CONTINUATION OF PRESENT TEMPORARY $465 BILLION DEBT LIMIT

HEARING

BEFORE THE

COMMITTEE ON FINANCE
UNITED STATES SENATE

NINETY-THIRD CONGRESS

FIRST SESSION

ON

H.R. 8410

TO CONTINUE THE EXISTING TEMPORARY INCREASE IN THE PUBLIC DEBT LIMIT THROUGH NOVEMBER 30, 1973, AND FOR OTHER PURPOSES

JUNE 21, 1973

Printed for the use of the Committee on Finance

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H.R. 8410

CONTINUATION OF PRESENT TEMPORARY $465 BILLION DEBT LIMIT

THURSDAY, JUNE 21, 1973

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

The committee met, pursuant to notice, at 10:30 a.m., in room 2221, Dirksen Senate Office Building, Senator Russell B. Long [Chairman], presiding.

Present: Senators Long (presiding), Bennett, Curtis, Dole, Packwood, Roth, Hartke, Ribicoff, Byrd, and Mondale.

The CHAIRMAN. The Committee will come to order.

Permit me to explain the delay in starting the session. There was a rollcall vote in the Senate and the Members had to record themselves on the rollcall before they could turn to the committee's deliberations.

The committee today is considering H.R. 8410, a bill to proivde a 5-month extension of the present temporary debt limitation.

The debt limit is composed of two parts: A permanent $400 billion limitation and a temporary additional limitation of $65 billion, which expires on June 30.

Unless the temporary limit is extended the debt limit will drop to its permanent level of $400 billion on July 1.

On June 15, the debt subject to the limit was $456.1 billion.

Our first witness today will be the Honorable George P. Shultz, Secretary of the Treasury, accompanied by Roy L. Ash, Director, of the Office of Management and Budget.

Before we start I'd like to include a copy of the bill, H.R. 8410, and the committee's press release announcing these hearings.

[The material referred to follows:]

93D CONGRESS
1ST SESSION

H. R. 8410

IN THE SENATE OF THE UNITED STATES

JUNE 14, 1973

Read twice and referred to the Committee on Finance

AN ACT

To continue the existing temporary increase in the public debt limit through November 30, 1973, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That section 101 of the Act of October 27, 1972, providing for a temporary increase in the public debt limit for the fiscal year ending June 30, 1973 (Public Law 92-599), is amended by striking out "June 30, 1973" and inserting in lieu thereof "November 30, 1973".

SEC. 2. The last sentence of the second paragraph of the first section of the Second Liberty Bond Act, as amended (31 U.S.C. 752), is amended to read as follows: "Bonds authorized by this section may be issued from time to time to the public and to Government accounts at a rate or rates of interest exceeding 4¼ per centum per annum; except that bonds may not be issued under this section to the public, or sold by a Government account to the public, with a rate of interest exceeding 4¼ per centum per annum in an amount which would cause the face amount of bonds issued under this section then held by the public with rates of interest exceeding 4¼ per centum per annum to exceed $10,000,000,000."

SEC. 3. (a) Section 22 of the Second Liberty Bond Act, as amended (31 U.S.C. 757c), is amended by adding at the end thereof the following new subsection:

"(j) (1) The Secretary of the Treasury is authorized to prescribe by regulations that checks issued to individuals (other than trusts and estates) as refunds made in respect of the taxes imposed by subtitle A of the Internal Revenue Code of 1954 may, at the time and in the manner provided in such regulations, become United States savings bonds of series E. Except as provided in paragraph (2), bonds issued under this subsection shall be treated for all purposes of law as series E bonds issued under this section. This subsection shall apply only if the claim for refund was filed on or before the last day prescribed by law for filing the return (determined without extensions thereof) for the taxable year in respect of which the refund is made.

"(2) Any check-bond issued under this subsection shall bear an issue date of the first day of the first calendar month beginning after the close of the taxable year for which issued.

"(3) In the case of any check-bond issued under this subsection to joint payees, the regulations prescribed under this subsection may provide that either payee may redeem the bond upon his request."

(b) The amendment made by subsection (a) shall apply with respect to refunds made after December 31, 1978.

Passed the House of Representatives June 13, 1978.

Attest: W. PAT JENNINGS,

Clerk.

PRESS RELEASE

FOR IMMEDIATE RELEASE
June 14, 1973

COMMITTEE ON FINANCE
UNITED STATES SENATE
2227 Dirksen Senate Office Bldg.

FINANCE COMMITTEE ANNOUNCES HEARING ON THE PUBLIC DEBT

The Honorable Russell B. Long (D., La.), Chairman of the Committee on Finance, announced today that the Committee will hold a one-day hearing on Wednesday, June 20, 1973,* on H. R. 8410, a bill to extend the present temporary ceiling of $465 billion on the public debt through November 30, 1973.

The Chairman announced that this legislation should be passed before June 30, 1973, because at that time the permanent debt limit of $400 billion would go into effect, significantly below the current outstanding debt of the Treasury Department. The debt on June 5 was $452.9 billion.

The Honorable George P. Shultz, Secretary of the Treasury, will be the principal witness for the Administration. He will be accompanied by the Honorable Roy L. Ash, Director of the Office of Management and Budget.

The hearing will be held in Room 2221, Dirksen Senate Office Building and will begin at 10:00 A.M.

*Subsequently changed to June 21, 1973.

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The CHAIRMAN. Mr. Shultz, we are pleased to have you. I would suggest we have your statement and Mr. Ash's statement in full before we interrogate you and Mr. Ash about this matter. That might make it possible to move along more expeditiously.

STATEMENT OF HON. GEORGE P. SHULTZ, SECRETARY OF THE TREASURY, ACCOMPANIED BY HON. ROY L. ASH, DIRECTOR, OFFICE OF MANAGEMENT AND BUDGET, AND PAUL A. VOLCKER, UNDER SECRETARY FOR MONETARY AFFAIRS

Secretary SHULTZ. Thank you, Mr. Chairman.

Members of the committee, I also have with me Mr. Paul Volcker, Under Secretary of the Treasury, whom you well know and who is in charge of this area within the Treasury.

You have before you H.R. 8410, which embodies the House action in response to our request for an extension of the temporary debt ceiling and other matters. This bill meets our minimum requirements for the period immediately ahead. However, I must emphasize that it does not provide normal operating margins, and makes it certain we shall need to return to the Congress on this matter again before the close of this session.

The present temporary debt limit expires on June 30, 1973. The debt subject to limit on that date will be about $460 billion and, therefore, greatly in excess of the permanent ceiling of $400 billion. Thus, congressional action on a new debt limit must be completed before the beginning of the new fiscal year on July 1.

The House committee felt strongly that it would like another opportunity to review the budget, our debt projections, and the economic outlook before providing a debt limit for the whole of fiscal year 1974. Accordingly, H.R. 8410 would merely continue the present temporary debt limit of $465 billion until November 30. At or before that time, an increase in the debt limit to a higher figure will be required.

While we have no objection to returning to the Congress at a later date for a higher ceiling, table I attached, which reflects our debt projection for the coming fiscal year, suggests extension of the temporary ceiling through November at the current level may well greatly complicate our cash and debt management operations both in August and, even more severely, November.

The tight situation in parts of August and November, implying maintenance of cash balances below a prudent level and without a margain to cover any extraordinary developments, will be manageable only through firm action to hold the rate of Federal outlays at or below the rate of expenditure implied in the $268.7 billion expenditure total called for in the President's budget for fiscal year 1974. I believe, in adopting the bill before you, the House committee was aware of, and accepted, this implication of the action.

In addition to extending the temporary debt limit, H.R. 8410 also liberalizes the $10 billion allowance for the issuance of Treasury bonds with an interest rate in excess of 4¼ percent provided in 1971. Specifically, H.R. 8410 provides that such higher interest rate bonds held by Government accounts, including the Federal Reserve System, would not be counted against the $10 billion figure.

Under the present law, as shown in table II, we have issued approximately $8.4 billion of bonds with interest rates ranging from 3⅛ percent to as much as 7 percent. Consequently, the authority remaining to us had been reduced to $1.8 billion. Government accounts, including the Federal Reserve System, currently hold $3.0 billion of these bonds. By excluding these holdings from the allowance, the effect of H.R. 8410 would be to increase our remaining authority to issue bonds to the general public to approximately $5.5 billion.

This amount will be adequate for the time being. Consequently, while we would have preferred removal of the ceiling entirely, the House provision is acceptable.

The House provision will also allow us to resume issuance of long-term securities to the trust funds. This was the usual practice for most trust funds before the 4¼ percent interest rate ceiling restricted our ability to issue bonds. Over time, we would plan, under the House bill to restore a more balanced relationship between the maturity of the investment portfolios of the trust funds and their foreseeable needs than has been possible in recent years.

Finally, H.R. 8410 provides for authority to issue a so-called check-bond in payment of personal income tax refunds if that action should be determined to be desirable in future years. Such a "check-bond" would enable an individual either to cash his refund promptly, as at present, or—by retaining the refund check—to permit interest to accrue in the same amount and manner as with a series E savings bond.

I believe there is considerable merit in establishing a check-bond system now for future use. We anticipate, under present procedures, a continuing high and growing level of tax refunds. The check-bond procedure offers a convenient means for encouraging saving of a portion of the refunds by taxpayers and for assisting in a more orderly management of Treasury debt and cash. I look on it as one small additional tool in the kit of fiscal measures that might be brought to bear in appropriate circumstances.

We also asked the House committee to eliminate the ceiling on E and H savings bond rates. The present law in that respect, as it has been interpreted on the floor of the Congress, is not adequately clear as to our ability to pay any rate above the current figure of 5½ percent.

We have no present plans to raise Savings Bonds rates, but we wanted this additional flexibility to assure our continuing ability to offer a fair return to savers in this program. In the past when savings bonds rates have been increased, they have been increased only after—and sometimes long after—rates paid by private savings institutions, as well as open market rates, have increased. We have no intention of leading interest rates higher through changes in Savings Bonds rates. However, we believe the Savings Bonds rates must be maintained at reasonably competitive levels without excessive lags, thereby assuring millions of small savers a fair rate of return.

There are now more than $50 billion of savings bonds outstanding. This program is a fundamental and stable part of our debt management program. We want, as I am sure the Congress wants, this program to continue to serve the needs both of the Government and of the public in a fair and equitable way.

The House committee indicated it would take this question up again when the debt limit again comes under consideration. In the light of that intention, we will not press the matter now.

As the committee is aware, the debt limit must be high enough to cover both securities sold to the general public—including the Federal Reserve—and securities accumulated by the trust funds. The net amount of securities sold to the general public reflects broadly the size of the deficit in the unified budget. The securities sold to the trust funds reflect broadly the surplus to such funds. Taken together, the deficit in the unified budget and the surplus in the trust funds is reflected in the Federal funds portion of the unified budget—that is the funds that the Government administers as owner rather than as trustee.

In the 2 fiscal years ending June 30, 1973, the unified budget deficit will amount to about $41 billion. In the same period, the cumulative trust fund surplus will amount to about $16 billion. As a result, taking into account changes in the cash balance and other factors, public debt securities will have increased by approximately $60 billion over that period.

Looking ahead to fiscal 1974, we now anticipate a unified budget deficit of only $2.7 billion. However, the surplus in the trust funds, for which we will also need to provide public debt securities, is rising by an estimated $16.1 billion. These two figures together, making a total of $18.8 billion, are reflected in the Federal funds deficit. That is why we asked the House committee for a $20 billion increase in the temporary debt limit for the full fiscal year.

I want to emphasize as strongly as I can, in the light of our overall economic and fiscal position, the need to achieve and maintain the near balance in the unified budget we now foresee. The deficits in the unified budget during the past 2 years were broadly a reflection of slack in the economy. Some deficit in the Federal budget was appropriated to help stimulate production and employment.

Now that we are nearer full employment and capacity utilization output, restraint is necessary, and we welcome and need the return to a balanced position. In response to the growth in incomes, receipts are exceeding our earlier estimates, and with firm control on expenditures, the remaining small deficit in the unified budget now projected for fiscal 1974 could well be eliminated.

As shown in the detailed figures in the Mid-Session Review, which was released on June 1, and which is summarized in tables attached to my statement, the improvement now anticipated in both fiscal 1973 and fiscal 1974 is the result of higher than previously anticipated tax receipts, with higher income tax receipts accounting for most of the changes.

For the 2 years taken together, individual income tax receipts have been revised upward by about $8 billion and corporation income tax receipts have been revised upward to $7 billion. Social insurance taxes and contributions also have been revised upward by over one-half billion dollars and other receipts—excise taxes, customs duties, and so forth—are up by $1½ billion. Thus, in total, receipts for the 2 fiscal years taken together are now estimated at $17 billion more than was estimated in January.

We welcome these increased receipts, and the resulting decrease in the unified deficit, because the budget, as planned, is now exerting more restraint on the economy as the economy moves toward full potential output, thus reducing inflationary pressure and also the Government's borrowing requirements. I would note that the "full-employment budget," which eliminates from the calculation the effects of cyclical economic developments and shows what the results would be if the economy were at "full employment," has moved from a slight deficit to a small but significant surplus. This is entirely appropriate under present circumstances.

While I welcome these shifts in our budgetary expectations, I also recognize that part of the higher receipts reflect the excessive pace of inflation in the economy. I make this point to reemphasize the pressing need—which both the administration and the Congress face—to exercise restraint over Federal outlays. The buoyancy in revenues cannot be a basis for relaxing in any way the need to hold expenditures to the figures specified by President Nixon in his budget message in January; that is, $249.8 billion in fiscal year 1973 and $268.7 billion in fiscal year 1974.

As one with responsibility for the sound financing of the Federal Government. I applaud wholeheartedly the efforts by many Members in both Houses to find an effective basis for exerting responsible congressional control over the outlay totals. The control of outlays has become, as it should be, a joint and cooperative effort of the administration and the Congress. The overwhelming need for success in this joint effort should spur us all toward finding a workable approach.

Thank you, Mr. Chairman.

[Attachments to Mr. Shultz' statement follows:]

TABLE I.—ESTIMATED PUBLIC DEBT SUBJECT TO LIMITATION FISCAL YEAR 1974 [1]

[In billions of dollars]

	Operating cash balance	Public debt subject to limitation	With $3,000,000,000 margin for contingencies
1973:			
June 30	6	455	458
July 31	6	461	464
Aug. 31	6	467	470
Sept. 30	6	460	463
Oct. 31	6	464	467
Nov. 30	6	467	470
Dec. 31	6	466	469
1974:			
Jan. 31	6	467	470
Feb. 28	6	470	473
Mar. 31	6	474	477
Apr. 30	6	470	473
May 31	6	479	482
June	6	472	475

[1] Based on Estimated Budget Outlays of $268,700,000,000 and Receipts of $266,000,000,000.

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TABLE II.—USE OF $10,000,000,000 AUTHORITY

Issue date	Coupon percent	Maturity Years-months	Yield percent	Current holdings: Total amount issued	Private	Federal reserve and Government accounts
Aug. 15, 1971 [1]	7	10-0	(2)	807	400	407
Nov. 15, 1971 [1]	6 1/2	15-0	(2)	1,216	342	874
Feb. 15, 1972 [1]	6 3/8	10-0	(2)	2,702	1,737	965
May 15, 1972 [3]	6 3/8	9-9	6.34			
Aug. 15, 1972 [1]	6 1/2	12-0	(2)	2,353	994	1,359
Jan. 10, 1973 [3]	6 3/4	20-1	6.79	627	467	160
May 15, 1973 [3]	7	25-0	7.11	692	552	140
Total				8,397	4,492	3,905

[1] Sold to individuals in amounts of $10,000 or less.
[2] Par.
[3] Noncompetitive subscriptions were accepted from individuals and others for amounts up to $250,000.

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

TABLE III.—UNIFIED BUDGET RECEIPTS—OUTLAYS AND SURPLUS OR DEFICIT (−)

[In billions of dollars]

	Fiscal year 1973					Fiscal year 1974				
	January 1973 estimate	Change from January 1973 estimate	May 1 estimate	Change from May estimate	Current estimate	January 1973 estimate	Change from January 1973 estimate	May 1 estimate	Change from May estimate	Current estimate
Receipts	225.0	+5	230.0	+2	232.0	256.0	+7	263.0	+3	266.0
Outlays	249.8		249.8	(1)	249.8	268.7		268.7	(1)	268.7
Deficit (−)	−24.8	+5	−19.8	+2	−17.8	−12 7	+7	−5.7	+3	−2.7

[1] Less than $50,000,000.

Note: Figures are rounded and may not necessarily add to totals.

TABLE IV.—COMPARISON OF FISCAL YEAR 1973 RECEIPTS AS ESTIMATED IN JANUARY 1973, MAY 1973, AND CURRENTLY

[In billions of dollars]

	January 1973 budget	Change from January 1973 budget: Economic and reestimate	Change from January 1973 budget: Legislation	Change from January 1973 budget: Total	May 1, 1973, estimate	Change from May estimate: Economic and reestimate	Change from May estimate: Legislation	Change from May estimate: Total	Current estimate
Individual income tax	99.4	+2.0		+2.0	101.4	+1.6		+1.6	103.0
Corporation income tax	33.5	+2.0		+2.0	35.5	+.5		+.5	36.0
Employment tax and contributions	55.6				55.6	−.3		−.3	55.3
Unemployment insurance	5.3	+.4		+.4	5.7				5.7
Contributions for other insurance and retirement	3.7				3.7				3.7
Excise taxes	16.0				16.0	+.1		+.1	16.1
Estate and gift taxes	4.6	+.4		+.4	5.0				5.0
Customs duties	3.0	+.2		+.2	3.2				3.2
Miscellaneous receipts	4.0	−.1		−.1	3.9	+.2	[1] −0.2		3.9
Total budget receipts	225.0	+5.0		+5.0	230.0	+2.2	−.2	+2.0	232.0
Underlying income assumptions, calendar year 1972:									
GNP	1,151.9				1,151.8				1,151.8
Personal income	935.8				935.9				935.9
Corporate profits before tax	93.8				94.3				94.3

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

Note: Figures are rounded and may not necessarily add to totals.

[1] Transfer of writeoff of silver certificates to fiscal year 1974.

