$395 BILLION DEBT LIMIT

HEARING

BEFORE THE

COMMITTEE ON FINANCE

UNITED STATES SENATE

NINETY-FIRST CONGRESS

SECOND SESSION

ON

H.R. 17802

AN ACT TO INCREASE THE PUBLIC DEBT LIMIT SET FORTH IN SECTION 21 OF THE SECOND LIBERTY BOND ACT

JUNE 18, 1970

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$395 BILLION DEBT LIMIT

THURSDAY, JUNE 18, 1970

U.S. SEN. TE,
COMMITTEE ON FINANCE,
Washington, D.C.

The committee met, pursuant to notice, at 10:05 a.m., in room 2221, New Senate Office Building, Senator Clinton P. Anderson presiding.

Present: Senators Long (chairman), Anderson, Byrd of Virginia, Williams of Delaware, Bennett, Curtis, Miller, Jordan of Idaho, Fannin, and Hansen.

Senator ANDERSON. Mr. Secretary, Senator Long is present at a Democratic caucus. He asked that we proceed, Mr. Secretary.

We will include at this point in the record a copy of the bill, H.R. 17802, and our staff summary of the bill.

(The bill and staff summary follow:)

June 18, 1970

MEMORANDUM

TO: The Members
Committee on Finance

FROM: Tom Vail
Chief Counsel

SUBJECT: H. R. 17802 -- Administration's debt ceiling request

The House Bill . -- The House bill increased the permanent debt subject to limit from $365 billion to $380 billion. It also provided for a special $15 billion temporary amount for fiscal 1971. Thus, for that year the debt limit will be $395 billion, compared with the present $377 billion. The additional $13 billion increase in the temporary debt limit appears to be based on a projected deficit of $10 billion in the Federal funds (administrative) budget for fiscal 1971 and higher than normal cash balance and contingency fund requirements.

The Budget Outlook . -- The Administration has revised its estimate and now projects a unified budget deficit of $1.8 billion in fiscal 1970 (as compared with a surplus of $1.5 billion estimated in February) and a further deficit of $1.3 billion in fiscal 1971 (as compared with an estimated surplus of $1.3 billion as of last February). The Federal funds (administrative budget) deficits for fiscal years 1969 through 1971 are as follows:

Fiscal year 1969	$ - 5.490 billion
Fiscal year 1970	-11.009 billion
Fiscal year 1971	-10.045 billion

A comparison of the unified budget, the administrative budget, and the trust fund surpluses for fiscal years 1969-1971 is provided in the following table:

	F/y 1969	F/y 1970	F/y 1971
Unified	$+3.236	$-1.814	$- 1.254
Administrative Budget	-5.490	-11.009	-10.045
Trust Fund Surplus (obligated money)	+8.725	+9.194	+ 8.791

Revenue Assumptions. --On the revenue side, present projections assume that the 1970 GNP will rise to $985 billion, personal income will be $800 billion, and corporate profits will be $89 billion. These are the same estimates used in February, although current conditions suggest they may be optimistic.

Corporate profits, annualized, during the first quarter were down to $85 billion. The reports of the second quarter are not out, but it is expected they will not be above $85 billion, annualized. If the third quarter corporate profits rate is not above $89 billion, the fourth quarter would have to be very high in the 90's in order to meet the assumption that the Treasury is using in their revenue projections.

In addition, the revenue estimates for Fiscal Year 1971 presume that certain tax proposals pending before the Congress will be enacted. These include:

1. Speed-up in estate and gift taxes-- $1.5 billion;
2. Extension of excise taxes on automobiles, telephones--$650 million;
3. Tax on gasoline additives-- $1.6 billion;
4. Highway user tax-- $259 million;
5. Increase in the social security wage base--$200 million;
6. Railroad retirement taxes-- $100 million;
7. Unemployment Compensation--$200 million.

These add up to $4.5 billion in receipts which depend upon future actions by the Congress.

Expenditure Assumptions. --The shift from a surplus to a deficit in the fiscal 1970 has resulted almost entirely from a $3.0 billion shortfall in estimated receipts rather than from spending increases. Total budget expenditures are expected to be close to the $198 billion estimated in February.

The fiscal 1971 new budget estimates assume a decline in interest rates leading to lower than anticipated increases in interest payments on the public debt, lower than anticipated increases in Medicare and Medicaid, lower than anticipated outlays for the Family Assistance Program because of a later than expected effective date and lower than anticipated outlays for the Model Cities Program and various unspecified other programs. No change in the level of military spending from the original estimates is anticipated in either fiscal 1970 or 1971. The sale of the Alaskan Railroad is anticipated and it is assumed that the Congress will not increase appropriations beyond what is requested by the President.

In summary, the fiscal 1971 budget estimates assume that the Congress will:

-- approve the requested postal rate increases,

-- enact the tax legislation proposed by the President in the February budget and later,

-- pass the Economy Act of 1970 and thereby endorse the program reductions, restructuring, and terminations proposed in the February budget; and

-- not add to the total of controllable 1971 spending proposed by the President in appropriations and other legislation.

91st CONGRESS
2d Session

H. R. 17802

IN THE SENATE OF THE UNITED STATES

June 4, 1970

Read twice and referred to the Committee on Finance

AN ACT

To increase 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 the first sentence of section 21 of the Second Liberty Bond Act (31 U.S.C. 757b) is amended by striking out "$365,000,000,000" and inserting in lieu thereof "$380,000,000,000".

Sec. 2. During the period ending on June 30, 1971, the public debt limit set forth in the first sentence of section 21 of the Second Liberty Bond Act shall be temporarily increased by $15,000,000,000.

Sec. 3. This Act shall take effect on July 1, 1970.

Passed the House of Representatives June 3, 1970.

Attest: W. PAT JENNINGS,

Clerk.

II

46-574 O—70——2

Senator ANDERSON. Go right ahead, Mr. Secretary.

STATEMENT OF HON. DAVID M. KENNEDY, SECRETARY OF THE TREASURY; ACCOMPANIED BY ROBERT P. MAYO, DIRECTOR, BUREAU OF THE BUDGET; AND PAUL VOLCKER, UNDER SECRETARY FOR MONETARY AFFAIRS, DEPARTMENT OF THE TREASURY

Secretary KENNEDY. Mr. Chairman and members of the committee, you have before you H.R. 17802, which was passed by the House of Representatives on June 3, and which would provide a new permanent debt ceiling of $380 billion, and a new temporary debt ceiling of $395 billion through June 30, 1971.

We appreciate the promptness with which the committee has scheduled the hearing on this bill.

It is essential that the Congress give final approval to an increase in the debt limit by June 30 when the present temporary limit of $377 billion expires and the limit reverts to the permanent ceiling of $365 billion. Our objections indicate that on June 30 the debt subject to limit, assuming a realistic cash balance, is likely to be in the vicinity of $370 billion, which is in excess of the present permanent limit. Consequently, if a new limit has not been approved, the Treasury Department will be unable to refund any maturing debt or to issue any new debt. I need not dwell on the extraordinarily serious consequences of such a situation. The chaos that would be created would cause severe additional strains on the Nation's already strained financial markets. Public confidence in the ability of the Government to manage its affairs rationally would be seriously undermined.

I would like to begin by explaining why we are asking for an increase of $18 billion in the temporary debt ceiling, from $377 billion currently, to $395 billion for fiscal year 1971. In estimating our needs, we have in the past assumed a constant cash balance of $4 billion, with a further allowance for contingencies of $3 billion. But the conventional assumption of only $4 billion for operating cash needs has become increasingly unrealistic, in view of the greater size of the Federal budget and unavoidable fluctuations in the balance from day-to-day and week-to-week.

As shown in table II [1], our actual cash balance has averaged more than $5 billion in recent years, and has declined in relation to expenditures to little more than 1 week's outpayments. We cannot practicably plan on reducing our balances further. To the contrary, prudent management of our financial affairs may well require somewhat larger balances in the future.

On particular days, to be sure, the cash balance can safely be reduced to lower levels in anticipation of heavy scheduled receipts. Nevertheless, sharp intramonthly swings are inevitable and require that, even during periods of the year when the debt is fluctuating about its peak, we sometimes must carry balances well in excess of the average.

I feel certain you will agree that a $3 billion allowance for contingencies, which we retain unchanged from earlier presentations, pro-

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[1] See p. 9.

vides a minimum degree of protection for unforeseen circumstances over a 12-month period ahead.

With these working assumptions, I think that the arithmetic of the needed increase in the debt limit is most clearly seen by starting with our position on April 14 of this year. That was the date on which the debt subject to limit was close to its peak, and we expect a similar peak at about the same time next year. Now on April 14, the debt subject to limit was $375.9 billion, only about $1 billion short of the present ceiling. (On March 30, we came within $100 million of the ceiling). But our operating balance was down to $2.4 billion, and we were only $1.1 billion away from the ceiling instead of the $3 billion allowance for contingencies that is needed. In other words, just to restore the leeway necessary for prudent operations, the debt limit would have to be raised by $5.5 billion—that is, $3.6 billion to provide an operating balance of $6 billion, and $1.9 billion to restore the $3 billion allowance for contingencies.

To this $5.5 billion one must add the anticipated deficit in the Government's own operations during this period April 1970—April 1971—the so-called Federal funds deficit. As you know, we expect the Federal funds deficit for the entire fiscal year 1971 to amount to $10 billion, compared with $11 billion this year. But the deficit during the 12 months between peak debts—April to April—is expected to be larger than for either fiscal year. Our current estimate is about $13.2 billion.

There are a number of factors that contribute to the concentration of the deficit during this particular 12 months. For one thing, the payment of retroactive Government wage increases in the current quarter is a nonrecurring outlay. In addition, with an approximate $6 billion decline in defense expenditures from fiscal year 1970 to fiscal year 1971, it is anticipated that second half defense expenditures will be lower than during the first half. The anticipated revenue from the proposed speedup of estate and gift taxes is not expected until the last quarter of fiscal 1971. Interest expenditures are expected to be relatively heavier in the first half of the fiscal year than in the second half when lower interest rates are anticipated.

Adding the $13 billion of Federal funds deficit to the $5.5 billion needed to restore working leeway, one comes to a figure just over the $18 billion we requested, a figure approved by the House.

You will see from table I [1] that the debt limit need between December and March will fluctuate generally between $388 and $393 billion. The peak requirement will be reached just prior to mid-April, and that peak will be slightly above $395 billion.

We believe that a temporary limit of $395 billion will be adequate to carry us through fiscal year 1971. Budget Director Mayo can comment in detail on the outlook for expenditures, and the basis for our belief that these expenditures, with the help of Congress, can be held to projected levels.

On the receipts side, we are counting on an additional $3.8 billion of taxes in fiscal 1971 which will require legislation. These include the proposed taxes on lead used in gasoline and the speedup in the estate and gift tax collections. We are anticipating that the Congress will act favorably on both of these proposals as well as on the other

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[1] See p. 9.

tax proposals which it has before it, including extension of excise taxes on automobiles and telephone services through December 1971. The House has already approved an increase in the wage base for social security to $9,000, as was recommended in the budget, and this committee now has this proposal before it.

If Congress fails to act in a timely way on these proposals, a substantial part of the revenue loss will not occur until after the peak in the debt subject to limit has been passed. Consequently, shortfalls from these sources would not necessarily use up the entire allowance for contingencies although they would, of course, narrow the margin of safety.

In our eyes, a more serious question is raised by the estimate by the staff of the Joint Committee on Internal Revenue that fiscal 1971 receipts would be $3 billion below our estimates.

We have carefully reviewed the differences between our estimates and the estimates of the Joint Committee on Internal Revenue that fiscal 1971 receipts would be $3 billion below our estimates.

We have carefully reviewed the differences between our estimates and the estimates of the Joint Committee and it appears that except for minor amounts, the entire difference lies in somewhat more pessimistic economic estimates by the Joint Committee staff.

We believe that there is no strong reason to alter our economic projections at this time. But we recognize the difficulties of making precise forecasts for a year ahead in the present state of the economy and, consequently, we realize that our revenue estimates could turn out to be on the high side. This simply emphasizes the need for an adequate contingency allowance.

In order that there be no misapprehension about the Treasury's need for new funds during the coming year, let me stress that Treasury net borrowing from the public for the year as a whole will be only a small fraction of the $18 billion increase in the temporary ceiling that we seek. As I indicated earlier, we anticipate a deficit in the Federal funds accounts for fiscal year 1971 of approximately $10 billion. But the trust funds are expected to be in surplus by about $8.8 billion during the same period. This trust fund surplus will be invested in Government securities, as in the past, leaving only about $1.3 billion to be financed by the general public.

One final word. The House Ways and Means Committee considered it desirable to raise the permanent debt ceiling as well as the temporary ceiling. They proposed a permanent ceiling of $380 billion, $15 billion above the present ceiling of $364 billion. This will give us somewhat less room than the related increase in the temporary ceiling, because it does not allow fully for contingencies. But it is a ceiling that I believe we can live with.

I urge the committee and the Senate to act promptly on H.R. 17802. Prompt action will assure the ability of the Federal Government to finance its requirements in a responsible way and will help in restoring and maintaining much needed confidence to financial markets and the financial community generally.

That, Mr. Chairman, completes my statement. Director Mayo is here, and he would be glad to cover the budget side of the debt limit problem.

(Tables attached to Secretary Kennedy's statement and referred to previously follow:)

TABLE I.—ESTIMATED DEBT SUBJECT TO LIMIT—FISCAL YEAR 1971

[In billions of dollars]

	Debt with 6.0 cash balance	With 3.0 margin for contingencies
1970		
June 30	369.0	372.0
July:		
15	375.6	378.6
31	375.4	378.4
Aug.:		
15	380.8	383.8
31	380.2	383.2
Sept.:		
15	385.5	388.5
30	376.7	379.7
Oct.:		
15	382.1	385.1
31	381.3	384.3
Nov.:		
15	384.9	387.9
30	384.2	387.2
Dec.:		
15	389.9	392.9
31	386.3	389.3

	Debt with 6.0 cash balance	With 3.0 margin for contingencies
1971		
Jan.:		
15	389.3	392.3
31	382.6	385.6
Feb.:		
15	385.8	388.8
29	385.3	388.3
Mar.:		
15	390.3	393.3
31	387.7	390.7
Apr.:		
15	391.8	394.8
30	382.1	385.1
May:		
15	386.3	389.3
30	385.6	388.6
June:		
15	388.7	391.7
30	378.8	381.8

TABLE II.—RELATION OF AVERAGE CASH BALANCE TO WITHDRAWALS FROM TREASURER'S ACCOUNT, BY FISCAL YEARS

Fiscal year	Average operating balance (excluding gold)	Total withdrawals (DTS)	Percent
1962	4.934	112.188	4.4
1963	6.010	118.477	5.1
1964	5.664	124.066	4.6
1965	6.923	126.395	5.0
1966	5.086	142.190	3.6
1967	4.526	164.591	2.7
1968	5.145	184.581	2.8
1969	5.043	201.491	2.5

Senator ANDERSON. Go ahead, Mr. Mayo.

Mr. MAYO. Mr. Chairman, I do not have a prepared statement today. I can, however, introduce into the record, if you would like, the same material I presented to the House Ways and Means Committee.

(The material referred to follows:)

THE BUDGET OUTLOOK

The President's February budget message proposed budgets for fiscal years 1970 and 1971 that were in delicate balance, with budget surpluses of $1.5 billion and $1.3 billion, respectively. A combination of events since February has pushed both budgets from slight surplus to slight deficit. Our revised estimates now place the 1970 deficit at $1.8 billion, and the 1971 deficit at $1.3 billion.

FISCAL YEAR 1970

The shift from surplus to deficit in fiscal year 1970, results entirely, from a $3.0 billion shortfall in estimated receipts from the corporate income tax, rather than from an overrun on spending. Both final payments on calendar year 1969 tax liabilities and initial payments on calendar year 1970 liabilities fell below expectations. Other changes in estimated tax receipts in fiscal year 1970 are approximately offsetting.

Despite strong pressures for higher spending, total outlays in 1970 are expected to be close to the $198 billion estimate of the February budget (see Table

1). The pressures for higher outlays have produced, all told, increases of $3.0 billion However, all but $0.3 billion, or 90% of this amount, is being offset by decreases in other areas.

The increases include:

—$1.2 billion for the recently-enacted Federal pay adjustment;

—$1.2 billion as a result of uncontrollable increases in interest, public assistance grants, farm price support payments, and unemployment benefits; and

—$0.6 billion as the result of congressional action to increase education and veterans programs and congressional delay in enacting postal rate increases.

The principal reductions result from a decrease in estimated Export-Import Bank and Farmers Home Administration net lending, and lower than expected outlays for Medicare, space activities, Model Cities, and other programs.

FISCAL YEAR 1971

The factors that are pushing the 1970 budget into deficit pose even greater threats to the 1971 budget. Our revised estimates for fiscal year 1971 place outlays at $205.6 billion ($4.8 billion over that estimated in February), with receipts of $204.3 billion ($2.2 billion over the budget estimate), as shown in Tables 2 and 3.

Receipts.—On the basis of the tax rates recommended in February, receipts are now estimated to fall $1.5 billion short of the budget estimates. However, that shortfall will be more than offset by the President's earlier proposed acceleration of estate and gift tax collections and his new proposal for a tax on lead used in the manufacture of gasoline.

Economic assumptions underlying the fiscal year 1971 revenue estimates have not been changed from the levels used in the February estimate. However, estimated revenue from individual and corporation income taxes has been reduced by $0.5 billion and $1 billion respectively, from the February estimates because of a reevaluation of tax revenue expectations based on fiscal year 1970 receipts experience. On the other hand, higher receipts are expected from unemployment insurance taxes ($0.2 billion) as a result of legislation expected to be enacted into law soon. Higher receipts are also expected from customs duties ($0.2 billion), and miscellaneous receipts ($0.2 billion). In addition, favorable congressional response to the President's requests for tax legislation will produce an additional $1.5 billion as a result of accelerated estate and gift tax collections and $1.6 billion from the proposed tax on lead used in the manufacture of gasoline.

Outlays.—None of the $4.8 billion increase in the outlay estimates is attributable to our military operations. Almost half—$2.3 billion—of the increase is in uncontrollable programs, including:

—interest on the public debt ($1.0 billion);

—unemployment benefit payments ($0.5 billion);

—farm price support payments ($0.3 billion);

—cash assistance grants, Medicaid, and Medicare ($0.2 billion);

—veterans compensation and pensions ($0.2 billion);

—disaster relief ($0.1 billion).

The largest single increase—$1.4 billion—results from the action taken in April to move the effective date of the Federal pay adjustment forward a full year from the January 1, 1971 date assumed in the February budget. Simultaneously with the announcement of this action, the President proposed that the collection of estate and gift taxes be accelerated—and thereby increase 1971 revenues by $1.5 billion. In addition, a further increase in postal rates was requested to offset about $0.4 billion more of the higher postal costs attributable to the pay raise than had been reflected in the February budget.

The remaining increases are expected to add $1.5 billion (net) to 1971 outlays. The principal ones are:

—withdrawal of the voluntary deferral of federally-assisted State and local construction;

—veterans education and training;

—the school lunch program;

—improving the quality of the environment;

—aids to housing and other construction incentives;

—Farmers Home Administration net lending; and

—the 1971 effect of higher 1970 and proposed 1971 appropriations for the Department of Health, Education, and Welfare.

These increases are partially offset by a number of reductions, including:

—lower outlays for the Family Assistance Program, because of a later than expected effective date for the program;

—slower than expected spending for the Model Cities program and for highways; and

—a net reduction in the outlays associated with other programs.

The revised 1971 budget, even with a $1.3 billion deficit, remains a tight budget and is fiscally responsible in the expected economic environment of fiscal year 1971. The deficit is substantially less than the increase in receipts that would be produced if the economy was operating at its normal capacity.

These revised estimates are, of course, just that—estimates. They are our best estimates based upon current assumptions concerning economic conditions and congressional action on proposed legislation. In particular, they assume that the Congress will:

—approve the requested postal rate increases;

—enact the tax legislation proposed by the President in the February budget and later;

—pass the Economy Act of 1970 and thereby endorse the program reductions, restructuring, and terminations proposed in the February budget; and

—not add to the total of controllable 1971 spending proposed by the President in appropriations and other legislation.

If we are to hold to these fiscally-responsible estimates, continued outlay restraint is essential. The Administration is committed to such a course and will stay on it. Congressional commitment is equally necessary. If the Congress votes higher appropriations, or does not approve the taxes proposed by the President, it should match these actions with specific cuts in other spending programs or increases in other taxes.

Continued fiscal restraint is essential to helping restore economic stability. Relaxation of that restraint now would risk the danger of permitting the economy to climb too fast as it begins to pick up speed in the months ahead. Too rapid an advance could nullify the efforts made to date toward bringing inflation under control and undermine the Administration's progress toward achieving basic reforms in Government programs and processes.

