning July 1, 1963, and ending Aug. 31, 1963-----	² 309, 000, 000, 000
Aug. 27, 1963: 77 Stat. 131, amending sec. 21, for the period beginning on Sept. 1, 1963, and ending Nov. 30, 1963-----	² 309, 000, 000, 000
Nov. 26, 1963: 77 Stat. 342, amending sec. 21, for the period—	
1. Beginning on Dec. 1, 1963 and ending June 29, 1964--	² 315, 000, 000, 000
2. Of June 30, 1964-----	² 309, 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-----	² 324, 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-----	² 328, 000, 000, 000
June 24, 1966: 80 Stat. 221, amending sec. 21, for the period beginning July 1, 1966, and ending on June 30, 1967 temporarily increasing the debt limit to-----	² 330, 000, 000, 000

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

TABLE II.—Summary of public debt and guaranteed debt outstanding Jan. 31, 1967

(On the basis of daily Treasury statements)

Title	Jan. 31, 1967	
	Average Interest rate ¹	Amount outstanding
Public debt:		
Interest-bearing debt:		
Public issues—marketable:	<i>Percent</i>	
Treasury bills (regular series).....	5.437	\$58,163,528,000.00
Treasury bills (tax anticipation series).....	5.701	7,323,701,000.00
Certificates of indebtedness (regular series).....	5.250	5,019,382,000.00
Treasury notes.....	4.584	48,270,015,000.00
Treasury bonds.....	3.667	99,113,861,550.00
Total public issues—marketable.....	4.442	218,796,487,550.00
Public issues—nonmarketable:		
Certificates of indebtedness:		
Foreign series.....	4.883	75,000,000.00
Foreign currency series.....	5.256	445,395,721.04
Treasury notes:		
Foreign series.....	4.549	209,021,459.52
Foreign currency series.....	4.999	383,921,590.34
Treasury bonds:		
Foreign series.....	4.250	143,920,534.25
Foreign currency series.....	4.093	30,224,670.06
Treasury certificates.....	4.296	65,455,345.17
Treasury bonds.....		
U.S. savings bonds.....	3.765	50,803,956,787.02
U.S. retirement plan bonds.....	3.839	20,394,003.40
Depository bonds.....	2.000	45,253,000.00
Treasury bonds—RFA series.....	2.000	23,446,000.00
Treasury bonds, investment series.....	2.750	2,651,117,000.00
Total public issues—nonmarketable.....	3.741	54,892,115,110.80
Total public issues.....	4.301	273,688,602,660.80
Special issues:	<i>Percent</i>	
Civil service retirement fund.....	3.673	\$15,219,122,000.00
Exchange stabilization fund.....	4.618	1,202,590,870.67
Federal Deposit Insurance Corporation.....	2.000	51,749,000.00
Federal disability insurance trust fund.....	3.733	1,074,927,000.00
Federal home loan banks.....	4.600	1,170,000,000.00
Federal hospital insurance trust fund.....	4.849	769,543,000.00
Federal old-age and survivors insurance trust fund.....	3.567	14,237,267,000.00
Federal Savings and Loan Insurance Corporation.....	2.000	56,244,000.00
Federal supplementary medical insurance trust fund.....	4.763	478,145,000.00
Foreign service retirement fund.....	3.974	41,332,000.00
Government life insurance fund.....	3.019	818,637,000.00
Highway trust fund.....	4.375	38,427,000.00
National service life insurance fund.....	3.353	5,722,705,000.00
Railroad retirement account.....	4.139	2,740,382,000.00
Railroad retirement holding account.....	4.974	622,000.00
Railroad retirement supplemental account.....	4.976	2,778,000.00
Unemployment trust fund.....	3.965	7,408,881,000.00
Veterans' special term insurance fund.....	3.625	181,215,000.00
Veterans' reopened insurance fund.....	4.955	37,763,000.00
Total special issues.....	3.736	51,252,329,879.67
Total interest-bearing debt.....	4.211	324,946,932,540.47
Matured debt on which interest has ceased.....		242,658,820.47
Debt bearing no interest:		
International Monetary Fund.....		3,343,000,000.00
International Development Association.....		6,000,000.00
Inter-American Development Bank.....		
U.N. Special Fund.....		17,398,523.00
U.N./FAO world food program.....		
Other.....		320,214,962.05
Total gross public debt.....		328,869,204,845.99

See footnotes at end of table, p. 15.