TABLE V.—COMPARISON OF FISCAL YEAR 1974 RECEIPTS AS ESTIMATED IN JANUARY 1973, MAY 1973, AND CURRENTLY

[In billions of dollars]

	January 1973 budget	Change from January 1973 budget: Economic and reestimate	Change from January 1973 budget: Legislation	Change from January 1973 budget: Total	May 1, 1973, estimate	Change from May estimate: Economic and reestimate	Change from May estimate: Legislation	Change from May estimate: Total	Current estimate
Individual income tax	111.6	+3.7		+3.7	115.3	+0.7		+0.7	116.0
Corporation income tax	37.0	+3.0		+3.0	40.0	+1.5		+1.5	41.5
Employment tax and contributions	67.9				67.9	+.5		+.5	68.4
Unemployment insurance	6.3	−.1		−.1	6.2				6.2
Contributions for other insurance and retirement	4.0				4.0				4.0
Excise taxes	16.8				16.8				16.8
Estate and gift taxes	5.0	+.4		+.4	5.4				5.4
Customs duties	3.3	+.2		+.2	3.5				3.5
Miscellaneous receipts	4.1	−.2		−.2	3.9	+.1	+0.2	[1] +.3	4.2
Total budget receipts	256.0	+7.0		+7.0	263.0	+2.8	+.2	+3.0	266.0
Underlying income assumptions, calendar year 1973:									
GNP	1,267.0				1,283.0				1,283.0
Personal income	1,018.0				1,030.0				1,030.0
Corporate profits before tax	108.0				116.0				116.0

[1] Transfer of writeoff of silver certificates to fiscal year 1974.

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

Note: Figures are rounded and may not necessarily add to totals.

The CHAIRMAN. Mr. Ash, would you like to read your statement?

Mr. ASH. Mr. Chairman and members of the committee, to a substantial extent my statement is redundant to portions of the statement of Secretary Shultz. It also includes tables of data regarding the outlays and receipts for this year and next year. If you would concur, I would be pleased to submit it for the record so that you could then go on with any questions you may have.

The CHAIRMAN. Fine, if you care to do it that way.

[The complete statement of Mr. Roy L. Ash follows:]

STATEMENT OF ROY L. ASH, DIRECTOR OF THE OFFICE OF MANAGEMENT AND BUDGET

Mr. Chairman and Members of the Committee:

Secretary Shultz has explained the need for an extension of the temporary debt limit. In support of that request, I will discuss the 1974 budget outlook and its effect on the public debt subject to statutory limitation. My discussion is based on the recently issued Mid-Session Review of the 1974 Budget.

BUDGET TOTALS

The fiscal year 1973 deficit is now expected to be about $18 billion, $7 billion less than was estimated in January. The decrease is attributable entirely to higher receipts, since total outlays are expected to be at the level proposed in the budget: $249.8 billion.

The estimated deficit for fiscal year 1974 has decreased by $10 billion since January and is now $3 billion. As in 1973, increased receipts account for the shift.

The combined deficit for the two years taken together is now estimated to be $17 billion less than the estimate made in January.

On a full-employment basis, the January budget estimated about a $2½ billion deficit in fiscal year 1973 and small surplus in fiscal year 1974. The current estimates are for a $2 billion deficit in 1973 and a $5½ billion surplus in 1974. Thus, the combined surplus for the two years is $3½ billion.

The following table compares the currently estimated totals of receipts, outlays, surplus or deficit, budget authority and Federal debt with estimates shown in the January budget.

BUDGET TOTALS

[Fiscal years; in billions of dollars]

Description	1972 actual	1973 January estimate	1973 Current estimate	1974 January estimate	1974 Current estimate
Budget receipts	208.6	225.0	232.0	256.0	266.0
Budget outlays	231.9	249.8	249.8	268.7	268.7
Deficit (−)	−23.2	−24.8	−17.8	−12.7	−2.7
Full-employment receipts	225.0	245.0	246.0	268.0	273.0
Full employment outlays	228.3	247.3	247.8	267.7	267.7
Full-employment surplus or deficit (−)	−3.9	−2.3	−1.8	0.3	5.3
Budget authority	248.1	280.4	283.8	288.0	288.1
Outstanding debt, end of year:					
Gross Federal debt	437.3	473.3	470.0	505.5	490.5
Debt held by the public	323.8	348.8	343.0	365.3	348.5

RECEIPTS

Receipts are currently estimated to be about $232 billion in 1973, some $7 billion above the January estimates. The current estimate for 1974 is $266 billion, compared with $256 billion in January. The estimates are based on a projected calendar year 1973 gross national product of $1,283 billion, $132 billion more than in 1972.

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These receipts estimates—including the fiscal 1973 estimate—are tentative. There is still considerable uncertainty as to the amount of collections in June when receipts are large because two quarterly payments of corporation income taxes are made then.

Changes in budget receipts. The increase in estimated 1973 receipts results largely from higher individual and corporation income taxes. Of the $7 billion increase since January, individual income taxes account for about $3½ billion and corporate income taxes for about $2½ billion.

The $10 billion increase in 1974 receipts follows the pattern of increases in 1973 receipts. Income taxes account for virtually all of the total, with receipts from individual income taxes and corporation income taxes up about $4½ billion each.

These increases result from the vigorous economic expansion and the accompanying large increases in personal income and corporate profits, as well as from revisions to reflect the fact that tax collection experience during the first five months of this calendar year suggests that receipts at a given level of gross national product are higher than was previously anticipated.

The full employment receipts estimates have also been revised. The January estimates for 1973 and 1974 were $245 billion and $268 billion, respectively. The revised estimates for the corresponding years are $246 billion and $273 billion. These revisions were made for two reasons: (1) estimated gross national product at full-employment was increased because of higher than anticipated rates of inflation this year, and (2) the ratio of tax collections to gross national product used in computing full-employment receipts was increased to reflect the recent experience referred to above.

BUDGET OUTLAYS

The January budget outlay estimates, the current estimates, and the differences between the two are shown, by agency, in Table 1. While there have been changes in the estimated outlays for some programs, the outlay totals for 1973 and 1974 remain unchanged from the budget estimates.

The major changes within the 1973 and 1974 totals are shown in the following table.

[In billions of dollars]

	Fiscal year 1973	Fiscal year 1974
January estimate	249.8	268.7
Disaster relief:		
Farmers Home Administration Loans	.3	
Other disaster relief		.6
Offshore oil receipts	.3	−.6
Stockpile sales	.3	−.8
Interest on the debt		1.4
Unemployment trust fund	−.4	−.5
Veterans benefits	.3	
DOD-military and military assistance		−.2
HEW, other than trust funds	−1.0	
All other charges, net	.2	.1
Current estimate	249.8	268.7

As noted above in the discussion of receipts, prices have increased more rapidly since January than was then anticipated. Holding total outlays to the amounts proposed in the budget means, therefore, that spending is being reduced in real terms.

H.R. 8410 proposes to continue the debt limitation at $465 billion until November 30, 1973. To insure that this limitation will not be exceeded, spending between now and November 30 must be held at or below the rate assumed in the current estimate of $268.7 billion for fiscal year 1974.

THE BUDGET BY FUND GROUP

Tables 2 and 3 contain figures on changes since January in 1973 and 1974 receipts, outlays, and surplus or deficit separately for Federal funds and trust funds. As the tables show, most of the changes in both 1973 and 1974 have occurred in the Federal funds.

The concept of Federal debt subject to limitation is roughly consistent with the "administrative budget" that was used until the 1969 budget. It is also generally similar to the Federal funds part of the unified budget. For this reason, changes in the Federal debt subject to limitation are more closely related to the Federal funds surplus or deficit than to the unified budget surplus or deficit.

Since January 1973, Federal funds estimated receipts have increased by about $6½ billion while outlays increased slightly, resulting in a $6 billion decrease in the 1973 Federal funds deficit.

For 1974, an estimated $9½ billion increase in receipts will again reduce the Federal funds deficit, and, consequently, the resultant increase in the debt subject to limitation.

Virtually all of the improvement in the budget since January occurred in Federal funds transactions with the public. (See Table 8.) As a result, the outlook now is for a surplus in these transactions in 1974. The continuing substantial Federal funds deficit in 1974 is, therefore, attributable to Federal funds payments to trust funds.

CONCLUSION

The upward revisions in both actual and full-employment receipts—and the resulting improved budget outlook—do not in any sense lessen the compelling need to hold total Federal spending in 1973 and 1974 to the amounts proposed in the budget. Because the faster than anticipated pace of economic activity and higher than anticipated price increases have made the need for restraint even greater, the Administraion is agreeing to, and will take the necessary actions to administer, the stringent outlay controls necessary o keep the debt subject to limitation from exceeding $465 billion before November 30.

The position is consistent with the full-employment budget principle, which remains the fiscal policy guideline of the Administration. In January, this principle—and common sense—prescribed a shift toward increased fiscal restraint. Events since January have confirmed the wisdom of this policy.

The upward revisions in receipts—on both actual and full-employment bases—result in part from higher price increases than were anticipated in January. In this context, continued restraint on spending is the only sensible course. To get the stabilizing anti-inflationary effect of the full-employment budget policy, we must not spend the receipts generated by unexpected inflation. Relaxing control over spending now would invite even higher rates of inflation in the future.

The President described the proper role of the budget as an instrument of economic policy in his 1974 Budget Message.

"During the past 2 years, with the economy operating below capacity and the threat of inflation receding, the Federal budget provided fiscal stimulus that moved the economy toward full employment. The 1974 budget recognizes the Federal Government's continuing obligation to help create and maintain—through sound monetary and fiscal policies—the conditions in which the national economy will prosper and new job opportunities will be developed. However, instead of operating primarily as a stimulus, the budget must now guard against inflation."

The months that have passed since January have given us no cause to doubt either the wisdom of the policy of fiscal restraint or the urgency of the need for the Congress and the Administration to join in a concerted effort to assure that restraint is achieved. We take the passage of a statutory limit of $465 billion on the Federal debt that can be outstanding between now and November 30 as a clear sign of concurrence by the Congress in this policy.

TABLE 1.—CHANGES IN BUDGET OUTLAYS, BY AGENCY

[Fiscal years; in billions of dollars]

	1972 actual	1973 January estimate	1973 Current estimate	1973 Change	1974 January estimate	1974 Current estimate	1974 Change
Defense and military assistance	76.0	74.8	74.8		79.0	78.8	−.2
Agriculture	10.9	10.1	10.6	.5	9.6	9.2	−.4
(CCC and Public Law 480)	(5.1)	(4.3)	(4.3)	(1)	(3.5)	(3.1)	(−.4)
Commerce	1.2	1.3	1.3	(1)	1.4	1.5	.1
Health, Education, and Welfare	71.8	83.6	82.7	−.9	93.8	93.8	(1)
(Social security trust funds)	(49.0)	(58.9)	(59.0)	(.1)	(67.3)	(67.2)	(−.1)
Housing and Urban Development	3.6	3.4	3.7	.3	4.8	4.5	−.3
Interior	1.3	−2.2	−1.9	.3	(1)	−.6	−.6
Justice	1.2	1.5	1.5	(1)	1.7	1.8	(1)
Labor	10.0	9.6	9.0	−.6	8.1	7.7	−.4
(Unemployment trust fund)	(6.9)	(6.1)	(5.7)	(−.4)	(5.5)	(5.0)	(−.5)
State	.5	.6	.6	(1)	.7	.7	(1)
Transportation	7.5	8.0	8.2	.2	8.1	8.2	.1
Treasury	22.1	31.2	31.1	−.2	32.6	34.2	1.6
(General revenue sharing)	(—)	(6.8)	(6.6)	(−.1)	(6.0)	(6.2)	(.1)
(Interest on the public debt)	(21.8)	(24.2)	(24.2)	(1)	(26.1)	(27.5)	(1.4)
Corps of Engineers	1.5	1.7	1.6	−.1	1.6	1.7	.1
Atomic Energy Commission	2.4	2.2	2.3	.1	2.4	2.4	(1)
Environmental Protection Agency	.8	1.1	1.1	(1)	2.1	2.5	.4
GSA	.6	(1)	.4	.4	.5	−.3	−.8
NASA	3.4	3.1	3.3	.2	3.1	3.2	(1)
Veterans' Administration	10.7	11.8	12.0	.3	11.7	12.0	.3
Foreign economic assistance	2.1	1.8	1.7	−.1	2.2	2.2	
Other agencies	12.1	14.1	14.0	−.1	12.6	13.6	1.0
Allowances for contingencies and civilian agency pay raises		.5		−.5	1.8	.8	−.9
Undistributed intragovernmental transactions	−7.9	−8.4	−8.4	(1)	−9.1	−9.1	
Total	231.9	249.8	249.8	(1)	268.7	268.7	(1)

1 Less than $50,000,000.

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

The CHAIRMAN. I would like to suggest that we limit ourselves to 5 minutes for the first round of questions and, thereafter, we will let the Senators interrogate for as long as they want to. That way everybody will have a chance to ask a question or two during this morning's session.

First, Mr. Secretary, I think your staff is accustomed to preparing certain charts that I customarily ask for when you appear, which help us look at this entire thing in perspective. I would like to ask that those charts be brought up to date.

By now, they are referring to them as the Long charts. So I would like to ask that the Long charts be made available to us.

Secretary SHULTZ. Fine. The Long charts keep getting longer and longer.

The CHAIRMAN. I would ask specifically they supply for us a table showing as far back as you have it available, our real economic growth on a per capita basis in constant dollars and also on a percentage basis, showing both the increase and the decrease. And I should think that chart would reflect very well on the administration, particularly for the period while you have been Secretary of the Treasury, because while we had a great deal of inflation, the real per capita growth would probably look very good on that chart.

Secretary SHULTZ. We will try that.

[The information referred to follows:]

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REAL PER CAPITA GROSS NATIONAL PRODUCT

Calendar year	GNP (in billions of 1958 dollars)	Real GNP per capita	Increase in real GNP per capita (percent)	Calendar year	GNP (in billions of 1958 dollars)	Real GNP per capita	Increase in real GNP per capita (percent)
1940	227.2	$1,720	7.5	1957	452.5	2,631	−.4
1941	263.7	1,977	14.9	1958	447.3	2,558	−2.8
1942	297.8	2,209	11.7	1959	475.9	2,676	4.6
1943	337.1	2,465	11.6	1960	487.7	2,699	.9
1944	361.3	2,611	5.9	1961	497.2	2,707	.3
1945	355.2	2,538	−2.8	1962	529.8	2,840	4.9
1946	312.6	2,211	−12.9	1963	551.0	2,912	2.5
1947	309.9	2,150	−2.8	1964	581.1	3,028	4.0
1948	323.7	2,208	2.7	1965	617.8	3,180	5.0
1949	324.1	2,172	−1.6	1966	658.1	3,348	5.3
1950	355.3	2,333	7.4	1967	675.2	3,398	1.5
1951	383.4	2,475	6.1	1968	706.6	3,521	3.6
1952	395.1	2,508	1.3	1969	725.6	3,580	1.7
1953	412.8	2,577	2.8	1970	722.1	3,525	−1.5
1954	407.0	2,497	−3.1	1971	741.7	3,582	10.1
1955	438.0	2,640	5.7	1972	789.5	3,780	5.5
1956	446.1	2,641	(1)	1973 [2]	845.0	4,020	6.3

[1] Less than 0.05 percent.
[2] Estimated.

Source: U.S. Department of Commerce.

The CHAIRMAN. Now, Mr. Secretary, there are some of us who feel that the inflation that has occurred will make necessary some other measures, which we are considering adding to this bill. I know I am considering supporting such amendments. For example, those of us who do not agree with the social services regulations of the Department of Health, Education, and Welfare, would feel that we should prevent those regulations from going into effect on July 1, until Congress has a chance to study them and suggest what we think an answer should be.

We believe, and Senator Ribicoff has suggested, that it is unfortunate that the cost-of-living increase that was suggested by the President of the United States for social security beneficiaries, does not trigger for the first time until January 1975. We believe that we should consider doing something to relieve social security beneficaries from the disadvantageous results of the inflation that has occurred. If we do that, we ought to also take care of those who are even poorer; that is, the beneficiaries under the new Federal supplemental security income program going into effect January 1.

Now, I am familiar with the Treasury's view. I don't blame you for taking the attitude that you don't want to see your bill become a Christmas tree or have something added on to it that is not requested by your Department. But I would have to submit to you that we in the Senate don't have the privilege of initiating revenue bills, you know; we can only amend. Usually, if we are going to offer an amendment, we try to find a horse that is big enough to carry the rider, and these are some rather substantial riders we are talking about here.

I for one don't know of any measure that is certain to reach the President's desk by July 1, on which we have any hope in obtaining action in this area, unless we do consider it on this bill.

Now, I feel I should alert you to that, and you can speak about it if you want to. Personally, I think we should act on this bill, and I will so suggest to the committee.

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Secretary SHULTZ. Well, I am not enthusiastic about that, Mr. Chairman, but I believe Secretary Weinberger testified before the committee, didn't he, as to the substance of those? And I will not comment on that.

We do like to keep this bill as clear as we can of things that aren't connected with it. It is a very tempting bill, obviously, to hang things on; and one of these fine days we will be without a debt limit bill. because it will have to be vetoed, and then we will be in bad shape. So I think it is important to keep our eye on what this bill is all about and not load it down with too much else.

Beyond that, I would say that if we are going to be able to live within the debt limit projected, we have to be able to maintain a control of outlays consistent with the President's budget. And if we accompany a very tight debt limit with additional expenditures, there is going to have to be mayhem somewhere in outlay control, and a lot of impounding and what not, in order to have one congressional objective not run into another one.

The CHAIRMAN. Well, Mr. Secretary, I for one don't think we ought to balance this budget by taking it out of the poor who are being victimized the most by the inflation that has occurred since January. If we are going to act, then we in the Senate are in an inferior position in that we can't initiate legislation. We have to act when the bill comes to us.

Now, I am familiar with the administration's problem about that. I have been trying to help your administration, I think, in a responsible way in regard to these matters. And we will certainly consider your point of view. I hope though that you will also consider what our problem is, and that is why I brought this matter up.

Secretary SHULTZ. I think this does illustrate a general problem that we talked about in the committee as we have been up here testifying and, that is, the problem of action on this piece and that piece and some other piece without consideration of what it is all going to add up to. And it is this business of reconciling what total is appropriate with what the composition of that total should be, that is at the heart of the problem of the whole budget process here that we need to work out.

The CHAIRMAN. Well, Mr. Secretary, most of this—speaking in terms of dollars—most of what we are talking about would be no problem, if the bill that you had recommended to us an automatic cost-of-living increase for the social security beneficiaries——

Senator BENNETT. Senator, we have a vote.

The CHAIRMAN [continuing]. If these automatic cost-of-living increases that you recommended had a trigger date of January 1974 instead of January 1975, we wouldn't have had this problem. I don't believe anybody could have anticipated we were going to have the type of runaway inflation that we have experienced since January, and so I think that it is incumbent upon us to act. And I for one don't want the poorest of them in this country to be victimized the most by the inflation that has occurred. If you will recommend a tax, I will see that it is considered here before this committee; a tax that will be an equitable type tax to cushion the cost of this measure. But I for one don't think that we ought to solve the inflationary crisis with a budgetary crisis by taking it out of the poor, because there are other people who are better able to pay in this country.

I will have to go and vote myself now. I will be back as soon as I can.

Thank you very much.

[Brief recess.]

The CHAIRMAN. Senator Ribicoff?

Senator RIBICOFF. I would like to follow up further with Senator Long's questioning. We have suffered from rampant inflation. This morning's newspaper indicated that the Agriculture Department expected food prices to be up 12 percent.