TABLE 1.—CHANGES IN 1970 BUDGET OUTLAYS

[In billions]

	Changes	Total
February budget estimate		$197.9
Major increases:		
Federal comparability pay raises (enacted Apr. 15, 1970)	+$1.2	
Interest on the public debt	+.55	
Labor-HEW appropriation as enacted	+.3	
Public assistance grants (including medicaid)	+.3	
Farm price supports	+.25	
Postal rate increase—no action by Congress to date	+.15	
Veterans education and medical care	+.1	
Unemployment insurance benefits	+.1	
Subtotal, major increases		+3.0
Other changes:		
Export-Import Bank	−.4	
Medicare	−.3	
Other HEW programs	−.3	
Farmers Home Administration, net lending	−.3	
Model cities	−.2	
National Aeronautics and Space Administration	−.15	
Department of Transportation	−.1	
Department of Labor, excluding unemployment insurance	−.1	
Civil service retirement, net	−.15	
Allowance for contingencies	−.2	
All other changes, net	−.5	
Subtotal, other changes		−2.7
Current estimate, 1970 outlays		198.2

TABLE 2.—BUDGET RECEIPTS, FISCAL YEAR 1970–71

[In billions of dollars]

Source	Fiscal year 1970			Fiscal year 1971		
	Budget estimate	Current estimate	Change	Budget estimate	Current estimate	Change
Individual income taxes	92.2	92.2		91.0	90.5	−0.5
Corporation income taxes	37.0	34.0	−3.0	35.0	34.0	−1.0
Social insurance taxes and contributions	44.8	44.8		49.1	49.3	+0.2
Excise taxes	15.9	15.7	−0.2	17.5	19.1	+1.6
Estate and gift taxes	3.5	3.5		3.6	5.1	+1.5
Customs duties	2.3	2.5	+0.2	2.3	2.5	+0.2
Miscellaneous receipts	3.7	3.7		3.6	3.8	+0.2
Total	199.4	196.4	−3.0	202.1	204.3	+2.2

TABLE 3.—CHANGES IN 1971 BUDGET OUTLAYS

[In billions]

	Changes	Total
February budget estimates		$200.8
Changes in uncontrollable programs:		
Interest on the public debt	+$1.0	
Unemployment insurance benefits	+.5	
Cash assistance grants, medicaid and medicare	+.2	
Farm price supports	+.3	
Veterans compensation and pensions	+.2	
Disaster relief	+.1	
Subtotal, changes in uncontrollable programs		+2.3
Other changes:		
Federal comparability (enacted Apr. 15, 1970) and postal pay raises	+1.4	
New postal rate proposals	−.4	
Increased postage for Federal mail	+.1	
Withdrawal of voluntary State-local construction deferral	+.5	
Housing and construction incentives	+.15	
Environmental quality—revision in proposal and reestimate of budget program	+.2	
Labor-HEW appropriation bill for 1970 as enacted—effect on 1971 outlays	+.2	
Education appropriations—to maintain consistency with 1970 bill as enacted	+.2	
School desegregation	+.15	
Veterans education (GI bill)	+.2	
School lunch and child nutrition, as enacted	+.2	
Coal mine health and safety bill, as enacted	+.1	
Federal employee health benefits	+.1	
Farmers Home Administration, net lending	+.3	
Model cities—slower pace of outlays (no change in program level)	−.15	
Highway trust fund	−.05	
Delay in initiation of family assistance program	−.4	
All other changes, net	−.3	
Subtotal, other changes		+2.5
Current estimate, 1971 outlays		205.6

Mr. MAYO. Basically the Secretary has already discussed the reasons for the President's request that the debt limit be adjusted. We are in agreement with the bill as it passed the House of Representatives. I know you are interested further in the figures underlying the Secretary's statement with regard to Federal funds and trust funds in the budget. The unified budget that we rely on includes the receipts and expenditures, of the trust funds along with the Federal funds. For both 1970 and 1971, the surpluses in the trust funds are now estimated to be only slightly smaller than the deficits in the Federal funds. Current estimates place the surplus in the trust funds at $9.2 billion in 1970, and $8.8 billion in 1971. The deficit in Federal funds is estimated to be $11 billion in 1970, and $10 billion in 1971.

I have a table here, Mr. Chairman, that gives the receipts and outlays of the respective funds in detail should you wish that to be entered into the record.

Senator ANDERSON. We will put it in the record.
(The table referred to follows:)

BUDGET RECEIPTS AND OUTLAYS, BY FUND GROUP

[In billions of dollars]

	1969 actual	1970 estimate	1971 estimate
Federal funds:			
Receipts	143.3	146.6	149.6
Outlays	148.8	157.6	159.6
Deficit	−5.5	−11.0	−10.0
Trust funds:			
Receipts	52.0	58.3	64.4
Outlays	43.3	49.1	55.7
Surplus	8.7	9.2	8.8
Unified budget:			
Receipts	187.8	196.4	204.3
Outlays	184.6	198.2	205.6
Surplus or deficit (−)	3.2	−1.8	−1.3

Note: Receipts and outlays of the separate fund groups include intragovernmental transactions of $7,500,000,000 in 1969, $8,500,000,000 in 1970, and $9,700,000,000 in 1971.

Mr. MAYO. I would be glad to answer any questions you have on the budget outlook in 1970 and 1971, but I do not propose, unless you wish otherwise, to make a formal statement on that. I believe all the facts are quite well known to each of the members of the committee at this point.

Thank you.

Senator ANDERSON. Senator Byrd, do you have any questions?

GOVERNMENT OPERATING UNDER HEAVY DEFICIT

Senator BYRD. Thank you, Mr. Chairman.

Mr. Secretary, I think the debt ceiling is a very important tool that can be used to hold down Government spending. I think this very hearing today is of considerable importance because it focuses, or should focus, attention on the fact that while the public has been given the impression that we are operating somewhere near a balanced budget, the Government actually is operating under a very heavy deficit.

Now, am I not correct that your Federal funds deficit for the fiscal year which ends the 30th of June, the end of this month, will approximate $11 billion.

Secretary KENNEDY. That is right, Senator.

Senator BYRD. So the Federal funds deficit will be $11 billion for this fiscal year which ends the 30th of June.

Secretary KENNEDY. That is our present estimate; that is right.

Senator BYRD. Now, according to your estimate, as I understand it, the Federal funds deficit for fiscal year 1971 you estimate to be a little over $10 billion.

Secretary KENNEDY. About $10 billion, that is right, Senator.

Senator BYRD. So this year we will have a deficit of $11 billion, next year we will have a deficit of more than $10 billion.

Secretary KENNEDY. On a Federal funds basis.

Senator BYRD. On a Federal funds basis.

So I think it very important that the general public understand that, understand that we are nowhere near a balanced budget. The only way that we can be construed as being anywhere near a balanced budget is by taking the roughly $9 billion of surplus in the trust funds, and applying that against the Federal funds, and yet the trust funds can be used for only specific purposes, and the trust funds consist, for the most part, of social security funds and, secondly, of highway funds.

Now, if the Congress approves your request for an increase of $18 billion in the debt ceiling, will this not mean that the debt ceiling has been increased by $30 billion within the last 15 months. Or to put it another way, did not the Congress increase the debt ceiling at your request last year by $12 billion?

Secretary KENNEDY. That is right.

Senator BYRD. What month was that done, do you recall?

Secretary KENNEDY. It was about this time of the year, but it was earlier than that. April.

Senator BYRD. April.

Then in a matter of 15 months, assuming the Congress acts favorably on today's request, the debt ceiling will have been increased by $30 million in a matter of 15 months.

Secretary KENNEDY. That is the peak debt ceiling, the peak to which we can go.

Senator BYRD. Yes.

Well, in any case, does that not, does this not dramatize that the Government is operating heavily in the red, that we are nowhere near a balanced budget? Does it not dramatize the fact that the Government is spending way beyond its means, and is coming to the Congress to increase the debt ceiling so as, as you express it, to restore much needed confidence in the business community.

Secretary KENNEDY. Under the standard or the definition that Congress has set for the debt limit we must have this kind of an increase with our budget prospects becase the debt limit is, as it is on the statutes today is, consistent with the Federal funds basis. The other measure that you talk about, the trust funds is a measure that determines the effect on the economy of the total of all Government operations. It is a measure of whether the Government itself, including the trust funds, is taking funds out of or putting funds into the economy. On that basis, we are in a position now in the budget of a slight deficit. On the basis of the statutory debt limit we are in a position of a large deficit.

Senator BYRD. You stated that the enactment of this legislation would "restore much needed confidence in the business community."

Secretary KENNEDY. Well, the point there, Senator, that I had in mind is that the confusion that we may have over not extending this, and what would happen if it were not extended would cause chaos in the financial markets because come June 30, when we will actually be over the debt limit, we would not be able to finance in the market legally Treasury bills, notes or bonds and which would mean we would just not be able to pay bills.

Senator BYRD. I concur in that context of restoring confidence in the community, but it seems to me the very fact that you have to come here and seek an $18 billion increase in the debt limit, that you come here and point out, as you must do, that there will be an $11 billion deficit this year, and at least a $10 billion deficit next year in the Federal funds, it seems to me that is not going to restore confidence in the business community. As a matter of fact, as these figures become better known, and I don't think they are known, as these figures become better known, it seems to me that it is going to decrease confidence in the business community. That is why I am so strong on keeping a tight debt ceiling because I think one important aspect of keeping a tight debt ceiling is that the administration, whichever it might be, and I opposed the Johnson administration increases in the debt ceiling, incidentally, I don't think his were any greater than have been requested here, I can't remember the exact figures at the moment, but anyway——

The CHAIRMAN (presiding). Senator Byrd, if I might interrupt for just one comment. I want to advise the Secretary that there is a Democratic caucus going on and it might be necessary to discuss this timing when this bill will be called up. I will excuse myself to attend that caucus and I will be back just as soon as I can.

Secretary KENNEDY. That is very important, Mr. Chairman, very important.

The CHAIRMAN. I would be glad to take Senator Williams inside that caucus if they would let me, but he has very poor credentials as a Democrat. [Laughter.]

Senator BYRD. Well, anyway, Mr. Secretary, it seems to me that a tight debt ceiling which requires an administration to come back to the Congress when it continues to operate in the red, as our Government is doing, and has been doing, serves a very important purpose, and I am very much opposed to this unified concept of a budget that we have been operating under.

I think it has been misleading to the public, I think the average businessman, the average citizen feels that we have been operating somewhere near a balanced budget when the figures that you have here show that we are operating heavily in the red, and the very fact that you need to come here to ask for an $18 billion increase in the debt limit justifies that assertion.

PREVIOUS INCREASES IN THE DEBT LIMIT

Let me ask you this. Do you have the increase in the debt limit which was—the increases in the debt limit sought over the last period of 5 or 6 years?

Secretary KENNEDY. Yes.

Senator BYRD. Do you have it available or could you supply it for the record?

Secretary KENNEDY. You have the table there.

Mr. Volcker has here a table that will give you that, Senator, or we can put it in the record.

Senator BYRD. If he has a table, I would rather have it right now.

Mr. VOLCKER. It gets a little complex between the permanent and the temporary ceilings that have been applied from time to time, Senator.

Senator WILLIAMS. Why not just refer to the temporary, that is more permanent than the permanent. [Laughter.]

Senator BYRD. I concur with Senator Williams' statement.

Secretary KENNEDY. Where would you like to start.

Senator BYRD. Let's start at 1964.

Secretary KENNEDY. 1964, the debt ceiling, including the temporary at the end of that year, stood at $324 billion. In 1965 that $324 billion was maintained, as I read this table. It went up to $328 billion in 1966, and then successively in 1967 reached $336 billion; in 1968, $358 billion; and then successively in 1969 to $365 billion, and then to $377 billion the present temporary ceiling.

Senator BYRD. Then, is this assertion correct? This proposed $18 billion increase is the largest increase that has been received by either the Johnson—by any previous administration in recent years.

As I look at these figures, the Johnson administration proposed an increase of $18 billion or at least received an increase of $18 billion or at least received an increase of $18 billion, in 1969, and you are proposing an increase now of $18 billion which would be equal to the one proposed by President Johnson.

Secretary KENNEDY. You drew the distinction properly between what was provided and what was proposed. I would have to check to see whether your statement is accurate for what the administration had proposed.

Senator BYRD. I think they proposed more than the $18 billion they received.

Secretary KENNEDY. There were times when they proposed more.

Senator BYRD. Yes; I think last year you proposed more than the $12 billion that you received.

Secretary KENNEDY. That is correct.

Senator BYRD. So the point I am suggesting is that I doubt that in any 15-month period that the debt ceiling has been increased as much as $30 billion. If you have figures to show otherwise, I would be glad to have you insert them in the record. But as I read these figures in no other 15-month period has the debt ceiling been increased as much as $30 billion.

Mr. Chairman, I don't want to take additional time. I feel I have taken all that I should properly take, but I would like an opportunity later on.

Senator ANDERSON (presiding). Very well.

(The Department subsequently submitted the following information:)

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	[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. 502, 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. 13, 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, 191: 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

[1] Limitation on issue. [2] Limitation on outstanding.

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

Mar. 3, 1931: 46 Stat. 1506, amending sec. 1. increased bond authority to	[1] $28,000,000,000
Jan. 30, 1934: 48 Stat. 343, amending sec. 18, increased authority for notes outstanding to	[2] 10,000,000,000
Feb. 4, 1935:	
40 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, removing 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'"	[2] 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	[2] $65,000,000,000
Eliminated separate authority for $4,000,0000,000 of National Defense Series obligations.	
Mar. 28, 1942: 56 Stat. 189, amending sec. 21 increased limittation to	[2] 125,000,000,000
Apr. 11, 1943: 57 Stat. 63 amending sec. 21, increased limitation to	[2] 210,000,000,000
June 9, 1944: 58 Stat. 272, amending sec. 21, increased limitation to	[2] 260,000,000,000
Apr. 3, 1945: 59 Stat. 47, amending sec. 21 to read: "The face amount of obligations issued under authority of this act, and the face amount of obligations guaranteed as to principal and interest by the United States (except such guaranteed obligations as may be held by the Secretary of the Treasury), shall not exceed in the aggregate $300,000,000,000 outstanding at any one time"	[2] 300,000,000,000
June 26, 1946: 60 Stat. 316, amending sec. 21, adding: "The current redemption value of any obligation issued on a discount basis which is redeemable prior to maturity at the option of the holder thereof shall be considered, for the purposes of this section, to be the face amount of such obligation," and decreasing limitation to	[2] 275,000,000,000
Aug. 28, 1954: 68 Stat. 895, amending sec. 21, effective Aug. 28, 1954, and ending June 30, 1955, temporarily increasing limitation by $6,000,000,000 to	[2] 281,000,000,000
June 30, 1955: 69 Stat. 241, amending Aug. 28, 1954, act by extending until June 30, 1956, increase in limitation to	[2] 281,000,000,000
July 9, 1956: 70 Stat. 519, amending act of Aug. 28, 1954, temporarily increasing limitation by $3,000,000,000 for period beginning July 1, 1956, and ending June 30, 1957, to	[2] 278,000,000,000

[1] Limitation on issue. [2] Limitation on outstanding.

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

July 9, 1956—Continued	
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: 27 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	[2] 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 on Nov. 30, 1963	[2] 309,000,000,000
Nov. 26, 1963: 77 Stat. 342, amending sec. 21, for the period—	
1. Beginning on Dec. 1, 1963, and ending June 29, 1964	[2] 315,000,000,000
2. On 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
Mar. 2, 1967: 81 Stat. 4, amending sec. 21, for the period beginning Mar. 2, 1967, and ending on June 30, 1967, temporarily increasing the debt limit to	[2] 336,000,000,000
June 30, 1967: 81 Stat 99—	
1. Amending sec. 21, effective June 30, 1967, increasing limitation to	[2] 358,000,000,000
2. Temporarily increasing the debt limit by $7,000,000,000 for the period from July 1 to June 29 of each year, to make the limit for such period	[2] 365,000,000,000
April 7, 1969: 83 Stat. 7—	
1. Amending sec. 21, effective Apr. 7, 1969, increasing debt limitations to	365,000,000,000
2. Temporarily increasing the debt limit by $12,000,000,000 for the period from Apr. 7, 1969 through June 30, 1970, to make the limit for such period	377,000,000,000

[1] Limitation on issue. [2] Limitation on outstanding.

Senator ANDERSON. Senator Williams.

UNIFIED BUDGET ACCOUNTING SYSTEM

Senator WILLIAMS. Mr. Secretary, first I want to congratulate you for eliminating from your prepared remarks any reference to this unified budget accounting system which some of us think is a little bit of a screwball method of fooling the American people. I was a little disappointed that the Budget Director, Mr. Mayo, referred to it, because, as the Senator from Virginia points out, it gives the American people a false impression as to the cost of government.

But just for the moment assuming that there is only going to be a $1 billion deficit, and I will direct this to Mr. Mayo since he referred to it, will you explain for the record why it is necessary to raise the debt limit to $395 billion so that you can borrow $18 billion to finance a $1 billion deficit. I think the American people would like to have that explanation.

Mr. MAYO. Yes; the explanation is the one that has been brought out here today, I think, very clearly.

Senator WILLIAMS. I think you can do it better in your language so you just go and do it over, go ahead again.

Mr. MAYO. The whole basis for the unified budget presentation, Senator Williams, is to present to the American people the economic effect of total spending by the Federal Government; not to limit it just to the spending on the Federal funds. This is a smaller amount and, therefore, understates the real spending by the Federal Government. Similarly, the unified budget presentation is used to report to the American people the total amount of taxes collected from them for whatever purpose. Again, to include just the administrative budget taxes is an incomplete picture from an economic analysis standpoint and from a standpoint of full disclosure to the American people.

You are quite correct, however, that if you split this into Federal funds as indeed we used to between Federal funds and trust funds, a split which, by the way, was very confusing the way it was handled in the press throughout America——

Senator WILLIAMS. It wasn't as confusing as it was embarrassing at times when you reported a big deficit; isn't that more the word?

Mr. MAYO. Well, it led to the use, Senator Williams, of several different concepts of the budget. Anyone who wanted to prove a particular point would pick out the concept that served that purpose, and I don't think that that is a very good idea either.

But I have no dispute at all with you with regard to the facts here. Within the concept of the debt limit as it is defined you are absolutely correct, that the Federal funds deficit is the relevant figure.

Senator WILLIAMS. Well, the Federal funds represent the cost of the various programs that are administered by the Government and paid for by congressional appropriations; is that not true?

Mr. MAYO. It includes some that are paid for in other ways, like authority to spend public debt receipts——

Senator WILLIAMS. Well, that is correct.

Mr. MAYO. And from contract authority where appropriations aren't used.

Senator WILLIAMS. And trust funds represent social security and civil service retirement funds, and that represents an accumulation of funds which can be used only for the purpose of paying the benefits under the respective trust funds, whether it be railroad retirement funds, civil service or social security trust funds.

Mr. MAYO. That is correct.

Senator WILLIAMS. Under the law not a dime of it can be used for education appropriations or a battleship or any other expenditure, appropriation of Congress; is that correct?

Mr. MAYO. That is correct.

Senator WILLIAMS. So when we speak of the deficit of $10 and $11 billion, respectively, for the current fiscal year and the next year we are really speaking of the fact that as the estimates are that the Government will be spending a total of about $21 billion on the various programs approved by Congress over and above the income that we are taking in to pay for it; is that correct?

Mr. MAYO. That is correct on the Federal funds basis.

Senator WILLIAMS. So we are really operating the Government and have been in the last 12 months and the projection is about a billion dollars per month beyond our income from taxes and other types of revenue to pay for it.

Mr. MAYO. It figures out that way, yes, sir.

Senator WILLIAMS. I think it would be better the sooner we get back to that reporting system. Certainly we take into consideration the amount that is taken from the economy. But at the same time, I think that it perhaps gives the American people the wrong impression. They don't understand—some of our constituents—why some of us have to insist that various popular programs have to be curtailed when they read in the paper of officials saying: "We have a surplus" when we really have a deficit. I think the sooner we get back to, well, we will say, a little truth in Government as to what it is costing I think it would be better understood. Perhaps, we should put a label on this similar to what we insist on business putting on the packages as to the truth on what is in the package, and I hope we can get that.

Now, Mr. Secretary, you referred to your request here for $380 billion permanent and $395 temporary. I said a moment ago rather facetiously, but isn't it true, that there is nothing more permanent in Government than a temporary debt ceiling?

PERMANENCY OF A TEMPORARY DEBT CEILING

Secretary KENNEDY. There is no question because of the seasonality of our expenditure pattern and receipt pattern that we have each year a peak in our debt and so the so-called temporary is going to be there every year.

Senator WILLIAMS. Yes. I mentioned this several times. Last year we enacted a permanent 365 and temporary 377. It goes back on July 1 to 365, which is a farce. We know the debt is not going to drop back to 365 by legislative process, and that puts us in the position of being confronted with an emergency at this time.

Now, whatever figure Congress may approve on this debt ceiling at this time, doesn't it make more sense to disregard the two figures and take just one figure, whatever it is going to be, and put that figure into the law.

Secretary KENNEDY. I should think that would make considerable sense, Senator, because, as you indicated last year, as of June 30 we had to be back to the statutory limit but that is a point at midnight or sometime and then the next day you go back to the so-called temporary.

There is a feeling on the part of some people that this is a pressure with the debt limit to pull you or to make you more careful on expenditures and that this will highlight the problem, and to that extent there may be a reason to say you have got to keep forever pulling back to this so-called permanent ceiling.

Senator WILLIAMS. We can put that pressure on the top.

Secretary KENNEDY. Well, it has to be a combined effort, and that is one reason why in these hearings I was using Federal funds completely, if that will help us to keep Congress from spending more or to go along with the tax increases we have recommended, and then I would like to talk Federal funds.

Senator WILLIAMS. Well, I think that we talk Federal funds, when I said put it at the top I didn't mean put it to the executive versus Congress.

Secretary KENNEDY. I see.

Senator WILLIAMS. Put the ceiling on the top figures is what I meant. I want to agree completely it is a joint responsibility; the executive can't spend any money that hasn't been approved by Congress.

I didn't mean it that way.

Secretary KENNEDY. Thank you. I am sorry I misconstrued it.

Senator WILLIAMS. And it does take the cooperation.

You mentioned the excise taxes on autos and telephone extended beyond 1971. What is the date they expire.

Secretary KENNEDY. At the end of this year.

Senator WILLIAMS. So action has to be taken now to extend them beyond that.

Now would you furnish for the record if you don't have it at this point, the past 5 year records of what the deficits would show under the Federal funds? Just forget this unified budget, and furnish for the record the old accounting system broken down by years for the past 5 years, just how much we have spent beyond our income during that period.

