$430 BILLION DEBT LIMIT

HEARING

BEFORE THE

COMMITTEE ON FINANCE

UNITED STATES SENATE

NINETY-SECOND CONGRESS

FIRST SESSION

ON

H.R. 4690

AN ACT TO INCREASE THE PUBLIC DEBT LIMIT SET FORTH IN SECTION 21 OF THE SECOND LIBERTY BOND ACT, AND FOR OTHER PURPOSES

MARCH 8, 1971

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$430 BILLION DEBT LIMIT

MONDAY, MARCH 8, 1971

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

The Committee met, pursuant to recess, at 10:05 o'clock a.m., in room 2221, New Senate Office Building, Senator Russell B. Long (chairman), presiding.

Present: Senators Long, Anderson, Talmadge, Hartke, Byrd, Jr., of Virginia, Bennett, Curtis, Miller, Jordan of Idaho, and Fannin.

The CHAIRMAN. The hearing will come to order.

This morning the committee is meeting in response to the Administration's request that the current limitation on the public debt be increased. Under present law, the limitation is $395 billion; if no other action were taken, the limitation would drop to $380 billion on July 1 of this year.

The Administration recommends instead that the debt limit be substantially increased. H.R. 4690—the bill before us—would fix the limit at $430 billion, a $35 billion hike. The Federal debt subject to the limitation today stands at $393.5 billion.

It is a fact that—and I believe the Secretary will confirm it—that the Federal debt is growing more slowly than either State and local government debt or private debt. As a matter of fact, in relation to our gross national product, the Federal debt is actually declining and has been since World War II.

Nonetheless, in the final analysis, the only way to repay the Federal debt is by taxes, and it is this committee which bears the responsibility in the Senate for raising taxes sufficient for the orderly conduct of government. Against this background, the Finance Committee generally takes a cautious approach to debt limit bills.

We are pleased to have as our chief witness this morning the Honorable John B. Connally, Secretary of the Treasury. He will be accompanied by Director of the Budget, George Shultz.

Mr. Connally, we are pleased to have you back for your first official visit since your confirmation last month.

In your statement, I hope you will elaborate on the proposal to weaken the 4¼ percent limit on the amount of interest which can be paid by the Federal Government on long term loans.

This pledge to low interest rates was written into the statute in 1918 and has remained unchanged since that time. Our country has endured massive economic crises and monetary disruptions in the 53 years since the 4¼ percent limit was fixed, and no compelling case for doing away with it has ever been made.

If we are winning the war on inflation as the administration advises, then what logic can there be to virtually surrendering to high interest rate policies by weakening the 4¼-perecent limit at this time?

The $10 billion of long-term debt which the House bill authorizes to be sold at rates above 4¼-percent is probably more than you will be able to sell in the foreseeable future. That being the case, the bill seems to provide for a de facto repeal of the 4¼-percent limit. I hope you will address yourself to this subject.

Along the same line, Chairman Wright Patman of the House Banking and Currency Committee has advised that he would like to be heard on this matter. Before we close the hearing we will call the chairman of the House Banking and Currency Committee and invite him to make his statement.

Mr. Secretary, you are recognized to proceed in your own manner, and I shall urge Senators on the committee to resist the urge to raise questions until both you and Mr. Schultz have presented your statements in brief. Then, we will ask your questions under the 10-minute rule so that all Senators will have an opportunity to ask the questions that occur to them in first order during this morning's session.

I would urge, Mr. Secretary, in view of the fact that your prepared statement is not very long, that you simply read it to us as prepared.

Let us, at this point in the record, include our committee press release announcing this hearing, a copy of the bill, H.R. 4690, and memoranda prepared by the staff for this hearing.

(The material referred to follows:)

PRESS RELEASE

FOR IMMEDIATE RELEASE
February 24, 1971

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

Public Debt Hearing Announced

The Honorable Russell B. Long (D., La.), Chairman of the Committee on Finance, announced today that the Committee would hold a one-day hearing on Monday, March 8, 1971, to enable Administration witnesses to present the case for H. R. 4690, a bill which would increase the debt limit from the present level of $395 billion to $430 billion. The bill would also allow the Federal Government to issue up to $10 billion of long-term bonds bearing interest at rates above the generally applicable 4-1/2 percent ceiling on interest payable on long-term bonds.

The Chairman reported that the Honorable John B. Connally, Secretary of the Treasury, and the Honorable George P. Shultz, Director of the Office of Management and Budget, would be the witnesses for the Administration.

The hearing will be held in Room 2221, New Senate Office Building, on Monday, March 8, and will begin at 10:00 a.m.

PR #2

92D CONGRESS
1ST SESSION

H. R. 4690

IN THE SENATE OF THE UNITED STATES

MARCH 4 (legislative day, FEBRUARY 17), 1971
Read twice and referred to the Committee on Finance

AN ACT

To increase the public debt limit set forth in section 21 of the Second Liberty Bond Act, and for other purposes.

1 *Be it enacted by the Senate and House of Representa-*
2 *tives of the United States of America in Congress assembled,*
3 That the first sentence of section 21 of the Second Liberty
4 Bond Act (31 U.S.C. 757b) is amended by striking out
5 "$380,000,000,000" and inserting in lieu thereof "$400,-
6 000,000,000".
7 SEC. 2. (a) During the period beginning on the date
8 of the enactment of this Act and ending on June 30, 1972,
9 the public debt limit set forth in the first sentence of section
10 21 of the Second Liberty Bond Act shall be temporarily
11 increased by $30,000,000,000.

II

1 (b) Effective on the date of the enactment of this Act,
2 section 2 of Public Law 91-301 is hereby repealed.
3 SEC. 3. The first section of the Second Liberty Bond
4 Act (31 U.S.C. 752) is amended by adding at the end of
5 the second paragraph the following new sentence: "Bonds
6 herein authorized may be issued from time to time at a rate
7 or rates of interest exceeding 4¼ per centum per annum, but
8 the aggregate face amount of bonds issued pursuant to this
9 sentence shall not exceed $10,000,000,000.".
10 SEC. 4. (a) Effective with respect to obligations issued
11 after March 3, 1971, the following provisions of law are
12 hereby repealed:
13 (1) Section 14 of the Second Liberty Bond Act
14 (31 U.S.C. 765); and
15 (2) Section 6312 of the Internal Revenue Code of
16 1954 (relating to payment by United States notes and
17 certificates of indebtedness), and the item relating to
18 such section 6312 in the table of sections for subchapter
19 B of chapter 64 of such Code.
20 (b) The Second Liberty Bond Act is amended by add-
21 ing at the end thereof the following new section:
22 "SEC. 27. In the case of obligations issued after March
23 3, 1971, under this Act or under any other provision of law,
24 the terms and conditions of issue shall not permit the redemp-
25 tion before maturity of such obligation in payment of any

1 tax imposed by the United States in any amount above the
2 fair market value of such obligation at the time of such
3 redemption. This section shall not apply to any Treasury
4 bill which is issued under the authority of section 5."

Passed the House of Representatives March 3, 1971.

Attest: W. PAT JENNINGS,

Clerk.

MEMORANDUM March 8, 1971

TO: Members of the Committee on Finance

FROM: Tom Vail, Chief Counsel

SUBJECT: H. R. 4690 -- The Administration's Debt Ceiling Request

H. R. 4690, which passed the House of Representatives on March 3, 1971, by a vote of 227 yeas to 162 nays, would increase the Federal debt limit and grant relief from the requirement that long-term bonds bear interest at rates no higher than 4-1/4 percent.

I. Debt Limit

Present Law. -- The ceiling on the Federal debt is presently $395 billion. This is made up of two parts:

(A) A permanent limitation of $380 billion, and

(B) A temporary limitation of $15 billion for the period ending June 30, 1971.

House Bill. -- The House bill would increase the debt limit to $430 billion. Again, the limitation would be in two parts:

(A) The permanent limitation would be raised to $400 billion, and

(B) The temporary limitation would be fixed at $30 billion through June 30, 1972.

Thereafter, in the absence of further legislation, the debt limit would revert to the permanent level of $400 billion.

II. Interest Rates on Long-Term Bonds

Present Law. -- Under existing law, bonds sold by the Government having a maturity of more than seven years may not bear interest of more than 4-1/4 percent. This limitation on interest was written into the statute in 1918 and has remained unchanged since that time. In 1967, Congress provided narrow relief from this limitation by redefining bonds, the interest on which would be subject to the limitation, to mean those issued with a maturity of more than seven years. Prior thereto, bonds issued for periods longer than five years were subject to the interest limitation.

House Bill. -- The bill would also authorize $10 billion of long-term bonds (those with a maturity of more than seven years) to be issued without regard to the 4-1/4 percent limitation on interest.

III. Interest on the Public Debt

In fiscal year 1970, interest paid on the public debt amounted to $19.3 billion. Present estimates for fiscal year 1971 are that interest paid on the public debt will total $20.8 billion. The budget estimates are that $21.150 billion will be paid for this purpose in fiscal year 1972.

February 18, 1971

MEMORANDUM

TO: Members of the Committee on Finance

FROM: Tom Vail, Chief Counsel

SUBJECT: President Nixon's 1972 Budget

The 1972 Budget submitted to the Congress by the President contains a number of items and assumptions of interest to the Committee on Finance.

Federal Fund Budget.--In fiscal year 1970, the Federal fund budget (comparable to the earlier "Administrative Budget") showed a deficit of $13.1 billion. The size of the deficit is expected to increase, rising to $25.5 billion in FY 1971 and $23.1 billion in FY 1972, as shown in the following table:

FEDERAL FUND BUDGET
(dollars in billions)

	FY 1970	FY 1971	FY 1972
Receipts	$ 143.2	$ 139.1	$ 153.7
Expenditures	156.3	164.7	176.9
Deficit	- 13.1	- 25.5	- 23.1

Consolidated Budget.--The consolidated or unified budget, which includes trust fund receipts and expenditures, is expected to show substantially higher deficits in FY 1971 and 1972 than in FY 1970.

CONSOLIDATED BUDGET
(dollars in billions)

	FY 1970	FY 1971	FY 1972
Receipts	$ 193.7	$ 194.2	$ 217.6
Expenditures	196.6	212.8	229.2
Deficit	- 2.8	- 18.6	- 11.6

Expenditure Limitations.--Last year, the Congress placed a limitation of $200.8 billion on Federal expenditures during fiscal year 1971; however, the limitation was permitted to increase up to $4.5 billion for increases in certain uncontrollable expenditures, and to be further adjusted in accord with Congressional action on appropriations and other legislation. As a result of these adjustments, the legal limitation is estimated at $214.5 billion, $1.7 billion more than the current expenditure estimate for fiscal year 1971.

Tax Increase Legislation.--The FY 1972 revenue estimate of $217.6 billion includes a net increase of $2.9 billion of increased taxation under new

legislation. This consists of an increase of $3.1 billion in certain trust fund taxes and a decrease of $0.2 billion in general revenues, as follows:

(1) An increase in the social security tax base from $7,800 to $9,000, effective retroactively to January 1971;

(2) Additional highway taxes of 2¢ per gallon on diesel fuel (present law levies a 4¢ per gallon tax), plus a shift from the present fixed-rate use tax on heavy trucks to a graduated scale based on weight;

(3) An increase in air ticket taxes to meet the cost of antihijacking enforcement; and

(4) $200 million in revenue loss is associated with the deferred tax liability (DISC) proposal for certain corporations engaged in foreign trade.

The budget also notes that administrative action allowing accelerated writeoff of business depreciation costs will reduce 1972 revenues by $2.7 billion.

Social Security Legislation.--In addition to the increase in the tax base mentioned above, the budget makes allowance for the Administration's proposed social security legislation. This includes a 6 percent benefit increase, higher benefits for widows, an increase in the earnings limitation, and a $4 billion increase in Medicare taxes.

Welfare.-- The 1972 budget shows another large increase for welfare expenditures, with the largest increases (as in the past) in Medicaid and Aid to Families with Dependent Children. Total Federal and State Medicaid expenditures are expected to rise from $4.6 billion in 1970 to $6.8 billion in 1971--a 47 percent increase in two years. Legislative measures to be proposed are expected to reduce Medicaid expenditures $444 million.

The number of recipients of Aid to Families with Dependent Children is expected to rise from 7.3 million in 1970 to 9.1 million in 1971 and to 10.7 million in 1972. Even compared with Administration estimates of enrollment in the Work Incentive Program (which have proven consistently overly optimistic in the past), the Government still is slipping behind in its efforts to reduce dependency:

	FY 1970	FY 1971	FY 1972
New enrollees in the Work Incentive Program	92,400	124,500	187,000
Net increase in adults receiving Aid to Families with Dependent Children	365,000	484,000	436,000
Difference	272,600	359,500	249,000

The budget also assumes a limitation will be placed on Federal financial participation in the cost of providing social services to welfare recipients. An attempt to obtain a similar limitation last year was defeated in the Senate.

Until February 4, 1971, regulations of the Department of Health, Education, and Welfare required States to consider a father unemployed if he worked less than 30 hours a week (or 35 hours, at the State's option). The budget reflects a savings of $15 million related to tightening the definition of unemployment. Under the new definition, a father will generally be considered unemployed only if he is employed less than 100 hours a month. (Last year's Committee social security bill defined unemployment as less than 10 hours in the past week or less than 80 hours in the past 30 days.)

Welfare Legislation.--The budget assumes enactment of welfare legislation similar to last year's Family Assistance Act; $502 million has been included for fiscal year 1972 for this act. This amount is intended primarily for administrative start-up costs; payments to recipients under the proposed legislation would not begin until fiscal year 1973.

The budget also includes $162 million for other proposed welfare legislation to increase funds for foster care, adoptions, and managerial capacity of State and local governments. Similar legislation was submitted to the Finance Committee by the Administration in June 1970 but was subsequently withdrawn in October.

National Debt.-- The debt ceiling is currently set at $395 billion until June 30, 1971; beginning July 1, 1971, the permanent ceiling will drop to $380 billion. The budget, however, estimates that the debt subject to the limitation will rise to $398.4 billion by June 30 of this year, and to $421.9 billion by June 30, 1972.

Interest on the national debt is estimated at $20.8 billion in fiscal year 1971 and at $21.2 billion in fiscal year 1972.

Revenue Sharing.--The budget includes allowance of $4 billion in fiscal year 1972 for expenditures under the Administration's proposal for distributing a portion of Federal tax revenue to State and local governments.

ECONOMIC ASSUMPTIONS IN THE FISCAL YEAR 1972 BUDGET

Revenue Estimates.--The Administration's FY 1972 budget optimistically projects a 9 percent rise in the Gross National Product (GNP) and a 19-1/2 percent increase in corporate profits. The GNP is projected to increase from $977 billion in FY 1971 to $1,065 billion, which exceeds the growth projections of most private economists by $15 to $20 billion. Corporate profits are projected to rise from $82 billion to $98 billion, which also exceeds the projections of most private economists by about $8 billion. These differences in GNP and corporate profits would involve some $7-$8 billion in revenues.

Inflation, Employment Assumptions.--The projected 9 percent GNP increase is composed of approximately 5 percent real growth in the economy, and 4 percent inflation. This compares to a decline in real growth in 1970 of one-half of one percent, and an increase of 5.5 percent in the rate of inflation. Under the full employment budget concept, GNP would have to increase by 13-1/2 percent in 1971 (reaching $1.1 trillion) in order to reduce the rate of unemployment to the 4-4 1/2 percent range, considered to be "full employment."

On the question of "cost-push" inflation, it is noteworthy that major labor settlements negotiated in the first half of 1970 resulted in average first year wage increases of 10.2 percent, in contrast to 8.0 percent in 1969, and 3.2 percent in 1964. Management can be expected to try and recoup these cost increases by further price increases in 1971, while labor may attempt to match or better the 1970 contract settlements in the important contract negotiations that will take place in 1971 in the steel and other key industries. Thus, a "cost-push" inflation factor should be very evident in 1971.

Expenditure Estimates.--On the expenditure side, the budget projects certain "savings" of $2.9 billion. The largest item in this group included the sale of stockpile materials that are no longer required. New restrictions in the Medicare and Medicaid programs not previously considered by Congress would yield a savings of $844 million. The budget also projects only a 6 percent increase in social security benefits despite the fact that the Senate approved a 10 percent hike by a vote of 81-0.

Predictions and performances, FY 1968 - FY 1971.--The staff has compared the revenue and expenditure estimates in the budgets for the fiscal years 1968 through 1971, with the actual results for those years. This is shown on Table 1.

With the exception of 1969, revenue estimates tended to be overstated, while expenditures tended to be understated. The largest discrepancies occurred in the fiscal 1968 and 1971 budgets. In the case of fiscal 1968, the budget sharply overstated revenues and only about one-third of this overstatement was due to anticipated enactment of the then proposed 6 percent surcharge.

This wide discrepancy between budget projections and results is somewhat surprising since the GNP assumptions in the fiscal 1968 budget were highly accurate, as is shown in Table 2.

The fiscal 1969 revenue estimates were on the low side by close to $10 billion because of an underestimation of $20 billion in GNP growth. Thus, instead of an estimated deficit of $8 billion, there was a surplus (on a unified budget basis) of $3.2 billion in fiscal 1969. In fiscal years 1970 and 1971 the revenue estimates were higher than actual results by $5 and $7.9 billion, respectively. The fiscal 1971 difference appears to be due to the fact that the economy grew at a slower pace than anticipated, (in fact, real GNP actually declined by one-half of one percent) and corporate profits were considerably below expectations. There was also, however, a $12 billion understatement of expenditures in the fiscal 1971 budget. Thus, instead of having a surplus of $1.3 billion on the unified budget basis, there was a deficit of $18.6 billion in fiscal 1971.

If the growth in GNP and corporate profits falls below budget projections for 1972, then the estimated unified budget deficit of $11.8 billion and the estimated administrative deficit of $23.1 billion could be higher, contributing to still more inflation.

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TABLE 1
COMPARISON OF BUDGET ESTIMATES AND RESULTS,
FISCAL YEAR 1968 - FISCAL YEAR 1971
(In billions of dollars)

Fiscal Year	Revenues, Incl., Trust Funds			Expenditures, Incl., Trust Funds			Surplus (+) or Deficit (-)		
	Estimated (1)	Actual (2)	Difference (3)=(1)-(2)	Estimated (4)	Actual (5)	Difference (6)=(4)-(5)	Estimated (7)	Actual (8)	Difference (9)=(7)-(8)
1968	168.1 a/	153.7	14.4	172.4	178.9	6.5	-4.3	-25.2	20.9
1969	178.1 b/	187.8	9.7	186.1	184.6	1.5	-8.0	+ 3.2	11.2
1970	198.7	193.7	5.0	195.3	196.6	1.3	+3.4	- 2.9	6.3
1971	202.1	194.2	7.9	200.8	212.8	12.0	+1.3	-18.6	19.9

a/ Included an estimated $5.5 billion from proposed 6% surcharge on individual and corporate taxes and speedup in collections.

b/ Included an estimated $10.2 billion from proposed 10% surcharge on individual, plus comparable income tax, plus speedup in collections, proposed to become effective on January 1, 1968.

As enacted the 10% surcharge on corporations became effective on January 1, 1968, as proposed, but on individuals it became effective on April 1, 1968.

Source: The Budget of the United States Government for the fiscal years 1968-1972.

TABLE 2

COMPARISON OF PREDICTIONS AND PERFORMANCE IN ECONOMIC INDICATORS APPEARING IN BUDGET MESSAGES FOR FISCAL YEARS 1968 - 1971

(In billions of dollars)

	Fiscal 1968 Budget Assumptions vs Results for Calendar Year 1967	Fiscal 1969 Budget Assumptions vs Results for Calendar Year 1968	Fiscal 1970 Budget Assumptions vs Results for Calendar Year 1969	Fiscal 1971 Budget Assumptions vs Results for Calendar Year 1970
GNP Assumptions	787	846	921	985
GNP Actual	790	866	931	977
Difference	+ 3	+20	+10	- 8
Personal Income, Assumption	624	675	736	800
Personal Income, Actual	629	688	749	801
Difference	+ 5	+13	+13	+ 1
Corporate Profits, before taxes, Assumption	83	87	96	89
Corporate Profits before taxes, Actual	82	91	91	82
Difference	- 1	+ 4	- 5	- 7

Source: The Budget of the United States Government for the fiscal years 1968-1972.