So far this year, the overall inflation rate is about 6 percent.

Secretary SHULTZ. So far this year, the Consumer Price Index has gone up at an annual rate of about 9 percent.

Senator RIBICOFF. About 9 percent? But you have about 28 million people on social security, with a much larger proportion of their budget going for food and necessities. They are really hurting. It is not their fault that inflation has had such a rapid rise. I do believe that we have an obligation to try to do something for these individuals; these 28 million.

Under the present bill, there is an escalator clause that goes into effect January 1, 1975. But what do the 28 million people live on between now and January 1, 1975?

Secretary SHULTZ. Well, I think, first of all, certainly the rate of inflation in the first quarter is not going to continue. I think it is beyond a doubt now that the extraordinary rate of expansion of the first quarter has not continued in the second quarter and that the economy is sort of subsiding. We know that the real rate of growth has to move down from the 8-percent rate to something on the order of 4 percent, and that does seem to be happening; at least from all of the signs that we see now. And I believe that the rate of inflation will also subside so I think we shouldn't just extrapolate this explosive first quarter.

Senator RIBICOFF. I know, but even if you don't extrapolate it any further, how do you expect 28 million people to absorb that tremendous rise until January 1, 1975?

Secretary SHULTZ. Well, they, of course, have had tremendous increases in social security, including the 20 percent last year that came through this committee on the debt ceiling bill, if I remember.

Senator RIBICOFF. Well, you say tremendous increases of social security. Even if you increase supplemental security income to $140 a month, he will remain below the poverty line. This is no tremendous increase. The 20 percent we gave last year is already eaten up by the inflationary rise that we have had since it went into effect.

I think you have a real problem. I think these people have a real problem, and I think that the chairman and I and others are going to have to do something about it.

Secretary SHULTZ. Well, I hope you can do something about it within the confines of an overall outlay ceiling, so that the problem of inflation is not further aggravated by a large Federal deficit at a time when the economy is operating at full employment. That is, I don't think we do anyone a service by just voting more and more spending without somehow keeping the whole Federal budget in mind.

Senator RIBICOFF. Well, I know that. But, frankly, both the executive branch and Congress have done a poor job in its budget policies and price control policies. Each one has failed and today we have the people who are the least able to afford it bearing the greatest burden. So, we are going to have to do something about it—both you and the Congress—because we both have this obligation. I don't believe we can put the entire burden on these 28 million people.

How much more time do I have, Mr. Chairman?

The CHAIRMAN. One minute.

Senator RIBICOFF. If I only have 1 minute, I will pass because my next question will take more than 1 minute.

The CHAIRMAN. Senator Bennett?

Senator BENNETT. I would like to reserve my time and suggest you begin on our side with Senator Roth.

The CHAIRMAN. Senator Roth?

Senator ROTH. Thank you, Mr. Chairman.

Mr. Secretary, under your revised estimate, I see that the Federal funds deficit would still be 18.8 billion. What would the picture be under the so-called full employment budget?

Secrtary SHULTZ. Thank you very much Senator. We have a surplus under the full employment concept.

Senator ROTH. Well, how much would that surplus be?

Secretary SHULTZ. I think it is around $5 billion.

Senator ROTH. Do you consider this deficit reflected by the Federal funds as inflationary? Do you think, in other words, deficit spending has been a factor in that inflation?

Secretary SHULTZ. In the sense that if you didn't have it, you would have less inflation, certainly. But I think that having a deficit in the unified budget—and I believe from the standpiont of your question, that is, the question about the relationship of the budget to inflation and other economic variables, if I understood you correctly—the unified budget is the right concept to use rather than the Federal funds, but I believe that it is a mark of good economic policy to be willing to use the Federal budget to expand and help the economy expand, when it is operating below capacity and, at the same time, as the economy gets to operating at capacity, we need to fight hard to see that that deficit disappears and, indeed, to try to get ourselves in times like the present with the full employment surplus in such a position to see that the deficit disappears.

Senator ROTH. Even under our unified budget, we still show a $2.7 billion deficit. Isn't the concern normally that in years of prosperity we should, if anything, try to cut back on our deficit spending and maybe pay off some of our debts?

Secretary SHULTZ. Yes, and that is why the question you asked earlier is of such significance, namely, the question about the full employment surplus. The fact that we have a surplus with full employment, as we now anticipate it, that fact, I think, suggests that the budget discipline is coming into play as it should.

Senator ROTH. Would you agree with me that it is important that we hold our spending down, at least to the level of $268.7 billion?

Secretary SHULTZ. I agree with that statement wholeheartedly.

Seantor ROTH. Would you support an amendment to the debt ceiling that would put a spending limitation at roughtly that level?

Secretary SHULTZ. Well, as I have said in my testimony, and also in response to questions, the ceiling that the House gave us is a very tight ceiling, and it can only be managed by some strong measures on the outlay side because I think, as Senator Bennett once pointed out in these hearings, very dramatically, once it is spent the debt sort of follows debt; that is, it isn't an operative policy tool. The operative policy is back with the outlay.

And if we are going to live with this debt ceiling, we must manage those outlays very carefully. So I think it is implicit right in the debt ceiling.

Senator ROTH. At the same time, I believe the administration last fall very strongly supported the amendment to put the ceiling at $250 billion and to attach it to the debt ceiling?

Secretary SHULTZ. Yes, of course, the issue is what are the constraints on holding to that outlay ceiling and would the outlay ceiling be regarded as a ceiling on the Congress as well as on the administration? And we have had quite a lot of discussion and argument about that, as you know.

We are very strongly in favor of having a ceiling and having one that can be effective and not a rubber ceiling that can be increased every time somebody decides to increase an appropriation, but one that is really going to stick there.

Senator ROTH. I strongly agree. I do intend to offer a spending limitation amendment.

Thank you, Mr. Chairman.

The CHAIRMAN. Senator Byrd?

Senator BYRD. Thank you, Mr. Chairman.

Mr. Ash, Am I correct in this assertion: The administration recommended an increase of $18 billion in the Federal budget for fiscal year 1973 as compared to 1972?

Mr. ASH. The numbers are approximately $232 billion for fiscal 1972 and $250 billion for 1973, so that is $18 billion.

Senator BYRD. Am I correct that the administration recommended an increase of $19 billion for fiscal 1974 versus 1973, namely, from $250 billion to $269 billion?

Mr. ASH. Yes, sir, that is correct.

Senator BYRD. So, if the expenditures are held to those figures, still it represents an increase in spending during that 2-year period of $37 billion?

Mr. ASH. An annual spending rate increase, that is certainly right.

Senator BYRD. And that increase, which was recommended by the Bureau of the Budget and by the Administration, the last one represents an increase of, roughly, 8½ percent, I believe?

Mr. ASH. That is about the right percentage number. I might indicate here a matter that was set forth in the budget submitted earlier this year, that we are running at current times under a condition where approximately 75 percent of the Federal budget is considered relatively uncontrollable; that is, matters such as social security—which we have earlier discussed—and others like that.

So, when one speaks of the administration's recommendations, I want to make clear that this is not all discretionary type decisions or recommendations and that three-fourths of the amount is pretty well already built in by earlier decisions of the administration and of the Congress and of legislation itself.

Senator BYRD. Well, without debating that point, the fact that I want to establish—and if I am in error let me know—the fact I want to establish is that the administration recommended an increase of $18 billion for fiscal 1973 versus 1972, and the administration recommended an increase of $19 billion for fiscal 1974 versus 1973.

Mr. ASH. That is correct and, of course, the comments I made earlier apply to that answer, as well.

Senator BYRD. Now, since you brought up the question of the social security which is involved in the unified budget proposal, let's deal only with what the debt limit is concerned with, namely, the Federal funds budget.

Now, first, as I read the figures, for the 20-year period, 1955 through 1974, the Federal funds budget has had a surplus only three times during those 20 years and they were the 3 years of President Eisenhower's administration. We have not had a balanced budget or anything approaching a balanced budget since 1960.

Now, is this cause for alarm in your judgment?

Mr. ASH. Well, I will first answer and then suggest that Secretary Shultz may also wish to add to it. I think there have been times during the era that you have discussed, where there have been causes for alarm. I have in mind, particularly, those years 1966 through 1969, where not only was there a Federal funds deficit of from $54 billion for that 4-year period of time but there was, also, a full employment deficit of $48 billion, which, in effect, was a substantial contribution to inflation contributed to by that.

Senator BYRD. I am sorry you brought up the full employment budget. I didn't want to debate that. Could we not stick with the Federal funds budget?

If it were not for the deficit in the Federal funds budget, you would not be here today.

Mr. ASH. I believe Secretary Shultz's answer was, of course, the Federal funds budget is part of the unified budget and contributes to whatever the budget's total is, but, yes, the debt relates to the Federal funds budget particularly.

Senator BYRD. That is right. So if it were not a deficit in the Federal funds budget, you would not be here today?

Mr. ASH. That is correct.

Senator BYRD. So why don't we, if we could—and you can answer any way you wish—but if we could, I would like to stick with the Federal funds budget.

Mr. ASH. All right, sir, let's do that.

Senator BYRD. Now, since 1960, there has been a deficit in the Federal funds budget from a low of $4.1 billion in 1961 to a high of $30 billion in 1971. So there has been a deficit every year since 1961.

My question to you is: Is that cause for alarm.

Mr. ASH. Well, I think that is certainly cause for concern. It is a matter, I am sure, we are giving considerable concern to in the administration, as well as here. I think it is a cause for alarm only at times when the Federal funds deficit is such that it, itself, contributes to inflation and I don't have to make reference to the full employment budget to identify those occasions, but when that Federal funds deficit is employed deliberately as a tool to bring the economy up to its full scale of operations, then that is the proper time for proper occasion to encourage Federal funds deficit, and that has been, of course, the fact of these last 4 years.

On the other hand, when the Federal funds deficit adds to inflation, then I agree with you that it is a cause for considerable alarm.

Senator BYRD. Do you feel that these recent smashing deficits in the Federal funds budget, which the Government has been running at, do you feel that is a major cause for the inflation we have today?

Mr. ASH. I think that it is hard to identify all of the causes, but I think if one were to look at the use of the Federal funds budget over the years, he would conclude that there has been much less contribution to inflation of the Federal funds deficit in the last 4 years than there was in the 4 that preceded that. Those were the times where inflation was set loose by a large Federal funds deficit.

These last 4 years, they have contributed much more to the development of our economy to its fullest utilization.

Senator BYRD. Since you brought up the past 4 years and you also brought up some previous years—and I would want your staff to check these figures—but the way I add them up, during the 8 years of the Kennedy-Johnson administrations, the accumulated Federal funds deficit was $86.1 billion. Now, during the 4 years of the present administration, namely, 1971 through your projections for 1974, the accumulated Federal funds deficit will be $105.0 billion compared with the deficit of $86.1 billion for the 8 years of the Kennedy-Johnson administrations.

Mr. ASH. My numbers agree with yours, sir.

Senator BYRD. You do not find that cause for concern?

Mr. ASH. Well, I think that deficits in the Federal funds budgets are always matters of concern, but I think it is the circumstances under which those deficits are incurred that most of all must be kept in mind and those circumstances were substantially different in at least the second half of that 8-year period to which you referred, than they were in this most recent 4-year period.

So that the numbers, as I see them, cannot be merely compared number to number; they have to each be related to the economic circumstances of the time. And in so relating them, I believe that, as I would see it, there is a greater concern for the second half of that 8-year period that you mentioned than I would have for the most recent 4-year period, because of the environment, the economic environment, in which these different sets of deficit numbers were incurred.

Senator BYRD. Well, it is very interesting to get your philosophy. You were not in public life in the 1968 period. You may have been but——

Mr. ASH. No, I wasn't.

Senator BYRD. But I know that many in public life in 1968, particularly those who are part of the present administration, and the Senator from Virginia, were very critical, entirely critical, of President Johnson's smashing deficit of $28.4 billion in 1968. Let me put it this way: I thought it was a very shocking and very bad deficit and was leading to the inflation which we experienced. That was exactly the view taken by President Nixon in the campaign of 1968. Now, we come to the next 4 years or the 4 years rather beginning in 1971, where we had a Federal funds deficit of $30 billion. In 1972, we had a Federal funds deficit of $29.2 billion; in 1973, we had a Federal funds deficit or will have at the end of this year of $28 billion and you project next year a Federal funds deficit of $19 billion. What I haven't been able to get through my mind—and I guess maybe I am not enough of an economist—or enough of a political partisan—is why it is so terrible to have a $28 billion deficit in 1968 under a Democratic President, but so fine to have $30 billion deficits in the subsequent years under a Republican President?

Mr. ASH. Well, maybe it is necessary we talk in terms of the full employment budget, Senator. I realize your reluctance to do so, but——

Senator BYRD. I have no reluctance to do so. I was just trying to keep out of an unnecessary argument.

Mr. ASH. I find it is a necessary means to explain my views on this particular matter, though. First, I certainly agree with you, Senator Byrd, in your view of 1968. I then was a private taxpayer, but was one of those few taxpayers who was actively promoting a tax increase to deal with the issues as they then stood. It was obvious, at least to me, and I am sure to you, Senator, and many others, that that was a very inflationary circumstance and it was essential, as we saw it, to try to dampen the inflationary force that such a deficit had in that area. Unfortunately, it wasn't done. In this particular——

Senator BYRD. My time has expired but identify which years you are talking about?

Mr. ASH. I was talking about 1968, particularly, when this was a substantial contribution to inflation.

When we deal with the current year of 1974, I think there is one very interesting matter to consider there and, that is, while it is true there is a Federal funds deficit in fiscal 1974, I think it is a very significant fact that Federal funds transactions with the public in 1974, do have a surplus and——

Senator BYRD. Now, we are getting into another budgetary concept. I thought we were going to get into a new one next year, but apparently we are going to get to that before next year.

Anyway, my time has expired. We will get back to this year again.

The CHAIRMAN. Senator Packwood?

Senator PACKWOOD. Are you familiar with the $2.2 billion ceiling we put on expenditures for Social Services?

Mr. ASH. Yes, sir.

Senator PACKWOOD. When Secretary Weinberger was testifying, there was a substantial dispute in the regulations that HEW had drawn as to how much would be spent. The recipients were contending that the regulations would draw them down to about $1.2 billion, and Mr. Weinberger was estimating some place between $1.8 and $2.2 billion. Can you tell me in your outlays for fiscal 1974, how much you are projecting for Social Services expenditures?

Mr. ASH. For fiscal 1974. I believe the amount is $1.9 billion, I believe is the projected number for fiscal 1974. I am looking it up here. Would the June 1st report have it?

Oh, $1,891 billion.

Senator PACKWOOD. $1,891. billion; did you say?

Mr. ASH. $1.9, in effect.

Senator PACKWOOD. If this Committee—and I think they are contemplating holding those regulations in abeyance and allowing the expenditure of $2.5 billion—if we did that, are we going to throw you and your budget out of whack by about $600 million?

Mr. ASH. That would be the result.

As you remember, we clearly observed that the $2.5 ceiling was, in fact, just that; a ceiling.

We believed it should not be considered as a mandate to spend the $2.5 billion and, consequently, had concluded, under reasonable regulations a $1.9 billion figure would be the amount spent for that program.

Senator PACKWOOD. Thank you.

What I wanted to get exactly was the exact figure because there have been some discrepancies as to how much was planning to be spent.

Secretary Shultz, let me ask you this, and assume two things: Assume (1) that the budgetary figures we have here come to pass and you have a slight surplus in 1974 and your full employment budget is reasonably close to even off the deficit and assume (2) at the end of the 60-day price freeze, the President simply proposes nothing more and we go out totally from under those controls.

What would be your estimate as to the rate of inflation under those two assumptions for the following year; that is, from the end of the 60-day price freeze through the next 12 months?

Secretary SHULTZ. Well, I haven't thought about that problem at all because I believe the chance that the President would just discontinue all controls at the end of the 60 days is negligible and not a likely possibility at all.

We have put forward a program, including a legislative program, that we feel will be consistent with the rate of inflation which our most recent estimate is 4 percent average for the year which means it would be less than that toward the end of the year.

We don't see any reason to change that estimate and——

Senator PACKWOOD. Are you talking about this calendar year?

Secretary SHULTZ. Yes.

Senator PACKWOOD. You were still hoping for 4 percent increase in this calendar year?

Secretary SHULTZ. For the average for the year.

Senator PACKWOOD. Right.

Secretary SHULTZ. Now, obviously, the first quarter of the year is way above that; 6 percent in the first quarter. So as you get to the last quarter, you are going to have to be below it, and we think there is a fighting chance for doing that, not that it is what people would forecast, but we think it is a goal that we ought to try to seek and we can seek it if we have some policy actions consistent with that goal. We have a good chance of getting there with that.

Senator PACKWOOD. Now, in this second quarter we are still running substantially above 4 percent; are we not?

Secretary SHULTZ. You mean the real growth rate?

Senator PACKWOOD. The inflation rate.

Secretary SHULTZ. The inflation rate?

Well, we have a CPI coming out today.

Senator PACKWOOD. Showing what?

Secretary SHULTZ. Which I guess must be out about now. And I hate to—everybody is so touchy about these statistics, I think I better limit it to the BLS statistics, and it shows—well, I guess I will leave that to the BLS.

Senator PACKWOOD. Does it show about 4 percent for the second quarter?

Secretary SHULTZ. Yes.

Senator PACKWOOD. So for the last one-half we are going to have to be down around 2 to 2½ percent for the last 6 months on the average?

Secretary SHULTZ. We are going to have to do very well, but I don't think we are going to get that far.

Senator PACKWOOD. I have no other questions. Thank you.

The CHAIRMAN. Senator Mondale?

Senator MONDALE. Mr. Secretary, could you fill in some of the blanks of the proposals for controls under phase 4 following the freeze? Would that be more like phase 2 or phase 3, will it be essentially a tight control program or will it depend more heavily on the free market? Can you give us some idea of the philosophy that you are applying to the development of a phase 4 control system?

Secretary SHULTZ. Yes; I can. I think it is quite clear that the phase 4 system will have to be more of a mandatory prenotification style price control system than phase 3 is.

It will have some features, I am sure, that are tougher than phase 2. It may be that we will find areas that don't need to be controlled but what the balance of that will be in comparison with phase 2 I think remains to be seen but, certainly, in the area of food, food prices are the big problem. They are not the only problem, but they are the big problem.

There we have had a combination of factors that led to this situation. It is a worldwide problem. I think if we are going to solve this food problem successfully, we are going to have to be tougher than we have been in phase 1 or phase 2 or any time about certain things.

Senator MONDALE. Won't you agree that this is all complicated by the fact that if the farmers believe they are not getting a decent return, that they may reduce production in some of the areas where we are hoping for expanded production in order to bring some relief?

Secretary SHULTZ. I have consistently opposed putting controls on raw agricultural products, largely for that reason, but also for the reason that, as an operative proposition, it is hard to imagine exactly how you would do it.