Secretary KENNEDY. I would be glad to do it, Senator.

(Information supplied by the Department of the Treasury and the Bureau of the Budget follows:)

FEDERAL FUNDS RECEIPTS AND EXPENDITURES

[In billions]

	Actual				Estimate	
	1966	1967	1968	1969	1970	1971
Receipts	$101.4	$111.8	$114.7	$143.3	$146.6	$149.6
Expenditures	106.5	126.8	143.1	148.8	157.6	159.6
Deficit	-5.1	-15.0	-28.4	-5.5	-11.0	-10.0

Bureau of the Budget.

46-574 O—70——4

FEDERAL FUNDS AND TRUST FUNDS, 1960-71

[In billions]

Fiscal year	Federal funds			Trust funds			Unified budget surplus (+) or deficit (−)
	Receipts	Outlays	Surplus (+) or deficit (−)	Receipts	Outlays	Surplus (+) or deficit (−)	
1960	$75,650	$74,865	$785	$19,228	$19,743	−$515	+$269
1961	75,179	79,336	−4,157	21,800	21,048	752	−3,406
1962	79,703	86,594	−6,891	22,652	22,898	−246	−7,137
1963	83,550	90,141	−6,591	25,799	23,958	1,841	−4,751
1964	87,205	95,761	−8,556	28,518	25,884	2,634	−5,922
1965	90,953	94,807	−3,864	29,230	26,962	2,268	−1,596
1966	101,427	106,512	−5,085	32,997	31,708	1,289	−3,796
1967	111,835	126,779	−14,944	42,935	36,693	6,242	−8,702
1968	114,726	143,105	−28,379	44,716	41,499	3,217	−25,161
1969	143,329	148,819	−5,490	52,009	43,284	8,725	+3,236
1970 [1]	146,579	157,588	−11,009	58,341	49,147	9,194	−1,814
1971 [1]	149,601	159,646	−10,045	64,447	55,656	8,791	−1,254

[1] Budget estimate, June 8, 1970.

BUDGET EXPENDITURE CEILINGS

Senator WILLIAMS. Do you agree with the Chairman of the Federal Reserve Board of Governors, Dr. Burns, that there should be an expenditure ceiling placed on the budget for fiscal year 1971.

Mr. MAYO. Mr. Chairman, I have not voiced objection to the ceiling bill which indeed has been passed by the House of Representatives. It has been reported out, I believe, by the Senate Appropriations Committee which does fix a ceiling for the fiscal year 1971, as well as giving us the necessary relief we must have for expenditures in the fiscal year 1970. Without such relief we would be unable to operate the Government in a prudent manner for the remainder of this fiscal year.

I have often expressed, and will be glad to express again today, reservations on the idea of an overall expenditure ceiling which, in fact, is binding only on the Executive and gives the Congress the right to add to the ceiling whenever they add to expenditures, by passing appropriation bills in excess of the former ceiling, and the right to lower the ceiling when the Congress sees fit to cut.

I believe this is an inequitable way to run a ceiling and yet it is the Congress' judgment, both in the current expression and in the laws of the last 2 years, that in effect this is the way they would prefer to do it.

If we are going to have to have a ceiling at all there is a certain appeal, Senator Williams, of the point of view that Arthur Burns has expressed. But in the real political world, my objection to the idea of a ceiling is that I don't think that we can achieve a rigid ceiling that will apply logically to both the Congress and the Executive.

Senator WILLIAMS. Well, I would have been surprised if you hadn't objected to the ceiling that has been passed by the House and reported by the committee because it is a ceiling in name only. It is like I said, putting on a roof when you are expecting a flood and anchored it on pontoons so it floats as the water gets higher and that is the kind of ceiling we had last year. We had a $192 billion ceiling and we are going to spend around $198 to $200 billion under that ceiling and the roof is still up above.

Mr. MAYO. That is the kind of ceiling that is on congressional action. Ours is hitched to a pile and as the tide goes up we go under water.

Senator WILLIAMS. That is right.

Now, I am asking, the question is, would you support a ceiling that would tie both down, both Congress and the Executive. It can be drafted because we drafted one in 1968. I took part in it. It was a rigid ceiling on both the executive and the Congress and neither could exceed it except by action of various exceptions.

Of course, Congress, I will grant you, approved those exceptions, and shot the ceiling full of holes, but it was approved by the Executive and with the support—and conceivably the Executive could have vetoed it. So it was a joint responsibility and joint agreement to raise it.

My question is would you support a ceiling that is a real ironclad ceiling that can only be exceeded by further legislative action of the Congress and approval of the President?

Mr. MAYO. I find, Senator Williams, that I would have to object to it on the grounds that neither we nor you have perfect vision as to our fiscal future. It would be an undue constraint on both the Congress and the Executive to construct a ceiling which would be so restrictive that we would have to come back whenever interest on the public debt went up or whenever social security benefits went up—factors over which neither of us has any control.

Senator WILLIAMS. Well, the two items that you mentioned were excepted from the 1968 ironclad ceiling because we recognize that interest on the public debt has to be paid and social security is paid out of trust funds. Under this ceiling we would put it on administrative expenditure, so I would gather since those are the only two exceptions you would have no objection to that type of a ceiling or do you have other objections?

Mr. MAYO. Yes; I have further objections on the ground of flexibility. I have no way of guaranteeing that the executive branch can operate under a ceiling which would permit or which would prohibit our making, for instance, public assistance payments to the States or educational grants to the States or, indeed, veterans pensions and benefits which are not paid out of trust funds.

If those are coming due we have to pay them. We can't decide that Joe Doaks gets his veterans check but John Smith does not. So we are forced into cutting expenditures in other ways.

Senator WILLIAMS. Aren't you glad the veterans are around for an excuse sometimes?

Mr. MAYO. Well, I think it accentuates the very problem that you and I aren't quite in agreement on, Senator Williams. That is the necessity of bringing all of these things together. A veterans benefit and a social security check look pretty much alike to the recipient.

Senator WILLIAMS. Mr. Secretary, I want to ask you the same question. What is your opinion and recommendations about a ceiling on expenditures? When I am speaking of ceiling I am not talking about a floating ceiling. That is something just to deceive the American people where you and I can put a halo around our head and talk about how we cut expenditure by putting a ceiling on. I mean a real effective ceiling, with the exceptions similar to what was approved at one time by President Johnson and the Congress and then later reneged on by both.

Secretary KENNEDY. I agree with your efforts to find a way, if there is one at all possible, to put restraint both on the Congress and on the executive branch on the expenditure side, and to the extent that the debt limit works, as Senator Byrd indicated, I welcome that.

To the extent that you can get a ceiling that is livable, one that you can operate under without having so many exceptions, it is a meaningless ceiling, or one that is so tight that you cannot function under it. I think somewhere in between there ought to be a definition of a ceiling which could work.

It is a very difficult one because it is not just interest on the debt, as the Director indicated, but there are other expenditures in the Federal funds budget that the executive branch by law has no real control over. They are fixed and they escalate.

Senator WILLIAMS. Trust funds and the interest on the debt were not in the ceiling that we had at that time.

Secretary KENNEDY. Well, but you have got many others, how about medicare and medicaid and those things; there are many of them.

Mr. MAYO. Medicaid is a good example.

Senator WILLIAMS. Medicaid is a wonderful example. Isn't it true that we could do a little conserving in medicaid? We had some hearings here about runaway costs in medicaid and welfare, both, and perhaps we need a little more control over both of them. Don't you think we do.

Mr. MAYO. I certainly couldn't agree with you more. We need more control over both of them.

Senator WILLIAMS. So we give you some control.

Mr. MAYO. We have the control, Senator Williams, of those programs themselves. If we control only an overall total we are limiting unduly our flexibility in trying to make the Government work.

Senator WILLIAMS. Well, it takes some of both, but it takes cooperation of both the executive and the Congress to approve the legislative functions of both.

Mr. MAYO. Yes. But my problem with the expenditure ceiling is that once these commitments have been made, Senator Williams, we have no authority to pay the bills that have been properly and legally rendered to us.

SAVINGS AND RETIREMENT BONDS

Senator WILLIAMS. I won't take too much time here because others of us have questions. I do want to ask further questions but, Mr. Secretary, I would like to ask you one question here. I offered an amendment to a bill sometime back to provide for 6 percent on a new type savings bond. The present rate on regular savings bonds is 5 percent. To some of us it seemed most unfair that a small investor would be asked to buy Government bonds with a 5-percent yield when, at the same time, a man with a larger amount of money is buying a Government bond with a similar maturity, but with an 8-percent yield. The Senate approved my amendment I think about 71 to 2, but it was tied up in conference, as you know, and is still awaiting final action.

What is your objection to paying a reasonable rate—6 percent is certainly a reasonable rate in light of the high interest rates today—to these small investors, and if we are not going to pay them a realistic rate wouldn't it be better just to abolish the savings bonds program in fairness to the American people?

Secretary KENNEDY. Senator, in response to that question, as you know, we have outstanding over $50 billion in savings bonds. These have been put out over many years. It does constitute a savings of the public. It has been a good instrument from the standpoint of the management of the public debt, I think, and the saver who has put that money into savings has an accumulation of funds that is usable at some time, could be pulled out almost at a moment's notice, so it does constitute a reserve for the public that is of value.

The rates over the years have fluctuated, as you know. Never have they been based on market situations in the history of the savings bond program. They have been increased from time to time as interest rates have gradually and consistently moved upward, lagging, I am sure in the changes that were made on the savings bonds. Because of the 4¼-percent ceiling we have had to come to the Congress to argue for any change in the rate because of that ceiling.

Now, savings institutions generally, whether it is commercial banks, savings and loan associations or other forms of savings, pay around the 5 percent rate, very little over, some are under, and if we would put out an instrument at a high rate, you could escalate the interest rates, you could cause disintermediation in the savings institution in the savings bonds and you could affect the housing market and many other markets that live by the savings of the public through the savings institutions.

We are in a period of transition in our economy. Interest rates have reached peak levels. This is a time when we would expect an adjustment process, at least over a period of time some reduction. It is pretty hard for me to justify 6 percent, why not 8 percent, the rich ones are getting 8 percent. Why not fix 8 percent? Why do you fix 6 percent?

Senator WILLIAMS. The 6 percent was fixed so far as I could get anybody to agree on and I couldn't get you to agree on the 6. Do you want 8?

Secretary KENNEDY. No, I don't want more—I think there is a point of considering a change in the total savings bond program which would be appropriate to all of the holders not just the few or in the limited amounts that could be put in this amount which could undermine the whole savings program.

The savings bonds are sold largely at this time by the large corporations through payroll savings. It is a convenient form of savings. and that money, much of it, would be spent in other forms if it were not saved. so 5 percent on something is better than 10 percent on nothing.

Now. if the Congress would like to give us leeway to adjust the whole saving bond program I think there would be a case, a real case, and then you could take into account the other savings institutions and what you have.

Now, I don't think that would end up at 6 percent. It might end up somewhere between the 5 and the 6. That would be a possibility.

Senator WILLIAMS. Well. this bond didn't affect your series E bonds and the argument was used they drove them over into the sixes. If a man has a $10,000 series E and wishes to roll them over he could roll them over even to a 7-year maturity, into an 8-percent bond. It is the small investor we are talking about. I must say that I am not persuaded by the fact that a continuation of the 5-percent savings bond is fair to the small investor.

You mentioned one point which I think is very important, and it has been overlooked. We are in an inflationary spiral as a result of the tax reductions which I think were ill advised last year. As you know, I was one of the few who didn't go along with it, but as a result of reducing the surcharge from 10 to 2½ this year, that means there are an additional 9 billion goes into the economy. We had a 15-percent social security increase, we had the low-income allowance tax deduction and altogether we put tax deductions in that one bill as compared with the previous law amounting to around $9 billion.

Now we offset that some by repeal of the 7-percent investment credit and changing the depreciation allowances somewhat but that applied mostly to the corporations and the businessmen. But that put extra money in the economy. I think a good savings bond program, a solid one, would siphon out of the spending stream much of this money which is now going into the spending stream and would be the greatest help in combating inflation that I think we could get.

I argued this strongly with President Johnson. During the war we needed a savings bond program and the historic record of the savings bond program was they paid a slightly larger return of interest to the smaller investor than to the large investor. It is only in recent years that we reversed that.

When you speak of the corporations selling these bonds, and I respect them for cooperation in selling them, but they are selling the bonds at 5 percent to their employees while, at the same time, their own money is being invested in certificates and Treasury bills drawing 7 and 8 percent, and I just don't see how it can be justified. Frankly, I think that we are going to get a savings bond program regardless, and I think this Congress is going to give you one. I wish we could do it with your support, because we can clear up a lot of congestion on this end if we can get your support. But I think there is an excellent chance we are going to get one anyway and when we have I am looking forward to it being a tremendous success and hearing you later say that you like it.

Secretary KENNEDY. OK.

Senator ANDERSON. Senator Curtis.

Senator CURTIS. Mr. Mayo, it has been said here, and it coincided with my tabulation, that the Federal funds deficit for this fiscal year that is about to end is a little over $11 billion.

Mr. MAYO. Yes, sir.

Senator CURTIS. What would be the deficit, according to the consolidated or unified?

Mr. MAYO. We are using a figure currently of $1.8 billion. That is consistent with the $11 billion figure because we estimate that the trust funds surplus this year will be approximately $8.2 billion.

Senator CURTIS. Mr. Secretary, in the public pronouncements of what the deficit has been throughout this past year, which one has been used, the unified deficit of 1.8 or the Federal funds deficit?

Secretary KENNEDY. In speaking of the deficit we have used the unified budget of 1.8 rather than the Federal funds. In the documents, of course, both are shown. The purpose here, of course, is to show the effect on the economy on the receipts and expenditures in total of the Federal Government, that is taken out by taxes, both the trust taxes and the other expenditures that go out by law in both cases, of the total picture.

Now, if we were taking the other total that would be one way of doing it. I think we would have to express both in order to show the effect on the economy, otherwise, if we were balancing in the present situation the Federal funds budget, let's assume we were, we would have to reduce expenditures of Federal funds expenditures, whether it is defense or other, by the $11 billion, and that, in view of the present state of the economy may be too much burden.

Senator CURTIS. I understand the arguments for it, and I don't want to dwell on that, but I want to ask this question. Which deficit do the taxpayers have to pay?

Secretary KENNEDY. Both. The taxpayer pays the social security taxes. Most of the increases over the years in taxes have been in social security.

Senator CURTIS. But, in other words, when it has been announced that the deficit was the unified deficit of 1.8, that isn't what the taxpayer has to pay. He has to pay the $11 billion deficit, isn't that right?

Secretary KENNEDY. Well, he pays the taxes according to the tax law, and on the income tax law it would be what he—but also the corporations and the individual have to pay the other taxes, which are the——

Senator CURTIS. I understand that. But the point is the deficit has a clear meaning to all people, and that is the amount of the debt accumulated and the amount they will have to pay and the amount they will have to pay an interest charge on. So it has been very misleading to have a feeling that this running behind was 1.8 billion or thereabouts when in reality it is 11.

As Senator Williams has pointed out, the Tax Reform Act of 1969, what was started out to be plugging loopholes, granted $9 billion of tax relief when it becomes fully effective. The postal strike occurred, totally unlawful. It ended up in a settlement being handed to Congress for an across-the-board pay raise, which, the pay raise alone, amounted to $2½ billion.

Now, I do not think that the Congress, very many of them, were aware when they voted for the individual items of tax relief of $9 billion, that they were borrowing money to lower taxes. I knew it, I said so on the floor, and we were borrowing money to reduce taxes.

The correct measure of a deficit is how much has to be paid, and so when the word goes out under any definition of a lesser amount than our debt will actually be increased by, it is very, very confusing to the Congress.

It is very confusing.

I am thoroughly satisfied that you gentlemen in the executive branch would have much better response from the Congress in holding down expenditures and in refraining from reducing taxes in times or amounts that shouldn't be done if you would not persist in going on with this so-called unified budget.

Secretary KENNEDY. Senator, in my testimony I didn't mention a unified budget. I kept it fully on the Federal funds budget for the very reason that the debt limit you are talking about is consistent with the Federal funds today.

Senator CURTIS. That is true today, but I am talking about the day-to-day operation when we vote on expenditures and when we vote on taxes. The Senate put in a provision in the tax reform bill providing for periodic reports to the Appropriations Committees of both Houses of the Congress, and the Ways and Means Committee of the House and the Committee on Finance of the U.S. Senate, that would reflect what we have commonly come to term here as the Federal funds picture.

It was stricken out in conference upon the insistence of Under Secretary Walker, and I think we were deprived of some information that would have been helpful in trying to responsibly handle the financial matters of this country.

Secretary KENNEDY. Well, to the extent, Senator, that it would help to hold back expenditures and get the revenue we need to operate reasonably under measures now before the Congress, I think we should highlight the figures you are talking about and that was my effort here today and I think that in future presentations there are things that can be done that would help you in the problem you have.

Senator CURTIS. That is all, Mr. Chairman.

The CHAIRMAN (presiding). Senator Bennett.

Senator BENNETT. I wasn't able to hear the Secretary. I had to go to another meeting, so I will withhold my chance at least for the time being.

The CHAIRMAN. Senator Anderson.

Senator ANDERSON. I just hope you get this unified budget to take into account many items. For example, you are building the Prudential Building in Chicago; what is the unit cost, $11 million?

Secretary KENNEDY. I am not clear that I have your question.

Senator ANDERSON. We are talking about all these things, many things we do that create a future asset. We have post office buildings. I am glad to see a balanced budget but sometimes they are really not expenditures but savings to another day.

The CHAIRMAN. Mr. Secretary, I would like to get as many facts and figures and charts as seem relevant, and I would ask you to provide information similar to what I have asked for before. I would like to ask if you will provide it for the record.

Secretary KENNEDY. Yes, Senator, Mr. Chairman, we would be glad to provide for the record those figures.

The CHAIRMAN. Do you have a chart, in addition to those you have made available to us, showing what the debt would be in terms of constant purchasing power, what it had been, what it is now, and further showing us what the growth of the gross national product has been in terms of purchasing power and also in terms of purchasing power related on a per capita basis so we can see what the growth of the economy has been year by year and how we have made out in good times and bad? We will insert them all at this point in the record.

(The Department of the Treasury subsequently supplied the following material:)

INTEREST ON THE PUBLIC DEBT RELATED TO TOTAL BUDGET OUTLAYS AND GROSS NATIONAL PRODUCT, 1954–71

[Dollar amounts in billions]

Fiscal year	Interest on the public debt	Total budget outlays	Gross national product	Ratio of interest to— Total budget outlays (percent)	Ratio of interest to— Gross national product (percent)
1954	$6.4	$71.1	$362.1	9.0	1.8
1955	6.4	68.5	378.6	9.4	1.9
1956	6.8	70.5	409.4	9.6	1.7
1957	7.2	76.7	431.3	9.4	1.7
1958	7.6	82.6	440.3	9.2	1.7
1959	7.6	92.1	469.1	8.3	1.6
1960	9.2	92.2	495.2	10.0	1.9
1961	9.0	97.8	506.5	9.2	1.8
1962	9.1	106.8	542.1	8.5	1.7
1963	9.9	111.3	573.4	8.9	1.7
1964	10.7	118.6	612.2	9.0	1.7
1965	11.3	118.4	654.2	9.5	1.7
1966	12.0	134.7	720.7	8.9	1.7
1967	13.4	158.4	766.5	8.5	1.7
1968	14.6	178.9	822.6	8.2	1.8
1969	16.6	183.1	900.6	9.1	1.8
1970 [1]	19.4	198.2	960.0	9.8	2.0
1971 [1]	20.0	205.6	(2)	9.7	(2)

[1] Estimated in May review of 1971 budget.
[2] Not available.

Source: Office of the Secretary of the Treasury, Office of Debt Analysis.

PRIVATELY HELD FEDERAL DEBT RELATED TO GNP

[Dollar amounts in billions]

Dec. 31	Gross national product [1]	Privately held debt [2]	Ratio of debt to GNP (percent)
1929	$96.7	$16.0	16.5
1930	83.1	15.8	19.0
1931	66.9	17.7	26.4
1932	56.8	19.4	34.2
1933	60.3	21.9	36.3
1934	68.6	28.0	40.8
1935	77.4	32.0	41.3
1936	86.5	35.3	40.8
1937	87.6	36.6	41.8
1938	87.6	37.9	43.3
1939	94.8	40.1	42.3
1940	107.6	42.6	39.6
1941	138.8	54.0	38.9
1942	179.0	95.5	53.4
1943	202.4	142.9	70.6
1944	217.4	193.1	88.8
1945	196.0	228.2	116.4
1946	221.4	206.1	93.1
1947	245.0	199.1	81.3
1948	261.2	192.0	73.5
1949	260.5	197.7	75.9

Dec. 31	Gross national product [1]	Privately held debt [2]	Ratio of debt to GNP (percent)
1950	$311.2	$196.6	63.2
1951	338.2	193.1	57.1
1952	361.0	196.8	54.5
1953	360.8	200.9	55.7
1954	379.8	204.2	53.8
1955	409.7	204.8	50.0
1956	433.2	199.4	46.0
1957	438.1	198.8	45.4
1958	469.2	204.7	43.6
1959	496.8	214.8	43.2
1960	503.4	212.4	42.2
1961	542.8	217.8	40.1
1962	574.7	222.8	38.8
1963	611.8	223.9	36.6
1964	654.0	227.0	34.7
1965	719.2	225.6	31.4
1966	770.2	227.5	29.5
1967	825.7	237.3	28.7
1968	900.6	236.1	26.2
1969	956.3	232.1	24.3

[1] Implied level of gross national product, Dec. 31.
[2] Borrowing from the public less Federal Reserve holdings, unified budget concept.