STATEMENT OF HON. JOHN B. CONNALLY, SECRETARY OF THE TREASURY, ACCOMPANIED BY HON. GEORGE P. SHULTZ, DIRECTOR, OFFICE OF MANAGEMENT AND BUDGET; AND HON. PAUL A VOLCKER, UNDER SECRETARY OF THE TREASURY FOR MONETARY AFFAIRS

Secretary CONNALLY. Thank you, Mr. Chairman. I am grateful indeed for the opportunity to be here and I will read the statement which I have tried to keep as short as I could while still covering two vital subjects.

The committee is familiar with the broad outlines of the subject we are going to discuss this morning and I am sure you are familiar with the President's budget.

On the unified budget basis, the deficit is expected to be $18.6 billion in the current fiscal year and $11.6 billion in fiscal 1972. On the Federal funds basis, which is more relevant for purposes of projecting the anticipated increase in debt outstanding, the deficits are expected to be $25.5 billion and $23.1 billion, respectively.[1]

These are very sizable figures. However, in existing economic circumstances, with too much unemployment and unused capacity, the anticipated deficits seem to me fully consistent with sound and prudent financial planning. The President, in fact, has kept proposed expenditures with the revenue totals that would be generated by our tax system at full employment. As the economy moves in the direction of full employment this year and next, a balance or surplus can and should be restored. In the meantime, our willingness to accept deficits, to the extent they reflect a sluggishness in the economy and thus in revenue collections, will help speed the desired expansion.

I firmly believe that the anticipated deficits can be financed in a manner consistent with orderly expansion of the economy, and without building into the economy a renewed inflationary potential, provided the Treasury has the needed flexibility in shaping its financing program. Therefore, I request your committee and the Senate to act, as a matter of urgency, to provide us with essential financing leeway in two areas: First, an increase in the statutory debt limit now set at $395 billion, and, second, authority to sell Treasury bonds outside the present statutory interest rate limit of 4¼ percent. Specifically, I request that the Senate approve the H.R. 4690, as passed by the House, raising the temporary debt limit to $430 billion through June 30, 1972, and authorizing $10 billion of new bond issues outside the 4¼-percent ceiling.

With respect to the question of debt limit to which the Chairman addressed himself, may I again point out that the present temporary debt limit of $395 billion was enacted by the Congress last June on the basis of a projected unified budget deficit of only $1.3 billion, a projection that proved to be very wide of the mark. Revenues are now estimated to be $10 billion less than were projected last spring and expenditures are estimated to be $7 billion higher, largely as a result of increases in uncontrollable outlays in such areas as interest on the public debt and Social Security together with higher Congressional appropriations.

---

[1] Table 1 shows a reconciliation of the unified and Federal funds budgets. The major difference reflects the Government's trust funds, which are expected to be in substantial surplus in the next 2 years.

As a result of this very much larger deficit, the debt subject to limit is now substantially higher than was then anticipated, and the margin for contingencies has been largely exhausted. On February 25, we came within $1.6 billion of the present ceiling and our projections indicate that debt subject to limit will be running very close to the ceiling throughout this month. As is evident from table II, attached to my statement, the debt will rise further in April and reach a temporary peak in mid-June.[1]

(Table I and II follow:)

TABLE I.—*Reconciliation of unified and Federal funds budget*

[In billions of dollars]

Expenditure account	Fiscal years [1]	
	1971	1972
Receipts:		
Total unified	194.2	217.6
Federal funds	139.1	153.7
Trust funds	66.2	75.5
Less intragovernmental transactions	−11.1	−11.6
Outlays:		
Total unified	212.8	229.2
Federal funds	164.7	176.9
Trust funds	59.2	64.0
Less intragovernmental transactions	−11.1	−11.6
Budget surplus or deficit (−):		
Unified	−18.6	−11.6
Federal funds	−25.5	−23.1
Trust funds	7.0	11.5

[1] Figures are estimated. Totals may not add due to rounding.

[1] Table II has been updated to reflect actual figures for February, and slightly revised projections through May from the comparable table submitted to the House Ways and Means Committee.

TABLE II.—*Public debt subject to limitation, fiscal year 1971*

[In billions of dollars]

	Operating cash balance (excluding free gold)	Public debt subject to limitation
ACTUAL		
1970:		
June 30	7.9	373.4
July 15	5.5	377.7
July 31	7.3	379.1
Aug. 17	6.4	383.5
Aug. 31	7.2	383.4
Sept. 15	3.3	383.1
Sept. 30	8.7	381.2
Oct. 15	4.2	382.2
Oct. 30	6.3	382.7
Nov. 16	4.1	385.4
Nov. 30	5.8	386.1
Dec. 15	3.7	389.5
Dec. 31	8.0	391.6
1971:		
Jan. 15	4.0	392.1
Jan. 29	9.5	390.8
Feb. 16	6.2	391.2
Feb. 26	7.8	392.7
ESTIMATED [1]		
Mar. 15	6.0	397.3
Mar. 31	6.0	395.3
Apr. 15	6.0	400.8
Apr. 30	6.0	392.0
May 17	6.0	397.3
May 31	6.0	399.4
June 15	6.0	404.7
June 30	6.0	396.5

[1] Based on constant minimum operating cash balance of $6,000,000,000.

Without prompt action on the debt ceiling, therefore, we will be faced with the need in a matter of a few weeks to turn to uneconomic and costly expedients to maintain an orderly flow of payments in accordance with Congressional authorizations. Indeed, our ability to plan orderly financing later this month is jeopardized if the ceiling is not raised.

Moreover, it is essential to have a margin for contingencies to meet unexpected cash drains, a shortfall of revenues, unanticipated bunching of expenditures, or disturbances in the mails, all of which could create serious operating difficulties.

As Secretary of the Treasury, I could not contemplate operating prudently on that basis. Consequently, I believe it essential that the Congress take action to lift the debt limit within the next 2 weeks. At the same time, I believe it would be reasonable to look further ahead and provide a limit adequate to meet the need for fiscal 1972. See table III attached.

(Table III follows:)

TABLE III.—*Estimated public debt subject to limitation, fiscal year 1972*

[In billions of dollars]

	Debt with $6 cash balance	With $3 margin for contingencies
1971:		
June 30	396. 5	399. 5
July 15	403. 1	406. 1
July 30	403. 9	406. 9
Aug. 16	409. 3	412. 3
Aug. 31	409. 4	412. 4
Sept. 15	413. 0	416. 0
Sept. 30	405. 3	408. 3
Oct. 15	410. 8	413. 8
Oct. 29	409. 1	412. 1
Nov. 15	413. 0	416. 0
Nov. 30	413. 7	416. 7
Dec. 15	418. 4	421. 4
Dec. 31	416. 1	419. 1
1972:		
Jan. 17	422. 5	425. 5
Jan. 31	414. 6	417. 6
Feb. 15	418. 8	421. 8
Feb. 29	419. 4	422. 4
Mar. 15	426. 0	429. 0
Mar. 31	423. 8	426. 8
Apr. 17	429. 7	432. 7
Apr. 28	419. 1	422. 1
May 15	424. 6	427. 6
May 31	425. 9	428. 9
June 15	430. 6	433. 6
June 30	420. 0	423. 0

When I appeared before the House Committee on Ways and Means, I requested a temporary debt limit of $435 billion through June 30, 1972. On the basis of a constant cash balance of $6 billion and a $3 billion margin for contingencies, the budget projections implied a need for a debt limit of approximately $433½ billion. In view of the inherent uncertainties in projections looking 16 months ahead, it seemed reasonable to round the number to $435 billion.

The Ways and Means Committee and the House approved a temporary debt limit of only $430 billion, $5 billion less than I requested. As I told the Ways and Means Committee at the time, however, this lower figure ought to be adequate through at least this time next year and I am prepared to accept it on that basis, recognizing that it does not provide fully for possible contingencies.

With respect to the 4¼-percent ceiling, about which the chairman has just expressed some concern, let me again point out that since 1918 the Treasury Department has been subject to a 4¼ percent limitation on the rate of interest payable on its bonds. This rate was chosen, as I understand it, simply because 4¼ percent was the rate felt to be necessary to sell bonds in the closing months of World War I. The ceiling now applies in practice only to securities maturing in more than 7

years, since Treasury bills and certificates—instruments that mature within a year—and notes—instruments that mature in 1 to 7 years—can be sold without a limitation as to interest rate.

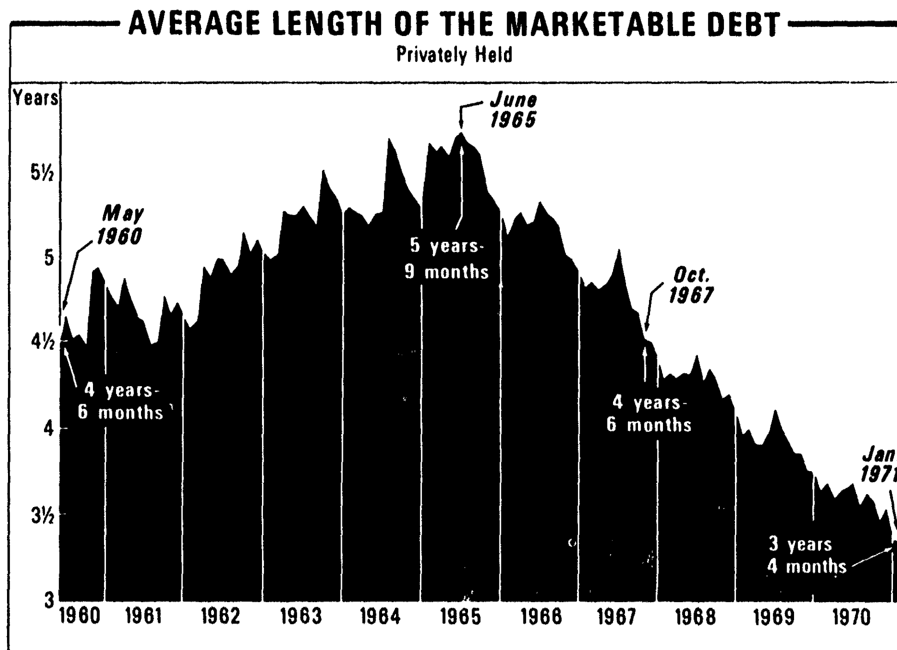
Until the last few years, the interest limitation did not represent a serious impediment to Treasury financing. Although long-term market yields for Treasury securities were above 4¼ percent at times in the 1920's, and in the late 1950's, the periods were of limited duration and, by and large, did not coincide with heavy Treasury borrowing requirements.

In the past 5 years, however, the situation has been very different indeed. Because of the interest rate ceiling, the Treasury has been unable to sell a security maturing in more than 7 years since mid-1965. The result has been a substantial and serious piling up of the debt in the short-term area.

The results are reflected in a series of charts attached to my statement. The average maturity of the debt has declined during this period from 5 years and 9 months in June, 1965, to 3 years and 4 months at the end of January of this year, which is reflected in chart 1.

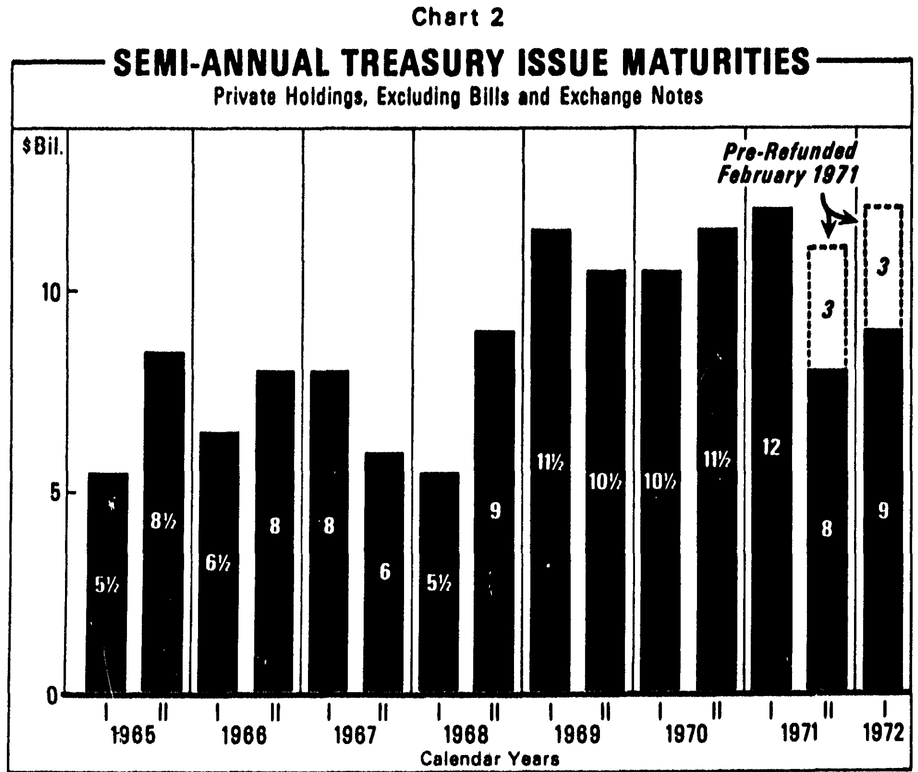
(Chart 1 follows:)

Chart 1



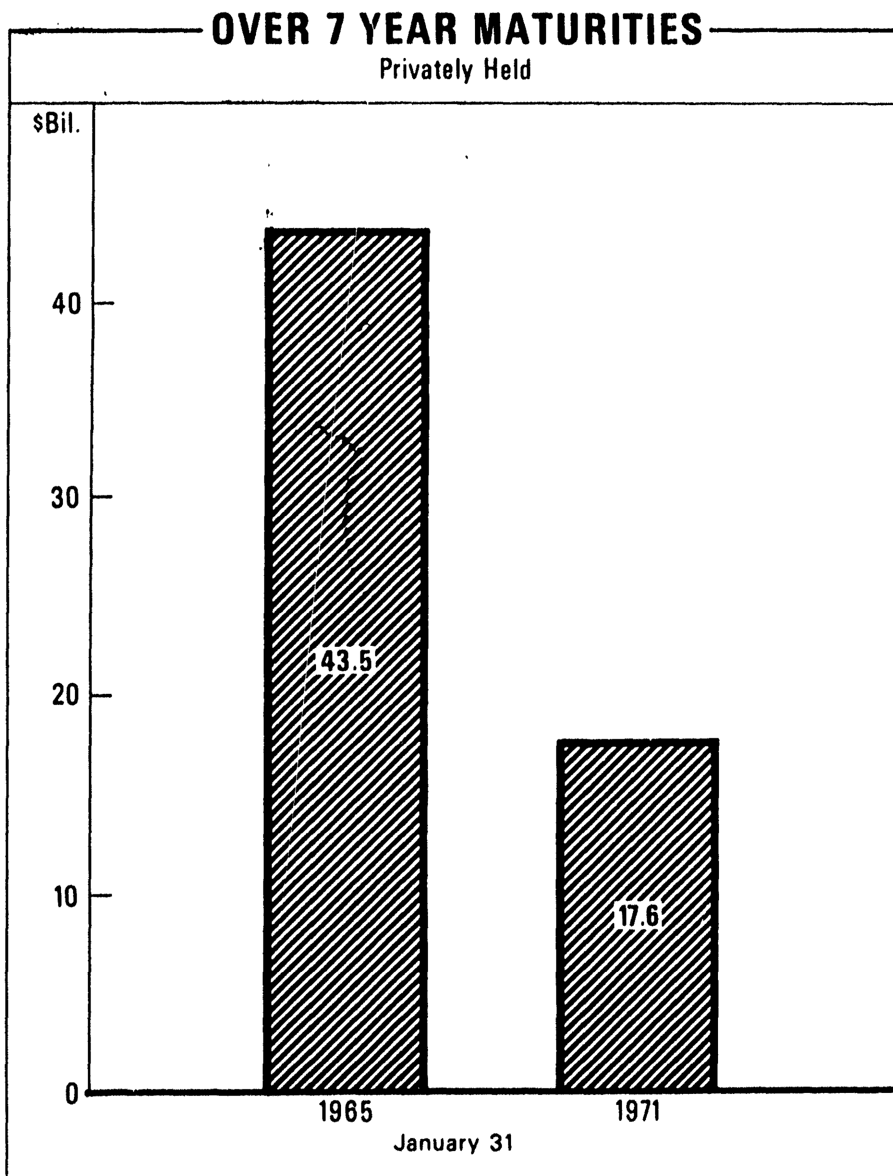
Secretary CONNALLY. The volume of maturing notes and bonds that we need to refinance each year rose from 1965 to the beginning of this year by more than half, or from $13.3 billion to $22.9 billion, as reflected on chart 2.

(Chart 2 follows:)



Secretary CONNALLY. As a counterpart, the amount of Treasury debt of more than 7 years' maturity outstanding had declined precipitiously, from $43½ billion to $17½ billion as shown on chart 5.

(Chart 5 follows:)



Secretary CONNALLY. As a simple matter of prudent financing, this is not a healthy situation. We are faced wtih large refundings, quarter after quarter. Concentration of these financings in a limited sector of the market creates unnecessary congestion and limits our flexibility in arranging prior or subsequent cash financings. While the absorptive capacity of the short term market is normally large, in this uncertain world it is hardly appropriate to test the limits of that capacity un-

57-528 O—71——4

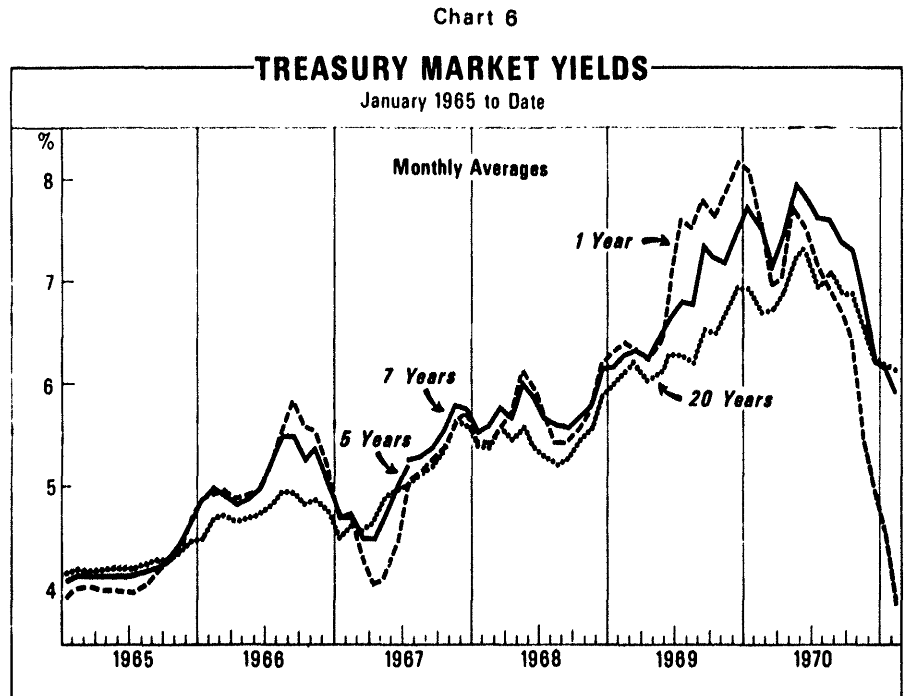
necessarily. At best, we are vulnerable to any recurrence of high rates and tight money; at worst, the heavy volume of maturities can jeopardize our ability to finance in an orderly manner.