So I think we have those two points. And, on the other hand, we have controls on retail prices and all sales prices, we have ceilings on red meat.

I think it is clear that if we are somehow successful in holding our prices below the world market prices, that the commodities will simply leave the country unless we control the exports. So if we are not controlling the exports, then we are going to have to go to the world market prices. That is what everybody is doing right now anyway.

Senator MONDALE. As I gathered, there are two main elements—no, three elements—in the inflation control program: One is the controls on wages and prices—the incomes policy; second, the budgetary restraints; and, third, the credit restraint mechanisms of the Federal Reserve Board——

Secretary SHULTZ. I would add a fourth element and that goes to prices in particular markets as they may be affected by actions to increase supply. And we are placing heavy bets in the food area on the great efforts behind increasing the supply of food products.

Senator MONDALE. What about the possibility of dampening demand by some adjustment? My personal favorite would be some kind of tax reform—but just some way of trying, in effect, to dampen consumer spending, business spending, and the rest by some adjustment?

Secretary SHULTZ. Well, I think I would go with you to the extent of saying that this is a time for fiscal discipline and that is why the President has been so strong for holding spending under control, keeping it within the framework of what our tax system will currently yield.

I believe, as I said earlier, that the economy as we are moving through the second quarter is subsiding from this explosive growth that it had in the fourth and first quarters and that the fiscal restraints, that we now have are consistent with maintaining discipline and not overdoing it; that is, we don't want to slam on the brakes so hard that we wind up creating a major downturn in the economy, either.

Senator MONDALE. It was rumored that you were sponsoring a gas tax?

Secretary SHULTZ. We talked about that in the Treasury and studied it.

Senator MONDALE. You never suggested it?

Secretary SHULTZ. We were looking at it largely in connection with the energy subject.

Senator MONDALE. Can you remember who suggested it?

Secretary SHULTZ. You mean which individual first suggested it?

Senator MONDALE. Well, for example, did you ever suggest it?

Secretary SHULTZ. This was a proposal that was discussed and quite a number of people talked about it and tried to understand its implications.

Senator MONDALE. I wouldn't want to get into private councils or anything like that, but did you once propose it?

Secretary SHULTZ. It was a proposal that we considered but I think, as we analyzed the overall flow of economic developments, particularly the information that has been coming in during the second quarter of the year, I think it raises a question whether or not the fiscal discipline that we have isn't just about the right amount and I think we also have been considering—the President has considered—whether a tax increase really is a possible fiscal tool any more because of the tendency for spending that always arises thereafter to consume at least all of the revenue that the tax increase will produce.

Senator MONDALE. I would like to respond to that, but my time is up so I will leave it at that.

The CHAIRMAN. Senator Dole?

Senator DOLE. To get back to the subject of the hearing, I want to ask some questions on the debt ceiling.

As I understand it, the action taken by the House would meet the minimum requirements; is that right?

Secretary SHULTZ. Yes, sir.

Senator DOLE. Except you would prefer to have the ceiling extended for the full fiscal year?

Secretary SHULTZ. Yes, sir, we would prefer that. We think that the projections are reasonable for the full fiscal year and we would prefer to go that course, but the House action, while putting us under a tight constraint and it means we must manage the outlays carefully, is something that we can live with.

Senator DOLE. As the chairman has indicated——

Secretary SHULTZ. And Mr. Volcker added, "We hope."

Senator DOLE. Right. And I assume there is no real controversy in the committee that we have to extend the debt ceiling. I don't think there is any real quarrel with that but differences may arise over how much do we tag onto this horse, how many riders can this horse carry and still make it to the Treasury.

Secretary SHULTZ. Well, it can't carry riders that make it impossible to carry out the mandate of the debt ceiling, itself. That is, if the Congress puts on riders that escalate the spending beyond the point that can be contained by this debt ceiling then the two things are inconsistent in themselves.

So I think you have to think about that when you put the riders on the horse.

Senator DOLE. You would rather just have the horse?

Secretary SHULTZ. Well, with a few riders.

Senator DOLE. I just want to ask one question in line with Senator Mondale's, or at least in the same area as his questioning. I was interested, coming from a farm State, in understanding how we are going to control exports. The President, in his message on phase IV, did indicate that there would be some legislation or, at least, he proposed legislation, to somehow restrict exports?

Secretary SHULTZ. Yes, sir, legislation has been sent up and introduced in both Houses. The House of Representatives, the House Banking Committee, has acted upon it, not precisely the way we want it, but they have taken action on it and I believe the bill has been introduced in the Senate.

Senator DOLE. But you are convinced that is a necessary action if we are to somehow restrain prices in this country?

Secretary SHULTZ. If we want to have a rate of increase of food prices here less than what is taking place on the world market, on world markets, so that the price within the United States is less than in the world market, and if we want to construct that situation by domestic controls, then we must control exports, obviously, otherwise the products will all flow out.

Senator DOLE. But doesn't this diminish, at least some of us have been saying, and I know Secretary Butz has, the future for the American farmer to export his products? I am concerned because the future of the American farmer lies in expanded exports. Do we still believe in that expansion?

Secretary SHULTZ. Absolutely. I think that is essential and we have not proposed this as a permanent authority. In fact, the President originally proposed it as an amendment to the Economic Stabilization Act, which expires on April 30, so that it would just expire. We don't think of it as a long term policy and we think that basically the philosophy of having high farm income from high production is the right philosophy. We are trying to adopt that and we were disappointed, frankly, in the Senate farm bill in that regard.

Senator DOLE. There might have been a couple of shortcomings in the Senate farm bill, which I can't recall.

Secretary SHULTZ. Yes, I wouldn't expect you would remember any of them.

Senator DOLE. But there is no relationship to the request for export restraints and the Soviet wheat sale of last year?

Secretary SHULTZ. And, also, obviously if you are going to restrain exports, then you have to have some method of allocation of the exports.

Senator DOLE. But you are not asking for the restraints now because of the wheat sale?

Secretary SHULTZ. No. We are asking for it because of the fact that we intend to make an effort to control food prices and stabilize them, and, if we are successful in doing that, we won't give ourselves some way of insulating ourselves from the world market, because we know we won't be able to do that.

Senator DOLE. Thank you, Mr. Secretary.

The CHAIRMAN. Senator Bennett?

Senator BENNETT. Thank you, Mr. Chairman.

Mr. Secretary, it seems to me my role in each of these hearings on the debt ceiling is to try to bring us back to reality.

Is the debt ceiling any kind of a limitation on the power of Congress to appropriate?

Secretary SHULTZ. No, sir.

Senator BENNETT. Was it ever intended to be?

Secretary SHULTZ. I would not speak for the Congress.

Senator BENNETT. OK. So when we are talking here about budget deficits and overexpenditures in the context of the need to raise the debt ceiling, we are really trying to beat the Treasury over the head for something for which they had no responsibility and over which no control. Is that right?

Secretary SHULTZ. That is correct.

Senator BENNETT. The reason for the debt ceiling, as I remember it way back in the 1920's was to relieve Congress of fostering every bond issue and it was just a device to bring the Treasury back to Congress at a time when it felt it had to increase its borrowing capacity.

Now, if we fail to pass the debt ceiling and the bill expires, will that have any disciplinary action on Congress in terms of Congress power to go on and appropriate money above or beyond the budget or above or beyond the tax income?

Secretary SHULTZ. It could very well have a powerful effect; that is, we might not be able to pay anybody's salary.

Senator BENNETT. That would be a psychological influence on the basis of things that have happened in the past and not in terms of things that would happen in the future?

Secretary SHULTZ. That is right.

Senator BENNETT. This is always an interesting charade that we go through and it gives us, all of us, an opportunity to question the Secretary about our pet economic philosophies, but if we don't pass this, how long after the date of the present limit will we be able to run this Government without having to stop paying our bills?

Secretary SHULTZ. Probably on the order of a week, but it depends. If we are really afraid that you might do that, we would try to get our

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cash balance way up beyond what is prudent fiscal management, and we might last out maybe 1½ weeks.

Senator BENNETT. Well, that is my point.

Secretary SHULTZ. In the meantime, our savings bond program would be badly disrupted and it would be a great disruptive force generally.

Senator BENNETT. I notice your chart: In that you estimate that we will have only $2 billion cushion at the end of August and only $2 billion cushion at the end of November if Congress were to pass additional spending requirements. That would increase your cash outflow and you would have to come back to us probably?

Secretary SHULTZ. We would have to come back or else we would have to say to Mr. Ash here—the President would have to say to Mr. Ash here that the Congress has put a debt ceiling and that overrides every other congressional law so you must impound, stop, et cetera, in order to see that the flow of spending is contained within what can be managed in the debt.

Senator BENNETT. Yes, and in another committee, of which I am a member, we are now in conference on a proposal that the President may not do any impounding without the approval of Congress, so you are getting between the Devil and the deep blue sea, and I won't say which one is which.

Secretary SHULTZ. I was looking for an analogy more like not having your cake and eating it, too, but the Devil and deep blue sea is more unpleasant.

Senator BENNETT. I have no objection to my colleagues continuing to talk about the economic problems of the country but the risk is that the stories go out of these hearings which imply that it would be possible by manipulating the debt ceiling to put a firm control on the expenditure of Congress, or on the amount that the President allows to go through when, as a matter of fact, it has absolutely nothing to do with that; is that your statement?

Secretary SHULTZ. I think that is a fair statement unless, of course, if it is clear to everybody that it isn't the debt, as you pointed out on other occasions, that is involved, but it is the spending that is involved, and the President then must cut back spending wherever he can, in order to meet this debt ceiling requirement.

Senator BENNETT. I also in my discussions in this committee—and I will take 30 seconds to repeat this old story—have told this. The story goes back to the days of the old saloon and the proprietor is at one end of the big bar and the bartender is down at the other end of the bar, and he calls across to the proprietor and says: "Is Wallace Bennett good for a glass of beer?" And the proprietor says: "Has he had it?" And he answered: "yes." And the proprietor says: "Well, then he is good for it."

That is what we are up against in this debt ceiling problem.

Thank you, Mr. Chairman.

The CHAIRMAN. Senator Hartke?

Senator HARTKE. Mr. Secretary, do you agree with Senator Bennett that the debt ceiling is unnecessary?

Senator BENNETT. I don't think I said that.

Senator HARTKE. You said it had no effect. I don't know what the difference is. If a piece of legislation has no effect, why should we have this legislation or a law on the books that is ineffective and serves no useful purpose?

But let me just ask a question without reference to Senator Bennett.

Would you, or do you, recommend the elimination of the debt ceiling?

Secretary SHULTZ. I have no objection to eliminating this provision.

Senator HARTKE. In other words, you feel that this is a useless exercise?

Secretary SHULTZ. Well, it seems to be one that the Congress enjoys, but I can't help but feel that is the real purpose.

Senator HARTKE. What is the real purpose?

Secretary SHULTZ. That as far as impact on the flow of outlays of the Federal Government, as Senator Bennett has pointed out, that is determined by the authorization and appropriations process and legislation process and we just manage the debt consistent with those developments.

Senator HARTKE. Would you support an amendment if I introduced one to eliminate the debt ceiling? Would you mount the full support of the administration behind such a proposal?

Secretary SHULTZ. Well, I always hate to agree with you, Senator.

Senator HARTKE. Pardon me?

Secretary SHULTZ. I said, I always hate to agree with you too readily, but I think you are on the right track. I would have to think this over and look at it but, yes.

Senator HARTKE. I don't mind being on the right track, but I would like to have a little bit of power support as we move down that track.

Secretary SHULTZ. Right, you got it.

Senator HARTKE. Would you give it to us?

Secretary SHULTZ. Absolutely.

Senator HARTKE. I think that would eliminate the need for these hearings.

Secretary SHULTZ. Well, you could eliminate the necessity for one additional one by extending the debt ceiling to the end of the fiscal year rather than the 4 months the House gave us, for openers.

Senator HARTKE. I hear you.

Well, I quite agree. I think the job of the Congress is not to establish these hearings. Our job is to establish what we need to do and then figure out a way to do it and to pay for it. That is what you are saying; right?

Secretary SHULTZ. Right.

Senator HARTKE. I find no substantial disagreement with that approach either.

Let me ask you, while I have you here, how do you account for the reduction in the amount of the deficit that you anticipate for this fiscal year?

Secretary SHULTZ. It is attributable to revenues higher than we anticipated, which are, in turn, attributable to both the higher rate of operation of the economy and the higher rate of inflation that we have experienced.

Senator HARTKE. Was any of it caused by the cutbacks in the welfare programs?

Secretary SHULTZ. No, I think the budget total that we projected, the totals have remained pretty much the same.

Senator HARTKE. And perhaps increased a little bit; right?

Secretary SHULTZ. Well, no, the fiscal 1973 budget, I am assured by the OMB is going to bring it in at the $250 billion level. Of course, we don't know about fiscal 1974.

Senator HARTKE. I am talking about 1974.

There is a substantial increase in the trust fund account, right? Of about $15 billion surplus?

Secretary SHULTZ. Well, the surplus in the trust fund for fiscal 1973 is about $10 billion; it was about $5 billion in 1972.

Senator HARTKE. I thought it was a $15 billion anticipation by your own figures

Secretary SHULTZ. About $16 billion for 1974.

Senator HARTKE. $16 billion for 1974?

Secretary SHULTZ. Right.

Senator HARTKE. This is a surplus up and above that which it was ordinarily and primarily used for; that is, the social security fund, is that correct?

Secretary SHULTZ. That is right.

Senator HARTKE. In other words, we are really overcharging the people that are paying into the social security fund or, otherwise, we are not giving the proper benefits because there is no necessity to have a surplus in the trust fund of that nature. Isn't that true?

Secretary SHULTZ. No, I don't think that follows. I think, as I understand it, we are now on what is called a current cost financing basis.

Senator HARTKE. Yes, I understand that.

Secretary SHULTZ. For social security operations.

Senator HARTKE. Yes, but in other words, you should have the same amount of money that comes in as the amount of money you pay out on a current basis for need; isn't that what you are saying?

Secretary SHULTZ. Well, it is more complicated than that because you are trying to establish a fund and then maintain that fund and it goes across a number of social security accounts——

Senator HARTKE. All right. But let me just say then: my understanding of any type of trust fund is that it is supposed to accumulate funds only for the purpose for which it was intended and specified in the trust account.

Secretary SHULTZ. Right.

Senator HARTKE. And any surplus in that account, therefore, is one of two things: either a denial of the benefits to which the trust was originally established or, otherwise, an overcharging of those people who are paying into the account.

Now, one other thing: You have opposed the so-called Burke-Hartke bill, which I refer to as the Hartke-Burake bill?

Secretary SHULTZ. That is a reverse.

Senator HARTKE. Let me ask you this: Isn't it true—first, how much time do I have left? 2 minutes, 3 minutes, 4 minutes?

The CHAIRMAN. One minute.

Senator HARTKE. OK. Let me say that there is a $4.5 billion tax loss as a result of the failure to obtain the necessary taxes under the foreign tax credit; the repatriation accounts at the present time. If we were going to do an exact tradeoff of that $4.5 billion, and give it to domestic corporations alone, under such a circumstance, it would be possible to reduce the corporate tax rate by a substantial amount. I introduced an amendment 2 days ago, which reduces the corporate tax rate from 48 percent to 40 percent, thereby putting us in line with the Canadian reduction this week.

Do you feel that you could support the American corporations and support such an amendment, which would provide for a reduction in taxes and recoup that amount by making the multinationals pay their fair share?

As I understand it, they had a total tax liability last year of less than $1 billion payment in the United States of America. Don't you feel it is high time that the multinationals started paying for some of the expenses here at home?

Secretary SHULTZ. I think I am sort of saved by the bell, if that bell means what I think it means. But I would say that it seems to me a great mistake to so arrange the taxes on American corporations operating abroad as to effectively stifle their operations. And we benefit from those operations both in terms of jobs and terms of balance-of-payments flow.

There are problems. We tried to get at some of the problems. I hope we will be discussing that subject in detail before this committee before long, but as a generalization, I think it is a mistake to come in with tax changes that would make it impossible for our corporations to operate abroad.

Senator HARTKE. My time is up.

The CHAIRMAN. Mr. Secretary, how much money would your tax reform proposals raise?

Secretary SHULTZ. Well, we have, depending upon what you classify under that heading, a differing amount. But the proposals for the minimum tax and the tax shelter proposals would raise a net of about $800 million, we currently estimate. That is, it would raise the total about $1 billion and there is a $200 million loss because we dropped the present minimum tax——

The CHAIRMAN. That is a net gain of $800 million?

Secretary SHULTZ. The net gain would be about $800 million, we estimate, for the first full year.

The CHAIRMAN. Thank you.

Senator Bennett?

Senator BENNETT. No questions.

The CHAIRMAN. Senator Ribicoff?

Senator RIBICOFF. No questions.

The CHAIRMAN. Senator Byrd?

Senator BYRD. I note that you expect 14 percent, a 14-percent increase in personal income taxes. Do you think that is a realistic figure?

Secretary SHULTZ. Well, the projections we have made, we think are realistic. They have been carefully made by our people in the Treasury, and so, yes.

Senator BYRD. And how have those projections been in the past? How good?

Secretary SHULTZ. Some have been quite good, and others have not been so good.

Senator BYRD. Well, in looking over the figure, though, I note that in fiscal 1972, for example, there was, roughly, a 10-percent increase over the previous year. In fiscal 1973, there was about a 6 or 7 percent. But in this upcoming year, you project a 14-percent increase. I am just wondering if that isn't a rather optimistic projection?

Secretary SHULTZ. Well, we are experiencing a tremendous increase in employment and income from employment. So both of those factors operating together raise personal income in a very substantial way. The increases over the year in numbers employed are running in the order of 2.5 to 2.7.

Senator BYRD. Well, I hope you are right about the additional revenue, of course, but I am just wondering whether that isn't an optimistic figure?

Let me put it this way: Have we ever had such an increase as that in the past?

Secretary SHULTZ. I am not sure about that particular item, Senator. I wonder if I could look that up and furnish it for the record?

Senator BYRD. Yes. Thank you.

Secretary SHULTZ. I would say, as an observation, it seems to me in the revenue-estimating business that there tends to be lags; that is, when things are moving up, the estimates tend to be low and they are always having to be revised upward; and when things are moving down, it is the reverse. We don't quite have the courage of our observations, you might say, so I think on the whole, this estimate probably is, if anything, on the conservative side.

Senator BYRD. On the conservative side?

Secretary SHULTZ. Yes. Mr. Volcker reports there have been quite a number of occasions where there was 14-percent increase.

Senator BYRD. In the personal income tax revenue?

Secretary SHULTZ. Yes.

Mr. VOLCKER. Yes, in 1965–66, it went up about $7 billion on a base of less than 50, so it was about 14 percent. They went up by about $18½ billion in the single year of 1969 on the basis of $69 billion, so that was an increase of 25 percent almost.