Source: Office of the Secretary of the Treasury, Office of Debt Analysis.

ESTIMATED GROSS GOVERNMENT AND PRIVATE DEBT, BY MAJOR CATEGORIES

[Dollar amounts in billions]

	December 1946		December 1960		December 1968		December 1969	
	Amount	Percent of total	Amount	Percent of total	Amount	Percent of total	Amount	Percent of total
Federal debt:								
Public	$259	58	$290	29	$358	20	$368	19
Federal agency	1½	([1])	6½	1	15	1	14	1
Total	260½	58	296½	30	373	21	382	20
State and local debt	16	4	72	7	128	7	137	7
Corporate debt	109½	24	365	37	754	43	861	44
Individual debt	60	13	263	26	520½	29	555	29
Total	446	100	996½	100	1,775½	100	1,935	100

Less than ½ of 1 percent.

Note: Detail may not add to total due to rounding.

Source: Office of the Secretary of the Treasury, Office of Debt Analysis.

ESTIMATED GROSS GOVERNMENT AND PRIVATE DEBT BY MAJOR CATEGORIES

[Dollar amounts in billions]

	Private			State and local	Federal				
Dec. 31.	Individual	Corporate[1]	Total		Public	Agency	Total	Total	Percent Federal of total
1929	$72.9	$107.0	$179.9	$17.8	$16.3	$1.2	$17.5	$215.2	8
1930	71.8	107.4	179.2	18.9	16.0	1.3	17.3	215.4	8
1931	64.9	100.3	165.2	19.5	17.8	1.3	19.1	203.8	9
1932	57.1	96.1	153.2	19.7	20.8	1.2	22.0	194.9	11
1933	51.0	92.4	143.4	19.5	23.8	1.5	25.3	188.2	13
1934	49.8	90.6	140.4	19.2	28.5	4.8	33.3	192.9	17
1935	49.7	89.8	139.5	19.6	30.6	5.6	36.2	195.3	19
1936	50.6	90.9	141.5	19.6	34.4	5.9	40.3	201.4	20
1937	51.1	90.2	141.3	19.6	37.3	5.8	43.1	204.0	21
1938	50.0	86.8	136.8	19.8	39.4	6.2	45.6	202.2	22
1939	50.8	86.8	137.6	20.1	41.9	6.9	48.8	206.5	24
1940	53.0	89.0	142.0	20.2	45.0	7.2	52.2	214.4	24
1941	55.6	97.5	153.1	20.0	57.9	7.7	65.6	238.7	27
1942	49.9	106.3	156.2	19.2	108.2	5.5	113.7	289.1	39
1943	48.8	110.3	159.1	18.1	165.9	5.1	171.0	348.2	49
1944	50.7	109.0	159.7	17.1	230.6	3.0	233.6	410.4	57
1945	54.7	99.5	154.2	16.0	278.1	1.5	279.6	449.8	62
1946	59.9	109.3	169.2	16.1	259.1	1.6	260.7	446.0	58
1947	69.4	128.9	198.3	17.5	256.9	0.7	257.6	473.4	54
1948	80.6	139.4	220.0	19.6	252.8	1.0	253.8	493.4	51
1949	90.4	140.3	230.7	22.2	257.1	0.8	257.9	510.8	50
1950	104.3	167.7	272.0	25.3	256.7	1.1	257.8	555.1	46
1951	114.3	191.9	306.2	28.0	259.4	0.8	260.2	594.4	44
1952	129.4	202.9	332.3	31.0	267.4	0.9	268.3	631.6	42
1953	143.2	212.9	356.1	35.0	275.2	0.8	276.0	667.1	41
1954	157.2	217.6	374.8	40.2	278.8	0.7	279.5	694.5	40
1955	180.1	253.9	434.9	46.3	280.8	1.4	282.2	763.4	37
1956	195.5	277.3	472.8	50.1	276.6	1.7	278.3	801.2	35
1957	207.6	295.8	503.4	54.7	274.9	3.2	278.1	836.2	33
1958	222.9	312.0	534.9	60.4	282.9	2.4	285.3	880.6	32
1959	245.0	341.4	586.4	66.6	290.8	5.7	296.5	949.5	31
1960	263.3	365.1	628.4	72.0	290.2	6.4	296.6	997.0	30
1961	284.8	391.5	676.3	77.6	296.2	6.8	303.0	1,056.9	29
1962	311.9	421.5	733.4	83.4	303.5	7.8	311.3	1,128.1	28
1963	345.8	457.1	802.2	89.5	309.3	8.1	317.4	1,209.1	26
1964	380.1	497.3	877.4	95.5	317.9	9.1	327.0	1,299.9	25
1965	416.1	551.9	968.0	103.1	320.9	9.8	330.7	1,401.8	24
1966	466.9	617.3	1,084.2	109.4	329.3	14.0	343.3	1,536.9	22
1967	480.6	664.4	1,145.0	117.4	344.7	20.1	364.8	1,627.2	22
1968	520.5	754.0	1,274.5	127.7	358.0	15.1	373.1	1,775.3	21
1969	555.1	861.0	1,416.1	137.0	368.2	13.8	382.0	1,935.1	20

[1] Includes debt of federally sponsored agencies excluded from the Budget which amounted to $700,000,000 on Dec. 31, 1947; $9,000,000,000 on Dec. 31, 1967; and $21,500,000,000 on Dec. 31, 1968.

Note: Office of the Secretary of the Treasury Office of Debt Analysis.

Source: Commerce and Treasury Departments.

TABLE I.—ESTIMATED GROSS GOVERNMENT AND PRIVATE DEBT, 1929 TO PRESENT

End of calendar year	Government debt						Private debt				Total Government and private debt	
	Amounts outstanding (billions)			Per capita [2]			Amounts outstanding (billions)		Per capita [2]			
	Federal [1]	State and local	Total	Federal	State and local	Total	Corporate business [3]	Individual and noncorporate business	Corporate business	Individual and noncorporate business	Amount outstanding (billions)	Per capita
1929	$17.5	$17.8	$35.3	$143	$145	$288	$107.0	$72.9	$874	$595	$215.2	$1,757
1930	17.3	18.9	36.2	140	153	293	107.4	71.8	868	581	215.4	1,742
1931	19.1	19.5	38.6	153	157	310	100.3	64.9	805	521	203.8	1,636
1932	22.0	19.7	41.7	176	157	333	96.1	57.1	767	456	194.9	1,555
1933	25.3	19.5	44.8	201	155	355	92.4	51.0	733	404	188.2	1,493
1934	33.0	19.2	52.2	260	151	411	90.6	49.8	714	392	292.9	1,520
1935	36.2	19.6	55.8	283	153	437	89.8	49.7	703	389	195.3	1,529
1936	40.3	19.6	59.9	313	152	466	90.9	50.6	707	394	201.4	1,566
1937	43.1	19.6	62.7	333	151	484	90.2	51.1	697	395	204.0	1,576
1938	45.6	19.8	65.4	349	152	501	86.8	50.0	665	383	202.2	1,549
1939	48.8	20.1	68.9	371	153	524	86.8	50.8	660	386	206.5	1,569
1940	52.2	20.2	72.4	393	152	545	89.0	53.0	670	399	214.4	1,615
1941	65.6	20.0	85.6	489	149	638	97.5	55.6	727	414	238.7	1,779
1942	113.7	19.2	132.9	837	141	978	106.3	49.9	782	367	289.1	2,128
1943	171.0	18.1	189.1	1,242	131	1,374	110.3	48.8	801	355	348.2	2,529
1944	233.6	17.1	250.7	1,678	123	1,801	109.0	50.7	783	364	410.4	2,947
1945	279.6	16.0	295.6	1,987	114	2,101	99.5	54.7	707	389	449.8	3,197
1946	260.7	16.1	276.8	1,825	113	1,938	109.3	59.9	765	419	446.0	3,123
1947	257.6	17.5	275.1	1,771	120	1,891	128.9	69.4	886	477	473.4	3,254
1948	253.8	19.6	273.4	1,715	132	1,847	139.4	80.6	942	545	493.4	3,334
1949	257.9	22.2	280.1	1,713	147	1,860	140.3	90.4	932	600	510.8	3,393
1950	257.8	25.3	283.1	1,685	165	1,850	167.7	104.3	1,096	682	555.1	3,627
1951	260.2	28.0	288.2	1,671	180	1,851	191.9	114.3	1,232	734	594.4	3,817
1952	268.3	31.0	299.3	1,694	196	1,890	202.9	129.4	1,281	817	631.6	3,988
1953	276.0	35.0	311.0	1,714	217	1,931	212.9	143.2	1,322	889	667.1	4,142
1954	279.5	40.2	319.7	1,705	245	1,950	217.6	157.2	1,327	959	694.5	4,236
1955	282.2	46.3	328.5	1,691	276	1,961	253.9	180.1	1,522	1,079	762.5	4,552
1956	278.3	51.0	328.4	1,638	294	1,925	277.3	195.5	1,632	1,151	801.2	4,696
1957	278.1	54.7	332.8	1,609	315	1,918	295.8	207.6	1,712	1,201	836.2	4,820
1958	285.3	60.4	345.7	1,624	342	1,960	312.0	222.9	1,776	1,269	880.6	4,992

See footnotes at end of table II, p. 33.

TABLE I.—ESTIMATED GROSS GOVERNMENT AND PRIVATE DEBT, 1929 TO PRESENT—Continued

End of calendar year	Government debt						Private debt				Total Government and private debt	
	Amounts outstanding (billions)			Per capita [2]			Amounts outstanding (billions)		Per capita [2]			
	Federal [1]	State and local	Total	Federal	State and local	Total	Corporate business [3]	Individual and noncorporate business	Corporate business	Individual and noncorporate business	Amount outstanding (billions)	Per capita
1959	$296.5	$66.6	$363.1	$1,653	$371	$2,024	$341.4	$245.0	$1,903	$1,366	$949.5	$5,293
1960	296.6	72.0	368.6	1,627	395	2,022	365.1	263.3	2,002	1,444	997.0	5,469
1961	303.0	77.6	380.6	1,635	419	2,054	391.5	284.8	2,112	1,537	1,056.9	5,704
1962	311.3	83.4	394.7	1,654	443	2,097	421.5	311.9	2,240	1,658	1,128.1	5,994
1963	317.4	89.5	406.9	1,663	469	2,131	457.1	345.8	2,395	1,812	1,209.8	6,337
1964	327.0	95.5	422.5	1,690	494	2,183	497.3	380.1	2,570	1,965	1,299.9	6,718
1965	330.7	103.1	433.8	1,688	526	2,214	551.9	416.1	2,818	2,124	1,401.8	7,156
1966	343.3	109.4	452.7	1,733	552	2,285	617.3	466.9	3,116	2,357	1,536.9	7,758
1967	364.8	117.4	482.2	1,822	586	2,409	664.4	480.6	3,319	2,401	1,627.2	8,128
1968	373.1	127.7	500.8	1,845	631	2,476	754.0	520.5	3,727	2,573	1,775.3	8,776
1969	382.0	137.0	519.9	1,869	670	2,539	861.1	555.1	4,212	2,716	1,935.1	9,467

See footnotes at end of table II, p. 33

TABLE II.—GROSS GOVERNMENT AND PRIVATE DEBT RELATED TO GROSS NATIONAL PRODUCT

End of calendar year	Gross national product [1] (in billions)	Ratios of debt to gross national product (in percent): Federal	State and local	Corporate	Individual and noncorporate	Total
1929	$96.7	18.1	18.4	110.7	75.4	222.5
1930	83.1	20.8	22.7	129.2	86.4	259.2
1931	66.9	28.6	29.1	149.9	97.0	304.6
1932	56.8	38.7	34.7	169.2	100.5	343.1
1933	60.3	42.0	32.3	153.2	84.6	312.1
1934	68.6	48.1	28.[illegible]	132.1	72.6	280.9
1935	77.4	46.8	25.3	116.0	64.2	252.3
1936	86.5	46.6	22.7	105.1	58.5	232.8
1937	87.6	49.2	22.4	103.0	58.3	232.9
1938	87.6	52.1	22.6	99.1	57.1	230.8
1939	94.8	51.5	21.2	91.6	53.6	217.8
1940	107.6	48.5	18.8	82.7	49.3	199.3
1941	138.8	47.3	14.4	70.2	40.1	172.0
1942	179.0	63.5	10.7	59.4	27.9	161.5
1943	202.4	84.5	8.9	54.5	24.1	172.0
1944	217.4	107.5	7.9	50.1	23.3	188.8
1945	196.0	142.6	8.2	50.8	27.9	229.5
1946	221.4	117.8	7.3	49.4	27.1	201.4
1947	245.0	105.1	7.1	52.6	28.3	193.2
1948	261.2	97.2	7.5	53.4	30.9	188.9
1949	260.5	99.0	8.5	53.9	34.7	196.1
1950	311.2	82.8	8.1	53.9	33.5	178.4
1951	338.2	76.9	8.3	56.7	33.8	175.8
1952	361.0	74.3	8.6	56.2	35.8	175.0
1953	360.8	76.5	9.7	59.0	39.7	184.9
1954	379.8	73.6	10.6	57.3	41.4	182.9
1955	409.7	68.9	11.3	62.0	44.0	185.9
1956	433.2	64.2	11.6	64.0	45.1	184.9
1957	438.1	63.5	12.5	67.5	47.4	190.8
1958	469.2	60.8	12.9	66.5	47.5	187.6
1959	496.8	59.7	13.4	68.7	49.3	190.8
1960	503.4	58.9	14.3	72.5	52.3	197.7
1961	542.8	55.8	14.3	72.1	52.5	194.7
1962	574.4	54.2	14.5	73.3	54.3	196.6
1963	611.8	51.9	14.6	74.7	56.5	197.9
1964	654.0	50.0	14.6	76.0	58.1	199.1
1965	719.2	46.0	14.3	76.7	57.9	195.1
1966	770.2	44.6	14.2	80.1	60.6	199.5
1967	825.7	44.2	14.2	80.5	58.2	197.1
1968	900.6	41.4	14.2	82.7	57.8	197.[illegible]
1969	956.3	39.9	14.3	90.0	58.0	202.4

[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 present. Prior to 1939, averages of 2 calendar year figures are used as the best approximation of Dec. 31 levels.
[2] Total Federal securities.
[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 debt of federally sponsored agencies excluded from the budget.

Note: Debt levels estimated by Office of Business Economics, Commerce Department.

Source: Office of the Secretary of the Treasury, Office of Debt Analysis.

ESTIMATED NET GOVERNMENT AND PRIVATE DEBT OUTSTANDING, BY MAJOR CATEGORIES

[Dollar amounts in billions]

	December 1946		December 1960		December 1967		December 1968	
	Amount	Percent of total	Amount	Percent of total	Amount	Percent of total	Amount	Percent of total
Federal debt	$229½	58	$240	27	$292	19	$289½	17
State and local debt	14	3	65	7	123	8	132	8
Corporate debt	93½	24	306½	36	632	40	723	42
Individual debt	60	15	263½	30	520½	333	555	33
Total	396½	100	875	100	1,567½	100	1,699½	100

Source: Office of the Secretary of the Treasury, Office of Debt Analysis

Note: Detail may not add to total due to rounding.

ESTIMATED NET GOVERNMENT AND PRIVATE DEBT, BY MAJOR CATEGORIES

[Dollar amounts in billions]

Dec. 31	Private			State and local	Federal	Total	Percent Federal of total
	Individual	Corporate [1]	Total				
1916	$36.3	$40.2	$76.5	$4.5	$1.2	$82.2	1
1917	38.7	43.7	82.4	4.8	7.3	94.5	8
1918	44.5	47.0	91.5	5.1	20.9	117.5	18
1919	43.9	53.3	97.2	5.5	25.6	128.3	20
1920	48.1	57.7	105.8	6.2	23.7	135.7	17
1921	49.2	57.0	106.2	7.0	23.1	136.3	17
1922	50.9	58.6	109.5	7.9	22.8	140.2	16
1923	53.7	62.6	116.3	8.6	21.8	146.7	15
1924	55.8	67.2	123.0	9.4	21.0	153.4	14
1925	59.6	72.7	132.3	10.3	20.3	162.9	12
1926	62.7	76.2	138.9	11.1	19.2	169.2	11
1927	66.4	81.2	147.6	12.1	18.2	177.9	10
1928	70.0	86.1	156.1	12.7	17.5	186.3	9
1929	72.9	88.9	161.8	13.6	16.5	191.9	9
1930	71.8	89.3	161.1	14.7	16.5	192.3	9
1931	64.9	83.5	148.4	16.0	18.5	182.9	10
1932	57.1	80.0	137.1	16.6	21.3	175.0	12
1933	51.0	76.9	127.9	16.3	24.3	168.5	14
1934	49.8	75.5	125.3	15.9	30.4	171.6	18
1935	49.7	74.8	124.5	16.1	34.4	175.0	20
1936	50.6	76.1	126.7	16.2	37.7	180.6	21
1937	51.1	75.8	126.9	16.1	39.2	182.2	22
1938	50.0	73.3	123.3	16.1	40.5	179.9	23
1939	50.8	73.5	124.3	16.4	42.6	183.3	23
1940	53.0	75.6	128.6	16.4	44.8	189.8	24
1941	55.6	83.4	139.0	16.1	56.3	211.4	27
1942	49.9	91.6	141.5	15.4	101.7	258.6	39
1943	48.8	95.5	144.3	14.5	154.4	313.2	49
1944	50.7	94.1	144.8	13.9	211.9	370.6	57
1945	54.7	85.3	140.0	13.4	252.5	405.9	62
1946	59.9	93.5	153.4	13.7	229.5	396.6	58
1947	69.4	109.6	179.0	15.0	221.7	415.7	53
1948	80.6	118.4	199.0	17.0	215.3	431.3	50
1949	90.4	118.7	209.1	19.1	217.6	445.8	49
1950	104.3	142.8	247.1	21.7	217.4	486.2	45
1951	114.3	163.8	278.1	24.2	216.9	519.2	42
1952	129.4	172.3	301.7	27.0	221.5	550.2	40
1953	143.2	180.9	324.1	30.7	226.8	581.6	39
1954	157.2	184.1	341.3	35.5	229.1	605.9	38
1955	180.1	215.0	395.1	41.1	229.6	665.8	35
1956	195.5	234.1	429.6	44.5	224.3	698.4	32
1957	207.6	249.1	456.7	48.6	223.0	728.3	31
1958	222.9	262.0	484.9	53.7	231.0	769.6	30
1959	245.0	287.0	532.0	59.6	241.4	833.0	29
1960	263.3	306.3	569.6	64.9	239.8	874.3	27
1961	284.8	328.3	613.1	70.5	246.7	930.3	27
1962	311.9	353.5	665.4	77.0	253.6	996.0	25
1963	345.8	383.6	729.4	83.9	257.5	1,070.8	24
1964	380.1	417.1	797.2	90.4	264.0	1,151.6	23
1965	416.1	463.2	879.3	98.3	266.4	1,244.0	21
1966	446.9	517.8	964.7	104.8	271.8	1,341.3	20
1967	480.6	555.6	1,036.2	112.8	286.4	1,435.4	20
1968	520.5	632.3	1,152.8	123.2	291.9	1,567.9	19
1969	555.1	722.7	1,277.8	132.4	289.3	1,699.5	17

[1] Includes debt of federally sponsored agencies excluded from the Budget which amounted to $7,000,000,000 on Dec. 31, 1947; $21,400,000,000 on Dec. 31, 1968, and $30,500,000,000 on Dec. 31, 1969.

Note: Office of the Secretary of the Treasury, Office of Debt Analysis.