I believe the present situation is equally bad as a matter of broader economic policy. In 1969 and 1970, the forced concentration on short term financing helped aggravate competitive pressures on thrift institutions and thus played a part in impairing the flow of funds into the housing markets. Over time, the buildup of short term Treasury debt tends to increase the liquidity of the economy in a manner not easily subject to control by the monetary authorities. It, therefore, undermines the task of economic management and particularly risks a refueling of inflationary pressures when demand pressures are strong. The large financings imposed by the present debt structure also complicate the task of the Federal Reserve in carrying out its open market operations or making policy changes at critical times because of the need to avoid disturbing the process of market reception or digestion of such large new issues by the Treasury.

The interest rate limitation on long term bonds is sometimes defended as a device to achieve a saving in interest cost. However, recent experience provides ample illustration of the point that, in a period of inflation and heavy credit demands, a legislated ceiling rate on Treasury bonds cannot prevent yields from rising sharply throughout credit markets. Ceiling or not, the Treasury did need to finance in the market in heavy volume, and the concentration of that financing in the short term area at times helped to push those rates well above prevailing yields for longer issues, as shown on chart 6.

(Chart 6 follows:)

Chart 6



Secretary CONNALLY. Happily, the entire structure of interest rates has declined sharply from the peaks of 1969 and 1970. Medium and longer term Treasury issues are now trading in a narrow range around 6 percent, as much as 2 percent below peak levels. At the same time, these yields are still far above levels that would make financing at 4¼ percent a practicable or foreseeable proposition.

The importance of obtaining some relief from this ceiling is widely appreciated. Every man living who has served as Secretary of the Treasury joins me in supporting the removal of this ceiling now. There is a strong support among professional economists—including those prominent in the counsels of both political parties and otherwise divided on many policy issues.

Organizations concerned with the health of our financial institutions, with the mortgage market, and with homebuilding have publicly expressed their conviction that the ceiling should be relaxed. Impartial investigations—including the inquiry of more than a decade ago of the Commission on Money and Credit and the Commission on Mortgage Interest Rates appointed in 1968 by President Johnson—have made similar recommendations.

In appearing before the Ways and Means Committee, I requested legislation that would remove the ceiling entirely. However, I have no intention of pressing massive sales of long term bonds on a reluctant market. Consequently, I am quite prepared to accept the provision in the House bill which exempts only $10 billion of bonds from the limitation. This should provide adequate additional scope for selling securities beyond the 7-year area for the period immediately ahead, and therefore assist in maintaining an orderly financing pattern.

I am convinced that moderate amounts of longer term debt can be placed without undesirably impinging upon competing demands for credit. It will be my intention to use the authority flexibly, in the interests of improving our debt structure, confident that this committee and the Congress will be willing to extend and enlarge the authority as necessary on the basis of an established record.

(Charts 3 and 4 follow:)

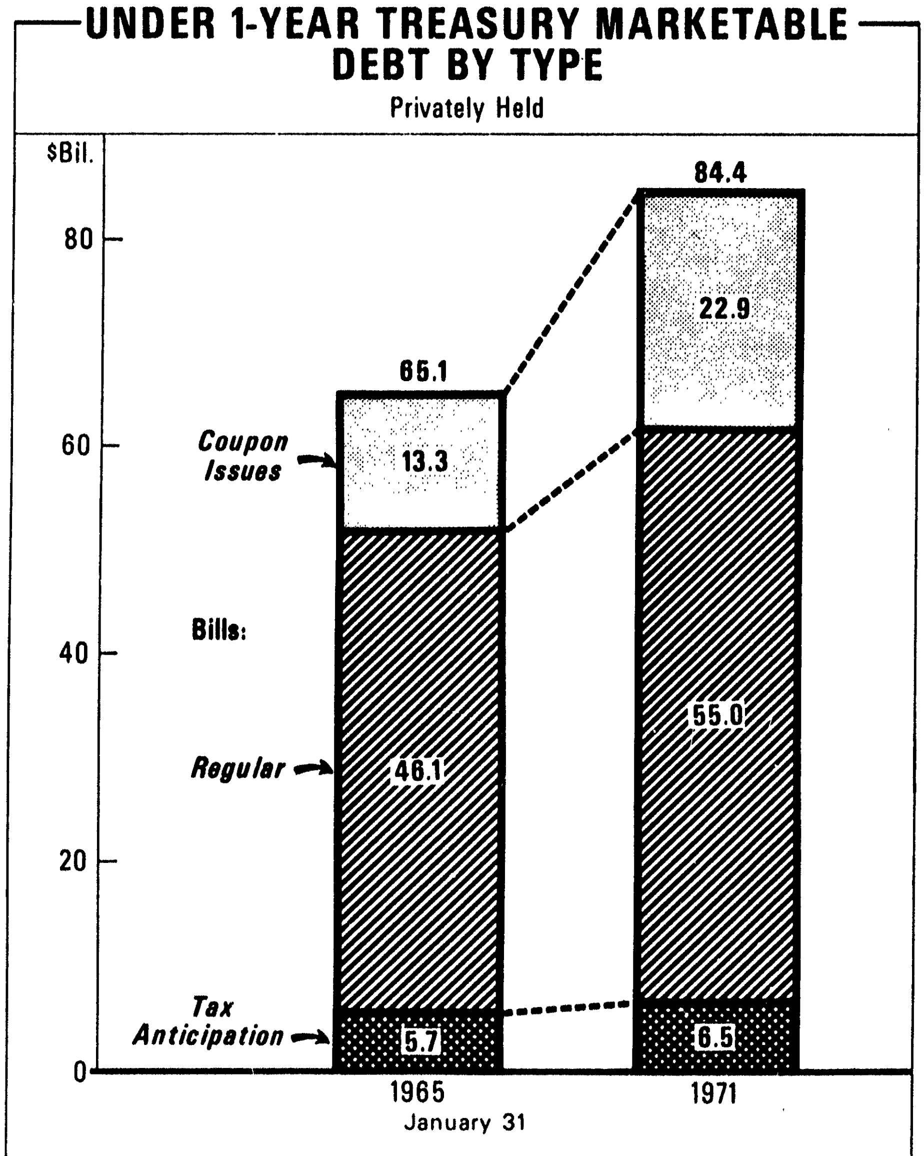
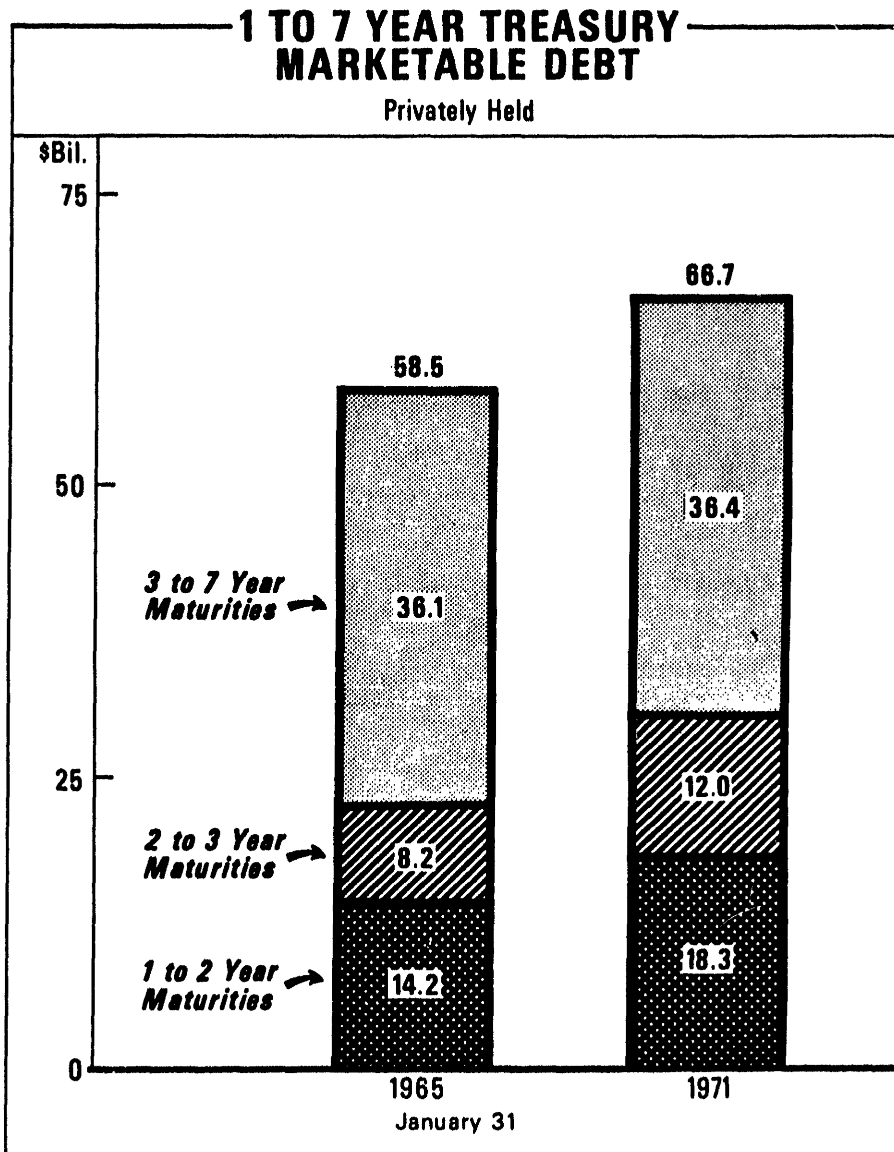


Chart 4



Secretary Connally. Mr. Chairman, that concludes my statement.

The Chairman. Mr. Secretary, I believe I had suggested that Director Shultz go ahead and make his statement immediately behind yours, and then at that point we would open this matter for questions. So I will recognize Director Shultz at this point.

STATEMENT OF HON. GEORGE P. SHULTZ, DIRECTOR, OFFICE OF MANAGEMENT AND BUDGET

Mr. Shultz. Thank you, Mr. Chairman and members of the committee.

Secretary Connally has explained why the President requested that the debt limit be increased and the 4¼-percent ceiling on Treasury bond coupons be changed. My comments will concentrate on the budget outlook for fiscal years 1971 and 1972 and the implications of that outlook.

UNIFIED BUDGET OUTLOOK

For fiscal years 1971 and 1972, the President's budget anticipates actual deficits while remaining within full-employment balance. The actual deficits result from shortfalls in revenue, not from excessive spending. Were spending excessive, there would be a full-employment deficit. In neither 1971 nor 1972 are outlays expected to exceed the revenues that would be generated under the existing tax system if the economy were operating at full employment. This budget policy allows the Government to maintain firm control over Federal spending while, at the same time, actively fostering an orderly economic expansion.

Fiscal year 1971

During fiscal year 1971, the retardation in the growth of output brought about a substantial reduction in estimated receipts. This change in receipts, coupled with significant changes in outlays, leads us to expect a deficit of approximately $18.6 billion.

Estimated receipts have declined by $8 billion from those in the budget submitted a year ago, reflecting mainly lower economic activity, including the auto strike effects, than was anticipated.

The outlay estimate has moved in the opposite direction, increasing by $12 billion, the largest part of which is accounted for by mandatory changes. The outlay increase includes:

—$3.2 billion for Federal civilian, military, and wage board pay increases;

—$2.3 billion in unemployment benefits;

—$1.1 billion for the expected social security benefit increase;

—$3.1 billion as a result of mandatory increases for interest, retirement benefits, public assistance grants, and veterans' benefits; and

—$2.1 billion, net, as the result of congressional action or inaction, such as the failure to enact postal rate increases.

It is clear that the shift to a deficit position in fiscal year 1971 and the consequent need for an increase in the statutory debt limit are primarily the result of economic conditions.

Fiscal year 1972

Fiscal year 1972 receipts are estimated to be $217.6 billion. This estimate is based upon a GNP of $1,065 billion in calendar year 1971, estimated personal income of $868 billion, and before-tax corporate profits of $98 billion. While we expect to achieve this level of economic activity, significant deviations—up or down—from these expectations would have substantial impact on actual receipts in fiscal year 1972.

Budget outlays for fiscal year 1972 are estimated at $229.2 billion, $16.4 billion above 1971. The main components of this increase are:

—$4 billion for general revenue sharing;

—$4.2 billion for social security and medicare (including the proposed 6-percent social security benefit increase);

—$2.0 billion for pay raises;
—$1.2 billion for public assistance cash grants; and
—$1.2 billion for the proposed all-volunteer Armed Forces.

As in the case of receipts, the overall outlay estimates, of course, reflect our current expectations concerning economic conditions. They also assume congressional action on proposed legislation.

FEDERAL DEBT SUBJECT TO LIMITATION

Changes in Federal debt subject to limitation roughly parallel the Federal funds surplus or deficit, which excludes the trust fund transactions of the unified budget. The Federal funds deficit in 1971 is estimated to be $25.5 billion, and the debt subject to limit is estimated to increase by $24.9 billion. Similarly, the Federal funds deficit in 1972 is estimated to be $23.1 billion, and the debt subject to limit is estimated to increase by $23.6 billion.

I fully support Secretary Connally's recommendations for raising the statutory Federal debt ceiling to $430 billion and for relaxing the 4¼-percent ceiling on Treasury bond coupons. Adjustment of the debt ceiling is consistent with the fiscal policy objectives that the Congress and the administration both seek, while relaxation of the interest rate ceiling is consistent with the need to manage our public debt prudently.

Staying within the proposed limit through fiscal year 1972 will not be easy. There will have to be constant surveillance of every phase of the Government's finanical processes—from the authorization of new programs, to the enactment of appropriations, the making of commitments and then to spending. Clearly, responsibility for achieving this objective is shared by the Congress and the President, since outlay control can be effective only if we focus on the earlier stages of these processes as well as on immediate outlays themselves.

Thank you, Mr. Chairman.

The CHAIRMAN. Thank you very much, Mr. Director.

Over the years I have requested that the Department prepare a chart showing the relationship between Federal debt, State and local debt, and private debt. The material also shows the relationship between the Federal debt and the gross national product and reflects the Federal debt in terms of consistent purchasing power.

This data reflects that the Federal debt rises more slowly in other sectors of the economy and as a percent of gross national product the Federal debt is actually declining. So that this information may be available to all those that care to study it, I will ask that this information be inlcuded in the record and I will include it not at this point but at the close of the statements that are to be made here this morning.[1]

Now, we are told that in terms of the unified budget you show a deficit for fiscal 1972 of $11.6 billion in contrast to a deficit for 1971 of $18.6 billion. I would like to ask the Secretary if this means that the Federal budget in fiscal 1972 is not as expansionary as the budget for fiscal 1971?

Mr. SHULTZ. I think what it implies, Mr. Chairman, is an expansion in the economy so that as the economy moves up, as personal income

[1] The data appears as app. A, p. 67.

subject to taxation, moves up, as corporate profits move up as we expect them to do, then the Federal revenues would move up. So, we expect to see the economy operating at a stronger level during fiscal 1972 than fiscal 1971 and, thereby, to see the deficit go down as the result. As the Secretary said in his statement, as we move forward into fiscal 1973 and get into the zone of full employment, we expect to see this deficit reduced further.

The CHAIRMAN. In other words, to achieve the income and profit levels assumed for the budget in calendar year 1971, are you depending heavily upon an increase in money supply by the Federal Reserve?

Secretary CONNALLY. Mr. Chairman, I think I won't quibble with words. It depends on what you mean by heavy money supply. Certainly it is anticipated that the supply of money will be ample to meet these needs and there will be an increased money supply over the last 2 years. Beyond any question that is so.

The CHAIRMAN. Does the statement by Dr. Burns before the Joint Economic Committee suggest that he does not see the kind of expansion that would be assumed here in terms of the money supply? In other words, is his statement consistent with the position that you are taking?

Secretary CONNALLY. Mr. Chairman, I think it is consistent with the position I take. There has been a great deal of talk, I think, by various of us before the various committees of the Congress, including interviews before the press, that narrowly interpreted might lead to the conclusion that there is some basic difference in the goals and expectations on the part of various ones, whether it is the Council of Economic Advisors, Dr. Burns of the Federal Reserve, Director Shultz of the Budget or I, as the Secretary of the Treasury.

I don't think that is basically true. We all basically have the same goals. We are at the one time, trying to insure that we continue the fight against inflation. At the same time we are doing everything possible to try to see that the unemployment figures come down and that there is an expansion of economic activity in this country to provide the necessary jobs.

Now, obviously when you try to put precise figures on every single thing that affects these two goals, you possibly get some divergence of opinion, not differences in goals at all.

I think Dr. Burns' position and my position are substantially the same. As I have said before, I do want to make it clear that I think the achievement of these goals is to a considerable extent dependent upon the availability of ample money and I know Dr. Burns is a highly intelligent man. He understands this economic system far better than I. He has been a part of the building of these goals and I know that in his capacity as Chairman of the Federal Reserve System he is not going to take any action that would in any sense thwart the achievement of these goals.

In my own personal view the increase in the money supply from September through January was probably inadequate to meet the goals. It was roughly a 3-percent increase at an annual rate. January was a disappointing 1.1 percent. But again you have to look at the long-range trend in the supply of money. In February it went up to over 12 percent, 12.1 percent. This was an increase in a 4-week period of available money supply.

So the situation constantly changes and I think it is probably misleading and unfair to take any short period of time and judge either an individual's position or the goals of the administration based upon those figures.

We have no basic disagreement. In summary, we have the same goals. I think we are working toward them. I think there is a consistency in our actions. I think there is a basically agreed upon confidence in the achievement of those goals.

The CHAIRMAN. Well, the reason I raise that question is that some on our staff see some doubt that the money supply will be expanded sufficiently to permit the kind of economic expansion that you are anticipating here and that if this fails to happen, then, that your gross national product figures may be overestimated by at least $10 billion, and that your corporate profit assumptions may be overestimated by $5 billion, and that if this is true, it might cause you to have about $6 billion less receipts than you are estimating. And, of course, if that should happen, it means much larger deficits.

Secretary CONNALLY. Well, there is no question, Mr. Chairman, you can make some very basic assumptions that will materially alter the corporate profits, the revenue figures. There will be a tremendous shortfall in revenues. No question about that. I am not willing at this point to make the basic assumption that the Federal Reserve is not going to make available sufficient money supply to meet the demands of this economy.

On the contrary, I make the opposite assumption. I assume they are going to do it. I think they have a duty and an obligation to do it.

The CHAIRMAN. Mr. Secretary, on a different subject, the administration has submitted a request for legislation to transfer certain funds to the Philippines and eliminate bookkeeping entries in the Federal records.* With the thought in mind that the committee might want to act on this legislation, would you be prepared to describe this situation for the committee at this time or would you prefer to supply that for the record?

Secretary CONNALLY. Mr. Chairman, I am prepared to give you a very brief and accurate answer on your question about Philippine bonds at this point.

The Treasury in 1946 has—ever since 1946 has maintained an account for the payment on Philippine bonds that were issued prior to 1934. Now, the Philippine Government by one means or another has made that money available to the U.S. Treasury. The Secretary has by authority of the Congress been authorized to make payments on these bonds. All of these bonds matured in 1963.

Now, most of the bonds, of course, have come in but the liability now is certain on the bonds. The liability is roughly $138,000. I can give you it precisely, $138,733.69. And as of December 31, 1970, there was $138,739.21 in the special accoont. There has been no activity in the accoont for a number of years. The bill that was submitted to the Congress by Secretary Kennedy asked for the authority to close out the account, to transfer these moneys to the Philippine Government with the understanding that the Philippine Government would take the money, would assume the liability, and we would, the Treasury

* The draft of the proposed bill, the transmittal letter, and an analysis appears as Appendix B of this hearing.

Department and this Government would be completely free of any liability whatsoever with respect to these bonds.

The CHAIRMAN. Thank you very much, Mr. Secretary.

Senator Anderson?

Senator ANDERSON. On this question of peaks in interest rates, what do you see in the present market? Do we go back up to 6, 7, 8 percent again?

Secretary CONNALLY. Senator Anderson, I don't think that the interest rates have bottomed out. That is my personal view. I rather think that the resurgence of vitality in this economy is going to require additional supplies of money in the market, the available supplies of money, and I think that interest rates will come down a bit further and this is particularly true of long-term interest rates.