Senator BYRD. And that is when we had very high inflation?

Secretary SHULTZ. In 1969 we had about 6 percent.

Senator BYRD. And we have 9 percent now, you have testified?

Secretary SHULTZ. Well, that is an annual rate on the basis of the first quarter.

Senator BYRD. That is right.

Secretary SHULTZ. And I think if we look at it yearly, if we took the last year or so—or if we took the period since economic controls went on—I think that number is about 4.2 percent, so I don't think the 9 percent should be projected.

Senator BYRD. Mr. Secretary, do you favor or oppose continued deficit spending on a Federal funds basis?

Secretary SHULTZ. Given the fact that we have large surpluses in the trust funds, then I think it would be a mistake to try to balance the budget on the Federal funds basis, but what should be done, I think, depends upon the economic circumstances.

Senator BYRD. Do you consider the $16 billion surplus in the trust fund as a real surplus?

Secretary SHULTZ. Yes. I think that in judging the impact of the budget on the economy, we have to add all of the things up that the Federal Government does.

Senator BYRD. I understand that.

Secretary SHULTZ. Whether they are trust funds or otherwise, they must be added and taken into account and then see what the balance amounts to.

Senator BYRD. It is correct, is it not, that the trust funds can be used only for a specific purpose?

Secretary SHULTZ. That is correct.

Senator BYRD. Mr. Ash, do you favor or oppose a balanced budget on the Federal funds basis?

Mr. ASH. I would certainly join in Secretary Shultz' statement that a balance including both Federal and trust funds, makes the best economic sense, and that it would not be proper to have a balance on the Federal funds unless, at the same time, there were simultaneous balance in the trust funds, so that the total unified budget would also be balanced.

Senator BYRD. I just wanted to establish the thinking of the two high people in our Government on that.

I assume both of you would oppose any legislation which would require a balanced budget on the Federal funds basis?

Secretary SHULTZ. Yes, sir. I can imagine circumstances where I would favor a balanced budget on the Federal funds basis; that is, if the trust funds were operating at a deficit and the economy weren't operating at capacity, then I think it would be appropriate if we had that kind of circumstance, but it depends, in other words, on the circumstances.

Senator BYRD. Mr. Ash, does the continuing and, in my judgment, the accelerating inflation disturb you?

Mr. ASH. It disturbs me, and I am sure it disturbs most everybody in the administration. This is why actions have been taken and continue to have been considered for dealing with that very problem.

Senator BYRD. How seriously do you view the inflationary spiral, Mr. Secretary?

Secretary SHULTZ. Oh, I think it is a problem of the first magnitude.

Senator BYRD. Do you regard the huge Government deficits, as typified by the Federal funds budget, as the major cause of the inflation?

Secretary SHULTZ. Well, I think that the large deficits at full employment in the last part of the 1960's are what gave it its big boost.

This most recent outburst in the first quarter, I think, has some special characteristics associated with it, but I believe that the tightening of fiscal policy that is now going on is quite appropriate.

Senator BYRD. The Federal funds deficit for 1971 were $30 billion. The Federal funds budget for 1972 was $29.2 billion. The Federal funds deficit for 1973 is $27.9 billion; the Federal funds deficit for the upcoming year, as projected by you, is at $18.8 billion. Do you regard that as being inflationary?

Secretary SHULTZ. Well, I think as we have discussed many times, that the Federal funds surplus or deficit is not the right concept to use in judging the relationship of the Federal budget to problems like economic expansion or inflation, and that the unified budget is a more useful concept.

Senator BYRD. Well, is your answer to my question yes or no?

Secretary SHULTZ. Well, the answer to your question is that I think that the fiscal thrust provided by the Federal Government in the last couple of years was appropriate under the circumstances.

Senator BYRD. That really wasn't my question.

What I am trying to ask——

Secretary SHULTZ. But I think if your question is, could we curb inflation for sure by seeing to it that the economy operated with 8 percent unemployment; the answer is "Yes." You could control inflation that way but we don't want to.

Senator BYRD. That is not my question at all, and you know it is not my question.

I asked what I thought was a reasonable question. My question is, in 1971 we had a $30 billion deficit; in 1972 we had a $29.2 billion deficit; in 1973 we had a $27.9 deficit; and you project an $18.8 billion deficit for the upcoming year.

My question is: Do you regard that as being inflationary?

Secretary SHULTZ. I feel there is little doubt that we would have a lesser rate of inflation today if we had a balance, if we had had a balance in the Federal funds budget during those years. I think I should add; I also believe we would have a lot less jobs, a lot less production, a lot less of other things that we want.

Senator BYRD. For the fiscal years 1970 through 1974, the accumulated Federal funds deficit will be $119 billion and that is precisely 25 percent of your projected national debt, the total national debt. Now, does the fact that we have accumulated 25 percent of the total national debt in just 5 years disturb you?

Secretary SHULTZ. I would certainly have preferred that the economy maintain itself on a steady path of growth at full employment, with a balanced budget on the unified basis.

So, in a sense, it hasn't done that; yes, it disturbs me and I wish somehow or other it had been possible to do it otherwise.

However, I think that with the economy operating below capacity, we should have the courage to use Federal fiscal policy as a tool in expanding the economy and not be afraid of it.

Senator BYRD. Well, if by that you mean creating huge deficits, you have certainly accomplished that; no question about that.

Now, I note in relation to the national debt that we are speaking of, that you have revised upward the interest costs and you project now that the interest costs in the new budget will be $27.5 billion.

Secretary SHULTZ. Interest rates are higher now than they were when the original estimates were made.

Senator BYRD. Yes; and do you foresee that the interest rates will increase?

Secretary SHULTZ. Well, I think that depends very heavily on how successful we are in dealing with inflation. And interest rates will, so to speak, track inflation. And if we are successful in reducing the rate of inflation, interest rates will reflect that.

Senator BYRD. How do you reduce the rate of inflation?

Secretary SHULTZ. We reduce it by a set of measures, by having a reasonable discipline and fiscal policy, by having a monetary policy consistent with that, by trying to use the wage and price controls tools as best we can to help, and by trying to increase the supplies of things that are in short supply; that is, by measures, such as we have taken in the agricultural field, which are not helped any by the bill the Senate passed in the farm area, and by reducing tariffs on things that are in short supply, by looking to the export control things and all of those other matters.

Senator BYRD. Is not the rate of inflation greater now than it has been?

Secretary SHULTZ. Yes.

Senator BYRD. Aren't the huge Government deficits a major reason for that?

Secretary SHULTZ. In the sense that we have been over and over again this here at the hearing, yes.

Senator BYRD. Than what?

Secretary SHULTZ. We have been over and over this concept of the fact that if we stood still——

Senator BYRD. In other words, it has been?

Secretary SHULTZ. —if we stood still here through the past 4 years and said, we would never run a deficit in the Federal funds budget, no matter what happened, we would have a lesser rate of inflation today and, as I said, we would also have a lot of other things we probably wouldn't like.

Senator BYRD. Hasn't the President in his speeches urged that we reduce inflation by reducing spending?

Secretary SHULTZ. Yes.

Senator BYRD. And by reducing the deficit?

Secretary SHULTZ. Yes.

Senator BYRD. Well, doesn't that indicate that at least one part of the administration believes that these deficits are a heavy contributing factor to inflation?

Secretary SHULTZ. We believe the $250 billion for fiscal 1973 for which the President struggled so hard, was an absolute necessity and you could imagine what we would be doing if we had spent what the Congress had wanted us to spend, namely, something like $260 billion this year.

Senator BYRD. You had a deficit of $28 billion following your own figures; which is to say, that your own recommendations—and not what the Congress did, regardless of what the Congress did—but your own figures, your own budget recommendations projected a Federal funds deficit of $28 billion; is that not correct?

Secretary SHULTZ. Correct.

Senator BYRD. And your own budget figures, assuming that Congress doesn't appropriate one dollar more than you advocate, still will mean a deficit of $19 billion in the upcoming year?

Secretary SHULTZ. Correct.

Senator BYRD. So I assume from your replies to my various questions, that—perhaps I shouldn't assume it—do you agree or disagree with William McChesney Martin's testimony before the subcommittee—this committee—that the major cause of inflation is the huge Government deficits that the Government has been running in recent years?

Secretary SHULTZ. Well, I don't want to get into an argument over the former Chairman of the Federal Reserve's views and go over the relationship between the fiscal policies and montary policies of the past years, but I think that the large deficits at full employment in the late sixties were a major contributing factor. I think it was appalling that after the Congress acted and after President Johnson acted with strong fiscal discipline, the Federal Reserve increased the money supply in the last half of 1968 at a very heavy rate. I think that was a big contributing factor.

Senator BYRD. Do you thing the increase of 8½ percent in the money supply for 1972 was a big contributor?

Secretary SHULTZ. The money supply in 1972, in the latter half, probably was a little too high; increased a little too high. On the whole, I think that it has been managed very well. It is a difficult job to control what happens here as we have seen in recent months.

Senator BYRD. All of this is a difficult job and that is why I am interested in the philosophy of the people who have to handle the job. And I must say, frankly, it is disturbing to me when there seems to be considerable levity and very little concern for what appears to me—and I guess I am in a minority around Washington—for what appears to me to be a very serious financial situation facing our Government. Most of my colleagues don't agree with me and obviously, you, gentlemen, don't agree with me. I hope you are all right, but I think we are in a whale of a bad fix. You found it necessary to devalue the dollar twice in 14 months. Have these two devaluations been desirable?

Secretary SHULTZ. Under the circumstances, yes. That has been very important to get our products competitive again in the world markets and we have had a long series of devaluations against us. And I think now our American products do have a much better chance in the world market and in domestic markets than they have had before.

Senator BYRD. Do you expect another formal devaluation of the dollar?

Secretary SHULTZ. No, sir.

Senator BYRD. What would the worldwide effect of a third devaluation be in your judgment?

Secretary SHULTZ. There isn't going to be one.

Senator BYRD. The formal devaluation of the dollar was merely formalizing what had already taken place; wasn't it? In other words, the dollar had deteriorated in value and is continuing to deteriorate in value; is it not?

Secretary SHULTZ. You mean at the time of the Smithsonian Agreement; what were the actual exchange rates at the time of that agreement and did they change any as a result of the agreement, or do you mean at the time of the second devaluation, was there a change in the exchange rates?

I think the answer to the question was, yes, there was a change at the time those devaluations took place.

Senator BYRD. Devaluation is not a solution, is it?

Secretary SHULTZ. It has helped our products become more competitive in the world market and we are seeing a change in the world picture so that the second half of 1972 showed a little better picture than the first half and the first quarter of this year is better than the fourth quarter of last year and in recent months, it has shown to be a desirable trend.

Senator BYRD. If that is the case, why would not a third devaluation be desirable?

Secretary SHULTZ. You seem to have the idea if something is a good thing, then a tremendous surge of it is even better. I keep trying to bring balance into the picture. I think we had a good thing and we have had enough of a good thing now.

Senator BYRD. Well, I thought I was the one trying to bring balance.

Secretary SHULTZ. No, no, it is me that is trying to bring balance and you are the extremist.

Senator BYRD. No, no. I am trying to bring balance to these budget figures which, I think, you don't want to bring balance to.

Secretary SHULTZ. I am trying to bring balance to the economy.

Senator BYRD. Well, you haven't done that.

Secretary SHULTZ. We are getting there.

Senator BYRD. Well, I hope you do and I wish you well. I just don't believe we are going to solve our problems until we put our own financial house in order here in the United States before we are going to solve it. I can't see where we made much headway in that; maybe we have.

Secretary SHULTZ. Well, I believe we have made considerable headway moving from a deficit of about 18 billion to a deficit of about $8 billion with a good probability that we may bring that into balance. I think that is a lot of progress and fiscal discipline.

Senator BYRD. It is not fiscal discipline that did it; it was an increase in the social security taxes that did it; was it not?

Secretary SHULTZ. No, sir. What has done it was the strong effort the President has made despite determined opposition in the Congress, to control spending. That is what has done it.

Senator BYRD. I have supported your position, sir, I am not arguing against your position. I supported the President's veto, under difficult circumstances.

What I am saying is, you are taking the surplus from the trust funds—and this was my previous question—and that is the only way you are getting this deficit down to what you say will be $8 billion; that is, by using the $16 billion surplus in the trust funds; isn't that right?

Secretary SHULTZ. We are using the concept of the unified budget. The numbers I cited to you are based on that concept.

Senator BYRD. You are using the $16 billion surplus in the trust funds to reduce the $19 billion deficit in the Federal funds and, on a unified basis, you then got the $8 billion; is that not correct?

Secretary SHULTZ. Well, if you want to play around with words, we can figure out how the Federal funds are in surplus and it is only the payments from the Federal funds to the trust funds that create the problem but that doesn't solve anything and——

Senator BYRD. If you did not have that $16 billion surplus in the social security fund, and if you had a zero balance in the social security fund, you would then have a $19 billion deficit; would you not?

Secretary SHULTZ. If we had a different picture in the trust fund accounts, presumably, we would run and have a different picture by design in the Federal funds accounts. That is the whole point. I don't think we should manage the Federal budget in a way that disregards the economy to which it is related, though. That is the point where you and I seem to differ.

Senator BYRD. I hadn't brought that point up at all. I am trying to understand your figures. I think I do understand your figures. You have a huge smashing Federal funds deficit and every figure shows that.

Secretary SHULTZ. No argument.

Senator BYRD. And the fact is you have a $16 billion surplus in the social security trust funds, because the Congress and administration acting together have increased the taxes on the people, and that is where that trust fund, social security, surplus came from.

Mr. Chairman, I ask unanimous consent that three tables that have been prepared be inserted in the record at this point.

The CHAIRMAN. Without objection, it is so ordered.

[The tables referred to follow:]

	1968	1969	1970	1971	1972	[1] 1973	[1] 1974
Receipts in billions:							
Individual income taxes	$69.0	$87.0	$90.0	$86.0	$95.0	$101.0	$115.0
Corporate income taxes	29.0	37.0	33.0	27.0	32.0	36.0	40.0
Total	98.0	124.0	123.0	113.0	126.0	137.0	115.0
Excise taxes (excluding highway)	10.0	11.0	10.3	10.5	9.1	11.9	13.2
Estate and gift	3.0	3.5	3.6	3.7	5.2	5.0	5.4
Customs	2.0	2.3	2.4	2.6	3.2	3.2	3.5
Miscellaneous	2.5	3.0	3.4	3.9	3.5	3.9	3.9
Total, Federal fund receipts	116.0	143.0	143.0	134.0	149.0	161.0	181.0
Trust funds (social security retirement, highway)	38.0	44.0	51.0	54.0	60.0	71.0	85.0
Total	154.0	188.0	194.0	188.0	209.0	232.0	266.0
Expenditures in billions:							
Federal funds	143.0	149.0	156.0	164.0	178.0	189.0	200.0
Trust funds	36.0	36.0	40.0	48.0	54.0	61.0	69.0
Total	179.0	185.0	196.0	212.0	232.0	250.0	269.0
Unified budget, surplus (+) or deficit (−)	−25.0	+3.1	−2.0	−24.0	−23.0	−18.0	−3.0
Federal funds deficit	27.0	6.0	13.0	30.0	29.0	28.0	19.0

[1] Estimate figures.

NOTE.—Prepared by Senator Harry F. Byrd, Jr., of Virginia.

Deficits in Federal funds and interest on the national debt, 1955–74 inclusive

	Receipts	Outlays	Surplus (+) or deficit (−)	Debt interest
1955	58. 1	62. 3	−4. 2	6. 4
1956	65. 4	63. 8	+1. 6	6. 8
1957	68. 8	67. 1	+1. 7	7. 3
1958	66. 6	69. 7	−3. 1	7. 8
1959	65. 8	77. 0	−11. 2	7. 8
1960	75. 7	74. 9	+. 8	9. 5
1961	75. 2	79. 3	−4. 1	9. 3
1962	79. 7	86. 6	−6. 9	9. 5
1963	83. 6	90. 1	−6. 5	10. 3
1964	87. 2	95. 8	−8. 6	11. 0
1965	90. 9	94. 8	−3. 9	11. 8
1966	101. 4	106. 5	−5. 1	12. 6
1967	111. 8	126. 8	−15. 0	14. 2
1968	114. 7	143. 1	−28. 4	15. 6
1969	143. 3	148. 8	−5. 5	17. 7
1970	143. 2	156. 3	−13. 1	20. 0
1971	133. 7	163. 7	−30. 0	21. 6
1972	148. 8	178. 0	−29. 2	22. 5
1973 [1]	160. 9	188. 8	−27. 9	24. 2
1974 [1]	181. 0	199. 8	−18. 8	27. 5
20-year total	2, 055. 8	2, 273. 2	217. 4	273. 4

[1] Estimated figures.

Source: Office of Management and Budget and Treasury Department.

Note: Prepared by Senator Harry F. Byrd, Jr., of Virginia.

U.S. gold holdings, total reserve assets, and liquid liabilities to foreigners

[Selected periods in billions of dollars]

	Gold holdings	Total assets	Liquid liabilities
End of World War II	20. 1	20. 1	6. 9
Dec. 31, 1957	22. 8	24. 8	15. 8
Dec. 31, 1970	10. 7	14. 5	47. 0
Dec. 31, 1971	10. 2	12. 2	67. 8
Dec. 31, 1972	10. 5	13. 2	82. 9
Mar. 31, 1973	10. 5	12. 9	90. 9

NOTE: Prepared by Senator Harry F. Byrd, Jr., of Virginia.

Source: U.S. Treasury Department.

Senator BYRD. My time has expired, I guess?

The CHAIRMAN. I haven't been running the clock on anybody, after the first round, so your time hasn't expired.

Senator BYRD. All right. Thank you, sir.

The CHAIRMAN. We are not keeping time.

Senator BYRD. I would just like to get an understanding of the counterpart funds and what part, if any, they play in the assets that we list as current assets.

Mr. VOLCKER. Current assets? In what respect, Senator? We list them among assets we have abroad but not as liquid assets.

Senator BYRD. We don't list them as part of the liquid assets?

Mr. VOLCKER. No.

Senator BYRD. Well, now, do you have a country-by-country breakdown of our counterpart funds? I assume you do.

Mr. VOLCKER. Yes; we do, but not with me.

Senator BYRD. Could you supply that for the record?

Mr. VOLCKER. Yes, sir.