Source: Commerce and Treasury Departments

TABLE I.—ESTIMATED NET GOVERNMENT AND PRIVATE DEBT, 1916 TO PRESENT

End of calendar year	Government debt: Amounts outstanding (billions): Federal [1]	Government debt: Amounts outstanding (billions): State and local	Government debt: Amounts outstanding (billions): Total	Government debt: Per capita [2]: Federal	Government debt: Per capita [2]: State and local	Government debt: Per capita [2]: Total	Private debt: Amounts outstanding (billions): Corporate business [3]	Private debt: Amounts outstanding (billions): Individual and noncorporate business	Private debt: Per capita [2]: Corporate business	Private debt: Per capita [2]: Individual and noncorporate business	Total Government and private debt: Amount outstanding (billions)	Total Government and private debt: Per capita
1916	$1.2	$4.5	$5.7	$12	$44	$56	$40.2	$36.3	$391	$353	$82.2	$800
1917	7.3	4.8	12.1	70	46	116	43.7	38.7	420	372	94.5	909
1918	20.9	5.1	26.0	199	49	248	47.0	44.5	448	425	117.5	1,121
1919	25.6	5.5	31.1	242	52	294	53.3	43.9	504	415	128.3	1,213
1920	23.7	6.2	29.9	220	58	278	57.7	48.1	537	447	135.7	1,262
1921	23.1	7.0	30.1	211	64	275	57.0	49.2	522	450	136.3	1,247
1922	22.8	7.9	30.7	205	71	277	58.6	50.9	528	459	140.2	1,263
1923	21.8	8.6	30.4	193	76	269	62.6	53.7	554	475	146.7	1,298
1924	21.0	9.4	30.4	183	82	264	67.2	55.8	584	485	153.4	1,334
1925	20.3	10.3	30.6	174	88	262	72.7	59.6	623	511	162.9	1,397
1926	19.2	11.1	30.3	161	93	254	76.2	62.7	639	526	169.2	1,419
1927	18.2	12.1	30.3	152	101	253	81.2	66.4	678	554	177.9	1,485
1928	17.5	12.7	30.2	144	105	249	86.1	70.0	711	578	186.3	1,538
1929	16.5	13.6	30.1	135	111	246	88.9	72.9	726	595	191.9	1,567
1930	16.5	14.7	31.2	133	119	252	89.3	71.8	722	581	192.3	1,555
1931	18.5	16.0	34.5	149	128	277	83.5	46.9	670	521	182.9	1,468
1932	21.3	16.6	37.9	170	132	302	80.0	57.1	638	456	175.0	1,396
1933	24.3	16.3	40.6	193	129	322	76.9	51.0	610	404	168.5	1,336
1934	30.4	15.9	46.3	240	125	365	75.5	49.8	595	392	171.6	1,352
1935	34.4	16.1	50.5	269	126	395	74.8	49.7	585	389	175.0	1,370
1936	37.7	16.2	53.9	293	126	419	76.1	50.6	592	394	180.6	1,405
1937	39.2	16.1	55.3	303	124	427	75.8	51.1	585	395	182.2	1,407
1938	40.5	16.1	56.6	310	123	434	73.3	50.0	562	383	179.9	1,379
1939	42.6	16.4	59.0	324	125	448	73.5	50.8	559	386	183.3	1,393
1940	44.8	16.4	61.2	337	123	461	75.6	53.0	569	399	189.8	1,429
1941	56.3	16.1	72.4	420	120	540	83.4	55.6	622	414	211.4	1,576
1942	101.7	15.4	117.1	749	113	862	91.6	49.9	674	367	258.6	1,903
1943	154.4	14.5	168.9	1,122	105	1,227	95.5	48.8	694	355	313.2	2,275
1944	211.9	13.9	225.8	1,522	100	1,622	94.1	50.7	676	364	370.6	2,662
1945	252.5	13.4	265.9	1,795	95	1,890	85.3	54.7	606	389	405.9	2,885

TABLE 1.—ESTIMATED NET GOVERNMENT AND PRIVATE DEBT, 1916 TO PRESENT—Continued

End of calendar year	Government debt: Amounts outstanding (billions): Federal [1]	Government debt: Amounts outstanding (billions): State and local	Government debt: Amounts outstanding (billions): Total	Government debt: Per capita [2]: Federal	Government debt: Per capita [2]: State and local	Government debt: Per capita [2]: Total	Private debt: Amounts outstanding (billions): Corporate business [3]	Private debt: Amounts outstanding (billions): Individual and noncorporate business	Private debt: Per capita [2]: Corporate business	Private debt: Per capita [2]: Individual and noncorporate business	Total Government and private debt: Amount outstanding (billions)	Total Government and private debt: Per capita
1946	229.5	13.7	243.2	1,607	96	1,703	93.5	59.9	655	419	396.6	2,777
1947	221.7	15.0	236.7	1,524	103	1,627	109.6	69.4	753	477	415.7	2,858
1948	215.3	17.0	232.3	1,455	115	1,570	118.4	80.6	800	545	431.3	2,914
1949	217.6	19.1	236.7	1,445	127	1,572	118.7	90.4	788	600	445.8	2,961
1950	217.4	21.7	239.1	1,421	142	1,562	142.8	104.3	933	682	486.2	3,177
1951	216.9	24.2	241.1	1,393	155	1,548	163.8	114.3	1,052	734	519.2	3,334
1952	221.5	27.0	248.5	1,399	170	1,569	172.3	129.4	1,088	817	550.2	3,474
1953	226.8	30.7	257.5	1,408	191	1,599	180.9	143.2	1,123	889	581.6	3,611
1954	229.1	35.5	264.6	1,397	217	1,604	184.1	157.2	1,123	959	605.9	3,696
1955	229.6	41.1	270.6	1,376	245	1,616	215.0	180.1	1,289	1,079	665.8	2,975
1956	224.3	44.5	268.8	1,320	261	1,576	234.1	195.5	1,378	1,151	698.4	4,094
1957	223.0	48.6	271.6	1,290	280	1,565	249.1	207.6	1,441	1,201	728.3	4,198
1958	231.0	53.7	284.7	1,315	304	1,614	262.0	222.9	1,491	1,269	769.6	4,363
1959	241.4	59.6	301.0	1,346	332	1,678	287.0	245.0	1,600	1,366	833.0	4,643
1960	239.8	64.9	304.7	1,315	356	1,671	306.3	263.3	1,680	1,444	874.3	4,796
1961	246.7	70.5	317.2	1,331	380	1,712	328.3	284.8	1,771	1,537	930.3	5,020
1962	253.6	77.0	330.6	1,348	409	1,757	353.5	311.9	1,879	1,658	996.0	5,292
1963	257.5	83.9	341.4	1,349	439	1,788	383.6	345.8	2,010	1,812	1,070.8	5,609
1964	264.0	90.4	354.4	1,364	467	1,832	417.1	380.1	2,156	1,965	1,151.6	5,951
1965	266.4	98.3	364.7	1,360	502	1,862	463.2	416.1	2,365	2,124	1,244.0	6,350
1966	271.8	104.8	376.6	1,372	529	1,901	517.8	446.9	2,614	2,256	1,341.3	6,771
1967	286.5	112.8	399.3	1,431	563	1,994	555.6	480.6	2,775	2,401	1,435.5	7,170
1968	291.9	123.2	415.1	1,443	609	2,052	632.3	520.5	3,126	2,573	1,567.9	7,750
1969	289.3	132.4	421.7	1,415	648	2,063	722.7	555.1	3,536	2,716	1,699.5	8,315

[1] Borrowing from the public.
[2] Debt divided by the population of the conterminous United States and includeing Armed Forces overseas. Alaska is included beginning 1959 and Hawaii beginning in 1960.
[3] Includes debt of federally sponsored agencies excluded from the budget.

Note: Debt levels estimated by Office of Business Economics, Commerce Department

Source: Office of the Secretary of the Treasury, Office of Debt Analysis

TABLE II.—NET GOVERNMENT AND PRIVATE DEBT RELATED TO GROSS NATIONAL PRODUCT

End of calendar year	Gross national product [1] (billions)	Ratios of debt to gross national product (percent): Federal	State and local	Corporate	Individual and noncorporate	Total
1929	$96.7	17.1	14.1	91.9	75.4	198.4
1930	83.1	19.9	17.7	107.5	86.4	234.7
1931	66.9	27.7	23.9	124.8	97.0	273.4
1932	56.8	37.5	29.2	140.8	100.5	308.1
1933	60.3	40.3	27.0	127.5	84.6	279.4
1934	68.6	44.3	23.2	110.1	72.6	250.1
1935	77.4	44.4	20.8	96.6	64.2	226.1
1936	86.5	43.6	18.7	88.0	58.5	208.8
1937	87.6	44.7	18.4	86.5	58.3	208.0
1938	87.6	46.2	18.4	83.7	57.1	205.4
1939	94.8	44.9	17.3	77.5	53.5	193.4
1940	107.6	41.6	15.2	70.3	49.3	176.4
1941	138.8	40.6	11.6	60.1	40.1	152.3
1942	179.0	56.8	8.6	51.2	27.9	144.5
1943	202.4	76.3	7.2	47.2	24.1	154.7
1944	217.4	97.5	6.4	43.3	23.3	170.5
1945	196.0	128.8	6.8	43.5	27.9	207.1
1946	221.4	103.7	6.2	42.2	27.1	179.1
1947	245.0	90.5	6.1	44.7	28.3	169.7
1948	261.2	82.4	6.5	45.3	30.9	165.1
1949	260.5	83.5	7.3	45.6	34.7	171.1
1950	311.2	69.9	7.0	45.9	33.5	156.2
1951	338.2	64.1	7.2	48.4	33.8	153.5
1952	361.0	61.4	7.5	47.7	35.8	152.4
1953	360.8	62.9	8.5	50.1	39.7	161.2
1954	379.8	60.3	9.3	48.5	41.4	159.5
1955	409.7	56.0	10.0	52.5	44.0	162.4
1956	433.2	51.8	10.3	54.0	45.1	161.1
1957	438.1	50.9	11.1	56.9	47.4	166.0
1958	469.2	49.2	11.4	55.8	47.5	163.8
1959	496.8	48.6	12.0	57.8	49.3	167.5
1960	503.4	47.6	12.9	60.8	52.3	173.6
1961	542.8	45.4	13.0	60.5	52.5	171.3
1962	574.7	44.1	13.4	61.5	54.3	173.3
1963	611.8	42.1	13.7	62.7	56.5	175.0
1964	654.0	40.4	13.8	63.8	58.1	176.1
1965	719.2	37.0	13.7	64.4	57.9	172.7
1966	770.2	35.3	13.6	67.2	58.0	174.1
1967	825.7	34.7	13.7	67.3	58.2	173.8
1968	900.6	32.4	13.7	70.2	57.8	174.1
1969	956.3	30.3	13.8	75.6	58.0	177.7

[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 present. Prior to 1939, averages of 2 calendar-year figures are used as the best approximation of Dec. 31 levels.

Note: Debt levels estimated by Office of Business Economics, Commerce Department.

Source: Office of the Secretary of the Treasury, Office of Debt Analysis.

ESTIMATED FEDERAL DEBT RELATED TO POPULATION AND PRICES, 1900-69

	Federal debt (in billions): Gross [1]	Net [2]	Privately held, net [3]	Per capita Federal debt (actual amount) [4]: Gross [1]	Net [2]	Privately held, net [3]	Real per capita Federal debt (actual amount) [5]: Gross [1]	Net [2]	Privately held, net [3]
June 30, 1900	$1.3	$1.3	$1.3	$17	$17	$17	(6)	(6)	(6)
1901	1.2	1.2	1.2	16	16	16	(6)	(6)	(6)
1902	1.2	1.2	1.2	15	15	15	(6)	(6)	(6)
1903	1.2	1.2	1.2	14	14	14	(6)	(6)	(6)
1904	1.1	1.1	1.1	14	14	14	(6)	(6)	(6)
1905	1.1	1.1	1.1	14	14	14	(6)	(6)	(6)
1906	1.1	1.1	1.1	13	13	13	(6)	(6)	(6)
1907	1.1	1.1	1.1	13	13	13	(6)	(6)	(6)
1908	1.2	1.2	1.2	13	13	13	(6)	(6)	(6)
1909	1.1	1.1	1.1	13	13	13	(6)	(6)	(6)
1910	1.1	1.1	1.1	12	12	12	(6)	(6)	(6)

ESTIMATED FEDERAL DEBT RELATED TO POPULATION AND PRICES, 1900-69—Continued

	Federal debt (in billions)			Per capita Federal debt (actual amount)[4]			Real per capita Federal debt (actual amount)[5]		
	Gross[1]	Net[2]	Privately held, net[3]	Gross[1]	Net[2]	Privately held, net[3]	Gross[1]	Net[2]	Privately held, net[3]
1911	1.2	1.2	1.2	12	12	12	(6)	(6)	(6)
1912	1.2	1.2	1.2	13	13	13	(6)	(6)	(6)
1913	1.2	1.2	1.2	12	12	12	$45	$45	$45
1914	1.2	1.2	1.2	12	12	12	44	44	44
1915	1.2	1.2	1.2	12	12	12	43	43	43
Dec. 31:									
1916	1.2	1.2	1.1	12	12	11	139	139	136
1917	7.3	7.3	7.2	70	70	69	193	193	190
1918	21.0	20.9	20.7	200	199	198	457	454	452
1919	25.8	25.6	25.3	244	242	239	486	482	476
1920	24.0	23.7	23.4	223	220	218	435	429	425
1921	23.5	23.1	22.9	215	211	210	469	461	459
1922	23.2	22.8	22.4	209	205	202	468	459	452
1923	22.2	21.8	21.7	196	193	192	428	421	419
1924	21.5	21.0	20.5	187	183	178	408	400	389
1925	20.8	20.3	19.9	178	174	171	374	366	359
1926	19.9	19.2	18.9	167	161	159	357	344	340
1927	18.6	18.2	17.6	155	152	147	338	331	320
1928	18.4	17.5	17.3	152	144	143	334	316	314
1929	17.5	16.5	16.0	143	135	131	314	297	288
1930	17.3	16.5	15.8	140	133	128	327	311	299
1931	19.1	18.5	17.7	153	149	142	395	385	367
1932	22.0	21.3	19.4	176	170	155	507	490	447
1933	25.3	24.3	21.9	201	193	174	576	553	499
1934	33.3	30.4	28.0	260	240	221	730	674	621
1935	36.2	34.4	32.0	283	269	250	771	733	681
1936	40.3	37.7	35.3	313	293	275	844	790	741
1937	43.1	39.2	36.6	333	303	283	872	793	741
1938	45.6	40.5	37.9	349	310	290	938	833	780
1939	48.8	42.6	40.1	371	324	305	1,005	878	827
1940	52.2	44.8	42.6	393	337	321	1,051	901	958
1941	65.6	56.3	54.0	489	420	402	1,190	1,022	978
1942	113.7	101.7	95.5	837	749	703	1,868	1,672	1,569
1943	171.0	154.4	142.9	1,242	1,122	1,038	2,688	2,429	2,248
1944	233.6	211.9	193.1	1,678	1,522	1,387	3,555	3,225	2,939
1945	279.6	252.5	228.2	1,987	1,795	1,622	4,114	3,716	3,358
1946	260.7	229.5	206.1	1,825	1,607	1,433	3,202	2,819	2,514
1947	257.6	221.7	199.	1,771	1,524	1,369	2,847	2,450	2,201
1948	253.8	215.3	192.0	1,715	1,455	1,297	2,684	2,277	2,029
1949	257.9	217.6	197.7	1,713	1,445	1,313	2,732	2,305	2,094
1950	257.8	217.4	195.6	1,685	1,421	1,285	2,541	2,143	1,938
1951	260.2	216.9	193.1	1,671	1,393	1,240	2,380	1,984	1,766
1952	268.3	221.5	196.8	1,694	1,399	1,243	2,393	1,976	1,756
1951	276.0	226.8	200.9	1,714	1,408	1,247	2,404	1,975	1,749
1954	279.5	229.1	204.2	1,705	1,397	1,246	2,401	1,968	1,755
1955	282.2	229.5	204.8	1,691	1,376	1,227	2,372	1,930	1,721
1956	278.3	224.3	199.4	1,638	1,320	1,174	2,235	1,801	1,602
1957	278.1	223.0	198.8	1,609	1,290	1,150	2,131	1,709	1,523
1958	285.3	231.0	204.7	1,624	1,315	1,165	2,115	1,712	1,517
1959	296.5	241.4	214.8	1,653	1,346	1,197	2,122	1,728	1,537
1960	296.6	239.8	212.4	1,627	1,315	1,165	2,057	1,662	1,473
1961	303.0	246.7	217.8	1,635	1,331	1,175	2,044	1,664	1,469
1962	311.3	253.6	222.8	1,654	1,348	1,184	2,052	1,672	1,469
1963	317.4	257.5	223.9	1,663	1,349	1,173	2,031	1,647	1,432
1964	327.0	264.0	227.0	1,690	1,364	1,173	2,039	1,645	1,415
1965	330.7	266.4	225.6	1,688	1,360	1,152	1,998	1,609	1,363
1966	343.3	271.8	227.5	1,733	1,372	1,148	1,983	1,570	1,314
1967	364.9	286.4	237.3	1,822	1,431	1,185	2,024	1,590	1,317
1968	373.1	291.9	236.1	1,845	1,443	1,167	1,959	1,532	1,239
1969	382.0	289.3	232.1	1,869	1,415	1,135	1,869	1,415	1,135

[1] Total Federal securities outstanding, unified budget concept.
[2] Borrowing from the public, unified budget concept.
[3] Borrowing from the public less Federal Reserve holdings.
[4] Debt divided by population.
[5] Per capita debt expressed in Dec. 31, 1969, prices (Consumer Price Index).
[6] Not available.

Source: Office of the Secretary of the Treasury, Office of Debt Analysis.

CONSEQUENCES OF FAILURE TO INCREASE THE PUBLIC DEBT LIMIT

The CHAIRMAN. Now, I think that it might be well for the record if you would tell us what happens in the event that Congress passes no law. What will happen then when the Government is no longer able to pay its debts because we are officially bankrupt by act of Congress?

Secretary KENNEDY. That is an unthinkable situation, Mr. Chairman.

The CHAIRMAN. It is a very silly thing, in my judgment, but what happens if that occurs?

Secretary KENNEDY. I understand what it means. We will be up against the hard fact of being over the debt limit on June 30. That means then that we can't borrow money to pay our bills.

The CHAIRMAN. Well, can you pay money?

Secretary KENNEDY. If we have money in the till but to the extent we have our cash balance we can use that up.

It seems to me what we would be in the market, well, we are in the market every week, we are in the market for Treasury bills which are rolled over, and no buyer would accept our bills if we put them out, if we decided to go ahead anyway and take the burden of this, the market would say they would be illegally issued and so they wouldn't buy them. We would not then pay our bills.

The CHAIRMAN. Would you have any discretion about whom you pay and whom you would not pay.

Secretary KENNEDY. Well, I think that there we have a real problem in that we would have to pay the hardship cases, the widows and the orphans, so to speak, and I think all of our soldier boys would get their pay.

The CHAIRMAN. In other words, you would try to pay the boys on the battlefield even though you couldn't pay the boys in the barracks.

Secretary KENNEDY. That is right.

Senator BENNETT. How about the Congress, Mr. Secretary.

Secretary KENNEDY. Well, I think the Cabinet would be the first to get theirs and the administration people but we would all be in the same boat, the Congress would be out of money in a hurry.

The CHAIRMAN. Frankly, I am interested in my employees and I think I had better go down and arrange a bank loan in the event this bill fails to pass so we can borrow money to keep them afloat until times get better.

But it would seem to me if I were sitting down there as the President, and Congress had officially legislated us to be bankrupt, and unable to pay our bills, the first people I would decline to pay would be the Congress. They are the people who are making it impossible, and so mayb , inasmuch as some Senators might be able to get by for a while without their salary check, I think I would just decline to pay any expenses of the Congress—just refuse to honor their warrants—and then proceed to pick out who I had to take care of, and just as you are indicating take care of the most needy first. I guess I would try to take care of the crying welfare cases, particularly those who really need it, and try to take care of those who really have to have their pay checks. I suppose that would be the lowest paid employee because these would perhaps need their money the most. If we couldn't pay them all, let those who are making more than $10,000 or $12,000 be the first to go without their pay.

If you tried to make plans for that contingency how would you handle it? What would you recommend to your President, in the event we are officially bankrupt by a self-imposed situation?

Secretary KENNEDY. Well, Senator, I would hope the Congress would act responsibly and not come up to this. But I have given thought to it. I have not come to the point where we make the list because whatever list you make you would be out of money very quickly and the chaos would be so great that surely Congress would be under pressure immediately to act, at least I would hope that just the possibility of this thing would cause the Congress to act.

We would be in trouble in world markets as well as domestic markets, and the uncertainty in business and everything we would have a crisis that this country could not stand.

The CHAIRMAN. It would be a very severe domestic crisis during the period that you were unable to pay your bills, to say the least, would it not.

Secretary KENNEDY. It surely would, and you would have workers just destitute, because some of them have, even people who are very careful in the handling of their financial affairs have, very little cash, and they have debts and so they have to pay, the payday will come due and they won't get their check, you know what happens, and they say they can't pay their bills and that will cause not only commotion but a real emergency in every market, in every area of our country.

The CHAIRMAN. It would be so irresponsible that you find it unthinkable that the Congress would not provide you the authority to pay the Government bills, I take it.

Secretary KENNEDY. I have looked at the record in the past and I have seen some last minute actions of the Congress in this field, and it has never happened, it has been threatened before, but it seems to me that Congress does act responsibly, maybe not as promptly as we would like, and so on, but I would be in hopes of the influence of your committee, which is responsible, and that you would be able to get the leadership to bring this up for timely consideration and for action.

I think even the uncertainty of the possibility here could cause us problems. I would not like to go out of this room today and have the media indicate that this would not happen, or that we will not get the debt limit changed because I think we could have considerable questions, and we may have some real financial troubles as the result of publicity of this kind.

The CHAIRMAN. Incidentally prior to my arrival at the Democratic party conference that group had already agreed on a procedure that would make it possible for this measure to come up in adequate time so that it can be acted on before the expiration date.

I think you might be relieved to know that.

Secretary KENNEDY. I am relieved very much because I would hate to be met by the press with a question of whether this could or could not come before Congress. If it could be held back by administrative procedure or technical rules it would be a serious problem.

The CHAIRMAN. Thank you, Mr. Secretary. Are there further questions that the members would care to ask. Senator Miller, would you care to ask some questions?

THE UNIFIED BUDGET

Senator MILLER. Thank you, Mr. Chairman.

Good morning, Mr. Secretary and Mr. Mayo and Mr. Volcker.

May I ask whether this fiscal 1971 unified budget reflects social security tax changes presently before this committee?

Mr. MAYO. The unified budget estimate you referred to, Senator Miller, is consistent with what we proposed in the January budget for the social security changes, both on the benefit and the tax side.

Senator MILLER. Do you know whether or not that is reflected in the bill that passed the House and is presently before this committee?

Mr. MAYO. This is on the tax side now?

Senator MILLER. Yes. Yes. We had a presentation yesterday by the Social Security Administrator which showed us some changes in the social security tax rates and some changes in the fund balances, and I just want to find out whether or not those changes which are reflected in the House passed bill are geared to this fiscal 1971 unified budget.

Mr. MAYO. I am not certain on the answer to that question Senator Miller.

Senator MILLER. Will you be good enough to check that?

Mr. MAYO. I certainly will.

Senator MILLER. And provide that information.

Mr. MAYO. I will provide it for the record. I know that on the benefits side the bill is substantially different from the way it is provided for in the unified budget deficit that we are talking about. I believe the entire bill would add, something like a billion and a half dollars. In other words, it would just about double the unified budget deficit as we have projected it.

Senator MILLER. Well, if you would provide that information for the record I would appreciate it.

Mr. MAYO. Yes.