Short-term interest rates on Treasury bills are now quite low. They have had a dramatic drop as you know. Long-term rates have also dropped. But in my judgment, interest rates, probably both short-term and long-term, will come down further. I don't think they have bottomed out.

The CHAIRMAN. Senator Bennett?

Senator BENNETT. Thank you, Mr. Chairman.

What would you think is a good sound range in which the relationship of long-term and short-term financing might move? If we had an ideal situation, how much of our national debt would be financed beyond 7 years?

Secretary CONNALLY. I haven't thought to quantify it in precisely those terms but I would think, oh, that 1, 1½, 2 percent, probably ought to be in long-term bonds.

Senator BENNETT. Well, it must have been much higher——

Secretary CONNALLY. I wouldn't want to say. It depends entirely on the market and other conditions. I don't think you would anticipate that you would necessarily get any more than about 10 percent in truly long-term bonds. We had a higher percentage than that in the early 1960's. I am now reaching for figures. $43 billion, as I recall, shows in one of the charts.

Senator BENNETT. That is 1965?

Secretary CONNALLY. $43½ billion in 1965 over 7 years' maturity. Obviously that represented considerably more than 10 percent, but I don't anticipate that we would ever get more than 10 percent in truly long-term bonds maturing well beyond 7 years.

Senator BENNETT. I think you have got to look back much farther than the sixties. When was the last time at which you sold a bond at 4½ percent or less?

Secretary CONNALLY. 1965, 4¼ percent.

Senator BENNETT. You were able to sell bonds at 4¼ percent?

Secretary CONNALLY. Yes, sir. In 1965. During the early part of the sixties.

Senator BENNETT. That amazes me. This question of lifting the bond ceiling has been around a long, long time.

Secretary CONNALLY. Mr. Chairman, may I clarify my statement? Perhaps I misled you a moment ago reaching for two things at the same time.

In the first part of my statement when I was referring to the 1½ percent, I was talking about how much we might sell in a year. Then

I went into a 10 percent at any one time, regardless of the time involved, when I was talking about $43.5 billion.

Senator BENNETT. I was talking about the mix of the total outstanding bonds.

Secretary CONNALLY. Well, I think the highest we had in recent years was in mid-1965, $43½ billion over 7 years. I don't know that we have checked all the way back, Senator, but I think that is certainly the highest in recent years.

Senator BENNETT. I wish you would check back because I am very interested in this question.

Secretary CONNALLY. We will be delighted to supply you the figures of the percentages during and after World War II. We will start at any point you want.

Senator BENNETT. Let's start with 1950. Let's go back 20 years. It is my impression, really, the only effect of the interest rate limitation has been to concentrate borrowings in the area of short-term rather than long-term interest rates. As I understand your last answer, that would certainly be true since 1965.

Secretary CONNALLY. Yes, sir.

Senator BENNETT. And I would be interested to know how true it is prior to that time.

Secretary CONNALLY. Well, you have to—your statement is absolutely correct. As I said in my statement, there were periods in the 1920's where the 4¼ percent interest ceiling precluded the Treasury from issuing long-term bonds and for a short time in the late fifties, but those periods were not of such duration that it materially affected the average maturity of the public debt as it has done since 1965 because we have not been able to issue long-term bonds since mid-1965 which is a period of more than 5 years.

It has materially affected the average maturity, which has been brought down from 5 years and 9 months, mid-1965, to 3 years, 4 months, at the end of January 1971. Beyond any question it has had a tremendous effect.

Senator BENNETT. I would be interested, carrying the earlier question a little farther, in knowing the highest percentage of long-term in the mix and what was the highest actual volume of long-term bonds the Government has had outstanding since the end of World War II. While Mr. Volcker is looking that up, let me throw another question at you because I am on limited time.

If you cannot refinance any of the debt on a long-term basis, what effect does this actually have on the average interest rate?

Secretary CONNALLY. Well, in my judgment, Senator, it has a very adverse effect on interest rates in this sense, that the more you compress the financing of the public debt into shorter and shorter time periods, we are constantly in the market. We are competing with everybody for money, constantly. We are at that point right now where we have to finance this whole public debt with an average maturity of 3 years, 4 months at the end of January.

Now, this simply means that we are contributing to inflation in a real sense because short-term Treasury bills, such as we are having to use in order to get money, are supplying a degree of liquidity into this whole economy that can have an inflationary push.

Senator BENNETT. That is this policy had a damaging effect on the deposits in savings and loans?

Secretary CONNALLY. No question about it, Senator. You have what they call disintermediation when people actually—because you did get such a high rate for short-term money in the 1969–70 time period when these interest rates were at their highest—were taking their money out of the thrift institutions and investing in short-term Treasury bills and certificates. It had a tremendous effect both on savings in these savings institutions and on home building. This was probably as large a single influence on the drop in new housing starts as anything else in this economy.

Senator BENNETT. Hasn't it become rather a shibboleth than really an effective means of controlling interest rates on long-term bonds?

Secretary CONNALLY. Senator, the facts speak for themselves. We have been restrained since 1965. We have not issued a single long-term bond beyond 7 years and interest rates reached their highest peak in 100 years. This, to me, means very clearly a legislative ceiling is not going to dictate the rates that prevail. The market is going to determine that.

Senator BENNETT. Do you think that in looking back for the last 5 years that the Government has actually paid out more money in interest rates than it would have done had it been able to finance long-term bonds at the market price?

Secretary CONNALLY. Not necessarily. Here we get into a strange situation because if I had been Secretary during that period I probably would not have issued any long-term bonds simply because of the high interest rates. Because we were able to issue long-term bonds in the 1960–65 time period, we had a manageable public debt but because these high interest rates have prevailed for such along period of time, it is now creating a problem for us.

But what we would like to do with declining interest rates, we would like to seize on an opportunity to issue some long-term bonds while we think interest rates are favorable for so doing.

Senator BENNETT. Can you give the committee any idea of the range of difference in interest rates that might exist today if the committee passes this bill and you are allowed to issue $10 billion of long-term bonds. By how much would the interest rates earned on those bonds be lower than the interest rates, say, on your Treasury bills?

Secretary CONNALLY. Well, it wouldn't be lower, Senator. They will be higher. We are now issuing short-term Treasury bills at roughly 3.4 percent or thereabouts. There is not any hope for issuing long-term bonds at that low a rate of interest.

Senator BENNETT. What did you issue your last 7-year notes for?

Secretary CONNALLY. Six and one-fourth percent and that is what long-term bonds would go for—in that general range. We haven't tested the market, but you are certainly looking at the zone of 6, 6¼, for bonds in excess of 7 years' maturity. That is the range we are talking about.

I don't want to lead this committee or the Congress to assume that if we get this authority that we are going to be able to issue long-term bonds at lower rates of interest than we do for 90-day Treasury bills which is 3.4 percent. You never are going to do it that cheap.

Senator BENNETT. But you think they might be in the same range or even lower than the 7-year bonds?

Secretary CONNALLY. Yes; certainly so. And even more than that, Senator, you are talking about apples and oranges when you are talking about financing this debt. If your sole purpose, disregarding every other consideration in this economy, is to finance this debt as cheaply as you can, then you just finance the entire debt on 90-day bills. That is the truth of the matter. You cannot do this. If you do, you tear this whole money market apart.

Senator BENNETT. Did Mr. Volcker find any figures on an answer to that question earlier?

Mr. VOLCKER. I can give you figures on the 10-years-and-over debt, using that definition of what is long term.

In 1946, at the end of World War II, we had about $60 billion outstanding in that area and the total debt of $260 billion, roughly.

Senator BENNETT. About 27 or 28 percent.

Mr. VOLCKER. A little over a quarter. Now, this came down rather steadily. There were very large volumes of long-term bonds issued during World War II. By 1955, for instance, about 10 years later, there were $33 billion outstanding in that maturity range. The total debt had risen to $281 billion. It got lower by 1960. Only $24 billion outstanding, out of a total debt of $290 billion; then it came up some or held steady, at least, during the early 1960's, and by 1965 got up to about $26 billion in that particular maturity category out of a total debt of $321 billion. And then it came down steadily since then.

The debt at the end of 1970 was $389 billion. We only had $19 billion of over-10-years bonds outstanding.

(Pursuant to the preceding questions the Department of the Treasury submitted the following:)

AVERAGE LENGTH AND MATURITY DISTRIBUTION OF MARKETABLE INTEREST-BEARING PUBLIC DEBT, 1946-70

[Dollar amounts in millions]

End of year or month	Amount outstanding	Maturity class: Within 1 year	Maturity class: 1 to 5 years	Maturity class: 5 to 10 years	Maturity class: 10 to 20 years	Maturity class: 20 years and over	Average length: Years	Average length: Months
Fiscal year:								
1946	$189,606	$61,974	$24,763	$41,807	$17,461	$43,599	9	1
1947	168,702	51,211	21,851	35,562	18,597	41,481	9	5
1948	160,346	48,742	21,630	32,264	16,229	41,481	9	2
1949	155,147	48,130	32,562	16,746	22,821	34,888	8	9
1950	155,310	42,338	51,292	7,972	28,035	25,853	8	2
1951	137,917	43,908	46,526	8,707	29,979	8,797	6	7
1952	140,407	46,367	47,814	13,933	25,700	6,594	5	3
1953	147,335	65,270	36,161	15,651	28,662	1,592	5	4
1954	150,354	62,734	29,866	27,515	28,634	1,606	5	6
1955	155,206	49,703	39,107	34,253	28,613	3,530	5	10
1956	154,953	58,714	34,401	28,908	28,578	4,351	5	4
1957	155,705	71,952	40,669	12,328	26,407	4,349	4	9
1958	166,675	67,782	42,557	21,476	27,652	7,208	5	3
1959	178,027	72,958	58,304	17,052	21,625	8,088	4	7
1960	183,845	70,467	72,844	20,246	12,630	7,568	4	4
1961	187,148	81,120	58,400	26,435	10,233	10,960	4	6
1962	196,072	88,442	57,041	26,049	9,319	15,221	4	11
1963	203,508	85,294	58,026	37,385	8,360	14,444	5	1
1964	206,489	81,424	65,453	34,929	8,355	16,328	5	0
1965	208,695	87,637	56,198	39,169	8,449	17,241	5	4
1966	209,127	89,136	60,933	33,596	8,439	17,023	4	11
1967	210,672	89,648	71,424	24,378	8,425	16,797	4	7
1968	226,592	106,407	64,470	30,754	8,407	16,553	4	2
1969	226,107	103,910	62,770	34,837	8,374	16,217	4	0
1970	232,599	105,530	89,615	15,882	10,524	11,048	3	8
1969:								
Jan	238,543	110,377	68,260	35,129	8,395	16,382	3	11
Feb	236,535	100,282	75,778	35,727	8,394	16,354	4	0
Mar	237,272	103,342	73,494	35,726	8,390	16,320	3	11
Apr	234,968	101,159	73,407	35,726	8,386	16,291	3	11
May	234,097	111,855	62,769	34,837	8,379	16,257	3	11
June	226,107	103,910	62,770	34,837	8,374	16,217	4	0
July	229,581	107,416	62,763	34,837	8,372	16,194	3	11
Aug	231,230	112,618	69,519	24,553	8,370	16,170	3	10
Sept	231,203	112,616	69,522	24,553	8,367	16,145	3	10
Oct	235,029	109,550	74,762	26,247	8,363	16,107	3	9
Nov	237,919	120,144	73,305	20,026	8,360	16,083	3	8
Dec	235,863	118,124	73,302	20,026	8,358	16,054	3	8
1970:								
Jan	236,321	118,633	73,294	20,026	8,354	16,014	3	7
Feb	235,968	117,796	77,104	19,329	10,557	11,182	3	7
Mar	238,195	121,272	75,889	19,329	10,551	11,155	3	6
Apr	233,998	117,148	75,855	19,329	10,542	11,124	3	6
May	236,561	109,432	89,631	15,879	10,534	11,085	3	8
June	232,599	105,530	89,615	15,882	10,524	11,048	3	8
July	237,821	110,813	89,614	15,876	10,514	11,004	3	6
Aug	240,511	109,830	91,075	18,122	10,507	10,978	3	7
Sept	239,330	108,671	91,066	18,140	10,501	10,951	3	6
Oct	242,180	111,636	90,992	18,138	10,493	10,922	3	5
Nov	244,447	120,125	82,302	22,555	8,566	10,900	3	6
Dec	247,713	123,423	82,318	22,553	8,556	10,863	3	4

Note: All issues classified to final maturity except partially tax-exempt bonds, which were classified to earliest call date (the last of these bonds were called on Aug. 14, 1962, for redemption on Dec. 15, 1962).

Source: Treasury Department.

PUBLIC DEBT SECURITIES BY KIND OF OBLIGATION, 1946-70

[Billions of dollars]

End of year or month	Total public debt securities	Interest-bearing public debt: Marketable public issues by maturity class: Within 1 year	1 to 10 years	10 years and over	Nonmarketable public issues: Special issues [1]	U.S. savings bonds [2]	Foreign and international	Other	Matured public debt and debt bearing no interest
1946	259.1	54.8	61.7	60.1	24.6	49.8	....	6.7	1.5
1947	256.9	49.6	56.1	60.0	29.0	52.1	....	7.4	2.7
1948	252.8	44.6	55.1	57.7	31.7	55.1	....	6.3	2.2
1949	257.1	49.4	51.8	53.9	33.9	56.7	....	9.3	2.1
1950	256.7	49.4	50.5	52.5	33.7	58.0	....	10.1	2.4
1951	259.4	47.1	56.7	38.8	35.9	57.6	....	20.9	2.3
1952	267.4	57.7	62.2	28.7	39.1	57.9	....	19.6	2.1
1953	275.2	73.9	50.4	30.3	41.2	57.7	....	19.3	2.3
1954	278.7	62.8	64.7	30.2	42.6	57.7	....	17.7	3.0
1955	280.8	61.7	68.6	32.9	43.9	57.9	....	12.7	3.0
1956	276.6	68.6	58.9	32.9	45.6	56.3	....	11.9	2.4
1957	274.9	75.3	56.9	32.0	45.8	52.5	....	10.4	2.0
1958	282.9	72.6	71.0	32.0	44.8	51.2	....	9.2	2.1
1959	290.8	79.9	83.7	24.6	43.5	48.2	....	7.8	3.1
1960	290.2	75.3	89.5	24.2	44.3	47.2	....	6.3	3.4
1961	296.2	85.9	84.7	25.4	43.5	47.5	0.5	5.3	3.5
1962	303.5	87.3	95.6	20.1	43.4	47.5	.7	4.6	4.3
1963	309.3	89.4	94.2	24.0	43.7	48.8	1.3	3.8	4.1
1964	317.9	88.5	100.4	23.6	46.1	49.7	1.8	3.5	4.4
1965	320.9	93.4	95.6	25.6	46.3	50.3	2.4	2.9	4.4
1966	329.3	105.2	87.5	25.4	52.0	50.8	1.5	2.7	4.3
1967	344.7	104.4	97.0	25.1	57.2	51.7	3.2	2.6	3.5
1968	358.0	108.6	103.4	24.8	59.1	52.3	4.4	2.6	2.9
1969	368.2	118.1	93.3	24.4	71.0	52.2	4.7	2.5	2.0
1970	389.2	123.4	104.9	19.4	78.1	52.5	6.5	2.4	1.9
1969:									
Jan	359.4	110.4	103.4	24.8	59.8	52.3	4.4	2.6	1.8
Feb	358.8	100.3	111.5	24.7	60.9	52.3	4.5	2.6	2.0
Mar	359.5	103.3	109.2	24.7	61.1	52.3	4.5	2.6	1.9
Apr	358.5	101.2	109.1	24.7	62.3	52.2	4.5	2.5	1.9
May	360.1	111.9	97.6	24.6	64.9	52.2	4.4	2.5	1.9
June	353.7	103.9	97.6	24.6	66.8	52.2	4.1	2.5	2.0
July	357.0	107.4	97.6	24.6	66.8	52.2	4.1	2.5	1.9
Aug	360.2	112.6	94.1	24.5	68.4	52.1	4.0	2.5	1.9
Sept	360.7	112.6	94.1	24.5	68.9	52.1	4.1	2.5	1.9
Oct	364.4	109.6	101.0	24.5	68.1	52.1	4.7	2.5	2.0
Nov	368.1	120.1	93.3	24.4	69.3	52.1	4.4	2.5	1.8
Dec	368.2	118.1	93.3	24.4	71.0	52.2	4.7	2.5	2.0
1970:									
Jan	367.6	118.6	93.3	24.4	70.1	52.1	4.6	2.5	2.0
Feb	368.8	117.8	96.4	21.7	71.4	52.1	4.9	2.5	2.0
Mar	372.0	121.3	95.2	21.7	72.1	52.0	5.2	2.5	2.0
Apr	367.2	117.1	95.2	21.7	71.8	52.0	4.9	2.5	2.1
May	371.1	109.4	105.5	21.6	73.3	52.0	4.8	2.5	1.9
June	370.9	105.5	105.5	21.6	76.3	52.0	5.6	2.5	1.9
July	376.6	110.8	105.5	21.5	76.1	52.0	6.2	2.5	1.9
Aug	380.9	109.8	109.2	21.5	77.5	52.1	6.3	2.5	2.0
Sept	378.7	108.7	109.2	21.5	76.7	52.1	6.2	2.5	1.9
Oct	380.2	111.6	109.1	21.4	75.4	52.2	6.0	2.5	1.9
Nov	383.6	120.1	104.9	19.5	76.6	52.4	6.7	2.5	2.0
Dec	389.2	123.4	104.9	19.4	78.1	52.5	6.5	2.4	1.9

[1] Issued to U.S. Government accounts. These accounts also held $19.2 billion of public marketable and nonmarketable issues on December 31, 1970.

[2] Includes sales of U.S. savings notes from May 1967 through June 30, 1970.

Source: Treasury Department.

Senator BENNETT. That ends my turn, Mr. Chairman. Thank you.

The CHAIRMAN. Senator Talmadge?

Senator TALMADGE. Mr. Secretary, how long has it been since the Congress raised the debt ceiling $35 billion?

Secretary CONNALLY. World War II. I don't remember the precise year.

Senator TALMADGE. This will be the highest debt increase we have requested since World War II?

Secretary CONNALLY. That is correct.

Senator TALMADGE. Every year since I have been in the Senate we have a debt ceiling increase and if my memory serves me correctly, we had a balanced budget some three times in about 22 years.

When, if ever, will we balance our budget?

Secretary CONNALLY. Well, I think—I will make an answer to that and Mr. Shultz might have also some views on it.

My judgment is we can do it in the next two or three years on a full employment budget basis, depending on what the demands of the economy are, the condition of the economy.

I, like you, Senator, am extremely interested in a balanced budget. I think that ought to be the goal of every administration every year and it ought to be the goal of the Congress depending on the conditions of the economy in a particular year.

Now, the situation we are in now, where you have an unacceptably high employment rate. I think we are justified in submitting a budget that is not balanced on an actual basis.

I think these conditions vary. I would say in the 1930's, which we both remember quite well, it would have been, I think, rather foolish to talk about a balanced budget although it was done even in the campaign of 1932. As a matter of fact, that was one of the principal clarion calls of President Roosevelt, as I recall. He ran on a basis of a balanced budget but it didn't develop quite that way.

I think there are situations that develop in the economy where you are entirely justified in having an unbalanced budget and having a budget that calls for deficit spending.

Senator TALMADGE. I want to read a portion of your testimony on page 3, paragraph 2, and I quote: "In view of the inherent uncertainties in projections looking 16 months ahead, it seems reasonable to round the number to $435 billion.

Does this mean that you think the estimate of the deficit is too low?

Secretary CONNALLY. I certainly hope not. I simply mean that there are uncertainties, Senator. Last year the Treasury came before you and told you we anticipated a budget of $1.3 billion deficit. It didn't turn out that way. We had a shortfall in revenues of $10 billion, increased expenditures of over $7 billion. We wind up with a tremendous deficit in 1971.