[The Department subsequently supplied the following information:]

INVENTORY OF NONPURCHASED FOREIGN CURRENCIES AS OF DECEMBER 31, 1972

(FORMERLY SEMIANNUAL CONSOLIDATED REPORT OF BALANCES OF FOREIGN CURRENCIES ACQUIRED WITHOUT PAYMENT OF DOLLARS)

DEPARTMENT OF THE TREASURY
FISCAL SERVICE · BUREAU OF ACCOUNTS

INVENTORY OF

NONPURCHASED FOREIGN CURRENCIES

AS OF DECEMBER 31, 1972

This inventory of nonpurchased foreign currencies (formerly called the Semiannual Consolidated Report of Balances of Foreign Currencies Acquired Without Payment of Dollars) has been prepared in accordance with requirements of Section 613(c) of the Foreign Assistance Act of 1961, approved September 4, 1961, (22 U.S.C. 2363(c)) which provides as follows:

"Each agency or department shall report to the Secretary of the Treasury an inventory as of June 30, 1961, showing the amount of all foreign currencies acquired without payment of dollars on hand of each of the respective countries, and the Secretary of the Treasury shall consolidate these reports as of the same date and submit to the Congress this consolidated report broken down by agencies, by countries, by units of foreign currencies and their dollar equivalent. Thereafter, semiannually, similar reports are to be submitted by the agencies to the Treasury Department and then presented to the Congress by the Secretary of the Treasury."

This report shows the balances of U.S. - owned foreign currencies held in accounts of all accountable officers of the U.S. Government, and the balances of country-owned funds held in accounts of foreign governments over which the United States exercises some control. The balances are stated in units of foreign currency and U.S. dollar equivalents broken down by country and the agency having administrative control. U.S. dollar equivalents are computed for purposes of this report at rates of exchange available to the U.S. Government for the purchase of currencies for its official disbursements, as shown in the quarterly rate sheet issued by this department.

In summary, the holdings as of December 31, 1972 are as follows (in thousands of U.S. dollar equivalents):

U.S. - owned currencies:	
Action	$ 444
Agency for International Development	189,243
Defense	3,379
Executive Office of the President	1,132
Health, Education, and Welfare	1
Interior	2
Overseas Private Investment Corporation	9,446
State	597
Treasury	1,551,724
Total	1,755,968
Country-owned currencies held in foreign government accounts	329,912
Total	2,085,880

Most of the foregoing balances of currencies held by the U.S. Treasury are available for sale to agencies for appropriated dollars, in some cases for purposes of regular operating programs, and in other cases for purposes of special programs provided by international agreements and Section 104 of Public Law 480, as amended. The remaining balances of U.S.-owned currencies are available for loans and grants within the foreign countries.

Foreign currencies held by the U.S. Government equivalent to $972.8 million were generated under Title I of the Agricultural Trade Development and Assistance Act of 1954, as amended (including loan repayments) and $783.2 million from other sources, such as the Foreign Assistance Act of 1961, as amended (DLF and MSP loan repayments, etc.), U.S. portion of counterpart funds (5% and 10%), contributions to cover administrative expenses of U.S. Military Assistance Advisory Groups (MAAG), interest earned on public deposits, various trust funds, and other items. Details regarding the sources of currencies and the programs for which they are used are contained in the "Report on Foreign Currencies held by the U.S. Government" published by Treasury.

Foreign currencies held by the foreign governments equivalent to $161.9 million were generated under Section 609 of the Foreign Assistance Act of 1961 (counterpart), $166.5 million under Title I of P.L. 480, and $1.5 million under Title II of P.L. 480 famine relief program. The source of these figures and details regarding country-owned currencies are available in Report No. W-213, Foreign Assistance Program, prepared by the Agency for International Development.

INVENTORY OF NONPURCHASED FOREIGN CURRENCIES
AS OF DECEMBER 31, 1972
(Fractional Currency Units and Cents Omitted)

Country and Currency Agency	U.S. Owned Foreign Currencies 1/		Country Owned Foreign Currencies 2/		Country Totals	
	Foreign Currency Units	U.S. Dollar Equivalents	Foreign Currency Units	U.S. Dollar Equivalents	Foreign Currency Units	U.S. Dollar Equivalents
Afghanistan - Afghani						
Action	205,410	2,616	—	—	205,410	2,616
Agency Intern'l. Dev.	24,826,022	316,255	604,114,000	7,696,000	628,940,022	8,012,255
State	35,438	451	—	—	35,438	451
Treasury	-25,067,590	-319,332	—	—	-25,067,590	-319,332
Total	3/ -720	3/ -9	604,114,000	7,696,000	604,113,280	7,695,991
Argentina - Peso						
State	87,686	8,830	—	—	87,686	8,830
Treasury	168,081	16,926	—	—	168,081	16,926
Total	255,767	25,757	—	—	255,767	25,757
Australia - A. Dollar						
State	9,408	11,948	—	—	9,408	11,948
Treasury	2,554	3,244	—	—	2,554	3,244
Total	11,963	15,193	—	—	11,963	15,193
Austria - Schilling						
State	129,133	5,570	—	—	129,133	5,570
Treasury	-129,133	-5,570	—	—	-129,133	-5,570
Total	—	—	—	—	—	—
Bahama - B. Dollar						
State	536	553	—	—	536	553
Treasury	-536	-553	—	—	-536	-553
Total	—	—	—	—	—	—
Barbados - E.C. Dollar						
Action	39,964	19,629	—	—	39,964	19,629
State	560	275	—	—	560	275
Treasury	-40,524	-19,904	—	—	-40,524	-19,904
Total	—	—	—	—	—	—

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INVENTORY OF NONPURCHASED FOREIGN CURRENCIES
AS OF DECEMBER 31, 1972
(Fractional Currency Units and Cents Omitted)

Country and Currency Agency	U.S. Owned Foreign Currencies 1/		Country Owned Foreign Currencies 2/		Country Totals	
	Foreign Currency Units	U.S. Dollar Equivalents	Foreign Currency Units	U.S. Dollar Equivalents	Foreign Currency Units	U.S. Dollar Equivalents
Belgium - Franc						
State	1,193,987	27,050	—	—	1,193,987	27,050
Treasury	-1,193,987	-27,050	—	—	-1,193,987	-27,050
Total	—	—	—	—	—	—
Bermuda - Pound						
State	2,092	2,155	—	—	2,092	2,155
Treasury	-2,092	-2,155	—	—	-2,092	-2,155
Total	—	—	—	—	—	—
Bolivia - Peso						
Agency Intern'l. Dev.	2,473,203	123,660	45,665,000	2,283,000	48,138,203	2,406,660
State	59,375	2,968	—	—	59,375	2,968
Treasury	440,273	22,013	—	—	440,273	22,013
Total	2,972,852	148,642	45,665,000	2,283,000	48,637,852	2,431,642
Brazil - Cruzeiro						
Action	1,680	274	—	—	1,680	274
Agency Intern'l. Dev.	17,969,051	2,931,329	80,131,000	13,072,000	98,100,051	16,003,329
State	91,950	15,000	—	—	91,950	15,000
Treasury	-8,602,397	-1,403,327	—	—	-8,602,397	-1,403,327
Total	9,460,284	1,543,276	80,131,000	13,072,000	89,591,284	14,615,276
British Honduras - B.H. Dollar						
State	215	140	—	—	215	140
Treasury	-215	-140	—	—	-215	-140
Total	—	—	—	—	—	—
Burma - Kyat						
Agency Intern'l. Dev.	11,235,670	2,111,174	4,463,000	839,000	15,698,670	2,950,174
State	896	168	—	—	896	168
Treasury	59,070,468	11,099,298	—	—	59,070,468	11,099,298
Total	70,307,034	13,210,641	4,463,000	839,000	74,770,034	14,049,641

INVENTORY OF NONPURCHASED FOREIGN CURRENCIES
AS OF DECEMBER 31, 1972
(Fractional Currency Units and Cents Omitted)

Country and Currency Agency	U.S. Owned Foreign Currencies 1/		Country Owned Foreign Currencies 2/		Country Totals	
	Foreign Currency Units	U.S. Dollar Equivalents	Foreign Currency Units	U.S. Dollar Equivalents	Foreign Currency Units	U.S. Dollar Equivalents
Cameroon - CFA Franc						
Action	14,370	57	———	———	14,370	57
Agency Intern'l. Dev.	337,897	1,343	45,052,000	180,000	45,389,897	181,343
State	1,923,705	7,648	———	———	1,923,705	7,648
Treasury	-2,275,972	-9,049	———	———	-2,275,972	-9,049
Total	———	———	45,052,000	180,000	45,052,000	180,000
Canada - C. Dollar						
State	100	101	———	———	100	101
Ceylon - (See Sri Lanka)						
Chad - CFA Franc						
Action	53,436	212	———	———	53,436	212
Treasury	-53,436	-212	———	———	-53,436	-212
Total	———	———	———	———	———	———
Chile - Escudo						
Agency Intern'l. Dev.	———	———	129,964,000	2,825,000	129,964,000	2,825,000
State	10,347	224	———	———	10,347	224
Treasury	761,848	16,561	———	———	761,848	16,561
Total	772,196	16,786	129,964,000	2,825,000	130,736,196	2,841,786
China - N.T. Dollar						
Agency Intern'l. Dev.	73,925,720	1,848,143	———	———	73,925,720	1,848,143
State	355,000	8,875	———	———	355,000	8,875
Treasury	-67,958,466	-1,698,961	———	———	-67,958,466	-1,698,961
Total	6,322,253	158,056	———	———	6,322,253	158,056
Colombia - Peso						
Action	34,247	1,515	———	———	34,247	1,515
Agency Intern'l. Dev.	———	———	14,676,000	649,000	14,676,000	649,000
State	214,198	9,477	———	———	214,198	9,477
Treasury	1,254,389	55,503	———	———	1,254,389	55,503
Total	1,502,834	66,497	14,676,000	649,000	16,178,834	715,497

INVENTORY OF NONPURCHASED FOREIGN CURRENCIES
AS OF DECEMBER 31, 1972
(Fractional Currency Units and Cents Omitted)

Country and Currency Agency	U.S. Owned Foreign Currencies 1/		Country Owned Foreign Currencies 2/		Country Totals	
	Foreign Currency Units	U.S. Dollar Equivalents	Foreign Currency Units	U.S. Dollar Equivalents	Foreign Currency Units	U.S. Dollar Equivalents
Costa Rica - Colon						
Agency Intern'l. Dev.	134,566	15,702	719,000	84,000	853,566	99,702
State	16,739	1,953	—	—	16,739	1,953
Treasury	-115,173	-13,439	—	—	-115,173	-13,439
Total	36,131	4,216	719,000	84,000	755,131	88,216
Cyprus - pound						
Agency Intern'l. Dev.	—	—	15,000	40,000	15,000	40,000
State	1,222	3,199	—	—	1,222	3,199
Treasury	-1,222	-3,199	—	—	-1,222	-3,199
Total	—	—	15,000	40,000	15,000	40,000
Czechoslovakia - Koruna						
Treasury	7,161,557	994,660	—	—	7,161,557	994,660
Dahomey - CFA Franc						
Agency Intern'l. Dev.	2,426,174	9,646	—	—	2,426,174	9,646
Treasury	-2,426,174	-9,646	—	—	-2,426,174	-9,646
Total	—	—	—	—	—	—
Denmark - Krone						
State	16,283	2,367	—	—	16,283	2,367
Treasury	-16,283	-2,367	—	—	-16,283	-2,367
Total	—	—	—	—	—	—
Dominican Republic - Peso						
Action	1,611	1,611	—	—	1,611	1,611
Agency Intern'l. Dev.	358,447	358,447	10,515,000	10,515,000	10,873,447	10,873,447
State	902	902	—	—	902	902
Treasury	502,176	502,176	—	—	502,176	502,176
Total	863,138	863,138	10,515,000	10,515,000	11,378,138	11,378,138

INVENTORY OF NONPURCHASED FOREIGN CURRENCIES
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(Fractional Currency Units and Cents Omitted)

Country and Currency Agency	U.S. Owned Foreign Currencies 1/		Country Owned Foreign Currencies 2/		Country Totals	
	Foreign Currency Units	U.S. Dollar Equivalents	Foreign Currency Units	U.S. Dollar Equivalents	Foreign Currency Units	U.S. Dollar Equivalents
Ecuador - Sucre						
Action	3,560	140	—	—	3,560	140
Agency Intern'l. Dev.	—	—	45,403,000	1,788,000	45,403,000	1,788,000
State	126,999	5,000	—	—	126,999	5,000
Treasury	5,656,757	222,707	—	—	5,656,757	222,707
Total	5,787,317	227,847	45,403,000	1,788,000	51,190,317	2,015,847
Egypt - Pound						
Agency Intern'l. Dev.	20,704,428	37,264,990	—	—	20,704,428	37,264,990
State	5,383	9,690	—	—	5,383	9,690
Treasury	130,152,434	234,255,642	—	—	130,152,434	234,255,642
Total	150,862,247	271,530,322	—	—	150,862,247	271,530,322
El Salvador - Colon						
State	7,472	2,989	—	—	7,472	2,989
Treasury	-7,472	-2,989	—	—	-7,472	-2,989
Total	—	—	—	—	—	—
Equatorial Guinea - G. Peseta						
Treasury	8,605	123	—	—	8,605	123
Ethiopia - E. Dollar						
Action	6,143	2,690	—	—	6,143	2,690
Agency Intern'l. Dev.	56,957	24,948	—	—	56,957	24,948
State	1,097	480	—	—	1,097	480
Treasury	-64,198	-28,120	—	—	-64,198	-28,120
Total	—	—	—	—	—	—
Fiji Islands - F. Dollar						
Action	1,680	2,015	—	—	1,680	2,015
Treasury	-1,680	-2,015	—	—	-1,680	-2,015
Total	—	—	—	—	—	—
Finland - Markka						
State	13,566	3,264	—	—	13,566	3,264
Treasury	-13,566	-3,264	—	—	-13,566	-3,264
Total	—	—	—	—	—	—

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Country and Currency Agency	U.S. Owned Foreign Currencies 1/		Country Owned Foreign Currencies 2/		Country Totals	
	Foreign Currency Units	U.S. Dollar Equivalents	Foreign Currency Units	U.S. Dollar Equivalents	Foreign Currency Units	U.S. Dollar Equivalents
France - Franc						
State	127,488	25,330	———	———	127,488	25,330
Treasury	-127,488	-25,330	———	———	-127,488	-25,330
Total	———	———	———	———	———	———
Gambia - Dalasy						
Action	4,993	2,468	———	———	4,993	2,468
Treasury	-4,993	-2,468	———	———	-4,993	-2,468
Total	———	———	———	———	———	———
Germany - W.D. Mark						
Agency Intern'l. Dev.	365	113	———	———	365	113
State	421,722	131,500	———	———	421,722	131,500
Treasury	-422,349	-131,696	———	———	-422,349	-131,696
U.S.I.A.	262	81	———	———	262	81
Total	———	———	———	———	———	———
Germany - E.D. Mark						
Treasury	32,042	2,584	———	———	32,042	2,584
Ghana - Cedi						
Action	32,680	25,793	———	———	32,680	25,793
Agency Intern'l. Dev.	1,577,938	1,245,413	9,778,000	7,717,000	11,355,938	8,962,413
State	4,668	3,684	———	———	4,668	3,684
Treasury	15,117	11,931	———	———	15,117	11,931
Total	1,630,404	1,286,822	9,778,000	7,717,000	11,408,404	9,003,822
Greece - Drachma						
Agency Intern'l. Dev.	———	———	1,776,000	59,000	1,776,000	59,000
State	56,817	1,893	———	———	56,817	1,893
Treasury	15,709,710	523,657	———	———	15,709,710	523,657
Total	15,766,527	525,550	1,776,000	59,000	17,542,527	584,550

INVENTORY OF NONPURCHASED FOREIGN CURRENCIES
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Country and Currency Agency	U.S. Owned Foreign Currencies 1/		Country Owned Foreign Currencies 2/		Country Totals	
	Foreign Currency Units	U.S. Dollar Equivalents	Foreign Currency Units	U.S. Dollar Equivalents	Foreign Currency Units	U.S. Dollar Equivalents
Guatemala - Quetzal						
State	2,354	2,354	—	—	2,354	2,354
Treasury	66,915	66,915	—	—	66,915	66,915
Total	69,269	69,269	—	—	69,269	69,269
Guinea - Syli						
Agency Intern'l. Dev.	170,699,279	7,506,564	335,476,000	14,752,000	506,175,279	22,258,564
State	26,731	1,175	—	—	26,731	1,175
Treasury	126,144,534	5,547,253	—	—	126,144,534	5,547,253
Total	296,870,545	13,054,993	335,476,000	14,752,000	632,346,545	27,806,993
Guyana - G. Dollar						
Agency Intern'l. Dev.	—	—	—	—	—	—
State	1,089	495	—	—	1,089	495
Treasury	6,330	2,880	—	—	6,330	2,880
Total	7,419	3,375	—	—	7,419	3,375
Haiti - Gourde						
State	5,000	1,000	—	—	5,000	1,000
Honduras - Lempira						
Action	3,728	1,864	—	—	3,728	1.864
State	5,000	2,500	—	—	5,000	2,500
Treasury	189,230	94,615	—	—	189,230	94,615
Total	197,959	98,979	—	—	197,959	98,979
Hong Kong - H.K. Dollar						
State	135,128	23,895	—	—	135,128	23,895
Treasury	-135,128	-23,895	—	—	-135,128	-23,895
Total	—	—	—	—	—	—
Hungary - Forint						
State	29,871	1,082	—	—	29,871	1,082
Treasury	4,226,459	153,132	—	—	4,226,459	153,132
Total	4,256,331	154,214	—	—	4,256,331	154,214

INVENTORY OF NONPURCHASED FOREIGN CURRENCIES
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Country and Currency Agency	U.S. Owned Foreign Currencies 1/		Country Owned Foreign Currencies 2/		Country Totals	
	Foreign Currency Units	U.S. Dollar Equivalents	Foreign Currency Units	U.S. Dollar Equivalents	Foreign Currency Units	U.S. Dollar Equivalents
Iceland - Krona						
Agency Intern'l. Dev.	—	—	34,846,000	353,000	34,846,000	353,000
State	179,936	1,825	—	—	179,936	1,825
Treasury	787,845	7,993	—	—	787,845	7,993
Total	967,782	9,819	34,846,000	353,000	35,813,782	362,819
India - Rupee						
Agency Intern'l. Dev.	597,879,380	75,299,670	—	—	597,879,380	75,299,670
Overseas Private Invest. Corp.	75,000,000	9,445,843	—	—	75,000,000	9,445,843
State	115,000	14,483	—	—	115,000	14,483
Treasury	6,179,888,372	778,323,472	—	—	6,179,888,372	778,323,472
Total	6,852,882,754	863,083,470	—	—	6,852,882,754	863,083,470
Nepal - Indian Rupee						
Agency Intern'l. Dev.	55,173,842	6,948,846	—	—	55,173,842	6,948,846
Total Indian Rupees	6,908,056,597	870,032,317	—	—	6,908,056,597	870,032,317
Indonesia - Rupiah						
Agency Intern'l. Dev.	203,884,468	488,931	14,221,896,000	34,105,000	14,425,780,468	34,593,931
State	240,452	576	—	—	240,452	576
Treasury	45,567,528	109,274	—	—	45,567,528	109,274
Total	249,692,448	598,782	14,221,896,000	34,105,000	14,471,588,448	34,703,782
Iran - Rial						
Action	2,500,903	32,798	—	—	2,500,903	32,798
State	20,159	264	—	—	20,159	264
Treasury	-2,521,062	-33,063	—	—	-2,521,062	-33,063
Total	—	—	—	—	—	—
Ireland - Pound						
Agency Intern'l. Dev.	—	—	63,000	148,000	63,000	148,000
State	200	470	—	—	200	470
Treasury	-200	-470	—	—	-200	-470
Total	—	—	63,000	148,000	63,000	148,000