Senator MILLER. Because, I will want to know, for example, whether if the Senate acted favorably on the House-passed social security measure this would indicate some further change in this increase in the debt ceiling that you are advocating.

Mr. MAYO. Well, it uses up part of the reserve for contingencies, because the net result of the bill, as I recall it, is to add a billion and a half net to the deficit for this year.

Mr. VOLCKER. If I may say, my understanding is that would be on the expenditure side. The tax side I think the House bill is essentially what was proposed and assumed here. It is an increase in wage base, which doesn't have a lot of effect in fiscal 1971 in any event, $200 million is the estimate.

Senator MILLER. Well, I am interested in what impact it is going to have on the remaining balances in the social security trust fund.

Mr. VOLCKER. It is the expenditure side.

Senator MILLER. And if there is a decrease in those fund balances it would seem to me that would impact on the unified budget and in turn would impact on the amount of the national debt that you are advocating.

Mr. MAYO. Yes.

Senator MILLER. So I want to know whether or not this increase that you are asking of $18 billion might possibly have to be $19 billion or $19½ billion if we act favorably on the bill that is now before this committee.

Mr. MAYO. It affects the unified budget, Senator Miller. It does not affect Federal funds and, therefore, as a technical matter, it would wash. It would not affect the request for the debt limit here.

Senator MILLER. If you will provide us some hard information on that for the record, I would appreciate it.

Mr. MAYO. Yes, sir.

(Information supplied at this point follows:)

The House passed Social Security bill provides for a 5 percent increase in cash benefits, effective January 1, 1971, and a liberalization of benefits, also effective January 1, 1971. The 1971 budget did not contain a benefit increase and provided for benefit liberalization on January 1, 1972. The net effect of the House bill would be to add $1.5 billion to 1971 budget outlays.

Mr. VOLCKER. This is perhaps an example of the relevance of not looking only at the Federal funds budget because in this case the Federal funds budget would not be affected, but total expenditures, in the unified budget deficit, would be affected so you are not affecting the debt ceiling request by any means but you may have an impact on the economy that is undesirable and is not reflected in the Federal funds deficit.

Senator MILLER. Possibly this will help clarify my picture as to what is taking place.

As I understand it, when we go to a unified budget, that means we borrow money out of the trust funds if there are surpluses——

Mr. MAYO. Right.

Senator MILLER (continuing). In order to finance current operating expenses.

Mr. MAYO. That is correct.

Senator MILLER. By doing it that way we are, in effect, taking the money for the operating expenses of our Government out of tax money which has gone into these various trust funds and, therefore, as I understand it, the theory is that this is not inflationary; this is not an inflationary operation, per se.

Mr. MAYO. Well, it could work both ways, of course, Senator Miller, and I do not want to speculate about it, but I am wondering what the reaction would be here if in certain years, as has been true in the past, we had a deficit in the trust funds rather than a surplus. This is why we feel that not only do you have to take the $150 billion of receipts from Federal funds into account when you look at the total picture of the taxes coming from the American public, but you also have to include the $55 billion of additional receipts that the Congress levies in the form of taxes, in other levies that bring up the total to the total we used in the unified budget of $204 billion.

I again stress that the distinction between Federal funds and trust funds is, perhaps, clean in its accounting look, but just as you have decided that we could have a trust fund for highways, there is no reason on earth that you could not have a trust fund for veterans or a trust fund for science or, indeed, a trust fund for defense. You would find suddenly that if you earmarked moneys for those particular purposes, soon you would be having a Federal fund area that was zero.

Senator MILLER. I followed you. I just want to talk about the way things are right now.

It is my understanding—and I might say one reason why I have reconciled myself insofar as the inflationary impact is concerned to the unified budget—that, let us say we have a $10 billion surplus in the trust fund. Now, that money has gone in there from taxes.

Mr. MAYO. Yes.

Senator MILLER. The Federal Government borrows that money out of the trust funds for operating purposes.

Now comes the day we have to restore the trust funds. We can do that by going out and taxing the people or we can do it by going out and borrowing money from the people, and that is what you propose to do, in effect, by this increase in the debt ceiling, to go out and borrow the money from the people: is that about it?

Mr. MAYO. We are borrowing money from the people to the extent of the unified budget deficit.

Senator MILLER. That is right.

Mr. MAYO. Yes, sir.

Senator MILLER. As Senator Curtis pointed out, there comes a day of reckoning.

Mr. MAYO. Yes.

Senator MILLER. We have to repay that. The people from whom we borrow the money to restore those trust funds want to be paid, so we have to find tax money to repay them.

As I understand it, we have an $18 billion package that we are going to have to repay, at least that is the increase in the temporary debt ceiling that you are advocating.

Mr. MAYO. Yes.

Senator MILLER. What is your program for repaying that?

Mr. MAYO. Well, again, this is part of the public debt as a whole, and the program for repaying that would relate entirely to the disposition of the Executive and, in the last analysis, the Congress to provide taxes in excess of the spending.

Senator MILLER. Well, I understand that. But we have called this a temporary debt ceiling, not a permanent debt ceiling, and that being the case, I think we would expect it to be a temporary debt ceiling which would be removed one of these days, certainly in a shorter period of time than a permanent debt ceiling, would it not?

Mr. MAYO. Some parts of this, of course, are temporary borrowings. I am wandering into the Treasury's area, but it is indeed borrowing in many instances of these tax anticipation securities that will be paid off before we get to the next June 30 date.

Senator MILLER. I, frankly, would feel a little more comfortable if this committee had some sort of proposal which would show us how this $18 billion temporary addition to the debt ceiling is going to be paid off, because I see all these people from whom we are going to be borrowing money, institutions and individuals, to take care of this, and since it is coming out of their savings and others instead of going into purchases, I can see that there may not be much of an inflationary effect on that, if I understand some of the theories of inflation.

But what I am concerned about is how this is going to be repaid and how soon, over what period of time, or whether economic growth will provide the revenue to do this, and how long that will take.

But there are a number of people asking questions about this, and I have been trying to satisfy them by pointing out that this money is going to be coming out of the savings of the people rather than going into more purchases in the economy and, therefore, it should not have a particularly inflationary impact.

Then I get the question when are these people going to be paid back, and how; is this going to be rolled over again or are we going to have additional revenues from economic growth, are we going to have some tax increases; just how are we going to handle it and how soon, and that is what I would like to have.

Mr. VOLCKER. I think there may be still some elements of confusion here, Senator.

This particular year ahead we will be borrowing almost entirely from the trust funds and not from the general public. That is the meaning of having close to a balance in the unified budget. So the deficit of roughly $10 billion in Federal funds budget will be borrowed from the surpluses in the trust funds. It won't be borrowed from the general public.

Senator MILLER. If it is going to be borrowed from the trust fund surpluses, then why do we have to put it in as a part of the debt?

Mr. VOLCKER. Because that is the way the debt ceiling is defined. The debt ceiling includes the debt held by the trust funds as well as the debt held by the public, and both in the current year and in the next fiscal year almost all of this debt will be sold to the trust funds and not to the public, and that is why it does not have any inflationary impact.

Senator MILLER. I appreciate that point very much, Mr. Volcker. Some of it will be borrowed from the public?

Mr. VOLCKER. A portion of it will be borrowed from the public, that was my point.

Senator MILLER. Then if we do not have the tax money to repay the trust fund, I suppose we will have to go out and either get the taxpayers come in with more taxes or else come in with more purchases out of their savings for Federal securities.

Mr. VOLCKER. That is precisely right. If the trust funds want to redeem this debt or are in position in the future where they come to the Government and say, "We have this debt and we want it redeemed," then you either have to have a surplus in the other portion of the budget or you have to borrow from the public to repay the debt.

Senator MILLER. How soon do you think it might be before we might have to go to the public predominantly to repay this?

Mr. VOLCKER. Well, it would depend upon what Congress does.

I would think that—and I have not got precise figures here—that the trust funds will remain in surplus for the foreseeable future so that we will not be facing as far ahead as we can see the prospect of the trust funds coming in and asking for this debt to be redeemed.

Senator MILLER. You mean you do not foresee that happening within the next 2 or 3 years?

Mr. VOLCKER. Not within the next 2 or 3 years; no, sir.

Mr. MAYO. No.

Senator MILLER. What is the contractual arrangement we make with trust funds when you borrow that money from the trust funds? Do you borrow it from them for 6 months, a year, a year and a half, or what is the procedure?

Mr. VOLCKER. It depends entirely upon the provisions of the particular trust funds, and a good deal of this money is relatively long-term money because the trust funds themselves are engaged to build up over a period of time with essentially long-term needs.

However, if the trust funds got into a position where they needed the money, in all cases the securities could be redeemed.

Senator MILLER. It is accurate to say that this addition to the debt is really designed to assure repayment to the trust funds.

Mr. VOLCKER. It is designed to assure repayment to the trust funds?

Senator MILLER. That is right.

Mr. VOLCKER. There is no question that the trust funds will be repaid when it is needed. I think this particular increase in the debt limit is designed to permit us to issue the debt which is necessary to finance the Federal funds deficit.

Senator MILLER. You would not be allowed to do that unless there was assurance of repayment, isn't that correct, and you would not have that assurance if we did not increase this debt ceiling?

Mr. VOLCKER. I think that is right in the sense that if we later had to replace this debt with the public we would need this increase to provide that assurance.

Senator MILLER. That is right. So I get back to the point really this is a mechanism for providing the assurance of the payment of the trust funds.

Mr. VOLCKER. In general, we need the increase in the debt ceiling to pay our bills, including redemptions of future debt, there is no question about that.

CONTINUANCE OF 5-PERCENT SURCHARGE

Senator MILLER. That is right. But at least insofar as the amount reflected by the trust funds borrowing is concerned we have that assurance.

Now, according to the schedule I have here, and I think we all have it, the rest of it is shortfall in receipts of $3 billion for the next fiscal year, is that so?

Mr. VOLCKER. Primarily, yes.

Senator MILLER. What I cannot understand is why, in the face of that, along with what I think your views were regarding the excessive tax relief legislated as a part of the tax-reform bill, why there seems to be some reluctance about picking up this needed revenue from a continuation of the 5-percent surcharge. You have some other areas of picking up some revenue, but to me I think it is generally agreed that the 5-percent surcharge as now passed is applied to the fairest income tax base in the history of the income tax law; that is what the Tax Reform Act of 1969 was all about, and a lot of people were highly uneducated about the 10-percent surcharge, not only by the amount of the 10 percent but by the fact that it was applied against an inequitable income tax base.

Now that is changed, and starting January 1 of this year we shall have a new ball game, and a new tax base, and granted that it has some imperfections, I think it is generally agreed that we have the fairest income tax base we have ever had.

Why the reluctance to continue the 5 percent which will bring in sufficient revenue to avoid or overcome, the shortfall in estimates? Isn't that fairer than to go to some of these other areas? Isn't it quicker? People, after all, know they have had a tax cut from 10 to 5, and many of them have actually had an effective tax beyond that because of the inequity cranked into the tax base.

Why should there be such a great hue and cry if we just continue the 5 percent now because we have got to in view of the shortfall in estimates?

Secretary KENNEDY. You have, Senator, a good point.

We had considerable discussion, as you know, earlier about what form or what kind of taxes we should have in this calendar year the Congress could and would be able to enact, and the surtax had just been considered and passed at the end of the year, to phase it out at the 5-percent level June 30 and then have it terminate.

The feeling was that our budget, in the economic climate that we were in, was about in the proper balance when we submitted the budget, with a small surplus.

Since that time there has been a reduction in the tax take largely as the result of a corporate income being less than we had forecast. We considered what areas we could expect in discussion with various people present to the Congress, with some expectation of passing, and it looked to be like the extension of the excise taxes—they had been extended many times—probably would be enacted; the estate and gift taxes speed-up provision was a one-time provision which I felt was good housekeeping because it was the Government's money, as early as consistent with reasonably sound business and financial practices, and that seems to me to be a reasonable thing.

When we found that the budget was not in surplus but in slight deficit there was a recommendation for the tax on lead in gasoline, which had two purposes, one for the revenue; the second that it would contribute to the environment, which is an important problem of our country, and this would expedite or highlight, improve, the movement to lead-free gasoline.

The question of extending the 5-percent surtax again, as you know, in a year that is pretty well gone as far as the opportunity for Congress, I think it would be difficult or impossible to get it through. I think we do have——

Senator MILLER. On that point, Mr. Secretary, if it should happen, will you come running over to the President and say, "Mr. President, we simply have got to veto this 5-percent surcharge?"

Secretary KENNEDY. No; I would not; I should say not.

I think we do have a problem coming up with a budget that will be under review, starting pretty soon, and on what we might do or need to do for next year, but that is another matter.

Senator MILLER. I recognize the exigencies of time, but it seems to me that if we are going to do something about that 5 percent it would be much better to do it before it runs out than to let it run out and then in about September or October reimpose it; don't you think?

Secretary KENNEDY. Yes, I think it would be better. I think we will have a better posture. I think we should take it into account because we are going through a period of transition, a period of adjustment, and I think what we are trying to do is to stabilize the economy and start it on a growth pattern up, and this period right now is a very serious one in transition, and that the receipt and expenditure matters are in about the right kind of a balance now.

Senator MILLER. Yes, they are, on paper.

Secretary KENNEDY. Yes.

Senator MILLER. I do not criticize the administration for its expenditure picture as included in the budget, but I think we all understand very well that that budget on paper is just about worth the price of the paper it is written on unless the Congress goes to carry it out, and we are not going to know until near the end of the summer, I am afraid, whether those in control of the Congress are going to carry it out, and there are some indications that they are not, and that they are going to exceed the expenditures recommended by the administration; and if that happens we are going to be having more trouble.

Secretary KENNEDY. As the President said yesterday, Senator, in his talk, as you know, that if the Congress wants to spend more than is provided in the recommendations they will provide the revenue; it would come under that.

Senator MILLER. Yes, I know that. And also I note that some of these tax increases and revenue actions expected in the Congress look well on paper, but I have seen requests come over to Congress before, and I have seen them forgotten. An increase in highway user taxes, for example, is always a controversial matter; the postal pay increases are controversial; I cannot get excited over estate and gift taxes, that is, the receipt extension of estate and gift taxes.

But, I would say on the basis of historical precedents that to get all of these things done by the Congress is not likely, and if it turns out that way, we are going to have to find some other source of revenue, and I am very pleased to know that if the Congress should take action, that the Secretary of the Treasury will not be over there demanding a veto.

I think it would be helpful if we had a little more cooperation on this point because I think that if we are going to collect more revenue, we have the fairest income tax base we have ever had, now, and I cannot imagine that there would be too much concern on the part of the general public because they already have a very substantial tax reduction even if the 5-percent surtax were continued.

Thank you very much.

Senator ANDERSON. Senator Jordan.

Senator JORDAN. Thank you, Mr. Chairman.

BUDGET DEPENDS ON CONGRESSIONAL ACTIONS

Mr. Secretary, I appreciate the facts that in your statement you did not make any mention of the unified budget. You dealt with us on terms that we are more familiar with, the Federal funds budget of receipts and expenditures.

As you calculated it, you stated here a deficit in 1970 of $11 billion, and in 1971 a deficit of $10 billion. I know you have to make certain assumptions about collections and about tax revenues, and so on.

I have served as Governor, and I know that is extremely difficult to do. I think you have assumed that some $3.8 billion in taxes would be invoked. This would require legislation having to do with the speed-up in estate and gift taxes for $1.5 billion, extension of excise taxes on automobiles and telephones for $650 million and placing a tax on gasoline additives for $1.6 billion.

Suppose the Congress does not go along in this, will you have to come back then and ask for a further extension of the borrowing power of the Federal Government by $3.8 billion?

Secretary KENNEDY. Assuming, Senator, that other parts of our budget hold up, the expenditure, and so on, and the timing of these, the phasing in and out, we can live, I think, within this debt limit. It will use up part of our contingency reserves which we have in there as a cushion, and it might mean that our cash balances would be down at times below the amount that we would like.

But it seems to me that if the debt limit is to be effective we ought to keep it as tight as we can, but reasonably so, so that we can get through the period, and my people tell me that this can be done.

FAMILY ASSISTANCE PLAN AND THE 1971 BUDGET

Senator JORDAN. All right.

Now, this question to Mr. Mayo: What assumptions are you able to make and at what point in a legislative act do you assume it is going to become reality--I am thinking now of the family assistance plan that passed the House and calls for an addition to the 1971 budget of between $4 and $5 billion. Was this taken into account in your receipts and expenditure calculations for 1971?

Mr. MAYO. The effect of the family assistance program was indeed taken into account.

The House bill has an even later effective date, however, than our initial proposal. The bill has an effective date of July 1, 1971, which, of course, is at the beginning of the fiscal year 1972.

Senator JORDAN. Yes.

Mr. MAYO. Except for some of the child care provisions and except for tooling up, so to speak, of HEW to do this big job, there would be no real expenditures in 1971. We have, therefore, cut back the allowance that we had in the January budget from $500 million originally to approximately $140 million at the present, as far as fiscal 1971 is concerned.

We still expect in our tentative planning for 1972 that the entire bill will be effective.

THE NIXON ADMINISTRATION AND THE DEBT LIMIT

Senator JORDAN. Mr. Secretary, reference has been made to the fact that you have been up here twice in 15 months to call for extensions of the debt limit: once in April of last year for $12 billion, and now for $18 billion.

For the record I would like to have you state, as I know the fact to be, that the $12 billion that you came up here to ask for in April of last year came about by circumstances over which neither you nor this administration had any control.

Secretary KENNEDY. I am sure that is true. We came into a picture where the budget was pretty much fixed. We did make substantial cuts in expenditures largely in the defense area, but in other areas also, and we also had proposals on the revenue side, as indicated in the reform bill. It turned out there was more reduction that we had anticipated or wanted.

This is an accumulation of authorizations and appropriations over many years, and many of them are uncontrollable because in the law it is a requirement for certain payments. But that does not mean that we have not been working to bring expenditures under control, and this is a continuous process. It is going to be more difficult as we go along.

Senator JORDAN. Had you not moved to bring expenditures under control a year ago or 18 months ago, you might very well have had to ask for more than the $12 billion?

Secretary KENNEDY. There is no doubt or question about that. It would have been substantially larger by the amount of the cuts.

Mr. MAYO. We cut this budget for the year that is ending in a couple of weeks, by $7½ billion. So our whole base would be that much higher had we not done that.

Senator JORDAN. Had you not done that you would have come here April a year ago asking for———

Mr. MAYO. We would have been back long before this, Senator Jordan.

ESTIMATING EXPENDITURES AND RECEIPTS

Senator JORDAN. Yes.

Now, you may be too optimistic about revenue receipts. The Joint Committee on Internal Revenue Taxation estimates the receipts some $3 billion less than you estimated in your own calculations.

Suppose they are right, what does this do to your planning? Will this send you back up here for a further extension in the borrowing of money?

Secretary KENNEDY. Well, if you assume that to take place, plus the lack of congressional action on the receipts side, plus additional action on the expenditures side against us, we could well be back here. There is no assurance that we won't be back here if those things happen.

If, however, any one of them should happen we would have enough leeway, I would hope, under the contingency reserve and our cash balance to get through. It would be possible with adjustments in the economy and adjustments in the tax taken because that is a difficult thing to measure.

If, on the other hand, as claimed by some we are not bringing inflation under control, and we have a resumption of inflationary pressures then, on the contrary, we would have an increase in receipts over our estimates.

So it is a question of estimating what the economy is going to do and the tax take, as you said for your experience as a Governor, this is not an easy field, particularly in a period of transition.

Senator JORDAN. It is not an easy field at all for the executive branch to make projections calculating the performance of the legislative branch, and this is precisely what you have to do.

Secretary KENNEDY. A budget is a plan in any corporation or in the Government. It represents the programs that are already on the books, priced out over a period of time.

It represents also the plans and programs of the executive branch, either on the expenditure or on the receipts side, so that all can take a look.

It does not mean that at the end of the year that that happens, because you have got lack of complete control, you have got the legislative and executive to work with, and our plan now is for certain taxes that the Congress has not yet enacted.

If they are not enacted our budget will be short by that amount.

If, on the other hand, the expenditures or, as they could well be in certain areas, are higher, we would have a further shortfall in our budget.

Senator JORDAN. Thank you. That is all.

Senator ANDERSON. Senator Fannin.

IMPORTS AND THE ECONOMY

Senator FANNIN. Thank you, Mr. Chairman.

Mr. Secretary, I know you are very concerned about revenues. Considering the great inequities that exist now with the tariff situation as to our needs and the countries that are importing into our country tremendous volumes of merchandise, can't we in some way or other equalize the tariffs on imports to bring about increased revenues?

Here we have automotive equipment coming in, I think it was 4½ percent, dropping down to 3, and we cannot get cars into the countries that are shipping into this Nation for, I think it is, less than 17½ percent. They can produce a car at less cost than we can produce a car, and this is just one instance.

We could apply that to electronic equipment, to aircraft equipment, to so many other areas, and with what is happening now with Great Britain shipping tremendous quantities of aircraft equipment into this country, isn't there some way that we could change that so we could have increased revenue from that source?

Secretary KENNEDY. Senator, I understand fully the problems here because I have been working on this problem almost continuously for some time. It is not a question of revenue for this country because I would rather formulate a tax to get revenue in other ways. But it is a matter of trade, and having the same consideration for our exports as others have for us, and we do have some international bodies to be concerned with, the GATT rules.

Senator FANNIN. Yes, I know.

Secretary KENNEDY. We are aware of these things.

We have had considerable discussions with nations that are not permitting freedom of trade as we see it, and in the end maybe something has to be done by way of quotas or by way of taxes, or some other things. But that is not the kind of a world to build. The kind of a world to build, if we can, is one of freedom of money and trade as between countries, and to liberalize rather than tighten the rules if that can be done and still protect our interests.