Senator TALMADGE. To pursue that a little further, now, our own staff, which has had a much better record of hitting the estimates on the nose than the Treasury Department, thinks that a shortfall on your income for 1972 will be at least $6 billion and since it is likely that Congress will increase the expenditures, we are really talking about a budgetary deficit next year of $35 to $40 billion.

Secretary CONNALLY. No, sir, I am not. It may well be that the staff is and that the staff may be right. They probably have a better view of what the Congress will do in terms of appropriations than I.[1]

I assume that their projection of a $6 billion shortfall in revenues is based on an assumption which I am not prepared to make and that is simply that the Gross National Product will be in the range of 1,040 or 1,045, in that range, as opposed to 1,065.

[1] Clerk's note: The staff estimates, prepared by the staff of the Joint Committee on Internal Revenue Taxation, relate only to budget receipts. Expenditure estimates are those of the administration as reflected in the budget.

Senator TALMADGE. Most all the estimates that I have seen from economists in the country agree with our staff and they don't think the GNP is going to be as high as the Treasury estimates.

Secretary CONNALLY. I would say that the average—if you can get an average—of the economists' views put the GNP—they would guess it at about 1,045. It is also fair to state at the time that I make that statement, it is fair to say that in every period of recovery, the economists—the average projections of the economists have been short. They have been low in their estimate.

I think we are in a period of recovery. I think the recovery could be a very substantial recovery. I think the economy could take off in a highly satisfactory fashion the rest of this year and if we do, I don't think the 1,065 estimate is an unreasonable estimate at all. I think most of the economists might again be proven wrong as they have been several times since World War II. The economists have been wrong in their estimation of the GNP.

Senator TALMADGE. I have a question for Director Shultz. During the committee's discussion last year on the Family Assistance Plan, much was made of the fact that there would be little or no impact on the budget by the enactment of the $4 billion plus plan since there had been tradeoffs in the budget to make room for it.

We tried unsuccessfully to get you to come up before us, Mr. Schultz, and discuss this with the committee. I wonder if this morning you would tell us about this matter.

What government programs does the administration plan to sacrifice to enact the welfare plan which will increase the welfare rolls more than 100 percent?

Mr. SHULTZ. Senator, the President's budget, which we have been talking about here in terms of its overall size, is also an explicit statement of composition and of tradeoffs, so to speak. That is, he puts forward the various elements of outlays and obligational authority that he advocates, so you can read the President's priorities right off that statement.

Senator TALMADGE. Could you tell us specifically what those tradeoffs were?

Mr. SHULTZ. I think you have to take the entire budget of $229 billion of estimated outlays for fiscal 1972; it is a statement of the composition of spending as the President proposes it.

Now, of course, a large element in that is not under the President's control; for that matter, it is hardly even under the Congress's control. It is part of the ongoing flow of payments.

Senator TALMADGE. Will you itemize for the record specifically item by item what those tradeoffs are?

Mr. SHULTZ. Well, the point I have been trying to make is that, basically, that would require me to reproduce the budget. That is, the budget is a statement of the relative amounts of money that the President proposes to spend for all the variety of purposes that are shown there.

Senator TALMADGE. The reason I am so insistent, Mr. Director, is because this Committee tried for 1 full year to get the answer to that question last year without success and now you are referring to the whole budget rather than specific items. I would like to know what the tradeoffs are.

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Mr. SHULTZ. I think there is a temptation to think of the tradeoffs in terms of the items that happen to increase and to say that this could have been increased more and this less to look solely within the framework of the things that increased or are new programs. At least as I would judge the budgeting process, while that is important, it is a mistake to be overly focused on increases. We ought to go back and examine all of the existing programs and to regard the budget as something to be looked at in its entirety and something to be thought of in terms of the priorities of the President's budget.

Senator TALMADGE. Thank you, Mr. Chairman.

The CHAIRMAN. Senator Curtis?

Senator CURTIS. What is the estimate for the interest on the public debt for fiscal 1971?

Secretary CONNALLY. Approximately $21 billion, Senator Curtis.

Senator CURTIS. And what was it in fiscal 1970?

Secretary CONNALLY. Slightly less than that. I will get you those figures in just a moment.

Senator CURTIS. All right.

Secretary CONNALLY. For 1970, it was $19.3 billion. In 1971, estimated, $20.8 billion.

Senator CURTIS. Do you have an estimate for 1972?

Secretary CONNALLY. 1972 is $21.2 billion.

Senator CURTIS. 21.2?

Secretary CONNALLY. 21.2, yes, sir.

Senator CURTIS. Do you have an estimate as to how much of the increase in the debt is due to increased interest rates and how much to the growth of the corpus of the debt?

Secretary CONNALLY. No, sir. We don't have it broken down that way, but if I understand your question, it wouldn't be great. The increase in the debt due to the increase interest would not be a significant figure because the interest in 1970 was $19.3 billion and in 1972 is estimated to be $21.2 billion which is an increase of roughly $2 billion.

Another way to answer the question, I suppose, would be that while the debt itself is growing in absolute terms, Senator Curtis, the interest rate paid on that debt is declining. So this is why there is not a greater disparity between the 1969 figures and the 1972 figures, for instance, in the total amount of interest paid.

Senator CURTIS. That is all, Mr. Chairman.

The CHAIRMAN. Senator Miller?

Senator MILLER. Mr. Secretary, Senator Talmadge asked you when you thought we might achieve a balanced budget but I suppose he was talking about a unified budget and as you know, you can have a balanced unified budget and still keep coming back to Congress asking for an increase in the national debt ceiling.

Secretary CONNALLY. Yes, sir; so long as you have the surplus in the trust funds, that is correct.

Senator MILLER. I would like to ask you whether you think we are ever going to achieve a fiscal situation where you won't have to come over here and ask Congress to increase the debt ceiling?

Secretary CONNALLY. Well, that is an impossible question, really, for me to answer, Senator Miller. I don't know. I think it will depend entirely on the economic condition of the country in any given year in which an administration has to submit a budget.

Frankly, I don't think any administration for economic or political or other reasons likes to submit a budget with a deficit in it. So I think your hopes for a balanced budget and any administration's hopes for a balanced budget are identical. It depends on the situation.

Senator MILLER. I am really more interested in talking about a unified budget not increasing the national debt ceiling than I am in just a plain balanced budget.

Now, if we were talking about the administrative budget that would be another thing but we are now talking about a unified budget and it seems to me the people who are paying the taxes are going to be more interested in how much more taxes they are going to have to pay to pay interest on the national debt and to pay off increases in the national debt and I am afraid a good many people are becoming very pessimistic on that point, especially when we have this type of a budget ceiling request before the Congress.

Don't you think that we ought to have as a target a fiscal situation in which we will not have to increase the national debt ceiling?

Mr. SHULTZ. Could I make a comment on that? I think that certainly is a desirable target.

A couple of points. First, in fiscal year 1969 we did have an actual surplus in the unified budget, so there is a recorded surplus somewhere near the present time.

A second point.

Senator MILLER. That was in the unified budget.

Mr. SHULTZ. In the unified budget.

Senator MILLER. What happened to the ceiling on the national debt?

Mr. SHULTZ. Well, the trust funds in fiscal year 1969, are showing a surplus of collections over expenditures of $8.7 billion. So now I think you have to ask yourself, and here is really the point, suppose that in the fiscal year 1969, instead of a $3.2 billion surplus, we had had that $3.2 billion plus the 8.7. In other words, we would have been up around a $12 billion surplus in order to bring Federal funds into balance. That would have been a surplus in the full employment budget.

The actual unified budget surplus that we had provided the economy a terrific wrench as we went from fiscal 1968 to fiscal 1969, probably as much of a wrench as anybody would have wanted to put there. So, if you had gone even further and balanced Federal funds, the larger unified budget surplus could have been very disruptive, more disruptive even than the actual surplus was, to economic conditions.

So I think as we look at the budget, at least as I think of it, we need to look at the cash flows, including the trust fund cash flows, in considering the impact of the budget on the economy as a whole.

Senator MILLER. I am sure we do and I am sure that is one reason why—one of the reasons why we switched to the unified budget. When you run into people on the street back in my State and they say how can you possibly be increasing the debt limitation by $35 billion when your deficit only shows maybe 18 or 20, I say, well, this is a case of using the trust fund balances and taking into account cash flows. They come back and they say but that means the taxpayers are still going to have to pay for that. This, of course, is one reason why I regretted that we shifted over to the unified budget concept because I think that the people who are paying the bill are concerned about how much extra tax of this nature you are putting on their backs.

That is why to me the most important question is whether or not a target, a fiscal situation of no increase in the national debt should be a target.

Granted that you may have changes in economic conditions which postpone achievement of that target, it seems to me that we ought to be looking for an economic condition in this country so that we are not increasing the national debt ceiling.

Do you agree with that?

Mr. SHULTZ. I think that would be highly desirable with the proviso that you had on it that, given the flows of funds—including trust funds—and the way they are programmed, we have to be cognizant of the impact of these cash flows on the economy and not become so fixed in one goal as to neglect other goals.

Senator MILLER. I understand. Now, Mr. Secretary, we are talking now about a fiscal 1972 budget known as a full-employment budget and one of the makeups of that is an $11.6 billion deficit. That is premised upon certain budget outlays, outlined by Mr. Schultz on page 3, increases in 1972 over 1971, including a 6-percent social security benefit increase.

If I read the figures correctly, that 6 percent is very likely to become 10 percent. I don't know where the Congress is going to go on some of these others.

Would it be your position that if the Congress increases the spending requests in the President's budget that it ought to be willing to match those increases by increases in taxes so that we will preserve the $11.6 billion budget deficit?

Secretary CONNALLY. Well, stated another way, I think this budget which anticipates $11.6 billion deficit is a full employment budget. It always, at least in my mind, is a budget that anticipates a spending ceiling. It is a budget that calls for the discipline of a spending ceiling, not alone for the purpose of preserving no more than $11.6 billion deficit but in truth and in fact a limit on spending so that we don't again get into an inflationary spiral period kicked off by a spending level that is far in excess of the anticipated revenues even on a full employment basis.

Senator MILLER. But suppose the spending was increased by the Congress by, let's say, $10 billion. Of course, that would tend to heat up the economy.

Secretary CONNALLY. Yes, sir.

Senator MILLER. But suppose Congress came along and matched that by a $10 billion increase in taxes over the budget estimate. Wouldn't you have a neutral situation so that the target of a $11.6 billion budget deficit would be there?

Secretary CONNALLY. You should have—the point that I would merely raise there is simply that we have a given economic situation in this country where we are trying to stimulate the economy to provide the jobs.

Now, the question is about spending an additional $10 billion and raising taxes for that additional $10 billion. I think you are going to have a negative effect on the expansionary concept that we need at the particular moment in time in order to provide the jobs and reduce unemployment.

Would you indeed maintain the relative position of expenditures and revenues and hold the deficit to $11.6 billion. That is true, and so far as your question goes I would have to say, yes, that would occur. But if you imposed an additional $10 billion in taxes, whatever the form, it would have a very adverse effect on trying to revitalize this economy which we are trying to do.

Senator MILLER. Well, I would be inclined to agree with you but it seems to me after very carefully analyzing this mix the administration has arrived at an expenditure ceiling which they are asking Congress to maintain, matched by revenues and deficits, and that $11.6 billion is the fallout. If those in control of the Congress are going to exceed that spending ceiling the very least they can do is to match it by additional taxes so we don't end up with a $20 billion budget deficit which I would guess would be an inflationary budget.

Secretary CONNALLY. Yes, sir. There is another way of saying it, too. If you increase—let's take social security—if you increase it from six to 10, then to conform to the discipline of a full employment budget, you ought to cut something else out of the budget. You ought to take that much out. That is another way of doing it.

That is something for the whole country to understand, the Congress as well. If you subscribe to this full employment budget—and it is something that is worthwhile, and it is worth considering and it is worth adhering to simply because it imposes a discipline on the administration and the Congress itself—you are going to limit expenditures, in relation to at least what this economy can do on a full employment basis, so that you don't get into the spiraling inflation that you got into in the 1968–1969 period.

Senator MILLER. I detect from your answer that the number one preference of the administration would be that if any of these spending items go up over the administration's requests, that those in control of the Congress should be willing to cut back in some other areas so that the level of spending will be as recommended by the administration. But failing that, the second position would be that if you are going to go up over those spending requests of the administration, then those in control of the Congress ought to be willing to match them with tax increases sufficient to offset that so that we end up with an $11.6 billion budget deficit.

Do I state the proposition accurately?

Secretary CONNALLY. You state my position accurately.

Senator MILLER. Could I ask Mr. Shultz for a comment?

Secretary CONNALLY. Mr. Shultz might have a different view.

Mr. SHULTZ. I would focus not so much on the $11.6 billion deficit as on keeping outlays within full employment revenues, that is, the revenues that the existing tax system would produce at full employment. The $11.6 billion is a derivative of a forecast for the economy which we believe is a reasonable and good forecast and a good objective, that may or may not be attained. It may be too low. It may be too high.

And the $11.6 billion will change around in response to that.

But what seems to me important is to keep our outlays within the full employment revenues, whatever the actual revenues turn out to be.

Senator MILLER. And not exceed them.

Mr. SHULTZ. That is right.

The CHAIRMAN. Senator Hartke?

Senator HARTKE. Following up on that, Mr. Schultz, is what you are saying that the full employment budget can be interpreted various ways? What you can do is anticipate your revenues will be higher and therefore your expenditures will be higher? As long as you are in that position you would agree with that interpretation?

Mr. SHULTZ. I think the full employment revenues are more or less calculable and are independent of what the economy is actually doing during that fiscal year.

Senator HARTKE. That is right.

Mr. SHULTZ. So that your calculations of what the full employment revenues would be wouldn't change whether the economy goes up more than you think or not as much as you think.

Senator HARTKE. Yes, but if we put in a balanced budget multiplier, you could increase the expenditure side and increase the revenue side and keep the deficit at the same level or possibly lower, could you not?

Mr. SHULTZ. I am not sure I am following you precisely, but I take it what you mean is that if spending goes up, we get a multiple effect?

Senator HARTKE. That is right.

Mr. SHULTZ. Through the economy, multiplier effects.

Senator HARTKE. Right.

Mr. SHULTZ. And this will have the impact of raising actual revenues.

Senator HARTKE. That is right.

Mr. SHULTZ. And thereby reducing the actual deficit.

Senator HARTKE. That is right.

Mr. SHULTZ. My problem with that is that the outlays may take us above the full employment revenues. Then we would have built for ourselves a long-term problem of trying to get back within those full employment revenues as we seek a strong control of resurgent inflationary elements.

Senator HARTKE. The difficulty with the present approach is that it is retrogressive in its effects in view of the fact that exactly the converse is true. What happened in this last fiscal year was not only that there was excessive spending. The fact was that the revenues dropped due to a slowing of the economy. Exactly the reverse of what I am talking about economically happened and it was the intention of the administration to slow down the economy with the hope that it would slow down the inflation without increasing unemployment. And that didn't work, did it?

Mr. SHULTZ. First of all, the change in the deficit position is made up in part of a decline in receipts.

Senator HARTKE. That is right.

Mr. SHULTZ. Not in major part.

Senator HARTKE. In major part, how much?

Mr. SHULTZ. I believe it is around $8 billion. The outlay change is on the order of $12 billion. The orders of magnitude are in that general ballpark.

Senator HARTKE. Do you disagree with what I said? In other words, the plan was to slow the economy with the hope that it could control inflation at the same time that it would not have an appreciable increase in unemployment.

Mr. SHULTZ. Certainly the desire was to do something about the inflation, and there is no known way that I have ever heard of of doing that without slowing the economy down.

Senator HARTKE. All right. Now, Mr. Shultz——

Mr. SHULTZ. And I believe that——

Senator HARTKE. I am limited in time. You are not—what I want to come back to is that that policy has now been reversed 180 degrees. The policy now is to try to put back 1,600,000 people who have been thrown out of work since last year, to try to put the emphasis on unemployment and lower that unemployment factor and at the same time hope that you do not have an inflation which is out of hand.

Isn't that what you are really trying to do?

Mr. SHULTZ. No, sir. I think I would put it more this way: That when the President came into office in early 1969, it was very clear to everybody—and this must be the view of the Congress as well, in view of the fact that you passed the surtax in 1968 and the budget submitted by President Johnson which President Nixon closed out, the fiscal 1969 budget, was a much different budget from the fiscal 1968 one—that our number one problem in the economy at that time was to do something about inflation and that we couldn't possibly do it if the economy didn't get slowed down some. So that was recognized by the President.

Stern discipline was applied in that regard. At the same time, from the beginning this administration has recognized that there is always a twin problem in operating an economy with the kinds of aspirations we have. On the one hand we must be concerned about inflation and do everything we can to keep it contained. On the other hand we cannot lose sight of the importance of maintaining a level of economic activity such that unemployment doesn't rise unduly and economic expansion is not curtailed unduly.

So, a balance has been sought from the beginning. Obviously, as we are making progress against inflation, and we are, and as the economy has slowed, it now is desirable to see the economy start expanding and expanding fast enough so that it can cut into unemployment, which means expanding more rapidly than its natural rate of increase.

That seems to me a sensible evolution of policy, not an excessive one that has to be revised.

Senator HARTKE. If Senator Talmadge's statement is correct, that you may have a $35 or $40 billion budget deficit this year——

Mr. SHULTZ. I don't——

Senator HARTKE. And it is also true——

Mr. SHULTZ. I don't believe there is any chance that we will have a $35 billion deficit.

Senator HARTKE. I am using Senator Talmadge's——

Mr. SHULTZ. I don't believe that is what Senator Talmadge said. He was speaking about the Federal funds part of the unified budget.

Senator HARTKE. Pardon me. I meant on the Federal funds. I want to correct that. That is correct. If you have that $35 or $40 billion deficit in fiscal 1972, isn't that going to be tremendously inflationary if it occurs?

Mr. SHULTZ. It depends entirely on why it occurs. If what we have is an economy that rises much more slowly than we anticipate——

Senator HARTKE. Let me just stop there to say to the Secretary, when you said the economists always have underestimated expan-

sion of recovery, isn't it true also that the Treasury has always overestimated the revenues they are going to receive every year?

Secretary CONNALLY. I am not prepared to stipulate to that but I will check the record to see if that is so. Mr. Volcker says that is not true.

Mr. SHULTZ. May I comment on that?

In our discussions with the President way back last July, we had 3 long days of discussion about the fiscal 1972 budget. The first chart that we used in talking to the President was our humility chart. We took the actual GNP for each fiscal year throughout the entire post World War II period and the GNP that was forecast in the economic report and in the budget. That is a bipartisan exercise, since Democrats and Republicans both made these GNP projections. And we found there were errors on the high side and errors on the low side. I must say the size of the errors is larger than one would like, which is why we called it our humility chart. We were not there to say we had all the answers.

Senator HARTKE. Let me ask you, Mr. Shultz or Mr. Connally, isn't there a crisis of confidence at the present time in the marketplace? Isn't it true there is a lot of money in the banks at the present time and the problem is to find people who can and are willing to borrow that money? Savings are up and the question is whether or not the consumer will spend that money rather than the question of a crisis of money supply.

Mr. SHULTZ. Well, I wouldn't say that there is any evidence of crisis in the financial markets. When you have the stock market rising the way it has, that is, if anything, a sign of great confidence in the potential expansion of the economy.

Senator HARTKE. Who is in the stock market? Is the public in it or is it the funds?

Mr. SHULTZ. A lot of different groups are in it, and I don't have an analysis.

Senator HARTKE. The public hasn't gotten into the market yet, have they, really?

In other words, the savings have been going up. Isn't it true the savings are up all over the Nation?

Mr. SHULTZ. For a very good and clear reason, namely, the——

Senator HARTKE. The consumer——

Mr. SHULTZ (continuing). The decline in interest rates that the Secretary has pointed to, particularly the short-term rates, which have fallen well below the rates of interest paid on a typical savings account. Money has moved into those savings accounts. If there would be anything predictable in people's behavior, that would be it.