INVENTORY OF NONPURCHASED FOREIGN CURRENCIES
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Country and Currency Agency	U.S. Owned Foreign Currencies 1/		Country Owned Foreign Currencies 2/		Country Totals	
	Foreign Currency Units	U.S. Dollar Equivalents	Foreign Currency Units	U.S. Dollar Equivalents	Foreign Currency Units	U.S. Dollar Equivalents
Israel - Pound						
Agency Intern'l. Dev.	5,857,340	1,394,604	123,889,000	29,497,000	129,746,340	30,891,604
State	27,429	6,530	—	—	27,429	6,530
Treasury	-5,321,622	-1,267,052	—	—	-5,321,622	-1,267,052
Total	563,128	134,082	123,889,000	29,497,000	124,452,128	29,631,082
Italy -Lira						
Executive Office of the President:						
Army	662,625,840	1,131,726	—	—	662,625,840	1,131,726
State	7,248,631	12,380	—	—	7,248,631	12,380
Treasury	-7,248,631	-12,380	—	—	-7,248,631	-12,380
Total	662,625,840	1,131,726	—	—	662,625,840	1,131,726
Ivory Coast - C.F.A. Franc						
Action	99,586	395	—	—	99,586	395
Agency Intern'l Dev.	282,466	1,127	—	—	283,466	1,127
State	713,375	2,836	—	—	713,375	2,836
Treasury	-1,096,427	-4,359	—	—	-1,096,427	-4,359
Total	—	—	—	—	—	—
Jamaica - J. Dollar						
Action	3,746	4,412	—	—	3,746	4,412
State	44	51	—	—	44	51
Treasury	-3,707	-4,365	—	—	-3,707	-4,365
Total	83	98	—	—	83	98
Japan - Yen						
State	13,328,012	44,264	—	—	13,328,012	44,264
Treasury	5,683,430,907	18,875,559	—	—	5,683,430,907	18,875,559
Total	5,696,758,919	18,919,823	—	—	5,696,758,919	18,919,823

INVENTORY OF NONPURCHASED FOREIGN CURRENCIES
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(Fractional Currency Units and Cents Omitted)

Country and Currency Agency	U.S. Owned Foreign Currencies 1/		Country Owned Foreign Currencies 2/		Country Totals	
	Foreign Currency Units	U.S. Dollar Equivalents	Foreign Currency Units	U.S. Dollar Equivalents	Foreign Currency Units	U.S. Dollar Equivalents
Jordan - Dinar						
Agency Intern'l. Dev.	—	—	18,000	50,000	18,000	50,000
State	1,512	4,235	—	—	1,512	4,235
Treasury	-1,442	-4,040	—	—	-1,442	-4,040
Total	69	194	18,000	50,000	18,069	50,194
Kenya - Shilling						
Action	872,621	123,356	—	—	872,621	123,356
Agency Intern'l. Dev.	382,941	54,133	14,000	2,000	396,941	56,133
State	1,495	211	—	—	1,495	211
Treasury	-1,257,058	-177,701	—	—	-1,257,058	-177,701
Total	—	—	14,000	2,000	14,000	2,000
Khmer Republic - C. Riel						
Agency Intern'l. Dev.	434,360,981	2,331,513	612,939,000	3,290,000	1,047,299,981	5,621,513
Navy	618,334,650	3,319,026	—	—	618,334,650	3,319,026
State	288,494	1,548	—	—	288,494	1,548
Treasury	126,553,004	679,296	—	—	126,553,004	679,296
Total	1,179,537,130	6,331,385	612,939,000	3,290,000	1,792,476,130	9,621,385
Korea - Won						
Action	895,770	2,255	—	—	895,770	2,255
Agency Intern'l. Dev	548,292,500	1,380,741	2,478,858,000	6,243,000	3,027,150,500	7,623,741
State	1,299,845	3,273	—	—	1,299,845	3,273
Treasury	-94,463,929	-237,884	—	—	-94,463,929	-237,884
Total	456,024,186	1,148,386	2,478,858,000	6,243,000	2,934,882,186	7,391,386
Laos - Kip						
Agency Intern'l. Dev.	1,287,672,925	2,128,385	160,714,000	266,000	1,448,386,925	2,394,385
Lebanon - Pound						
State	6,019	1,992	—	—	6,019	1,992
Treasury	-6,019	-1,992	—	—	-6,019	-1,992
Total	—	—	—	—	—	—
Liberia - L. Dollar						
Agency Intern'l. Dev.	—	—	1,087,000	1,087,000	1,087,000	1,087,000

INVENTORY OF NONPURCHASED FOREIGN CURRENCIES
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(Fractional Currency Units and Cents Omitted)

Country and Currency Agency	U.S. Owned Foreign Currencies 1/		Country Owned Foreign Currencies 2/		Country Totals	
	Foreign Currency Units	U.S. Dollar Equivalents	Foreign Currency Units	U.S. Dollar Equivalents	Foreign Currency Units	U.S. Dollar Equivalents
Libya - Pound						
State	123	376	—	—	123	376
Treasury	-123	-376	—	—	-123	-376
Total	—	—	—	—	—	—
Malawi - Pound						
Action	2,679	3,171	—	—	2,679	3,171
Treasury	-2,068	-2,448	—	—	-2,068	-2,448
Total	611	723	—	—	611	723
Malaysia - M. Dollar						
State	5,874	2,134	—	—	5,874	2,134
Treasury	-5,874	-2,134	—	—	-5,874	-2,134
Total	—	—	—	—	—	—
Mali - Franc						
Agency Intern'l. Dev.	2,363,437	4,698	327,615,000	651,000	329,978,437	655,698
Treasury	-2,363,437	-4,698	—	—	-2,363,437	-4,698
Total	—	—	327,615,000	651,000	327,615,000	651,000
Martinique - Franc						
State	108	21	—	—	108	21
Treasury	-108	-21	—	—	-108	-21
Total	—	—	—	—	—	—
Mexico - Peso						
State	39,832	3,189	—	—	39,832	3,189
Treasury	-36,206	-2,898	—	—	-36,206	-2,898
Total	3,626	290	—	—	3,626	290
Morocco - Dirham						
Action	65,034	14,293	—	—	65,034	14,293
Agency Intern'l. Dev.	1,914,324	420,730	98,236,000	21,590,000	100,150,324	22,010,730
State	18,212	4,002	—	—	18,212	4,002
Treasury	50,153,532	11,022,754	—	—	50,153,532	11,022,754
Total	52,151,102	11,461,780	98,236,000	21,590,000	150,387,102	33,051,780

INVENTORY OF NONPURCHASED FOREIGN CURRENCIES
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Country and Currency Agency	U.S. Owned Foreign Currencies 1/		Country Owned Foreign Currencies 2/		Country Totals	
	Foreign Currency Units	U.S. Dollar Equivalents	Foreign Currency Units	U.S. Dollar Equivalents	Foreign Currency Units	U.S. Dollar Equivalents
Nepal - N. Rupee						
Action	2,295	217	—	—	2,295	217
Agency Intern'l. Dev.	—	—	557,000	52,000	557,000	52,000
State	3,838	363	—	—	3,838	363
Treasury	6,000,000	568,181	—	—	6,000,000	568,181
Total	6,006,133	568,762	557,000	52,000	6,563,133	620,762
Netherlands - Guilder						
Interior	531	164	—	—	531	164
State	36,063	11,165	—	—	36,063	11,165
Treasury	-36,594	-11,329	—	—	-36,594	-11,329
Total						
Netherlands Antilles - N. A. Florin						
State	1,974	1,105	—	—	1,974	1,105
Treasury	-1,974	-1,105	—	—	-1,974	-1,105
Total						
New Zealand - N.Z. Dollar						
State	2,596	3,133	—	—	2,596	3,133
Treasury	-2,596	-3,133	—	—	-2,596	-3,133
Total						
Nicaragua - Cordoba						
Action	56,947	8,135	—	—	56,947	8,135
State	8,737	1,248	—	—	8,737	1,248
Treasury	-65,684	-9,383	—	—	-65,684	-9,383
Total						
Niger - CFA Franc						
Agency Intern'l. Dev.	—	—	27,221,000	108,000	27,221,000	108,000

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Nigeria - Pound						
Action	9	30	—	—	9	30
Agency Intern'l. Dev.	31,945	97,812	53,000	162,000	84,945	259,812
State	439	1,346	—	—	439	1,346
Treasury	-32,394	-99,189	—	—	-32,394	-99,189
Total	—	—	53,000	162,000	53,000	162,000
Norway - Krone						
State	26,182	3,980	—	—	26,182	3,980
Treasury	-26,182	-3,980	—	—	-26,182	-3,980
Total	—	—	—	—	—	—
Pakistan - Rupee						
Agency Intern'l. Dev.	130,868,541	11,897,142	234,234,000	21,294,000	365,102,541	33,191,142
Defense:						
Air Force	114,571	10,415	—	—	114,571	10,415
State	104,973	9,543	—	—	104,973	9,543
Treasury	1,253,694,977	113,972,270	—	—	1,253,694,977	113,972,270
Total	1,384,783,061	125,889,369	234,234,000	21,294,000	1,619,017,061	147,183,369
Paraguay - Guarani						
Agency Intern'l. Dev.	379,542,915	3,012,245	182,062,000	1,445,000	561,604,915	4,457,245
State	315,000	2,500	—	—	315,000	2,500
Treasury	32,307,792	256,411	—	—	32,307,792	256,411
Total	412,165,708	3,271,156	182,062,000	1,445,000	594,227,708	4,716,156
Peru - Sol						
Action	82,155	1,893	—	—	82,155	1,893
Agency Intern'l. Dev.	2,835,263	65,358	—	—	2,835,263	65,358
State	433,799	10,000	—	—	433,799	10,000
Treasury	4,239,214	97,722	—	—	4,239,214	97,722
Total	7,990,434	174,975	—	—	7,990,434	174,975

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Philippines - Peso						
Action	1,187	174	—	—	1,187	174
Agency Intern'l. Dev.	537,854	79,212	58,179,000	8,568,000	58,716,854	8,647,212
State	47,792	7,038	—	—	47,792	7,038
Treasury	-568,946	-83,791	—	—	-568,946	-83,791
Total	17,887	2,634	58,179,000	8,568,000	58,196,887	8,570,634
Poland - Zloty						
Agency Intern'l. Dev.	25,879,060	1,172,058	—	—	25,879,060	1,172,058
State	55,275	2,503	—	—	55,275	2,503
Treasury	7,958,470,901	332,216,774	—	—	7,958,470,901	332,216,774
Total	7,984,405,237	333,391,337	—	—	7,984,405,237	333,391,337
Portugal - Escudo						
State	35,729	1,329	—	—	35,729	1,329
Treasury	-35,729	-1,329	—	—	-35,729	-1,329
Total	—	—	—	—	—	—
Romania - Lei						
State	4,236	267	—	—	4,236	267
Senegal - C.F.A. Franc						
Agency Intern'l. Dev.	240,195,550	955,051	100,000,000	398,000	340,195,550	1,353,051
State	228,547	908	—	—	228,547	908
Treasury	-112,846,904	-448,695	—	—	-112,846,904	-448,695
Total	127,577,193	507,265	100,000,000	398,000	227,577,193	905,265
Sierra Leone - Leone						
Action	108	126	—	—	108	126
Agency Intern'l. Dev.	—	—	379,000	443,000	379,000	443,000
Treasury	-108	-126	—	—	-108	-126
Total	—	—	379,000	443,000	379,000	443,000

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Country and Currency Agency	U.S. Owned Foreign Currencies 1/		Country Owned Foreign Currencies 2/		Country Totals	
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Somali - Shilling						
Agency Intern'l. Dev.	—	—	6,000	1,000	6,000	1,000
State	2,844	413	—	—	2,844	413
Treasury	-2,844	-413	—	—	-2,844	-413
Total	—	—	6,000	1,000	6,000	1,000
South Africa - Rand						
Interior	79	101	—	—	79	101
State	469	600	—	—	469	600
Treasury	-548	-701	—	—	-548	-701
Total	—	—	—	—	—	—
Spain - Peseta						
Defense:						
Air Force	3,177,457	50,046	—	—	3,177,457	50,046
Interior	136,017	2,142	—	—	136,017	2,142
State	458,749	7,225	—	—	458,749	7,225
Treasury	-3,772,223	-59,414	—	—	-3,772,223	-59,414
Total	—	—	—	—	—	—
Sri Lanka - Rupee						
Agency Intern'l. Dev.	834,402	125,285	—	—	834,402	125,285
State	21,490	3,226	—	—	21,490	3,226
Treasury	403,568	60,595	—	—	403,568	60,595
Total	1,259,461	189,108	—	—	1,259,461	189,108
Sudan - Pound						
Agency Intern'l. Dev.	531,405	1,335,189	—	—	531,405	1,335,189
State	187	470	—	—	187	470
Treasury	1,584,936	3,982,253	—	—	1,584,936	3,982,253
Total	2,116,529	5,317,912	—	—	2,116,529	5,317,912

INVENTORY OF NONPURCHASED FOREIGN CURRENCIES
AS OF DECEMBER 31, 1972
(Fractional Currency Units and Cents Omitted)

Country and Currency Agency	U.S. Owned Foreign Currencies 1/		Country Owned Foreign Currencies 2/		Country Totals	
	Foreign Currency Units	U.S. Dollar Equivalents	Foreign Currency Units	U.S. Dollar Equivalents	Foreign Currency Units	U.S. Dollar Equivalents
Surinam - Florin						
State	149	85	—	—	149	85
Treasury	-149	-85	—	—	-149	-85
Total	—	—	—	—	—	—
Sweden - Krona						
State	31,917	6,730	—	—	31,917	6,730
Treasury	-31,917	-6,730	—	—	-31,917	-6,730
Total	—	—	—	—	—	—
Switzerland - Franc						
State	31,173	8,257	—	—	31,173	8,257
Treasury	-31,173	-8,257	—	—	-31,173	-8,257
Total	—	—	—	—	—	—
Syrian Arab Republic-Pound						
State	13,347	3,104	—	—	13,347	3,104
Treasury	21,316,479	4,957,320	—	—	21,316,479	4,957,320
Total	21,329,826	4,960,424	—	—	21,329,826	4,960,424
Tanzania - Shilling						
State	1,976	278	—	—	1,976	278
Treasury	-1,976	-278	—	—	-1,976	-278
Total	—	—	—	—	—	—
Thailand - Baht						
Action	1,154,988	55,474	—	—	1,154,988	55,474
Agency Intern'l. Dev.	28,085,204	1,348,953	344,682,000	16,555,000	372,767,204	17,903,953
State	465,982	22,381	—	—	465,982	22,381
Treasury	-1,620,970	-77,856	—	—	-1,620,970	-77,856
Total	28,085,204	1,348,953	344,682,000	16,555,000	372,767,204	17,903,953

INVENTORY OF NONPURCHASED FOREIGN CURRENCIES
AS OF DECEMBER 31, 1972
(Fractional Currency Units and Cents Omitted)

Country and Currency Agency	U.S. Owned Foreign Currencies 1/		Country Owned Foreign Currencies 2/		Country Totals	
	Foreign Currency Units	U.S. Dollar Equivalents	Foreign Currency Units	U.S. Dollar Equivalents	Foreign Currency Units	U.S. Dollar Equivalents
Trinidad - T.T. Dollar						
State	395	194	—	—	395	194
Treasury	-395	-194	—	—	-395	-194
Total	—	—	—	—	—	—
Tunisia - Dinar						
Action	18,399	38,962	—	—	18,399	38,962
Agency Intern'l. Dev.	1,984,061	4,210,655	803,000	1,704,000	2,787,061	5,914,655
State	530	1,124	—	—	530	1,124
Treasury	7,720,133	16,383,985	—	—	7,720,133	16,383,985
Total	9,723,084	20,634,728	803,000	1,704,000	10,526,084	22,338,728
Turkey - Lira						
Agency Intern'l. Dev.	16,022,533	1,144,466	280,503,000	20,036,000	296,525,533	21,180,466
State	20,825	1,487	—	—	20,825	1,487
Treasury	-20,825	-1,487	—	—	-20,825	-1,487
Total	16,022,533	1,144,466	280,503,000	20,036,000	296,525,533	21,180,466
Uganda - Shilling						
Action	560,157	79,230	—	—	560,157	79,230
Agency Intern'l. Dev.	477,226	67,500	3,418,000	483,000	3,895,226	550,500
State	2,045	289	—	—	2,045	289
Treasury	-1,039,430	-147,019	—	—	-1,039,430	-147,019
Total	—	—	3,418,000	483,000	3,418,000	483,000
United Kingdom - Pound						
Agency Intern'l. Dev.	109,314	256,366	—	—	109,314	256,366
State	16,206	38,008	—	—	16,206	38,008
Treasury	-125,521	-294,375	—	—	-125,521	-294,375
Total	—	—	—	—	—	—
Upper Volta - C.F.A. Franc						
Agency Intern'l. Dev.	1,685,624	6,702	35,419,000	141,000	37,104,624	147,702
Treasury	-1,685,624	-6,702	—	—	-1,685,624	-6,702
Total	—	—	35,419,000	141,000	35,419,000	141,000

INVENTORY OF NONPURCHASED FOREIGN CURRENCIES
AS OF DECEMBER 31, 1972
(Fractional Currency Units and Cents Omitted)

Country and Currency Agency	U.S. Owned Foreign Currencies 1/		Country Owned Foreign Currencies 2/		Country Totals	
	Foreign Currency Units	U.S. Dollar Equivalents	Foreign Currency Units	U.S. Dollar Equivalents	Foreign Currency Units	U.S. Dollar Equivalents
Uruguay - Peso						
Agency Intern'l. Dev.	51,125	62	4,939,364,000	6,024,000	4,939,415,125	6,024,062
State	2,099,996	2,560	—	—	2,099,996	2,560
Treasury	-1,299,673	-1,584	—	—	-1,229,673	-1,584
Total	851,448	1,038	4,939,364,000	6,024,000	4,940,215,448	6,025,038
Venezuela - Bolivar						
Action	81,554	18,619	—	—	81,554	18,619
State	7,457	1,702	—	—	7,457	1,702
Treasury	-68,877	-15,725	—	—	-68,877	-15,725
Total	20,134	4,596	—	—	20,134	4,596
Viet-Nam - Piastre						
Agency Intern'l. Dev.	7,112,554,758	15,983,269	39,668,772,000	89,143,000	46,781,326,758	105,126,269
State	2,592,888	5,826	—	—	2,592,888	5,826
Treasury	-4,151,975,302	-9,330,281	—	—	-4,151,975,302	-9,330,281
Total	2,963,172,344	6,658,814	39,668,772,000	89,143,000	42,631,944,344	95,801,814
Yugoslavia - Dinar						
Agency Intern'l. Dev.	44,128,824	2,634,556	—	—	44,128,824	2,634,556
H.E.W.	15,077	900	—	—	15,077	900
State	62,500	3,731	—	—	62,500	3,731
Treasury	558,846,471	33,363,968	—	—	558,846,471	33,363,968
Total	603,052,872	36,003,156	—	—	603,052,872	36,003,156
Zaire, Rep. of - Zaire						
Agency Intern'l. Dev.	263,493	536,646	1,755,000	3,574,000	2,018,493	4,110,646
State	368	750	—	—	368	750
Treasury	-263,861	-537,397	—	—	-263,861	-537,397
Total	—	—	1,755,000	3,574,000	1,755,000	3,574,000

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AS OF DECEMBER 31, 1972
(Fractional Currency Units and Cents Omitted)

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	Foreign Currency Units	U.S. Dollar Equivalents	Foreign Currency Units	U.S. Dollar Equivalents	Foreign Currency Units	U.S. Dollar Equivalents
Zambia - Kwacha						
Agency Intern'l. Dev.	73,631	103,081	—	—	73,631	103,081
State	777	1,088	—	—	777	1,088
Treasury	-74,408	-104,169	—	—	-74,408	-104,169
Total	—	—	—	—	—	—
Grand Total	—	1,755,968,807	—	329,912,000	—	2,085,880,807

FOOTNOTES

1/ These funds are in the custody of the U.S. Government. They include currencies in the dollar equivalent of $24.49 million which are held in trust for specific purposes, such as: (1) $22.90 million for technical assistance as designated by the participating country; (2) $0.44 million, advances for the Action program; and (3) $1.15 million for other programs.