This is a long-run problem, and one we have got to deal with, and we are now working country by country.

Senator FANNIN. Mr. Secretary, I realize the tremendous amount of work that you have done and is being done. But, at the same time I also recognize that each year the situation becomes more drastic, and when we consider our inability to get some of these countries to cooperate, and they have tariff as well as nontariff barriers, and they are not changing their position, and I notice that Great Britain, for instance, went from an inbalance of trade to a favorable balance of trade in just a few years or maybe just the last couple of years just principally on the basis of their exports from Great Britain into the United States of aircraft equipment or parts and components of aircraft, I think that this is becoming so serious that we must do something.

We have been prone to abide by the decisions of the State Department to the extent that we do not accomplish these objectives that we have, and there is a tremendous amount of money involved, because if you just take the difference between the amount that we must pay to get our merchandise in their countries without even the nontariff barriers, it would be up, I imagine, into the billions of dollars, the differential there.

Secretary KENNEDY. Well, you have highlighted a real problem, and we are working on it from many angles and, of course, from the export side of this country, not only administrative or nontariff barriers, but we have problems of financing our exports competitively with others, and we have been working through our Export-Import Bank, and I think we have had some real success there.

I think we have turned the corner in some measure. It is a little wearing of rose-colored glasses to say that, but the last few months our trade net has been looking better. Not where we want it. It is not nearly good enough. It might be that Mr. Volcker would like to make a comment here because he has been working on this.

Do you want to give the figures, Mr. Under Secretary?

Mr. VOLCKER. Well, the trade surplus in recent months has been running at an annual rate of something over $2 billion as compared to about $600 to $700 million in the past 2 years. So that is a hopeful sign, as the Secretary has suggested. But it is nowhere near where it should be and where we need it to be, I think, in our overall long-term international interest.

I am not certain that a strong case could be made that tariff barriers abroad, thinking purely of tariffs now, are substantially higher than tariff barriers here. This, of course, has been a subject of international negotiations repeatedly in recent years.

But I am not sure there are billions of dollars there in the sense of equalizing tariffs that now exist.

Senator FANNIN. Well, the way in which the figures have been given to me would indicate there is a tremendous imbalance and inequity.

For instance, just in the figures I mentioned in automotive equipment would be a good illustration.

Mr. VOLCKER. The situation varies, of course, from product to product. Some products are, of course, higher, and in some theirs are higher, and automobiles may well be a case where theirs are higher.

Senator FANNIN. Well, electronic equipment, I know the manufacturers I talk to, and I know that Secretary Kennedy has had quite a number of people after him- —

Mr. VOLCKER. There is no question we have had a great increase of electronic imports.

Senator FANNIN. I think we just have a serious problem in that instance, as in other instances.

Mr. VOLCKER. I think this is one of the most serious problems before the Nation, and there is no question that our competitive situation has deteriorated.

Senator FANNIN. Are you going to recommend, Mr. Secretary, that we at least try to do something? For instance, I know last year we discussed this matter of giving these special tax privileges to a corporation operating on foreign soil that we do not give to a corporation operating on American soil that is exporting to other countries.

Secretary KENNEDY We made that recommendation and it is before the Congress in our so-called DISC proposal now, and I would hope it would promptly be enacted, because it will do two things: One, it will give the same advantage to the corporation manufacturing in and exporting as it would be by putting a subsidiary abroad and exporting from there; and another thing, it will help corporations—encourage corporations to increase their exports and others to go into the export business.

I have had some conversation with corporations that are already in the export field in a large way, and with this they will, so I am told, put more emphasis on exports from here than increasing a subsidiary abroad, and that it will, in fact, increase their exports from here.

Senator FANNIN. I know that many of the manufacturers, Mr. Secretary, maintain that if we could enforce the laws we now have, such as countervailing duties, antidumping, et cetera—and I plan to introduce legislation in this regard to see if we cannot assist you in your endeavors to correct some of these problems. Because of our inability to really perform the function that was intended originally under the statutes, they are so burdensome that it almost makes it impossible for you to administer the regulatory acts.

Secretary KENNEDY. We had a large backlog of cases, we still have. We have moved very firmly, and we are putting additional effort in that field, and we appreciate your cooperation.

Senator FANNIN. I realize that. We do want to cooperate in every way possible. Thank you.

DEFECTS IN OUR TRADE STATISTICS

Senator ANDERSON. Senator Hansen.

Senator HANSEN. Thank you, Mr. Chairman.

Mr. Volcker, could I ask a question or two in furtherance of those posed by Senator Fannin. Did I understand you to say that the favorable balance of trade to which you have just referred, is in the neighborhood of $2 billion for this year?

Mr. VOLCKER. It is running at that rate, a little above $2 billion.

Senator HANSEN. Yes; I do not have the figures for 1970, because they are not yet available, but referring to 1969, what figure do you have to reflect our balance of trade for that year?

Mr. VOLCKER. It was roughly $650 million, as I recall.

Senator HANSEN. Is that a favorable balance?

Mr. VOLCKER. Favorable balance, yes.

Senator HANSEN. It is my understanding that our Government, unlike practically every other government in the world, uses the f.o.b.

process for figuring imports. The imports do not take into account cost, of insurance, and freight.

If cost of insurance and freight were given full consideration, and if we were to take into consideration the aid programs which actually do account for the financing of a considerable amount of exports but which actually do not result in any cash flow back to this country, along with the expenditure of Public Law 480 funds, insofar as they enter into the picture, and if we add to that the travel deficit, we would come up with a figure which would roughly approximate some $7 billion deficit; would that be right?

Mr. VOLCKER. Well, I cannot confirm that precise calculation, but there is no question that if you made allowances for the Government programs and for the travel deficit you would have a sizable deficit.

Senator HANSEN. Let us exclude the travel deficit. I am aware of the influence of the travel lobby, so let us exclude that. The information I have reflects the fact that if we consider this disparity in the application of CIF concerning imports, and then apply the money that goes into the aid program, which accounts for a significant amount of exports from this country along with considering Public Law 480 funds and the Government-financed exports, we would come up with a deficit for 1969 of around $4.4 billion. Would those jibe roughly with your figures?

Mr. VOLCKER. It would not surprise me. I do not have the calculation for the changed evaluation.

Senator HANSEN. Well, I just appreciate your response. I think the only purpose in my raising these questions is to underscore some of the accounting procedures which we use, which really result, in my judgment, in a less than completely accurate, and a less than completely comparable comparison that might be drawn between our Government on the one hand, and other governments with whom we deal, on the other.

I would hope that the public generally would not be unaware of the fact that we have the favorable balance of trade which is reflected by your statement because of some contributions that the American taxpayer makes to international trade in numerous ways and without which we would not have a favorable balance at all.

I happen to agree with the senior Senator from Arizona that this is a matter of real concern. I know it is shared by some in the administration, not by all.

Mr. Chairman, I ask unanimous consent that there be entered in the record at this point a portion of the June 12 hearing of the Finance Committee on the nomination of Samuel R. Pierce, Jr., to be General Counsel of the Department of the Treasury. The chairman of the committee eloquently described the defects in our trade statistics and the implications of those defects.

Senator ANDERSON. Without objection that will be done.

(The material referred to follows:)

U.S. TRADE BALANCE, 1960–69

[In billions of dollars]

	Total exports, f.o.b. (A)	Total imports, f.o.b. (B)	Trade balance (C=A−B)	AID and Public Law 480, Government-financed exports (D)	Total exports less AID and Public Law 480, financed exports (E=A−D)	Total imports, c.i.f.[1] (F)	Merchandise trade balance (G=E−F
1969	37.3	36.1	+1.2	[2] 2.0	[2] 35.3	39.7	−4.4
1968	34.1	33.2	+.9	2.2	31.8	36.5	−4.[illegible]
1967	31.0	26.9	+4.1	2.5	28.5	29.6	−1.[illegible]
1966	29.5	25.6	+3.9	2.5	27.0	28.2	−1.2
1965	26.8	21.4	+5.4	2.5	24.3	23.5	+.8
1964	25.8	18.7	+7.1	2.7	23.1	20.6	+2.5
1963	22.5	17.2	+5.3	2.6	19.9	18.9	+1.0
1962	21.0	16.5	+4.5	2.3	18.7	18.2	+.5
1961	20.2	14.8	+5.4	1.9	18.3	16.3	+2.0
1960	19.6	15.1	+4.5	1.7	17.9	16.6	+1.3

[1] C.i.f. imports are assumed to be 10 percent higher in value than f.o.b. imports in accordance with Tariff Commission study.

[2] Estimated by Department of Commerce.

Source: U.S. Department of Commerce.

The CHAIRMAN. Mr. Pierce, this question is something that will come before your Department, which has major responsibilities for protecting the dollar. That chart shows our balance of trade as traditionally measured and the way that our staff figures we are making out.

If you look at the top column, 1969, you will see that the way we figure it, we have a trade balance of a minus $4.4 billion. Now, that does not include our unfavorable balance in tourist trade. If you add that, that is another minus $2 billion, so we get to a minus 6.4.

Now, furthermore our investors are investing more money abroad than is being invested here. Foreigners are less happy with the investments they have made over here, so they are calling their money back home, and we are spending a lot of money for military purposes abroad. So, our net balance of payments is running at a minus rate of $12 billion a year.

Now, it is my impression that at one time we had about $60 billion of investments in foreign lands. But this Nation has been frittering all that advantage away for a great many years. Part of that has been under an aid program, and part of that has been a trade program where we felt it was to our advantage to let the other guy win. Of course, some of it can be accounted for by wars that we have engaged in such as the war in Korea and the war in Vietnam. We have had the administration come in here and give us a picture, a rosy picture, showing a whole column of pluses on the foreign trade field. They conclude that as a result of this we must do more of the same, but when you add that column of pluses up, you come down at the bottom with a great big minus of $12 billion a year. That is the way it is standing right now.

What particularly concerns this committee is we cannot keep it up. I have not checked out lately just how much more of this foolishness we can engage in before we are in such bad shape that the foreigners are just going to ring the bell and put us into an even worse situation than we are now by refusing to do business with us. But we have voluntarily frittered away our resources in this world trade picture until we just cannot afford to do it any longer.

Bob Anderson, when he was Secretary of the Treasury, came before this committee—I was a member at the time. I think Senator Anderson was, and I know Senator Williams was. He was Eisenhower's Treasurer and he said we cannot continue to do what we have done with these aid programs. The need for all this foreign aid and making these trades agreements favorable to the other guy and not favorable to us could no longer be justified. He explained at that time that it is extremely difficult to turn that thing around and get it moving in the other direction.

He had no cooperation at all from the State Department at that time. Subsequently, when Henry Fowler became Secretary of the Treasury he explained to me that when you are in as bad a shape as we were on balance of payments and balance of trade, you were not going to get out of that fix by just negotiating about it. You had to take unilateral action in areas where you could control it.

We have all the powers that we need in the executive branch to do a great deal about our unfavorable situation. But if we need laws, I believe this committee would cooperate. Here is where we stand now. We will have administration witnesses coming before this committee unless something is done about it, saying that we have a favorable balance of trade of $1.4 billion and that that being the case, we must do more of what we are doing so as to increase our profit because we have a deficit in other areas.

Now, the fact is—look at that top figure, 1969. It is not a plus 1.5. It is a minus 4.4. They are just $6 billion wrong. And, so, if you are losing $4.4 billion a year, the same logic that would say you must continue more of the same if you are making a billion five would say that you must discontinue what you are doing and find a different way of doing business. And keep in mind that in the other area, the tourist movement, we are $2 billion behind in that one also.

Now, just leave out the capital movements. We cannot keep up what we are doing just in this trade area. So, the thing will have to be turned around and headed in the other direction.

The State Department does not seem to realize that and that is why they insist on giving us this misleading information. For example, they take the wheat that we give away to India and put that down as a plus item of perhaps a billion dollars a year, let us say, just to pick a figure. Here is a billion dollars of giveways. We do not get 1 penny for any of that. It would be better to dump it in the ocean and better yet, burn it up in the fields—I am looking at Clint Anderson, an old Secretary of Agriculture while saying that—because we are at least saving the transportation of getting it to the ocean. Pay the farmers not to harvest it and we would be better off.

They take that item and put that down as a plus $1 billion. We have got nothing for that. You have no business counting that toward a favorable balance of trade.

Then, the easiest figures to get for trade purposes are the amounts on which you collected a duty which is collected on an f.o.b. basis. So, they take an automobile on the docks in Japan—or which you ship—or better yet, prior to reaching the docks, take the automobile when it comes off the assembly line at Tokyo, before it even reaches the Japanese port, and assess the tariff on the basis of the value at that point, although when we bring it into this country, that item includes the cost of getting it to the dock in Yokahama. It also includes shipping it over to the United States and it includes the insurance on the ocean freight. And that increases the value of that automobile by 10 percent. That is what it is costing us to import the automobile, not the basis upon which you levy the tariff.

So, if you look at it in those terms—and nearly all the major nations look at it exactly that way—what is it costing us? When you look at all the costs, not just the ports at which we assess the duty, when you crank that into a computer and include the unfavorable balance in tourist trade, we are $4.4 billion behind.

The foreigner is not going to negotiate his surplus. This deficit on our columns is where he is making his money. But when we have an overall deficit we cannot keep this up. People will no longer trust our currency if we keep it up much longer and we become a beggar in foreign trade when people invest in their own countries rather than here, trying to get people to make some trade concessions with us that they do not want to make.

Secretary Fowler said to me that the only way you can ever get out of that big a trap is to do things you can do unilaterally. Now, we cannot unilaterally increase our exports but we can unilaterally reduce our imports. With a country like Japan, they have a trade surplus of $1.5 billion a year with us. We can tell them one of the two things. Either we are going to have to take less imports from you or else you are going to have to take more exports from us. With regard to all these trade agreements that we have negotiated where our State Department throws that like sand in our eyes we should look upon that like other nations look upon it. A country like Japan has nothing to retaliate with us on it. There is nothing, not a thing we are getting from Japan that we cannot manufacture for ourselves. So, I would advise you to get that little pamphlet the American Federation of Labor has put out. As a matter of fact I will include it in this record. In the first speeches I made on trade, I was in favor of free trade. They found, and I found that what was supposed to have been a good deal has turned into a bad deal. When it is that way it ought to be turned around to make it a good deal.

As I was telling you yesterday informally, as long as our representatives come before this committee and give us misleading facts and make a false presentation to us, every time they sit down to a negotiation table they are beat before they start out because the foreigners are going to take their own words and throw them back at them. "Look here, you yourself say that you are ahead by a billion five hundred million dollars a year." And a fellow cannot very well deny his own words. So, he is killed right there as far as negotiating a favorable agreement if it is negotiating we are talking about. And he cannot even justify this Government doing what it must do.

That is one of the big problems you will be confronted with, and I would urge you to fully acquaint yourself with the way Mr. Mills feels about it. I guess you saw yesterday how Mr. Burns seemed to feel about it.

Mr. VOLCKER. We cannot overemphasize the seriousness of this from my standpoint, Senator. I do not think it rests entirely upon whether there is a deficit or surplus. Even if we accept the figures there is a surplus, recognizing there is a Government contribution here, the surplus is not big enough.

This country has other expenditures abroad which must be covered by its trading and current account position, and they are not being fully covered now, and it is terribly important that we make further progress towtard strengthening our trade and total balance-of-payments position.

INFLATION

Senator HANSEN. I appreciate what you say very much.

If I could direct an observation to you, Mr. Secretary, let me say I want to compliment you, first of all, on the presentation you made here this morning.

I happen to be one who finds greater merit in the Federal funds budget than in the unified budget although I recognize, that to some extent no one single system tells the full and complete story.

Nevertheless, I would like to associate myself with the remarks by the distinguished Senior Senator from Virginia earlier today. I think he was so right in saying that unless we can bring these budget imbalances into better control than we have been able to do, we are really fighting a losing battle on inflation.

I recall back in the days of World War II when our Government was making a real drive to sell savings bonds, and a drive I am sure most Americans joined in supporting. At that time there was considerable newspaper advertising given to the Government as well as radio advertising that this was a way to help win the war, and it certainly was, but I recall a Baptist friend of mine after the war saying he had made an investment in savings bonds to the extent that he was able to, sometimes even stretching his ability, and he said, "You know, I would have been better off if I had bought whisky."

From a Baptist that is quite an assertion. But he went on to explain that really if he filled his cellar with whisky and had turned around and put it on the market 10 years later he would have been better off than he would have been if he bought savings bonds because all he got back was $4, for each $3 that he invested.

My point is, and it impinges on the observation of, the questions raised by, the senior Senator from Delaware, that if we want to encourage the sort of savings program that can have meaningful support, and slow down this inflationary spiral, I think we have got to give greater assurance than we have so far on two scores: One is that the investor, the person willing to make a long term investment, will be paid a rate of interest somewhat more nearly commensurate with the going rate of interest; and, No. 2, that there will not be an escalation in prices so as to result from the dilemma that faced my Baptist friend when he found after he saved money for 10 years, and he wound up being able to purchase less with the $4 than he could have with the $3 that he originally invested in the program.

With that I would just say that I know of your deep concern in trying to get this job done. I do hope that we will be able to bring about, through the efforts that you and others make, a greater public awareness of the fact that at the root of so many of our problems is the fact that the Government persists in spending more money than it takes in.

I think that although we like to point our fingers at others and say, "You are to blame," I really believe that the major finger of accusation must be pointed not at someone else, but at ourselves.

Secretary KENNEDY. I appreciate your comments, Senator.

If I may be pardoned to go back to your Baptist friend a little bit, and in jest, being a Mormon, I think he would be better off with a saving bond because he might have been tempted to drink the liquor. [Laughter.]

And he might not have come out quite as well. He might have been killed in an automobile accident.

But, on the other question, I recall—this is serious, it goes back to Senator Byrd's concern—I sat in a very important meeting of the Federal Reserve back in the early war. When Dan Bell was the Under Secretary of the Treasury—Mr. Mayo will remember this, I am sure—and Marriner Eccles, who was then the Chairman of the Federal Reserve, had made a statement that sounded horrible, I guess, that the public debt would be $50 billion total; and Dan Bell, at this important meeting, said that when the debt was hitting $40 billion he could not sleep nights. Because of his responsibility to the Treasury, and so on, and his concern as a citizen, he would find himself awakening in the night and worrying about this increasing debt.

But, he said, once it hit $50 billion he went to sleep and slept like a baby.

Now, I do not think we should sleep completely when it is escalating too fast, and I think very serious control by the Congress, by the executive branch, on the expenditures side is important, and if it is necessary to get the revenue we must face whatever is necessary to get the revenue to keep us in some reasonable balance.

Senator HANSEN. Mr. Chairman, if I could make just one further observation, let me say this: We have been holding hearings on the revisions in the social security program and in medicare and medicaid programs. These are programs that are tempting and very useful vehicles for those who want to assert their growing and continuing concern for all sorts of people, particularly for the underprivileged, and it is easy to say what we are going to do for somebody.

But I suggest that the people who will suffer the most serious injury from such hypocritical course of action that we persist in taking are those who need the help most and whose incomes are lowest. I do not think we are going to be helping anybody to launch programs that are not financially sound, which propose to extend benefits, but which will be financed with borrowed money. In the long run those persons who are going to get caught up first by such a program are those in the very lowest economic scale.

Secretary KENNEDY. Well, on that, I think there is a great need for some kind of reform, and the family security plan, as it has been amended in the long run, I think, will contribute to the benefit of the people. Surely we will have to get the revenue, whatever is necessary to take care of this, and that can be done.

Senator ANDERSON. Senator Byrd.

WELFARE PROPOSALS

Senator BYRD. Thank you, Mr. Chairman.

May I ask the Budget Director this question: Mr. Mayo, the Department of Health, Education, and Welfare has sent to the Congress a new welfare program that is before this committee now. The cost will be, in round figures, approximately double the cost of the present welfare program.

My question to you is this: Do you think the Government can afford, at this particular time, to double the cost of welfare?

Mr. MAYO. We have a very serious problem in our welfare program. Although we are putting quite a bit of money, as you have suggested, into that program, we do not feel that in its present stage it is an equitable program. Also we do not feel that it gives proper encouragement to the underprivileged who are working but are still in the poverty category to get out of their present status.

We need to encourage them in many ways through manpower program, and child care centers. Indeed, we need to try to discourage breaking up of homes. That has been one of the unfortunate attributes of the present program.

This will require additional money. Because of even greater stresses at the State and local levels, the major burden must, if we are to do this, fall on the Federal Government.

As to whether we can afford it, I think the answer is, yes. If in the process of our need to do something like the family assistance program, our need to finance a huge water pollution abatement program, to meet dozens of other——

Senator BYRD. This is not part of the welfare program.

Mr. MAYO. No, no.

Senator BYRD. Let us stick to the welfare program.

Mr. MAYO. Let me finish my sentence, if I may. In order to finance the great needs that are being pressed upon us at this time, we have to reexamine our position and our revenue structure. I think we have to face up to just that in order to impress upon everyone in this country that if we want these things we must pay for them.

I am spiritually with you, Senator Byrd, that we do not want to get into the business of thinking: well, we want these things, we do not want to pay for them, let us just go ahead and increase the debt some more.

Senator BYRD. I feel that our present welfare system is outmoded, outdated, needs to be modernized, it must be changed. But I feel that if we are going to change it, we want to be sure we change it for the better and not for the worse.

Mr. MAYO. Yes, sir; I agree with you.

Senator BYRD. I still am concerned as to whether, with the Government's finances being what they are, and in my judgment we are in bad shape fiscally, I have considerable doubt as to whether we should go into a program, a welfare program, that will cost double the present welfare program. I just wanted to get the view of the budget director as to whether, in his judgment, we can afford at this time, or should at this time, double the cost of welfare.