Senator HARTKE. Let me ask you this final question, in my limited time: Is the present increase in the money supply satisfactory to the administration?

Mr. SHULTZ. I think the Secretary has commented on that and I would only second what he said.

Senator HARTKE. What is that statement? I don't understand.

Secretary CONNALLY. My statement is that the last 4 weeks, I believe ending on February 24, that the rate of increase was approximately 12.1 percent and that is entirely satisfactory.

Senator HARTKE. Do you anticipate that for the future? Do you think you need that for the future?

Secretary CONNALLY. I never want to try to put a precise figure. I think it is subject to change. We don't need 12; we need more than three: we need more than four. It is somewhere in the range of six, five to nine depending on what happens, but I certainly wouldn't want to try to put a precise figure on it.

Senator HARTKE. One other comment I would like to make is that there is a complete absence of any reference whatsoever to the effect this deficit will have on the balance-of-payments situation, but I know my time is ended.

The CHAIRMAN. Senator Jordan?

Senator JORDAN. Thank you, Mr. Chairman.

A year ago we were told that the surplus for fiscal 1971 would be in the neighborhood of $1.3 billion. We are told now that on better advice and, of course, a shorter amount of unexpired time before the end of fiscal 1971, now less than 4 months—that the deficit is going to be in the order of $18.6 billion.

Someplace in the last 6 or 8 months this discrepancy of some $20 billion has come into our estimates. I have a very difficult time in seeing how that wide a discrepancy can prevail.

This morning, to confuse me further, Secreatry Connally says that the shortfall in revenues for fiscal 1971 will be on the order of $10 billion and the expenditures will be higher by $7 billion. That closes a total of $17 billion of the $20 billion gap. Then Director Shultz says the shortfall in revenue will be $8 billion and the outlays will increase by $12 billion.

Who does the forecasting?

Mr. SHULTZ. I think I can clarify that point. My comment——

Senator JORDAN. Will you, please.

Mr. SHULTZ (continuing). Used as its measuring point the original budget and I believe the Secretary's comments, if I am not mistaken, used the estimates in May which were revised from the original budget as the point of departure for the numbers that he had, and the two are readily reconcilable and we can present a table to you.

Senator JORDAN. I wish you would. They are about $5 billion apart and that is a substantial sum.

Mr. SHULTZ. We can remedy that.

Senator JORDAN. I wish you would do that.

(Information supplied at this point follows:)

The two sets of figures were derived as follows, in billions of dollars:

TREASURY		OMB	
Estimated deficit (—), May 1970	—1.3	Estimated surplus, February 1970	1.3
Estimated receipts:		Estimated receipts:	
May 1970	204.3	February 1970	202.1
January 1971	194.2	January 1971	194.2
Decrease (—)	—10.1	Decrease (—)	—7.9
Estimated outlays:		Estimated outlays:	
January 1971	212.8	January 1971	212.8
May 1970	205.6	February 1970	200.8
Increase (—)	—7.2	Increase (—)	—12.0
Estimated deficit, January 1971	—18.6	Estimated deficit, January 1971	—18.6

Senator JORDAN. I would like to ask a question of you, Director Shultz.

Is the forecast of this $229 billion budget for fiscal year 1972, predicated on a gross national product of $1,065 billion for calendar year 1971?

Mr. SHULTZ. The estimate of receipts, which I believe is $217.6 billion, is predicated on the $1,065 billion average for GNP in calendar year 1971.

Senator JORDAN. How was that $1,065 billion arrived at? Did you come up with the amount of collections that you needed and calculate it would take that level of activity in the economy to support it or did you do it some other way?

Mr. SHULTZ. No, sir. The President used the full employment idea as his guide in planning outlays and so we calculated full employment revenues. Then, as the outlay decisions were made, the questions were, in addition to those involving individual items, of course, what is a proper level of outlays in relationship to the full employment revenues. As the budget shows, the President's decision was to bring those outlays right up to the full employment revenues in the interest of expanding the economy but to maintain the discipline of full employment revenues so that, as I was saying earlier, the balance of concern with unemployment and inflation was well represented.

Now, the $1,065 billion estimate was necessary for us in estimating actual receipts, in estimating things like the unemployment compensation payments that we would expect to make and other such things in the budget. That was done as an economic forecast with the leadership of the Council of Economic Advisors and participation by the Office of Management and Budget and the Treasury.

Senator JORDAN. Well, now, do you purposely underestimate what the increase in expenditures is going to be? Senator Miller called attention to the fact that you have only calculated there will be a 6 percent Social Security increase and H.R. 1 calls for a 10 percent increase. A 10 percent increase passed the Senate last year unanimously and yet you are only calculating a 6 percent increase in Social Security payments.

Do you purposely underestimate what the increase in expenditures is likely to be?

Mr. SHULTZ. Our hope and expectation is that when the Congress is dealing with the Social Security question, it deals simultaneously with the outlay side and also the importance of maintaining the integrity of the trust fund. Our presumption is that if the increase is more than is budgeted, something will be done on the receipts side as well. But we have made as careful and direct an estimate as we can of outlays, and we have tried to show exactly how we calculated them.

Senator JORDAN. Wholesale prices are up slightly, the highest in 17 years. Unemployment is down slightly. Dr. Burns keeps recommending an incomes policy and you resist it. Dr. McCracken intimates that personal income tax cuts may be required if the economy needs stimulation. Others have taken the position that we need a restoration of income tax credits. Where do you stand?

Mr. SHULTZ. Well, the President's position is that the tax system as it now exists should be maintained this year, that the outlay plans that he has put forward are the right outlays, and that is where we stand.

Now, insofar as the so-called incomes policy question is concerned, of course, that is a matter of many different kinds of things. I think that if you will read the speech Dr. Burns' made out in California, in which he specified his idea of what an incomes policy would be, and then compare it with things that have actually taken place as a result of the President's action, you will see that there is a lot of correspondence there. That does not mean that each item, one for one, is agreed on but rather that we are all concerned, we are doing everything we can about inflation. The President has expressed this concern repeatedly. We are concerned about things the Government may be doing in its regulations, in its purchasing policies, and so forth, that tends to have a stimulative effect on inflation. We feel that we should look very carefully at any such item and have been doing so.

Senator JORDAN. What is the likelihood we are going to get proposals for personal income tax cuts, and/or investments tax credits?

Secretary CONNALLY. Senator, in 1969 we gave individuals an enormous amount of tax relief. The effect in 1972 is more than $7 billion. Some other cuts have not even taken place yet. Some will start in January 1972 and others in January 1973. And, to answer your question one way, as a result of prior actions of the Congress, tax cuts are yet to come.

I do not anticipate that there will be any additional recommendations from the Administration with respect to tax cuts this year in terms of personal income taxes. This is not to say that the idea is foreclosed because nothing that I say should be interpreted to foreclose any course of action to achieve the necessary goals of the Administration.

But secondly, with respect to investment tax credits, I do not anticipate that any such recommendation will be made again to the Congress with respect to those. That particular matter has been adopted twice by the Congress, repealed twice by the Congress, and I do not anticipate that there will be any recommendations with respect to reinstating it this year.

Senator JORDAN. Thank you.

My time is up.

The CHAIRMAN. Senator Fannin?

Senator FANNIN. Mr. Chairman, Mr. Secretary, we hear much about balanced budgets and there were discussions regarding the topic here today. I know that the people profess they want a balanced budget but they also want their pet project. I am just wondering, will we be able to discipline ourselves? I am talking about both the Congress and the Executive Department.

I did introduce a resolution that would provide for a constitutional amendment that would require a balanced budget in a two-year period.

Do you feel that we must come to something that would be mandatory? Now, of course, in times of emergency or even in times of economic emergencies this would not be in effect. From a historical prospective we just have not been able to discipline ourselves. So do you think that if we were forced to provide a means of raising the revenue by taxation before we can spend the money, that it would be an improper move?

Secretary CONNALLY. Senator, we obviously get into an area here where I cannot answer without being I suppose somewhat philosophi-

cal about it and I think perhaps one answer would be this. To convince a man against his will, he will be of the same opinion still. It is an old rhyme, and obviously if you want to try to insure that the Congress does not exceed a budget, then make it mandatory. Put what you can make mandatory you can repeal. What you can pass you can repeal.

Senator FANNIN. Well, if it is a constitutional amendment it is not so easy.

Secretary CONNALLY. No, but I doubt that the people—your judgment is better than mine—but I doubt the people would adopt a constitutional amendment. You would have to have so many exemptions in it with respect to emergencies, wars, unforeseen circumstances, that probably it would not be as meaningful as you would like for it.

Senator FANNIN. Maybe not as meaningful as we would like but still if we could attain a partial goal, that certainly would be I think a commendable venture.

Secretary CONNALLY. Certainly I would not argue against it. Don't misunderstand.

Senator FANNIN. I would say that your Governor expressed tremendous interest in this program. We did not go forward successfully in the last session of Congress. I know under present circumstances it would be very hard to do anything in this session of Congress but at the same time we should look forward to the problems that we will face. As our debt grows and the problems involves the stability of the dollar, then I think we may be forced into this approach.

Secretary CONNALLY. I have only one other comment and I am sure Mr. Shultz will have one. I always view with some concern a proposition of this kind simply because I think this country and this government ought to be able to discipline itself to the point it does not have unnecessary restraints placed upon it to meet the contingencies with which it is faced.

You obviously cannot have or should not have a mandatory requirement that you have a balanced budget every year. I do not think this is in the best interests of the people.

Senator FANNIN. I did not say that.

Secretary CONNALLY. I know you did not. I am merely building my case here for the moment. If it is not 1 year, is it 2? I doubt it ought to be as short at 2 years. Maybe it should be 5. Then you get into the change of administrations and the fellow says I am going to balance it up to a certain point of time. It is a question of where you start and where you stop determining what year. I think it has some difficulties with it.

Senator FANNIN. Well, Mr. Secretary, I have to disagree. What could be worse than what we are facing today? Continuing deficit spending can go only so far until the very stability of our dollar is threatened. I think today it is in jeopardy.

Secretary CONNALLY. Let me answer it another way. The full employment budget, if it is understood by the American people, is precisely what you are talking about. Outside of the mandatory aspects, it is a self-imposed discipline on spending. It basically says that you cannot, should not, spend in excess of what this country can produce when the people are fully employed.

Now, it is a very strict discipline if this Administration, if this Congress will subscribe to it. And this Congress has elected—I person-

ally have a great deal more confidence perhaps in this Congress than many people do. I think Congress can discipline itself. I think you are spokesmen of the American people. I do not think people have to put a mandatory restraint upon you to make you do what you think is in the best interests of the people. That is where I basically depart in the sense I do.

Senator FANNIN. I am glad you have that great confidence. I do not have, just from the standpoint of what has happened, what we have seen taking place in the last few years. That is why I am so vitally concerned.

Would the Director like to——

Mr. SHULTZ. I share the Secretary's hesitation about getting ourselves into a sort of constitutional straitjacket in management of our economic policy. I would say on the question of the debt that the proportion that the Federal debt bears to the Gross National Product has dropped dramatically since World War II. It has just been a very sharp decline, and we have some numbers on that——

Secretary CONNALLY. From 104 percent down to 30 percent. Slightly less than 30 percent.

Mr. SHULTZ. So you can see there has been a decline here of a substantial proportion.

On the question of how to maintain a discipline on outlays and on budgets generally, we intend in the Executive Branch—and the President has been very strong on this—to maintain the discipline of the full employment revenues. How we can best work with the Congress on that, we are open to suggestion. We want to work with the Appropriations Committees on that point. If there are ways to construct a ceiling so that it is not as rubbery as some of the ceilings have been in the past, we would like to work with you on that point.

Senator FANNIN. Well, Mr. Director, you know we have certainly provided for programs for which we have not furnished revenue and we are continuously doing that. All I am saying is that if we are going to have legislation that will foster these costly programs that perhaps are needed, then we have that same obligation to provide the revenue for paying for those programs.

I do not think it is right for us to be free to pass legislation that requires fantastic amounts of money and still not to provide any way of raising that revenue.

Mr. SHULTZ. As a basic proposition, I agree with you completely. And I think Senator Miller was also making the same point.

Senator FANNIN. Yes. Just one other matter. In making your projections, do you anticipate improvement in the balance of trade?

Secretary CONNALLY. We would hope so, although I do not want to be too sanguine about it very frankly. On the trade balances themselves we had a surplus. On official settlement basis, though, we had a $10 billion—in round figures, we had $10 billion deficit. I do not frankly anticipate that we are going to improve that materially during this year. I hope we can.

We are concerned. We are very concerned about it.

Senator FANNIN. The balance of trade is something that I have been vitally concerned about, especially when we witness our own companies going overseas because of the lower cost labor, practically exporting those jobs, and then shipping back to the United States. In other words,

going into Korea, Taiwan, Hong Kong, countries that do provide this low-cost labor but at the same time competing with our products that are manufactured in this country and we cannot even get consideration through the DISC.

Senator Miller thought that the Secretary was answering my question on the balance of payments, not on the balance of trade. Were you referring to balance of payments or balance of trade in answer to our question?

Secretary CONNALLY. I would hope the official settlements, the $10 billion would be improved. I do not want now to try to say how much it will be improved.

Senator FANNIN. I was expressing my thoughts on this matter and directing a question to you, Director Shultz. Will the Administration again recommend the DISC program or some type of a change, for instance, a change in tariffs, or review of GATT, in order that we can try to change this inequitable position I feel we are in today. Certainly we could refer to the tremendous increase in the imports of foreign cars or we can talk about electronic equipment or almost anything we care to talk about.

I know you have recently taken some action as far as the TV sets coming in from Japan and that was very encouraging, but we still have a tremendous imbalance of a billion and a half dollars in balance of trade with Japan in 1970.

Mr. SHULTZ. I am not sure exactly what the balance is, although we sell a great deal to Japan as well as buy a great deal. I think, for example, it is important to recognize that we sell over a billion dollars' worth of agricultural products to the Japanese, so that anyone interested in agriculture needs to be quite alert to that point.

The President has been very concerned about the whole trade picture, and we have taken a number of steps. Perhaps the most interesting from a strictly administrative point of view is the creation of a new Council on International Economic Policy, which the President formed just recently following recommendations of the Ash Council of which the Secretary was a member. We think the operation of that Council will enable us to pull the various threads together more effectively and to appraise more effectively our overall situation, what is happening to it, and what we should do about it.

So we are encouraged that this new arrangement will allow us to do better in the whole trade area.

I would like to say at the same time we are concerned about areas being affected by imports but at the same time impressed with how much we have to gain as a country from flows of trade back and forth.

Senator FANNIN. I am certainly in favor of free flow of trade but I certainly am not in favor of the inequities that exist now when we have under GATT. Foreign cars will be coming in next year I think at a 3 percent tariff. If we try to get a car into Japan it is 17 percent. Electronics equipment comes in at 6 percent. We try to get it into Japan at 24 percent.

Mr. SHULTZ. I think there are many issues of the trading patterns and regulations around the world, with the development in the Common Market, as well as in Japan. We need to be alert to our interests and we hope that this Council will help us to be alert to those interests.

Senator FANNIN. Thank you.

Secretary CONNALLY. On that point, Senator Fannin, I know you know that there is $200 million in the budget, anticipating that Congress favorably acts on this, which will be resubmitted during this year, hopefully to improve the sad situation that you have just related.

Senator FANNIN. Thank you, Mr. Secretary.

The CHAIRMAN. Senator Byrd?

Senator BYRD. Thank you, Mr. Chairman.

Secretary Connally, you are here today in relation to two different matters. One, you would like to have the authority for the Treasury to borrow $10 billion in long-term bonds at an interest rate greater than 4¼ percent?

Secretary CONNALLY. Yes, sir.

Senator BYRD. And your second matter presented today is an increase in the debt ceiling?

Secretary CONNALLY. Yes, sir.

Senator BYRD. The first one I am inclined to support. As I understand your reply to a question by Senator Bennett, you feel that the issuance of short-term Treasurys which you have to do since you are not in a position to sell long-term bonds at the interest ceiling which is now imposed, that this has an adverse effect on interest rates and has an inflationary impact on the Nation?

Secretary CONNALLY. That is correct.

Senator BYRD. That is your view?

Secretary CONNALLY. Yes, sir.

Senator BYRD. Now, I am not enough of an expert on this thing to know how it works, but right after the tremendous increase in interest rates in the spring of 1969, I went back and checked the sale of short-term Treasurys for the 5-month period October 1968 through February of 1969 and I found that the Treasury sold some $29 billion in short-term Treasurys during that period of time. The interest rates subsequent to that, shortly thereafter, went up substantially which would seem to bear out what you are saying right now.

Then we come to the next year. For the same period of time, October of 1969 through February of 1970, the short-term Treasurys which were sold were only $15 billion, not much more than half of what they were the year before, and the interest rates began to come down.

Now, whether they came down as a result of that I do not know. But now we come to October of 1970, that period from October 1970 to February 1971, and we find that the Treasury has sold some $32 billion in the short terms.

Now, that is substantially more than it was 2 years ago and more than double what it was last year.

My question is does that indicate that perhaps interests rates will now be inclined to go up?

Secretary CONNALLY. No, sir. I do not think so. I think you can put too much emphasis perhaps on the short run, the short look at what these Treasury bills do. I think all it means to me is that money is highly volatile commodity and that it will actually—it will fluctuate in strange fashions at times, very frankly, depending on what the psychology of people, what they think is going to happen, not only here but around the world.

Senator BYRD. The more short-term bills you have to sell, it is to your interest.

Secretary CONNALLY. Absolutely. With respect to this point. Any time you get into an inflation period where there is an excessive demand for money, then we have to constantly go into the market to finance this debt and have to issue short-term bills and certificates. We cannot issue anything over a 7-year duration. Beyond any question, we contribute to this enormous demand and help push interest rates up. No doubt about it.

Senator BYRD. So when you sell $32 billion as compared to last year's $15 billion that is bound to have some impact on the market?

Secretary CONNALLY. Except that now we are in a falling market. The money supply is increasing. There is not the demand for money. As Senator Hartke pointed out a moment ago, there is a tremendous amount of money, M–1, so-called, in the banks. There is not the pressure right now for money that there was in the period when we previously issued the securities to which you refer.

Senator BYRD. Of course, as you say, that changes from time to time.

Secretary CONNALLY. Absolutely.

Senator BYRD. Three or 4 months from now.

Secretary CONNALLY. That is correct, and frankly one of the things we want the Congress to do is permit us to issue some long-term bonds in a period when we think the interest rates are going to be attractive enough that we can do it. I personally, as I testified a moment ago, hope we have not seen the bottom of them. I hope very probably that interest rates go down a bit more, particularly on long-term bonds. I think it is essential to the economic recovery of this country to have the economic vitality which we hope for, to have the jobs we need. We are going to have to have relatively inexpensive money.

Senator BYRD. To get to the increase in the debt ceiling, as I understand it, the debt at the present time is, in round figures, $390 billion, the debt itself?

Secretary CONNALLY. That is correct. Slightly above 391.

Senator BYRD. And you are seeking an increase to 435 in the ceiling?

Secretary CONNALLY. We asked that originally. The House gave us 430 and we will settle for that.

Senator BYRD. In any case you expect an increase of somewhere around $40 billion in the debt during the next 15 months?

Secretary CONNALLY. That is basically correct.

Senator BYRD. Forty billion dollars during the next 15 months.

Now, to get to the deficit, I am dealing now with the Federal funds deficit, and I find—I have a table here which I will ask the chairman if I may insert in the record.

The CHAIRMAN. Without objection, agreed.

(The table referred to follows:)

Deficits in Federal funds, 1961–72

[In billions of dollars]

	Receipts	Outlays	Deficit (−)
1961	75.2	79.3	4.1
1962	79.7	86.6	6.9
1963	83.6	90.1	6.5
1964	87.2	95.8	8.6
1965	90.9	94.8	3.9
1966	101.4	106.5	5.1
1967	111.8	126.8	15.0
1968	114.7	143.1	28.4
1969	143.3	148.8	5.5
1970	143.2	156.3	13.1
1971 [1]	139.1	164.7	25.6
1972 [1]	153.7	176.9	23.2
12-year total	1,324.2	1,469.7	145.9

[1] Estimated figures.