TABLE II.—*Summary of public debt and guaranteed debt outstanding Jan. 31, 1967—*
Continued

(On the basis of daily Treasury statements)

Title	Jan. 31, 1967	
	Average interest rate ¹	Amount outstanding
Public debt—Continued		
Guaranteed debt of U.S. Government agencies:		
Interest-bearing debt	3.732	500,567,650.00
Matured debt on which interest has ceased		450,350.00
Total guaranteed debt of U.S. Government agencies		501,018,000.00
Total gross public debt and guaranteed debt		329,370,222,845.99
Deduct debt not subject to statutory limitation		266,193,617.28
Total debt subject to limitation ⁶		329,104,024,228.71

¹ Beginning with the statement for Dec. 31, 1958, the computed average interest rate on the public debt is based upon the rate of effective yield for issues sold at premiums or discounts. Prior to Dec. 31, 1958, the computed average rate was based upon the coupon rates of the securities. This rate did not materially differ from the rate computed on the basis of effective yield. The Treasury, however, announced on Nov. 18, 1958, that there may be more frequent issues of securities sold with premiums or discounts whenever appropriate. This "effective yield" method of computing the average interest rate on the public debt will more accurately reflect the interest cost to the Treasury, and is felt to be in accord with the intent of Congress where legislation has required the use of such rate for various purposes.

² Computed on true discount basis.

³ Dollar equivalent of certificates issued and payable in the amount of 1,000,000,000 Deutsche marks, 735,000,000 Swiss francs, and 650,000,000 Austrian schillings.

⁴ Dollar equivalent of Treasury notes issued and payable in the amount of 577,000,000 Swiss francs, 40,000,000 Deutsche marks, 650,000,000 Austrian schillings, and 78,000,000,000 Italian lire.

⁵ Dollar equivalent of Treasury bonds issued and payable in the amount of 1,500,000,000 Belgian francs.

⁶ Statutory debt limit, established at \$285 billion by the act approved June 30, 1959, has been temporarily increased to \$330 billion through June 30, 1967.

TABLE III.—Public debt at end of fiscal years 1900-68 ¹

[In millions of dollars]

Fiscal year	Public debt at end of year ²	Fiscal year	Public debt at end of year ³
1900.....	1,263	1935.....	32,824
1901.....	1,222	1936.....	38,497
1902.....	1,178	1937.....	41,069
1903.....	1,159	1938.....	42,018
1904.....	1,136	1939.....	45,890
1905.....	1,132	1940.....	48,497
1906.....	1,143	1941.....	55,332
1907.....	1,147	1942.....	76,991
1908.....	1,178	1943.....	140,796
1909.....	1,148	1944.....	202,626
1910.....	1,147	1945.....	259,115
1911.....	1,154	1946.....	269,898
1912.....	1,194	1947.....	288,376
1913.....	1,193	1948.....	282,366
1914.....	1,188	1949.....	282,798
1915.....	1,191	1950.....	287,377
1916.....	1,225	1951.....	285,251
1917.....	2,976	1952.....	289,151
1918.....	12,455	1953.....	266,123
1919.....	25,485	1954.....	271,341
1920.....	24,299	1955.....	274,418
1921.....	23,977	1956.....	272,825
1922.....	22,963	1957.....	270,634
1923.....	22,350	1958.....	276,444
1924.....	21,251	1959.....	284,817
1925.....	20,516	1960.....	286,471
1926.....	19,643	1961.....	289,211
1927.....	18,512	1962.....	298,645
1928.....	17,604	1963.....	306,460
1929.....	16,931	1964.....	312,526
1930.....	16,185	1965.....	317,864
1931.....	16,801	1966.....	320,369
1932.....	19,487	1967 ³	327,300
1933.....	22,639	1968 ³	335,400
1934.....	27,734		

¹ Source: Table 15, "Administrative budget totals and public debt 1789-1968," p. 452, "The Budget of the United States Government—Fiscal Year Ending June 30, 1968" (H. Doc. No. 15, pt. 1, 90th Cong., 1st sess.).

² Includes Government enterprise debt guaranteed by the U.S. Treasury.

³ Estimated.

IV. CHANGES IN EXISTING LAW

In compliance with subsection (4) of rule XXIX of the Standing Rules of the Senate, changes in existing law made by the bill, as reported, are shown as follows (existing law proposed to be omitted is enclosed in black brackets, new matter is printed in italic, existing law in which no change is proposed is shown in roman):

SECOND LIBERTY BOND ACT

* * * * *

SEC. 21. 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 **[\$285,000,000,000]** *\$336,000,000,000* outstanding at any one time. 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.

* * * * *