Mr. MAYO. My opinion is that we have to go ahead with the program such as it is, Senator Byrd. I am one of those who wants to move cautiously here. I want to see us develop, just as you do, the best way of doing this, and I know you do not like things better just because they are postponed. I will say that in fiscal 1971 we are not ready fiscally to go into this new program, nor are we ready on many other grounds. I do not want to see us leap into something where we have not examined very carefully not only the philosophy but also the operation of this program.

In the United States, not just in welfare but in so many other areas, we are perceptive enough to see a problem, which is fine. But then we tend to stand up and throw money at it and hope that the problem will go away. This is one of the reasons why the President has felt so strongly that he must stress even more the management of the Government in the new office within the Executive Office of the President. If we do not get ahold of our delivery systems and make them work, we are indeed wasting billions of dollars of the taxpayers' money.

Senator BYRD. Let me ask you this question: How do you reverse the trend to the welfare state by increasing the welfare rolls from the 10 million persons to 24 million persons?

Mr. MAYO. Many of the additions to those rolls are purposely in trying to bring in further incentives to those in the poverty areas, to make it on their own. Through manpower training, we try to give them some light at the end of the tunnel, not just pay more money. That is why we are doing it this way.

Senator BYRD. You concur in the figure, though, I assume that the number on welfare will increase from 10 million to 24 million?

Mr. MAYO. I am not sure of the 24 million, but our figure of doubling is very clear in my mind.

Senator BYRD. I received a letter from the Governor of California in which he said that under the present welfare system, 8 percent of the population of his State is on welfare, and if the Finch proposal is enacted, 14 percent will be on welfare. Here again I find it difficult to understand how we reverse the trend to the welfare state by so substantially increasing the welfare rolls.

NEW PROGRAMS

Now, let me ask you this: You have started a new system which, I think, is a good one, where you list the total for the initiatives in the upcoming budget——

Mr. MAYO. Yes.

Senator BYRD (continuing). Of the 1971 budget, the one we are working on now; and then you carry that forward to 1975, which is a 4-year period.

Mr. MAYO. Yes, sir.

Senator BYRD. I think that is very helpful.

Now, as I understand it, the initiatives in the current budget, the budget Congress is now working on, fiscal 1971, will total $3 billion.

Mr. MAYO. That is correct.

Senator BYRD. And these same initiatives will grow to $18 billion in the next 4 years?

Mr. MAYO. That is our best estimate at this time. We thought it was high time, Senator Byrd, that we not only describe the nose of the camel but the entire animal.

Senator BYRD. I think that is a very desirable thing to do, and very important and I, for one, am glad that you have done that.

It does show that in that 4-year period that these new initiatives will increase, say, 600 percent, from $3 billion to $18 billion and that, of course, is a very substantial increase and of considerable interest to the taxpayer.

INTEREST ON THE PUBLIC DEBT

Mr. MAYO. Yes, sir.

Senator BYRD. May I ask you the figure in the fiscal 1971 budget for the interest on the public debt, just in round figures?

Mr. MAYO. Yes. The figure, as I recall it, is $19 billion for the fiscal 1971 budget.

Senator BYRD. $19 billion.

Mr. MAYO. Yes. That is what it was when we made the estimate in January. It is now $20 billion even, I believe, with the revisions we published May 19.

Senator BYRD. Let me get this straight now. Fiscal 1971 will call for interest payment of $20 billion?

Mr. MAYO. I believe that is correct. Yes, $20 billion.

Senator BYRD. $20 billion. What were the interest payments for fiscal 1970?

Mr. MAYO. Let me see here.

Mr. VOLCKER. Current estimates, $19,350,000,000.

Mr. MAYO. Yes, that is correct.

Senator BYRD. $19.3 billion.

Mr. VOLCKER. Yes, $19.4 billion.

Senator BYRD. What have you for fiscal 1969?

Mr. MAYO. $16.6 billion.

Senator BYRD. Fiscal 1968?

Mr. MAYO. $14.6 billion.

Senator BYRD. So that in that 4-year period—fiscal 1968 through fiscal 1971, that 4-year period, the interest on the debt has increased from $14.6 billion to $20 billion?

Mr. MAYO. Yes, sir.

Senator BYRD. An increase of $5.5 billion or percentagewise in that short period of time it has increased about 40 percent.

Mr. MAYO. Yes, that is correct.

Senator BYRD. Forty percent in that short period of time.

So am I correct in this assertion that the $20 billion interest charge figure in the fiscal year 1971 budget will be the second highest non-defense item in the budget, the highest being for HEW?

Mr. MAYO. I think that is a correct statement, lumping it in that way.

Senator BYRD. And for that $20 billion the taxpayers get no programs, and they get nothing for that interest payment of $20 billion.

Mr. MAYO. Well, they are paying, in a sense, Senator Byrd, for programs that they wanted earlier before they could afford them.

Senator BYRD. They are paying out in interest charges, the wage earners are paying out in interest charges $20 billion, for which he receives no precise program other than the privilege of paying the interest on the debt. That is another reason why I am opposed to these tremendous increases in the national debt.

THE FEDERAL FUND BUDGET AND THE ECONOMY

Some way or other we have got to get our fiscal house in order and, in my judgment, it is not in order. The distinguished Secretary, in discussing it with Senator Miller a little while ago, made this statement, and correct me if I am in error, Secretary Kennedy, that the present budget picture is in the right posture. Receipts and expenditures are in about the right balance.

Secretary KENNEDY. That is what I was saying, in general, to Senator Miller because, in the present economic period of adjustment, it seems to me that the balance between expenditures and taxes are the net effect of the Government's operation, which is in, about in, line. If you try in a very short period of time to adjust the Federal funds budget and putting it into balance, we would be pulling out of the economy another $11 billion to do that.

That, on top of the other factors, in the economy at the present time, it seems to me, would be too repressive, too much of—over a period of time——

Senator BYRD. You are saying, in effect, then, that you are well satisfied with a $11 billion deficit?

Secretary KENNEDY. In the Federal funds balance at the present time. Over a period of time I believe we should be continually working to bring it better into balance from your standpaint and from mine so that the Federal side of the equation will give way to the private side, and that more of the activity could be performed by the private side.

But you can do that better in periods of inflation. The difficulty in periods of inflation that we have gone through, as you know, where the taxes are not a flexible instrument, it is too difficult to get tax legislation through, it takes too long a period of time, and when you start, for example, with tax reform we end up with part tax reform and in part with tax reduction, so that the tax end is not an easy one.

On the expenditures side, it is a continuous effort, and it is an effort when we came in office, and it will be a continuous effort to see that every program, every one, provides a service and a need for the economy, and then you add those up and equate them, and they should be in reasonable balance.

Senator BYRD. I must say that I am astonished that you would feel a budget deficit, coming on the heels of continuous budget deficits, a budget deficit of $11 billion, is all right.

Secretary KENNEDY. Again we get into the question of the Federal funds deficit as against the all-out deficit, and the impact on the economy from the standpoint of the total is not $11 billion but $1.8 billion, which emphasizes the problem we have in taking one single measure which does not measure the total effect. We leave out the trust funds, and you are leaving out a very large part of the Government's operations in the economy.

Senator BYRD. Senator Williams just complimented you on not bringing in the unified budget concept in your original statement, and I was prepared to join with him in that regard. But now you are bringing it in.

Secretary KENNEDY. Well, I feel we must when you put the effect on the economy. When you take it from the standpoint of the debt and from the standpoint of what the Congress can understand with respect to expenditures and tax measures, then I would go back to the Federal funds budget.

Senator BYRD. Anyway, the best I can figure you feel that a $11 billion deficit is satisfactory under today's conditions, and I must say I cannot agree with that.

Then you project next year a $10 billion deficit which, in my judgment, will be substantially higher than $10 billion.

CORPORATE PROFITS ASSUMPTION FOR 1971

I would like to explore for a moment with you or with the Budget Director, either one, your corporate profits assumption of $89 billion for fiscal 1971.

Is it correct that corporate profits in the first quarter of 1970 are now estimated at $85 billion?

Secretary KENNEDY. The first quarter figures; that is correct, Senator. The $89 billion that we have was made in the early part of the year when we were taking a look at the economy on the basis of projections we had.

Senator BYRD. Have you revised that figure downward?

Secretary KENNEDY. We have not at this time. We will have the June tax figures in before long. Part of the roughly $3 billion revenue reduction that we are experiencing will be through the corporate end. There has been a change in pattern of payment, probably based on the corporations basing their payments on their first quarter earnings which they are entitled to do under the law.

Our people are taking a look at this, and I suspect after the returns are in for June we will take a careful look to see whether we will make a change.

Senator BYRD. Well, the estimate of a $10 billion deficit for fiscal 1971 is based on the——

Secretary KENNEDY. Current figures; yes.

Senator BYRD (continuing). The current figure of $89 billion?

Secretary KENNEDY. That is right.

Senator BYRD. So if that is off the deficit will be increased by 50 percent of whatever that is off.

Secretary KENNEDY. That is precisely right.

Senator BYRD. Do you have any reason to feel that the corporate profits level in the second quarter will be any better than the first quarter?

Secretary KENNEDY. I do not think the second quarter will be, from the figures I see. I think that there is a good chance in the third and fourth quarters they will pick up.

Senator BYRD. It would have to pick up very substantially in the third and fourth quarters in order to approach that $89 billion figure; would it not?

Secretary KENNEDY. There would have to be a substantial pickup, that is correct. There could very well be a shortfall in corporate revenue in the fiscal year.

Senator BYRD. Even apart from the corporate profit levels, if we are to realize the income levels for the calendar year 1970, doesn't one or two things have to occur, namely, either a general upturn almost immediately, or substantial inflation toward the end of the year? One of those would necessarily have to occur.

Secretary KENNEDY. Our individual income receipts are pretty much on pattern. The question is largely in the corporate field, and in the corporate field I feel that the question will be resolved fairly soon, in which case, if the corporate income is down, and we have a substantial shortfall there, then I think we have to take a look at what we do on other expenditure cuts to offset that.

The question of revenues to replace it with revenue changes.

Senator BYRD. You feel the total personal income will be about on target with your estimate?

Secretary KENNEDY. That seems to be holding very well.

Senator BYRD. Thank you very much, Mr. Secretary.

Thank you, Mr. Chairman.

Senator ANDERSON. Senator Williams.

$7 BILLION CASH BALANCE

Senator WILLIAMS. Mr. Chairman, I just have a couple of questions here.

The purpose and need of this increase in the national debt at this time is to finance the projected deficit for the next fiscal year, is that not true, that is, on the Federal funds basis?

Secretary KENNEDY. That is right, Senator. It is a question of in getting the total amount, that we have in the debt limit to have it on a basis of the total deficit in the Federal funds, plus a pattern of expenditure and receipts because, as I indicated, we have peak debt, and in the later March-early April period, we have a very extended period of almost peak debt beginning in December and going on through.

Mr. VOLCKER. Just to add to that, a portion, roughly a third, of this increase in the debt ceiling would simply be to restore operating leeway in the cash balance and in the reserve for contingencies.

Senator WILLIAMS. The leeway is $7 billion. Why do you need that extra $7 billion when the debt was increased enough last year to take care of this same contingency with short-term funds, and it was $12 billion last year?

Secretary KENNEDY. We have, Senator, been assuming a smaller cash balance than in fact takes place and is necessary. The $4 billion cash balance that was considered the reasonable amount in connection with the figure of the debt limit, figuring the debt limit, turns out to be on the average too small.

In the first place, it was fixed at a time when the total Government expenditure was at a much lower level, and it gives us enough to take care of a very short span of time in our total expenditure figure.

No corporation, no business or anything else could operate on this minimum of cash balance as we have because there are periods when tax receipts come in that increase our cash balance up to a fairly large size, and that goes into the average, and then there are other periods when we get down to periods where we have to operate almost with too little money in the till, and go to Federal Reserve and borrow overnight to take care of our needs.

We would like to operate with a minimum cash balance, but there is a very touchy, dangerous thing here because if you get it too small you cannot get into the market to finance quickly enough to replace it, and you are in real difficulty.

Senator WILLIAMS. Well, both as an individual and as a small businessman, we always liked a good, sizable cash balance. But when we were borrowing money at 8 percent, we never inflated that balance. We have been able to operate in the last 8 months with that average, and I am wondering whether it is advisable to give you a couple of billion more for a cash balance.

Secretary KENNEDY. We do not pay for it unless we need it. We will operate with a minimum cash balance anyway. We have many uncertainties in the picture, as I indicated.

Senator WILLIAMS. The reason I asked this question is the thought has been advanced that this was a way of pumping a little extra amount into the economy by increasing our cash balance; is that one of the factors?

Mr. VOLCKER. You may want to glance at table 2 attached to the Secretary's statement which shows as a proportion of expenditures cash balances have been declining steadily and rather drastically to the point that while we do carry an average of about $5 billion, sometimes bigger it only covers about 1 week's expenditures.[1]

THE DEBT RELATED TO GNP

Senator WILLIAMS. Well, I appreciate that. And, of course, relating them back to some other figure is sometimes misleading.

For example, I noticed in one of these charts you furnished a gross national product in 1960 was $503 billion, and in 1969 it is $956 billion, and then relating the debt to the gross national product it shows that in 1960 it was a ratio of 58.9 percent of the gross national product, and it is down to 39.9 percent now.

Do you think that really tells us anything, though? Does that indicate we are in a better financial position? Don't you think that is slightly misleading?

Secretary KENNEDY. Well, in relation to GNP it tells the arithmetic relationship, there is no question the figure are there.

In relation to our receipts and expenditures in the Federal budget and the current economic situation, it does not tell the story. You have to look at it from a different point of view.

Senator WILLIAMS. I was just thinking of the Penn-Central situation. Their total debt as a percentage of the gross national product in 1960 was substantially higher than it is today, yet they are ending up in a little bit of financial difficulty, even though on that same line of figuring they are in a much better financial position. So I just raise that point to indicate that a man can go bankrupt on that type of figuring if he does not look somewhere else, can he not?

Secretary KENNEDY. That is precisely right. A shortage of cash when you have asset values can do it, too.

Senator WILLIAMS. I am wondering why it was presented. At first glance, it indicates we are really making progress, but we are making progress out the back door into bankruptcy if we are not careful. I mean, they do not tell us anything.

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[1] See p. 9.

Secretary KENNEDY. They give us a relationship between the public debt and GNP, and for whatever use reasonably can be made of that. These figures were submitted not from our standpoint of advocating a change in the debt limit because the facts required them; they were given in response to the chairman's request.

SUSPENSION OF TAX CUTS LIKELY

Senator WILLIAMS. One other question, and I ask this one with full recognition that all of our hindsight is better than our foresight, that is understood.

But looking back, do you think it was a mistake in last year's tax cuts?

Secretary KENNEDY. Well, I felt at the time, Senator, that the tax reduction in the reform bill went too far and, as you know, we made a last-ditch effort to cut that back, and did to some extent, but not as much as many of us would want.

The total package was approved largely because of the necessity to have tax reform. I think it highlights the problem we will be going through with respect to the budget for next year, as to where we have to replace or to do something about that.

Senator WILLIAMS. We are confronted with a situation where tax reductions are triggered into effect with the coming of the next couple or 3 years.

Secretary KENNEDY. That is right.

Senator WILLIAMS. Do you think we can afford those tax reductions or do you feel there is a possibility you are going to be in for a suspension? What is your feeling?

Secretary KENNEDY. My feeling is not only a possibility but there is a likelihood.

Senator WILLIAMS. Did you say "possibility?"

Secretary KENNEDY. There is a likelihood because, as I have looked at the expenditures side, and I have not seen the budget because they are starting on analysis, but I think we have got to keep a reasonable balance from the economic standpoint and from the financial standpoint, and unless those figures turn up in the final analysis so that that balance is there, I think we either have to make further cuts in expenditures or we have to take a look at the revenue side.

EXPENDITURE CEILINGS

Senator WILLIAMS. Mr. Mayo, last year when the budget was first submitted by President Johnson, what were the projected expenditures?

Mr. MAYO. $195.3 billion.

Senator WILLIAMS. That was by President Johnson?

Mr. MAYO. Yes.

Senator WILLIAMS. What was the projected expenditure after the Congress and the President had revised it?

Mr. MAYO. The projection that we put in the January——

Senator WILLIAMS. The so-called ceiling we put on it?

Mr. MAYO. There was a ceiling of $191.9 billion plus an allowance of $2 billion for errors in estimating uncontrollables.

Senator WILLIAMS. $192.9, was it not?

Mr. MAYO. $192.9 billion was our figure. The Congress saw fit, though, in imposing the ceiling to cut that by $1 billion.

Senator WILLIAMS. Yes. What are the expenditures projected as of this time?

Mr. MAYO. $197.9 billion was our figure in the new February budget, and we have revised that to $198.2 billion as of May 19.

Senator WILLIAMS. Then, in spite of all the projected cuts on the part of both Congress and the administration we are going to end up spending about $3 billion more than was projected when the original budget submitted by President Johnson came out.

Mr. MAYO. That is right, in spite of our cutting of $7½ billion out of that budget at the executive level.

Senator WILLIAMS. You anticipated my next question. If cutting $7½ billion resulted in an increase of expenditures of $3 billion, don't you think we are fortunate we did not cut it more?

Mr. MAYO. Well, the things that went up were either because of the way Congress looked at things differently from the way we looked at them, or because they reflected uncontrollables again like social security benefits which ran higher. And I can go right down the line.

I think we can be thankful that we cut $7½ billion. If we had not done that we would be even more skyward than we are.

Senator WILLIAMS. Aren't a lot of these cuts that are put into effect by both the executive and the legislative cuts from a projected figure up in the air somewhere, and then we spend less? I will cite an example. I remember how President Johnson used to cut the number of employees. Each year he would cut them by 25,000 to 30,000, and it later developed that he planned on adding 75,000, so if he only added 30,000 he said he cut them by 45,000.

Hasn't that been pretty much the sort of cuts that we have had in the last few years—just as we cut $7½ billion last year in the budget? We ended up spending $3 billion more now. Haven't we got to have an ironclad ceiling? This is what I am getting back to?

Mr. MAYO. We had some real cuts. The Defense cut was a real one, despite the debate that still goes on as to whether we are going to make that figure in the 1970 budget, or not. We are making it.

I believe if you go back and tabulate just what those individual cuts were, they indeed were made. It is just that we had more than a $10 billion overrun as a result of the actions or inaction of the Congress. In things like the postal rate increase which, indeed, was proposed by President Johnson a year and a half ago, we have not gotten it yet.

Also in uncontrollables we just have been unable to make as good an estimate as in hindsight we should have.

I am glad to say that in the present revisions we even found one of those uncontrollables, namely, medicare, that we had overestimated, for a change. We were quite surprised, too, but it does happen.

Senator WILLIAMS. This next question has nothing to do with the debt limit, and if you are not in a position to answer it I will submit it later, but I just thought since you were here I would ask it.

There is a bill recently reported on the Senate Calendar dealing with the so-called Alaskan claims. I understand they would pay about $1 billion in claims to the Alaskan natives.

Mr. MAYO. Yes.

Senator WILLIAMS. Does the Budget Bureau approve of that bill?

Mr. MAYO. We approved the idea of going forward with the settlement of these claims, some of which have been overhanging for some time. I do not recall, and I could be in error in this, but I do not recall approving a bill with a figure that specific in it. If I am in error I will correct it for the record, if I may.

Senator WILLIAMS. I wish you would give us a letter on that.

Mr. MAYO. I would be glad to.

Senator WILLIAMS. I do not mind approving the idea, it does not cost anything, but there is an item there, two items, of $500 million each, and $1 billion goes beyond an idea. I would like to know whether you approve of that or not.

Mr. MAYO. Yes, it does.

Senator WILLIAMS. Because I understand the bill won't just pass with the idea; it is the money that they are after.

Mr. MAYO. We have too many ideas, too little money, Senator.

Senator WILLIAMS. I would like to know if you approve of the $1 billion feature of the bill.

Mr. MAYO. I will give you a note on that.

Senator WILLIAMS. You will give us a letter?

Mr. MAYO. Yes.

Senator WILLIAMS. No further questions at this time.

(A response from the Bureau of the Budget follows:)

EXECUTIVE OFFICE OF THE PRESIDENT,
BUREAU OF THE BUDGET,
June 23, 1970.

Hon. RUSSELL B. LONG,
Chairman, Finance Committee,
U.S. Senate, Washington, D.C.

DEAR MR. CHAIRMAN: Senator Williams, during a Committee meeting June 18, 1970, asked whether the Budget Bureau approves the $1-billion feature of S. 1830, the Alaska Native Claims Settlement Act of 1970, as recently reported by the Senate Committee on Interior and Insular Affairs.

The $1 billion feature of S. 1830 referred to is payments for the Alaska natives, made up of (1) $500 million from the general fund of the Treasury to be paid out over a 12-year period, and (2) $500 million to be paid only from a two-percent share of income from oil and gas leases on Federal lands in Alaska.

These amounts are in excess of those recommended by the Administration. The Administration proposal was designed to be, and we believe is, a fair and generous one. The Administration proposed, in addition to land grants, a money settlement totaling $500 million to be paid out over a 20-year period. The Administration considered a settlement made up wholly or in part of a share of leasing income but rejected it in favor of the specific $500-million award which the natives would be certain to receive.

We continue to regard the Administration proposals previously presented by the Secretary of the Interior as fair and generous, as we believe they should be. The Bureau of the Budget would continue, therefore, to support the settlement recommended on April 29, 1970, by the Department of the Interior.

Sincerely,

JAMES R. SCHLESINGER, *Acting Director.*

Senator ANDERSON. Thank you very much. We will recess until 10 o'clock Tuesday morning when we will meet in executive session.

Thank you.

(Thereupon, at 12:55 p.m. the hearing was adjourned, to reconvene Tuesday morning, June 23, 1970, at 10 a.m.)

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