Senator BYRD. A table of receipts and outlays and the deficit for each year, beginning in 1961, the 12-year period going through fiscal 1962, and we find we did have a deficit in every one of those years, which includes the current fiscal year estimate and the new fiscal year.

Now, this is interesting to me and I think of some significance. For the last 3 years of President Johnson's administration, namely, fiscal 1967, 1968, and 1969, the accumulated deficit was $49 billion.

Now, for the first 3 years of President Nixon's administration, namely, fiscal 1970 through 1972, namely, 1970, 1971, and 1972, the accumulated deficit will be $62 billion.

I think that is optimistic. My guess is it is going to be substantially more than that. But nevertheless by the figures submitted to the Congress, the accumulated deficit will be at least $62 billion for those 3 years.

Now, to me that is alarming and discouraging. I realize that others do not take that view and they are entitled to take a more optimistic view, but I think this continued deficit financing is alarming. I am very much discouraged that the administration is deliberately going into deficit spending which is completely contrary to what it did last year and contrary to the President's statement to the Congress in his state of the Union address of a year ago.

Now, another table I would like to put into the record, if I may, Mr. Chairman, is a table of Federal taxes and spending, Federal funds receipts beginning in fiscal year 1968 through 1972, the receipts and expenditures for the Federal funds and receipts and expenditures for the trust funds, and the deficit or surpluses.

I would like to ask the committee's approval to——

The CHAIRMAN. Without objection.

(The table referred to follows:)

FEDERAL TAXES AND SPENDING

[All years are fiscal years, July 1–June 30—Federal fund receipts in billions]

	Fiscal year				
	1968	1969	1970	1971 (estimate)	1972 (estimate)
Individual income taxes	$69	$87	$90	$88	$94
Corporate income taxes	29	37	33	30	37
Subtotal (income taxes)	98	124	123	118	131
Excise taxes (excluding highway)	10	11	11	11	11
Estate and gift	3	4	4	4	5
Customs	2	2	2	2	2
Miscellaneous	3	3	3	4	4
Total Federal fund receipts	116	144	143	139	153
Federal fund expenditures in billions (total outlays)	143	149	156	164	176
Federal fund deficits (−) (total)	−27	−5	−13	−25	−23
Trust fund receipts in billions (total)	38	44	51	55	64
Trust fund outlays in billions (total)	36	36	40	48	53
Trust fund surpluses (total)	2	8	11	7	11
"Unified budget" surpluses or deficits (−) (total net)	−25	3	−2	−18	−12

Note: Trust fund totals consist mainly of social security contributions and payments.

Source: Office of Management and Budget.

Senator BYRD. The source is the Office of Management and Budget.

Now, Mr. Shultz, the estimates on corporate income taxes for 1972, fiscal 1972, you estimate that it will be $37 billion as compared to $30 billion in the current fiscal year which is an increase of 23 percent. Isn't that a very substantial increase in corporate profits that you expect?

Mr. SHULTZ. We believe it is perfectly consistent with our projections of the economy; we expect the economy to be moving forward. We believe that there has been a considerable wave of cost consciousness throughout business organizations. When you add these two things together, with the leverage that expansion gives in corporate profits, one should see a very sharp forward movement of corporate profits, and I expect that we will. We were talking earlier about how to interpret the stock market. I suppose a fundamental thing that it must be reflecting is anticipation that corporate profits will move up sharply.

Senator BYRD. Twenty-three percent, of course, would be a very sharp increase.

Mr. SHULTZ. Yes, indeed, but corporate profits are volatile, and when the pace of economic activity changes, they go down fast and they go up fast.

Senator BYRD. Now, we have the interest payments for 1970, 1971, and 1972 that have been inserted into the record as a result of a question I think by Senator Curtis. I wonder if you have handy, Mr. Secretary, the interest charges for 1967, 1968, and 1969, if we could get those?

Secretary CONNALLY. We can certainly get them for you, Senator.

Mr. SHULTZ. We have got them right here.

Secretary CONNALLY. 1967—was that the first year?

Senator BYRD. Yes.

Secretary CONNALLY. $13.4 billion. 1968, $14.6. 1969, $16.6. 1970, $19.3, 1971, estimated, $20.8, 1972, estimated, $21.2.

Senator BYRD. Thank you, Mr. Secretary. I thought it would be well to get those interest charges set out in one table. It shows that the taxpayers are paying—whereas in fiscal 1967, only a short time ago, the cost to the taxpayers was $13.4 billion, because of this continued increase in the national debt, along with the increase in interest rates, of course—the two of them are involved—it has now gone up to $21.2 billion. That means a pretty substantial part of every income tax dollar that the wage earner pays into Government goes for one purpose and that is to pay the interest on the debt which, as shown by the figures which you submitted, is—the total interest charges have gone from $13.4 billion in fiscal 1967 to $21.2 billion in fiscal 1972—an increase of 59 percent.

Now, there are only two other brief questions.

Mr. Secretary, I am sure you noted the recent publicity given to the unprecedented increases in welfare rolls. Now, the budget assumes an average of 9.1 million recipients of aid to families with dependent children in the current fiscal year, about the number you expected it to reach by January 1971. Yet in November that number had already risen to 9.4 million recipients, with apparently no end in sight.

Now, wouldn't this mean adding another billion dollars or maybe even more to the expected deficit?

Mr. SHULTZ. We feel very strongly and the President feels very strongly, as you all know, that we must come to grips with the problem of welfare reform. He has been saying this now for quite a long while. We had hoped that there would be action in the last session of Congress. We look for action in this session of Congress. And the figures that you cite are just an additional example that suggests the need of doing something about this.

Now, we hope that we can get some control over this situation, but continued escalation under the present system will certainly cost us more money and cause us great difficulty in the budget, without a doubt.

Senator BYRD. Well, now, let me see if I am clear on this. I judge from your answer, then, that the figure in the budget for welfare——

The CHAIRMAN. I would like to suspend for just one moment. Chairman Patman was in the room here and I would like to announce that if the Chairman can wait for a few minutes, we will invite him to testify before the committee.

Senator BYRD. Am I to assume from your answer, then, that the cost of welfare in the present budget will be greater than the figure as shown in the budget?

Mr. SHULTZ. Well, the figure shown in the budget is for fiscal 1972. We are talking about fiscal 1972, I would take it.

Senator BYRD. Yes, that is right.

Mr. SHULTZ. We do not know yet what the picture actually will be in fiscal 1972, of course, but we have made an estimate. As with all these things, the estimate could be wrong, and I share your concern about the escalation of welfare costs. It only underscores the importance of doing something about the situation in the line of welfare reform.

Senator BYRD. Well, let me ask you this, Mr. Shultz. Is it welfare reform to increase the number of people on welfare from somewhere around 9 to 10 million persons to 24 million persons? It that welfare reform?

Mr. SHULTZ. Well, welfare reform has to include many different aspects. I think that it is very important to make a part of the whole welfare reform idea a recognition of the importance of work and people moving from welfare into work, and to provide a kind of scaling and set of incentives that project a person going off welfare and gradually earning more and more through work. As soon as you do that, you have to include in your concept of this program people who are working but not earning very much income.

But I think that this underscores the importance in the welfare reform idea of having a strong work requirement and of having as powerful as we can devise set of incentives that make it such that an individual is always better off by earning more money working than not earning more money.

Senator BYRD. Well, we won't get into the welfare problem at the moment because we don't have the time, but just one additional statement I would like to put in the record and then I will be through, Mr. Chairman.

Now, there was roughly a $20 billion error in the current budget. Over the years there has been a tendency to overestimate in the budget the revenues that will be coming in and to underestimate the level of expenditures. And certainly this has been through recently. And I have here a study of budgets going all the way back to Warren Harding's administration in 1921 and it shows historically budget documents tend to be more optimistic than the facts prove to be.

Looking at the 1971 budget, it shows that the $1.3 billion estimated unified budget surplus actually turned into an $18.6 billion deficit. That is just one example.

This is nonpartisan because it has occurred under both Democratic and Republican administrations and I ask the consent of the committee to insert in the record comparative data on the Federal Government budget estimates originally submitted to Congress and final budget conditions realized for the fiscal years 1921 through 1972 as prepared by the Congressional Research Service of the Library of Congress.

The CHAIRMAN. Without objection that is agreed.

(The copies of the budget estimates referred to follow:)

COMPARATIVE DATA ON THE FEDERAL GOVERNMENT BUDGET ESTIMATES ORIGINALLY SUBMITTED TO CONGRESS AND THE FINAL BUDGET CONDITIONS REALIZED, FISCAL YEARS 1921-72 (PREPARED BY THE CONGRESSIONAL RESEARCH SERVICE OF THE LIBRARY OF CONGRESS)

[In millions of dollars]

Fiscal years	By President—	Original budget estimates submitted [1]			Actual budget results		
		Receipts	Outlays	Surplus or deficit (−)	Receipts	Outlays	Surplus or deficit (−)
Administrative budget concept:							
1921	Harding	[2]	[2]	[2]	5,567	5,058	509
1922	do	3,943	3,550	393	4,021	3,285	736
1923	do	3,338	3,103	235	3,849	3,137	713
1924	do	3,362	2,797	565	3,853	2,890	963
1925	Coolidge	3,694	2,767	827	3,598	2,881	717
1926	do	3,641	2,783	858	3,753	2,888	865
1927	do	3,825	2,979	846	3,992	2,837	1,155
1928	do	3,773	3,009	764	3,872	2,933	939
1929	do	3,809	3,015	794	3,861	3,127	734
1930	do	3,841	3,228	613	4,058	3,320	738
1931	Hoover	4,226	3,468	758	3,116	3,577	−462
1932	do	3,852	3,792	60	1,924	4,659	−2,735
1933	do	2,474	3,889	−1,416	1,997	4,598	−2,602
1934	do	2,667	3,697	−1,029	3,015	6,645	−3,630
1935	Roosevelt	3,975	4,487	−512	3,706	6,497	−2,791
1936	do	3,992	8,520	−4,529	3,997	8,422	−4,425
1937	do	5,654	6,753	−1,098	4,956	7,733	−2,777
1938	do	7,294	6,158	1,136	5,588	6,765	−1,177
1939	do	5,919	6,869	−950	4,979	8,841	−3,862
1940	do	5,669	8,996	−3,326	5,137	9,055	−3,918
1941	do	5,548	8,424	−2,876	7,096	13,255	−6,159
1942	do	8,275	17,486	−9,210	12,547	34,037	−21,490
1943	do	16,487	58,928	−42,441	21,947	79,368	−57,420
1944	do	33,081	104,129	−71,048	43,563	94,986	−51,423
1945	do	40,769	97,954	−57,185	44,362	98,303	−53,941
1946	do	41,255	82,530	−41,275	39,650	60,326	−20,676
1947	Truman	31,513	35,125	−3,6 2	39,677	38,923	754
1948	do	37,730	37,528	202	41,375	32,955	8,419
1949	do	44,477	39,669	4,808	37,663	39,474	−1,811
1950	do	40,985	41,858	−873	36,422	39,544	−3,122
1951	do	37,306	42,439	−5,133	47,480	43,970	3,510
1952	do	55,138	71,594	−16,456	61,287	65,303	−4,017
1953	do	70,998	85,444	−14,446	64,671	74,120	−9,449
1954	do	68,665	78,587	−9,922	64,420	67,537	−3,117
1955	Eisenhower	62,642	65,570	−2,928	60,209	64,389	−4,180
1956	do	60,000	62,408	−2,408	67,850	66,224	1,626
1957	do	66,300	65,865	435	70,562	68,966	1,596
1958	do	73,620	71,807	1,813	68,550	71,369	−2,819
1959	do	74,400	73,934	466	67,915	80,342	−12,427
1960	do	77,100	77,030	70	77,763	76,539	1,224
1961	do	84,000	79,816	4,184	77,659	81,515	−3,856
1962	do	82,333	80,865	1,468	81,409	87,787	−6,378
1963	Kennedy	93,600	92,537	463	86,376	92,642	−6,266
1964	do	86,900	98,802	−11,902	89,459	97,684	−8,226
1965	Johnson	93,000	97,900	−4,900	93,072	96,507	−3,435
1966	do	94,400	99,687	−6,281	104,727	106,978	−2,251
1967	do	111,000	112,847	−1,847	115,849	125,718	−9,869
1968	do	126,937	135,033	−8,096	114,723	143,105	−28,382
1969	do	135,587	147,363	−11,776	143,329	148,819	−5,489
1970	do	147,874	154,722	−6,848	143,158	156,301	−13,143
1971	Nixon	147,600	154,936	−7,337	[3] 139,137	[3] 164,665	[3] −25,528
1972	do	153,720	176,857	−23,137			
Unified budget concept: [4]							
1969	Johnson	178,108	186,062	−7,954	187,792	184,556	3,236
1970	do	198,686	195,272	3,414	193,743	196,588	−2,845
1970	Nixon (revised)	198,686	192,899	[5] 5,787			
1971	Nixon	202,103	200,771	1,331	[3] 194,193	[3] 212,755	[3] −18,562
1972	do	217,593	229,232	−11,639			

[1] Represents original estimates submitted by the President to the Congress each January in his annual budget message.
[2] No estimates were submitted for fiscal year 1921. The 1st budget, under provisions of the Budget and Accounting Act of 1921, was submitted by President Harding on Dec. 5, 1921, containing actual data for 1921 and estimates for 1922 and 1923.
[3] Represents revised estimates contained in the budget submitted by President Nixon on Jan. 29, 1971.
[4] The budget on the unified concept combines trust funds and Federal funds. This comprehensive budget form was recommended by the President's Commission on Budget Concepts in October 1967. The budget was first submitted on the unified budget basis in January 1968 for fiscal year 1969.
[5] Represents revised estimates contained in Bureau of the Budget review of the 1970 budget dated Apr. 15, 1969.

Source: U.S. Bureau of the Budget, "The Budget of the U.S. Government," annual volumes for the years 1923 through 1972, and "Review of the 1971 Budget," Apr. 15, 1969.

Senator BYRD. Thank you, Mr. Secretary and Director Shultz.

The CHAIRMAN. Mr. Secretary, Mr. Schultz, I believe there will be a few additional questions that you will be asked to answer, but because I would hope to conclude this session, that is, this hearing, in one day, I would like to ask that we call Representative Patman, one of our good friends, to testify before us at this time. After he testifies, I will ask you to answer a few other questions. If you can make yourself available I think we can be through within the next 30 to 45 minutes.

The SECRETARY. Thank you very much.

The CHAIRMAN. I now call the distinguished Chairman of the House Banking Committee, Hon. Wright Patman.

Mr. Chairman, we are pleased to have you with us today and we will be glad to have your views on this situation.

STATEMENT OF HON. WRIGHT PATMAN, A REPRESENTATIVE IN CONGRESS FROM THE FIRST CONGRESSIONAL DISTRICT OF THE STATE OF TEXAS

Representative PATMAN. Thank you, Mr. Chairman. I shall be brief. I know the ordeal you are going through and how hard you gentlemen are working and I do not want to add to your problems. But I do feel that I have some basic facts that I hope will be helpful to the committee.

In the House we had a vote on this bill last Wednesday. Seventy-three percent of the Democrats voted for low-interest rates, and against allowing the Treasury to market $10 billion of long-term Government bonds without regard to the 4¼-percent interest rate ceiling. We feel that the vote in the House would indicate that the 92d Congress, as far as the House is concerned, will be for high-interest rates. We Democrats hope that the 92d Congress can avoid this tag of a "high-interest-rate Congress."

You gentlemen could do much to wipe out this unfortunate action by the House and to avoid this high-interest name.

I want to thank you for giving me this time this morning, Mr. Chairman. This is an important issue and I sincerely hope that your committee will carefully consider the grave economic issues involved in the Treasury's request to remove the 4¼ percent ceiling on long-term Government bonds. We have had this up in the House on three previous occasions and each time we were successful in stopping it.

The House of Representatives made a serious mistake last week in removing the ceiling on the $10 billion of long-term bonds. The vote was close, 212 to 180, and I am happy to report that the Democrat leadership and the overwhelming majority of the Democrat Members supported the retention of this ceiling and interest rates, 91 percent of the Republicans, all but 14, voted solidly for high interest rates and removing the interest rates ceiling. They gathered up enough Democrat defectors to force this through. Now this committee has a wonderful opportunity to protect the public interest and reverse the mistake in the House.

You have two key issues in the bill before you. First, an increase in the debt limit; and second, removal of the 4¼-percent ceiling.

Now, here is what I would like to see you consider, Mr. Chairman. I urge you to separate these two issues—they should never have been joined together in the House—so that each may be carefully considered on its merits. The debt ceiling bill should be reported out separately, at least we think so, without reference to the 4¼ percent ceiling. The 4¼-percent ceiling issue can be considered in hearings with full discusison. We did not have full discussion on it in the House. We had short and incomplete testimony.

Mr. Chairman, I am convinced that the House will quickly accept a bill covering just the debt issue. There is really no problem there at all. This will take care of the emergency and leave us with the kind of time needed to discuss the far-reaching issues involved in the proposal to remove the 4¼-percent ceiling on long-term obligations. This is a very serious matter. Removal of the 4¼-percent ceiling will reverse the trend toward more interest rates and will create a shock wave through the money markets.

Removal of this 4¼-percent ceiling is not needed for debt management. Short-term issues are selling below 3½-percent and by Secretary Connally's own admissions, long-term bonds will be selling in excess of 6 or possibly 6½ percent.

These high interest rates would be locked in for years, for future generations to pay. This will cost the taxpayers $300 million annually in added interest on just the $10 billion referred to in this legislation. Undoubtedly we would see other requests for long-term issues without regard to the ceiling and this $300 million figure would rise rapidly.

In the end we would be costing the people billions and billions of dollars in extra interest over the life of these long-term bonds.

The 4¼-percent ceiling does not prevent the Treasury Department from entering the long-term market. It simply prevents the Treasury Department from entering the long-term market when interest rates are high. No businessman would raise long-term money during periods of high interest rates, they go short-term when rates are high.

As soon as the Nixon administration adopts policies which will bring down long-term interest rates, the Treasury Department will be able to market all of the long-term bonds it desires.

Mr. Chairman, the Congress has given up much of its power to the executive branch to the detriment of the public interest. The 4¼-percent ceiling is the last congressional control over debt management and interest rates. The Congress should not give up this power.

Here is what removal of the 4¼-percent ceiling would mean:

First, removal of the 4¼-percent ceiling would drive up all interest rates in the economy and would signal the end of the trend toward lower interest rates.

Second, removal of the ceiling would lock in high interest rates on long-term Government bonds of 30, 40, even 50 years. The Treasury today is able to market short-term issues at about 3½ percent. Long-term Government bonds according to existing market conditions would cost the American taxpayers more than 6 percent, or 2½ or 3 percent above the cost of short-term borrowings.

Three, removal of the ceiling would allow the Treasury Department to enter the long-term market in competition with local and State governments which are now entering the bond market after the

long drought created by high interest and tight money. The entry of the Federal Government into the long-term market would drive up rates for municipalities all over the Nation, and force many communities to forego badly needed projects.

Four, removal of the ceiling would allow the Treasury Department to compete for long-term money with home buyers seeking 25- and 30-year mortgages.

Five, removal would discourage businesses from financing long-term projects, worsening the already critical unemployment situation.

Six, removal of the ceiling would drive up interest rates for consumers, small businessmen and farmers, for any group in need of long-term credit.

Mr. Chairman, the Treasury Department's defense for gouging the American taxpayers with higher interest rates is that this would make for good debt management. They argue that short-term borrowings make debt management difficult. The 4¼ pecent ceiling is intended to make it difficult for any administration, for any Secretary of the Treasury, to lock in long-term borrowings at high interests rates.

The 4¼ percent ceiling does indeed make it difficult for the Treasury Department to gouge the taxpayers. When the Treasury Department can borrow at 3½ percent in the short-term market it makes no sense to require the taxpayers to pay 6½ percent and more for long-term debt.