2/ These funds are in special accounts in the custody of the participating governments. They represent primarily funds which are called "counterpart" - generated under dollar disbursements by the Agency for International Development for grant aid to various countries pursuant to Section 609 of Foreign Assistance Act of 1961 and are available for specific projects as mutually agreed upon by the participating country and the U.S. Government. These "counterpart" balances may include some 5% and 10% portions which will subsequently be transferred to U.S. Government accounts for administrative requirements. Also includes certain sales proceeds of Title II, P.L. 480 famine relief programs and other miscellaneous items (see AID's report for details).

3/ Afghanistan - Negative balance for the country as of 12/31/72 is due to October 1972 posting error to account 72FT800. This error is adjusted in U.S.D.O's account for January 1973.

DEPARTMENT OF THE TREASURY
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Senator BYRD. Is it correct that the current American holdings in Indian Rupees amount to $840 million, roughly?

Mr. VOLCKER. I don't recall the figure but it is certainly a large figure in the case of India.

Senator BYRD. Now, does that mean—and I really don't know how those counterpart funds work—but does that mean we do not put any United States dollars into India to run the Embassy and pay personnel?

Mr. VOLCKER. Yes. In most cases, and perhaps every case we can expend these counterpart funds for our local expenditures for the ordinary type expenditures in those countries, which typically include the Embassy expenses.

Senator BYRD. What I am trying to establish, though, we then do not use any dollars in these countries where we have large counterpart balances?

Mr. VOLCKER. That is essentially correct. You say "any dollars?" It depends upon the agreement in the particular country and I am not sure in some countries we may not have some extraordinary expenses that may be in dollars, but by and large, that is true.

Senator BYRD. By and large you use the counterpart funds?

Mr. VOLCKER. That is true.

Senator BYRD. Thank you.

If you would supply a country-by-country breakdown on what we have?

Mr. VOLCKER. Be glad to.

Senator BYRD. A breakdown in the way of counterpart funds, I would appreciate it?

Mr. VOLCKER. Yes.

Senator BYRD. Thank you.

The CHAIRMAN. Senator Roth?

Senator ROTH. I was somewhat concerned about your statement as to the debt ceiling. I agree that Congress has wanted to have its cake and like to eat it, too. The fact remains, though, if we are to get a handle on this, Congress must act in this whole area of budgetary reform—and I hope eventually that we will.

But the debt ceiling has been one of your justifications, for spending discipline, if not the key justification for the impoundment of funds. Are you fearful that if we did away with the debt ceiling you would have done away with one of your main arguments, and one of your legislative sanctions for impoundment? I don't like impoundment and I think it is wrong that we have this irresponsibility, but until we improve, I would not like to do away with that sanction.

Secretary SHULTZ. I think the essential thing to get established is a good procedure for both the Congress and the administration to be able to work together more effectively on the budget. That is essential. It may be that until we get something like that in place, we shouldn't let go of anything that may, in some manner, be useful.

Senator ROTH. If there had been no impoundment, at what rate would we be spending currently?

Secretary SHULTZ. Well, we figure that if the budget were allowed to go on unrestrained for fiscal 1973, we would be spending at a rate, we would have a fiscal 1973 outlay of around $261 billion, roughly, as I remember the number, and that would have put us on a platform that would have led to expenditures in fiscal 1974, in the order of $288 billion instead of the $266 billion. So 1 year leads to another and it builds up very fast, and so that shows why the President has made the effort at holding the outlays down.

Senator ROTH. So that if we adopted anti-impoundment legislation, unless ratified affirmatively by the Congress, we could expect significantly larger spending which, I assume, would have a serious impact on inflation and the international value of our dollar.

Secretary SHULTZ. I think that is right. Somebody has to exercise discipline.

Senator ROTH. The issue of a gasoline tax has been raised recently. I wonder if we shouldn't put this in a new trust fund that might be used for the purposes of trying to make some major breakthroughs in the energy crisis?

Secretary SHULTZ. Well, as I said, as we looked at the idea, it was largely in the context of the energy problem and the notion was precisely that; that somewhow to make use of it in that way, but that idea is being thrashed over and——

Senator ROTH. Well, I must say that further consideration will be given to that possibility. I realize the present phase 3 is limiting the increase in the price of gasoline, but it seems to me that some means to finance research in that areas should be of top priority.

Secretary SHULTZ. Well, we are going to have a very strong research program in this area and the Persident is committed to finding the funds that are necessary to do the job. And if we can find something worth spending them on, the money will be there as far as the administration is concerned.

Senator ROTH. Senator Mondale spoke of increasing taxes and you said the administration felt this might lead to increased spending. I must say I had the same concern. Has the administration studied the practice of other countries? In times such as these, additional funds are set aside and paid back to the taxpayer at some later time when it might help the economy.

It seems a bit like borrowing without paying interest.

Secretary SHULTZ. Senator, a kind of forced savings plan and you can do it with or without interest; you can arbitrarily decide what rate of interest you will pay and that could be done with respect to corporations or individuals or both, and we have studied that idea along with many others.

The CHAIRMAN. Mr. Secretary, we are going to have to run now to make a vote. Could you come back up here at 2 o'clock to conclude this hearing?

Secretary SHULTZ. My schedule is just jammed.

The CHAIRMAN. Could you come back some time this afternoon?

Secretary SHULTZ. Well, I would have to change my schedule around, including some things that are hard to change like a meeting with President Nixon and Mr. Brezhnev.

The CHAIRMAN. Could you stay for about 15 minutes then?

Senator HARTKE. I will go and vote and come back.

The CHAIRMAN. Then, as far as I am concerned, the 15 minutes are yours. So then let's vote and then we will come back and conclude.

[Recess.]

Senator HARTKE. The committee will come to order.

Mr. Shultz, I just want to come back and deal with this problem, which I mentioned earlier, concerning the tax on foreign earnings. My information, and the latest I have is 1970, which I have obtained from the Treasury Department, indicates that the taxable income on foreign earnings in the U.S. owned corporations was $11 billion in 1970; that taxes paid to foreign governments on that income is estimated at $5.7 billion at the rate of 51.8 percent; and after crediting those foreign taxes with a $4.6 billion foreign tax credit, the U.S. Government received only $640 million on the $11 billion on taxable income or only 6 percent.

The total U.S. investment abroad is $90 billion and produces $150 billion output, paying $640 million worth of taxes. Now, do you feel that that is a fair acceptance of responsibility by these international corporations?

Secretary SHULTZ. Well, of course, they are paying taxes abroad.

Senator HARTKE. But they are not paying—well, all right, go ahead.

Secretary SHULTZ. The point is, if you didn't credit the taxes paid abroad, you would make it virtually impossible for them to operate abroad. So I think that is really the question. The tax system in the manner that you are posing it, is not really the issue. The issue, it seems to me, is do we want our corporations to operate abroad, to be able to invest abroad. Is that good for us or not? And if your conclusion is it isn't good for us, certainly then the tax system is a way in which you can end their operations abroad.

Senator HARTKE. What do you mean by "good for us?" How is it good for us?

Secretary SHULTZ. Good for the American people.

Senator HARTKE. Good to have all of these corporate earnings overseas which do nothing to help finance the social and economic needs of this country.

Secretary SHULTZ. Well, they are paying taxes on their domestic earnings.

Senator HARTKE. Domestic?

Secretary SHULTZ. And on their foreign earnings to the extent that they aren't offset by the credits from the other countries——

Senator HARTKE. But if they want to go ahead, we could reduce the taxes of the domestic corporations by—well, I think in the neighborhood of 14 percent if my calculations are correct with the total corporate tax of less than $35 billion for last year.

Secretary SHULTZ. Senator, I don't think that is right because if you eliminated the tax credit for foreign source earnings, you would eliminate the foreign source earnings and, therefore, you wouldn't have the tax earnings to offset the domestic reductions that you have in mind. In other words——

Senator HARTKE. That is an argument that I don't necessarily think holds true. Let me come to this other problem that is called the "profit sweep project." In the first place, I don't think it would work and I don't think it makes good sense, if you want to know the truth, I think if you put the emphasis on the profits, although profits may be too high in some places and they have increased substantially, that you are putting the emphasis in the wrong place. Wouldn't it be better to put the emphasis on costs rather than profits?

Secretary SHULTZ. Well, the regulations say that a corporation can increase its prices by 1.5 percent on the average for the year if those increases are cost justified. And it can go beyond that 1.5 percent, but, if it does, then it falls under the profit margin rule—and I am giving you the phase 3 guidelines now.

Now, corporate profits have increased substantially in the first quarter, and whether that is the result of simply higher volume and constant margins, or whether prices have increased beyond the guidelines and the profits have come from that, is a subject that we will pursue in this profit sweep. And the places where the rates of profit have gone up the greatest look like the places we should start, and are starting to look at the price changes, if there are any, and judge whether or not they are in accordance with the phase III rules. If they are not in accordance with the phase III rules, then the ability to operate on a mandatory basis will be invoked, and they will be rolled back.

Senator HARTKE. Yes. But as you indicated, you only have the profit figures for the first quarter of this year. This is not indicative of the total net profits for the year.

Secretary SHULTZ. Senator Hartke, you would agree with that?

Senator HARTKE. Yes. However, the cost basis can be analyzed on a daily basis for most, can it not?

Secretary SHULTZ. That is the fundamental basis on which the price increases under the controls system are judged, but there is also a profit margin rule connected with it, if prices go up more than 1½ percent. If the full implication of what you are getting at is to the point that profits are not historically high right now, I agree completely with that statement.

Senator HARTKE. Yes, but I would say that there are four fundamental differences with the President's profit sweep. I think I would not find too much difference of opinion with you on that: First, it destroys productivity; second, it leads to fuzzy accounting practices, which would tend to hide the real profits; and third, it provides no incentive to cut costs because if you do, the only result is higher profits; and, fourth, it would punish the efficient companies. Isn't that true? You don't find an awful lot of disagreement with that, do you?

Secretary SHULTZ. I agree with you, and I think the use of an excess profits tax or too much use of a profit margin rule in a control system would be damaging to the economy in the long run for reasons you specified. So I think on the whole, it is not a desirable development.

Senator HARTKE. Right. In one statement the President made the other day, he said that the average worker is earning more today than ever before.

The Labor Department published statistics on the buying power of the average worker. They show that their paycheck after Federal tax deductions and that the real expendable earnings, as the economists term it today, was a half a percentage point lower than they had been a year earlier. Now, do you disagree with that statement from the Labor Department?

Secretary SHULTZ. No, I don't. The President used the word "income," I think, rather than "pay," so this covered a variety of income that people have.

Senator HARTKE. In other words, what happened was that he was talking about the amount of money coming in due to inflation, and this was indeed bigger, but the actual purchasing power was lower. Isn't that right? And the net result is that the worker is not better off, as the President's statement implied?

Secretary SHULTZ. No, in terms of income, people, generally speaking, are better off. In terms of the real expendable earnings, the figures that you have cited are correct, and this is because of the big increase in social security taxes at the beginning of this year, and the inflation. The rise that we are having in real expendable earnings has not continued into the first quarter, but we expect it will take up again because we——

Senator HARTKE. I understand what you are saying. The fact is that the President's message really left the implication—and I don't quarrel with his words—that the worker was doing a lot better now. The truth of it is, he has not had an increase in his purchasing power, but he has had a decrease in purchasing power according to statistics. Isn't that true?

Secretary SHULTZ. By and large, everybody has been getting better and getting better pretty fast over the last couple of years. Obviously, the combination of the social security increase the first of the year and the inflationary surge in the first quarter, has set that process back, and we all worried about it, but if you take even a slightly longer perspective, you would see that employment is up, production is up, profits are up, all sorts of things that we want to see happening, are happening.

Senator HARTKE. Now, Mr. Shultz, I am not going to argue with you about what is going to happen in the future because the future statistics will ultimately tell us, but I do think that one should not purposely mislead the American public.

Let me speak about food prices. There is no question that food prices have skyrocketed. It doesn't take an expert to understand that. The President did mention that he was requesting authority for export controls, is that correct?

Secretary SHULTZ. That is correct.

Senator HARTKE. Does he not have that at the present time?

Secretary SHULTZ. Not in a way that is really usable under the present circumstances.

Senator HARTKE. But assuming he gets that authority, will it not worsen our balance-of-payments situation, if it is fully utilized?

Secretary SHULTZ. Certainly, if we sell less than we could otherwise.

Senator HARTKE. And that is sort of the type of successful balancing our payments. It sounds more like a man comitting hara-kiri, doesn't it?

Secretary SHULTZ. Everything has a balance to it, and we have to solve problems in harmony with each other and not say that here is one problem and no matter what it does to the other things in the economy, we are just going to concentrate on that and nothing else. I think that is a mistake when you get youreslf into that frame of mind.

Senator HARTKE. I have been informed that the 60-day price freeze is going to be ended before the 60 days; is that a valid statement?

Secretary SHULTZ. The President's statement was the freeze would last for a maximum of 60 days.

Senator HARTKE. A maximum?

Secretary SHULTZ. That is what the President said. When it will end remains to be seen.

Senator HARTKE. Is it your opinion that if the extension of the freeze went beyond 60 days, that that would be detrimental to our economic system?

Secretary SHULTZ. Well, I think there is a definite limit to the length of time you can freeze prices and not freeze wages, and 60 days is probably on the outside of that.

Senator HARTKE. All right, let's assume that there is a continuation of the freeze, and that it will continue for some time. Under these circumstances, you have a situation. Now, isn't it true that what you have put this country into is a position in which, as far as exports to foreign nations are concerned, that there would be an accelerated effort made to export because the prices are frozen here and the farmers can get higher prices overseas? If he doesn't get that authority——

Secretary SHULTZ. I think the proposition is that, if through some set of devices we have prices in this country on some internationally traded commodity which we produce, if we had the prices lower than the world price, then the commodity will flow abroad. It will flow to the higher price and, that is, I believe, a statement that can be supported with all kinds of evidence.

Senator HARTKE. I quite agree with you. That is exactly what I said. The net result of that is to increase the pressure under the lid here at home, isn't that true?

Secretary SHULTZ. Well, if you can control the exports, then you can keep the commodities here.

Senator HARTKE. But if you don't control the exports——

Secretary SHULTZ. If you don't control the exports, then you are just slitting your own throat.

Senator HARTKE. That is right.

Secretary SHULTZ. By controlling the prices.

Senator HARTKE. That is right. Now, that to an extent is what happened in the wheat deal, isn't it?

Secretary SHULTZ. Well, at that time, we had large stocks and we were seeking large exports of these farm commodities and we just got more than we expected. We got more than the wheat deal, as such, involved.

Senator HARTKE. And the net result was an increased inflationary pressure on the food prices here at home?

Secretary SHULTZ. Well, that is part of a much larger picture and, certainly, the world demand, of which the wheat deal is one part, but the rapidly growing world demand for farm commodities and the domestic demand certainly is a thing that has pushed them up, plus the fact that production has not been as high as it has been in past years for a variety of reasons.

Senator HARTKE. But if you then follow the procedure that is outlined, which you have said would be necessary if we are going to control the flow of those foods overseas, you must impose export controls and these are going to have to apply to foodstuffs. Isn't that correct?

Secretary SHULTZ. Exactly.

Senator HARTKE. And if that occurs, doesn't that make the argument of the European Economic Community very sound? They say they must be self-sufficient in food production because they cannot rely on the imports of the United States. Therefore, their agricultural policy, which we complain very bitterly about, does reep benefits for them. It represents to them the substance, at least, of a legitimate argument.

Secretary SHULTZ. Certainly the imposition of export controls does not help us in our negotiations. However, we don't view this as a permanent matter at all, and, as an ongoing proposition, we hope that we can get the kind of farm legislation from the Congress that will encourage the idea of high farm income from high production and from their counting on being able to sell in world markets that high production.

So far, we have been disappointed in the action of the Senate on the farm bill.

Senator HARTKE. I voted aaginst the farm bill.

Secretary SHULTZ. Well, I congratulate you.

Senator HARTKE. I understand that, but the point still remains that that doesn't end the problem. The problem is very simply, that we need some very strong measures from the Congress like the Burke-Hartke bill, in order to counteract this other action which is going in the opposite direction.

Secretary SHULTZ. Well, I wondered where that Sunday punch was coming from.

Senator HARTKE. I just don't think you can go down one road at a time. And that is why I disagreed with Mr. Friedman who thinks you should resign, and that is why I think you should stay there. I may not agree with all of what you have to say, but I find myself at times on your side. And I might be against the President when I am on your side.

I want to tell you that I am going to introduce in the Executive Committee, whenever it convenes, a measure that repeals the provision of the debt limit.

Secretary SHULTZ. Right.

Senator HARTKE. And I just hope I can have the support of the Republican members of the Finance Committee when I do that.

Thank you, Mr. Shultz.

The committee is recessed until 2 p.m., when it will meet in executive session.

[Whereupon, at 1 p.m., the committee recessed, subject to the call of the Chair.]

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