The 4¼-percent ceiling is a substantive effect on the cost of the Federal Government and on the level of the interest rates generally, but it is also a broad symbol of low-interest rates. We have had it for 55 years. It is the principal low-interest policy of the Federal Government. It is also a mandate from the Congress for the debt managers, whether they be Republicans or Democrats, to hold down interest rates.

Thank you very much, Mr. Chairman.

The CHAIRMAN. Thank you very much, Congressman, for a very good statement. I have a great deal of sympathy with what you say.

Senator Anderson?

Senator ANDERSON. No.

The CHAIRMAN. Senator Miller?

Senator MILLER. Well, I appreciate the testimony from the distinguished Chairman of the House Banking and Currency Committee. My only comment would be he does lay great emphasis on the increase in the ceiling which might go from 4¼ to, say, 6¼ which would be roughly 2 percent more and on a $10 billion issue that would be roughly $200 million a year as I understand it, and he emphasizes the additional cost to the taxpayers.

I would say, however, if there is going to be an additional cost to the taxpayers, that since the income tax would be the source for most of the payments on that $200 million additional cost, and since that is based generally upon relative ability to pay, that the burden would probably fall pretty equitably and I would much rather see that type of cost to the taxpayers than a regressive sales tax or something of that nature.

So I must say I cannot get too disturbed about the relative ability to pay principal going in on that additional cost.

What I am concerned about is the other points that the Chairman has made and that is the fallout effect on the overall money mortgage and interest market.

The CHAIRMAN. Thank you very much.

Representative PARMAN. Thank you, sir.

The CHAIRMAN. We appreciate your being here today.

Senator Anderson may have a question or two to ask of the Secretary. I would like to ask Secretary Connally to return to the chair now, and also Director Shultz of the Budget.

STATEMENT OF THE HON. JOHN B. CONNALLY, ACCOMPANIED BY: GEORGE P. SHULTZ, AND PAUL A. VOLCKER—Resumed

The CHAIRMAN. I have a couple of questions I want to ask.

Mr. Secretary, if we approve this $10 billion authority on long-term bonds, what assurances can you give us that this authority will not be used in any way which could drive up long-term private interest rates such as long-term mortgage rates?

Secretary CONNALLY. First, I want to give you my personal assurance that I have as much concern about keeping long-term interest rates as low as is compatible with our overall economic situation as any member of Congress. We would not use the authority to issue $10 billion of long-term bonds outside the 4¼ percent interest limitation in any way which would impede the flow of funds to other borrowers.

Second, it should be most reassuring to Congress that a wide variety of organizations directly concerned with homebuilding and the mortgage market have explicitly endorsed removal or easing of the 4¼ percent limitation. These include the U.S. Savings and Loan League, the National Association of Mutual Savings Banks, the National Association of Homebuilders, the National Association of Real Estate Boards, and the Mortgage Bankers Association. If any of these organizations felt that moderate issues of long-term Treasury obligations would have an adverse effect on the mortgage market, I am confident that they would not have endorsed removal of the 4¼ percent ceiling; rather they would have been in the forefront of those opposing its removal. The simple fact is that their experience has demonstrated that requiring Treasury to concentrate its financing in the short-term area in periods of credit restraint and high interest rates is extremely adverse to the mortgage market.

The effects are probably equally adverse for State and local governments, since these bodies do a substantial amount of short-term borrowing. Treasury long-term financing, however, does not so directly compete with State and local government long-term borrowing.

The important thing, therefore, is for Treasury to have a sufficient degree of flexibility in its debt management operations so that it can avoid creating unfavorable situations for other credit users.

Finally, I need not remind you that the Congress can take this authority away from us at any time it appears we are abusing it. In any event, we will have to appear before your committee next year again on the debt ceiling, and I would welcome that appearance as an opportunity to review our public debt operations, particularly those in the long-term area.

The CHAIRMAN. You and I would agree that low interest rates are in the interests of all Americans, particularly those low and middle income people who must borrow to support their children's education, etc.

What I am wondering is, what effect do you think the prospective Federal funds deficits of $48.6 billion for the fiscal years 1971 and 1972 will have on interest rates?

Secretary CONNALLY. As I indicated in my testimony, I believe that interest rates, and particularly long-term interest rates, may not yet have reached their lowest levels.

In thinking about the effects of the prospective Federal deficits in fiscal years 1971 and 1972, the Federal funds deficits are clearly the deficits that have to be kept in mind for debt limit purposes. So far as the economic and financial effects of Government fiscal operations are concerned, however, the unified budget deficits are more significant. These will total $30.2 billion in the 2 fiscal years, compared with the Federal funds deficit of $48.6 billion.

But more is involved than just the size of these deficits. If we were looking at a very large deficit under conditions of full employment, it is fair to say that one consequence would very likely be sharply rising interest rates throughout all sectors of the credit markets. However, the situation we face today is one in which there is excessive unemployment and in which expansionary monetary policies are clearly indicated for the time being.

This being so, I would not anticipate that the budget deficits in fiscal years 1971 and 1972 should result in strong upward pressures on interest rates. This is not to say that there will not be some adjustments between maturity categories and between different types of credit. All in all, however, the current economic situation does not call for a credit policy which would lead to rising interest rates.

As you know, on a full employment basis the budget would show an overall surplus of $1.5 billion for fiscal years 1971 and 1972 combined. If we followed budgetary expenditure and tax policies which led to substantial actual deficits as we restored full employment, rather than the balance which present policies contemplate, it would be necessary then to put more wight on monetary policies to restrain inflationary pressures. Under these circumstances, we would have to anticipate rising interest rates.

Senator Anderson, have you any further questions?

Senator ANDERSON. They are some questions I have to ask regarding the rural electrification bonds. That is 2 percent. Do you think that should be as far down as that? If we enact a bill like this, how low can you make it, 3¼, 3½? Two and a half?

Secretary CONNALLY. Senator, I have not studied the matter that you raise with respect to interest rates on rural electrification loans. Traditionally it has been, what, 2 percent?

Senator ANDERSON. Yes.

Secretary CONNALLY. This is a matter of policy for the Congress. The Treasury's position I think would simply be that we would have to oppose any rate of interest below what we have to pay for money as a general proposition, but obviously the Congress in its wisdom can do whatever it wishes to promote any particular program which it has done in the case of rural electrification projects throughout the Nation.

But our view from the Treasury standpoint would simply be we would not make financing available to anybody at a rate of interest that is not related to what we have to pay for it.

Senator ANDERSON. Trying to keep the maximum below 6 percent?

Secretary CONNALLY. Well, in appropriate instances we could finance them certainly on a short-term basis at a rate that would coincide with the short-term rate. The REA loans traditionally are long-term loans. But we certainly could rationalize the difference. We would not have to insist in all instances upon the rate of interest being equivalent to our long-term interest rates.

The CHAIRMAN. Senator Miller?

Senator MILLER. Two questions.

Mr. Shultz, on page 3 of your testimony you state:

It is clear that the shift to a deficit position in fiscal year '71 and the consequent need for an increase in the statutory debt limit are primarily the result of economic conditions.

However, on page 2, I note of the $20 billion difference that $8 billion represents a short fall in revenue which I suppose you attribute to the economic conditions, and then we have a $2.3 billion increase in unemployment benefits which I suppose might be attributable to economic conditions. That comes out to $10.3 billion. So roughly it is about half, is it not, half economic conditions and half action by the Congress? Action or reaction?

Mr. SHULTZ. More or less. But the interest on the debt is $1.8 billion higher than was estimated and I suppose broadly speaking that would be related to economic conditions.

A very large item here had to do with pay raises and that is something that both the executive and congressional branches participated in. So it is a mixture.

Senator MILLER. Yes, but roughly half and half?

Mr. SHULTZ. Well, I think it is a little more than half mandatory things and things that resulted from the changes in the economy.

Senator MILLER. Now, the administration opposed certain tax cutting provisions, in the Tax Reform Act of 1969 and nevertheless the Congress legislated those tax-cutting provisions.

If you do not have the figure readily available, could you furnish for the record the amount of additional revenue that we would have received during this fiscal year had the administration's position with respect to the Tax Reform Act of 1969 on these tax cutting measures been sustained?

Mr. SHULTZ. Perhaps we had better submit that for the record.

Senator MILLER. Please do.

(Information supplied at this point follows:)

Various tax reductions included in the Tax Reform Act of 1969 reduced fiscal year 1971 revenues $2.9 billion below the administration's tax proposals of April 1969.

Senator MILLER. Now, you have a copy of the memorandum the chief counsel of this committee submitted to the members, I believe. I had one delivered to you. On page 1, the next to the last paragraph entitled "expenditure limitations," reads as follows:

Last year, the Congress placed a limitation of $200.8 billion on Federal expenditures during fiscal year 1971; however, the limitation was permitted to increase up to $4.5 billion for increases in certain uncontrollable expenditures,

and to be further adjusted in accord with Congressional action on appropriations and other legislation. As a result of these adjustments, the legal limitation is estimated at $214.5 billion, $1.7 billion more than the current expenditure estimate for fiscal year 1971.

Do you agree substantially with that paragraph?

Mr. SHULTZ. Yes, I do, although the estimate of $214.5 is built on expectations about some things that have not happened yet, and you have to wait for them.

Senator MILLER. One reason for asking the question is that every once in a while Members of Congress hear that certain spending by one or more of the agencies is being held up for your office to look at it and to possibly hold it up further or to release a portion of it rather than all of it, and the excuse I hear is that you are trying to keep within that ceiling limitation.

Now, that is what a number of us have been hearing, rightly or wrongly, and if this paragraph is correct, then it appears that the ceiling is roughly $1.7 billion more than the current expenditures' estimate which would cause one to wonder why your office is directing some of the agencies to hold up certain spending.

Mr. SHULTZ. Well, these are current estimates. They have been changing during the year. As you know, we still do not have the final action of the Congress on the President's fiscal 1971 budget, and the bulk of the 1971 budget was not acted upon until 6 months of the fiscal year had passed. This makes it very difficult for us, when we are operating under a ceiling, to plan and to see where we are going. So, naturally, since the President has the responsibility for obeying the law as Congress has passed it, he has to take steps to see that he is able to deliver on that responsibility.

So I think that the ceiling is a factor.

These are current estimates. We are talking about estimates of very large numbers, and when you are talking about that large a number, a billion dollars or so, you can very easily be off. So I think that the ceiling is an effective brake on us.

I would also say that we have been very reluctant to pour a tremendous amount of additional funds into the construction industry because the wage settlements there and the costs generally there have been so extraordinarily high. You hesitate to put additional demands on the market when you know that already there is a big demand for those construction resources.

Senator MILLER. Thank you very much.

Thank you, Mr. Chairman.

The CHAIRMAN. I would just like to ask one question here of the Secretary. How high do you think you will have to go to sell these long-term bonds that you would like to market, Mr. Secretary? In other words, if you want to lift it about 4¼—do you have to go beyond 4½ to sell those bonds? How high would you have to go to sell them?

Secretary CONNALLY. I think it depends on the nature of the bonds, Mr. Chairman, and what—I think we are looking at long-term bonds now, as I said a moment ago, that would probably go at 6, 6¼, in that general range, in that zone.

The CHAIRMAN. You mean that the Federal Government would have to pay that much?

Mr. VOLCKER. As came out this morning, the last 7-year bonds we sold we sold for 6¼. And the yields out in the 8, 9, 10-year area are very similar to that and the market has not changed a whole lot since then and the prevailing yield in the long-term area tends to be in the 6, 6¼ area. Those are the yields on the outstanding bonds. When you sell a new one you have to put a higher number on it. But the market fluctuates from time to time.

The CHAIRMAN. It would not help you very much to give a 4½-percent figure?

Secretary CONNALLY. No, sir; it really wouldn't.

The CHAIRMAN. As far as you are concerned, if you are going to do it you need to go as high as 6 or 7 percent; is that correct?

Secretary CONNALLY. Yes, sir. I would not say 7. We are going to watch the market very closely. We are going to test the market. We are not going to swamp the market with any particular amount. We are going to try to get it at cheaper—if the interest rate, particularly the long term, ever declines we might be able to make a very advantageous issue in behalf of the Government. That is all we want the power to do.

The CHAIRMAN. Senator Byrd, do you have further questions?

Senator BYRD. No questions.

The CHAIRMAN. Thank you very much, Mr. Secretary.

The committee will meet at 9:30 tomorrow morning in executive session to consider this legislation on which we conducted the hearing today.

Secretary CONNALLY. Thank you very much.

(Whereupon, at 12:30 p.m. the Senate Finance Committee adjourned, to reconvene in executive session the following morning at 9:30 a.m., Tuesday, March 9, 1971.)

APPENDIX A

Relationship Between Federal Debt, State and Local Debt, and Private Debt

PRIVATELY HELD FEDERAL DEBT RELATED TO GNP

[Dollar amounts in billions]

Dec. 31	Gross national product[1]	Privately held debt[2]	Ratio of debt to GNP (percent)
1929	$96.7	$16.0	16.5
1930	83.1	15.8	19.0
1931	66.9	17.7	26.4
1932	56.8	19.4	34.2
1933	60.3	21.9	36.3
1934	68.6	28.0	40.8
1935	77.4	32.0	41.3
1936	86.5	35.3	40.8
1937	87.6	36.6	41.8
1938	87.6	37.9	43.3
1939	94.8	40.1	42.3
1940	107.6	42.6	39.6
1941	138.8	54.0	38.9
1942	179.0	95.5	53.4
1943	202.4	142.9	70.6
1944	217.4	193.1	88.8
1945	196.0	228.2	116.4
1946	221.4	206.1	93.1
1947	245.0	199.1	81.3
1948	261.2	192.0	73.5
1949	260.5	197.7	75.9
1950	311.2	196.6	63.2
1951	338.2	193.1	57.1
1952	361.0	196.8	54.5
1953	360.8	200.9	55.7
1954	379.8	204.2	53.8
1955	409.7	204.8	50.0
1956	433.2	199.4	46.0
1957	438.1	198.8	45.4
1958	469.2	204.7	43.6
1959	496.8	214.8	43.2
1960	503.4	212.4	42.2
1961	542.8	217.8	40.1
1962	574.7	222.8	38.8
1963	611.8	223.9	36.6
1964	654.0	227.0	34.7
1965	719.2	225.6	31.4
1966	770.2	227.5	29.5
1967	825.4	237.3	28.7
1968	899.5	236.1	26.1
1969	955.6	232.1	24.3
1970 estimate	1,000.0	239.0	23.9

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

ESTIMATED GROSS GOVERNMENT AND PRIVATE DEBT, BY MAJOR CATEGORIES

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

[1] Less than one half of 1 percent.

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

ESTIMATED GROSS GOVERNMENT AND PRIVATE DEBT, BY MAJOR CATEGORIES

[Dollar amounts in billions]

December 31	Private			State and local	Federal			Total	Percent Federal of Total
	Individual	Corporate [1]	Total		Public	Agency	Total		
1929	$72.9	$107.0	$179.9	$17.8	$16.3	$1.2	$17.5	$215.2	8
1930	71.8	107.4	179.2	18.9	16.0	1.3	17.3	215.4	8
1931	64.9	100.3	165.2	19.5	17.8	1.3	19.1	203.8	9
1932	57.1	96.1	153.2	19.7	20.8	1.2	22.0	194.9	11
1933	51.0	92.4	143.4	19.5	23.8	1.5	25.3	188.2	13
1934	49.8	90.6	140.4	19.2	28.5	4.8	33.3	192.9	17
1935	49.7	89.8	139.5	19.6	30.6	5.6	36.2	195.3	19
1936	50.6	90.9	141.5	19.6	34.4	5.9	40.3	201.4	20
1937	51.1	90.2	141.3	19.6	37.3	5.8	43.1	204.0	21
1938	50.0	86.8	136.8	19.8	39.4	6.2	45.6	202.2	22
1939	50.8	86.8	137.6	20.1	41.9	6.9	48.8	206.5	24
1940	53.0	89.0	142.0	20.2	45.0	7.2	52.2	214.4	24
1941	55.6	97.5	153.1	20.0	57.9	7.7	65.6	238.7	27
1942	49.9	106.3	156.2	19.2	108.2	5.5	113.7	289.1	39
1943	48.8	110.3	159.1	18.1	165.9	5.1	171.0	348.2	49
1944	50.7	109.0	159.7	17.1	230.6	3.0	233.6	410.4	57
1945	54.7	99.5	154.2	16.0	278.1	1.5	279.6	449.8	62
1946	59.9	109.3	169.2	16.1	259.1	1.6	260.7	446.0	58
1947	69.4	128.9	198.3	17.5	256.9	0.7	257.6	473.4	54
1948	80.6	139.4	220.0	19.6	252.8	1.0	253.8	493.4	51
1949	90.4	140.3	230.7	22.2	257.1	0.8	257.9	510.8	50
1950	104.3	167.7	272.0	25.3	256.7	1.1	257.8	555.1	46
1951	114.3	191.9	306.2	28.0	259.4	0.8	260.2	594.4	44
1952	129.4	202.9	332.3	31.0	267.4	0.9	268.3	631.6	42
1953	143.2	212.9	356.1	35.0	275.2	0.8	276.0	667.1	41
1954	157.2	217.6	374.8	40.2	278.8	0.7	279.5	694.5	40
1955	180.1	253.9	434.9	46.3	208.8	1.4	282.2	763.4	37
1956	195.5	277.3	472.8	50.1	276.6	1.7	278.3	801.2	35
1957	207.6	295.8	503.4	54.7	274.9	3.2	278.1	836.2	33
1958	222.9	321.0	534.9	60.4	282.9	2.4	285.3	880.6	32
1959	245.0	341.4	586.4	66.6	290.8	5.7	296.5	949.5	31
1960	263.3	365.1	628.4	71.0	290.2	6.4	296.6	997.0	30
1961	284.8	391.5	676.3	77.6	296.2	6.8	303.0	1,056.9	29
1962	311.9	421.5	733.4	83.4	303.5	7.8	311.3	1,128.1	28
1963	345.8	467.1	802.2	98.5	309.3	8.1	317.4	1,209.1	28
1964	380.1	497.3	877.4	95.5	317.9	9.1	327.0	1,299.9	25
1965	416.1	551.9	968.0	103.1	320.9	9.8	330.7	1,401.8	24
1966	466.9	617.3	1,084.2	109.4	329.3	14.0	343.3	1,536.9	22
1967	480.6	664.4	1,145.0	117.4	344.7	20.1	364.8	1,627.2	22
1968	520.5	754.0	1,274.5	127.7	358.0	15.1	373.1	1,775.3	21
1969	555.1	861.0	1,416.1	137.0	368.2	13.8	382.0	1,935.1	20

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

Source: Commerce and Treasury Departments.

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

End of calendar year	Government debt						Private debt				Total government and private debt	
	Amounts outstanding (billions)			Per capita [2]			Amounts outstanding (billions)		Per capita [2]			
	Federal [1]	State and local	Total	Federal	State and local	Total	Corporate business [3]	Individual and noncorporate business	Corporate business	Individual and noncorporate business	Amount outstanding (billions)	Per Capita
1929	$17.5	$17.8	$35.3	$143	$145	$288	$107.0	$72.9	$874	$595	$215.2	$1,757
1930	17.3	18.9	36.2	140	153	293	107.4	71.8	868	581	215.4	1,742
1931	19.1	19.5	38.6	153	157	310	100.3	64.9	805	521	203.8	1,636
1932	22.0	19.7	41.7	176	157	333	96.1	57.1	767	456	194.9	1,555
1933	25.3	19.5	44.8	201	155	355	92.4	51.0	733	404	188.2	1,493
1934	33.0	19.2	52.2	260	151	411	90.6	49.8	714	392	192.9	1,520
1935	36.2	19.6	55.8	283	153	437	89.8	49.7	703	389	195.3	1,529
1936	40.3	19.6	59.9	313	152	466	90.9	50.6	707	394	201.4	1,566
1937	43.1	19.6	62.7	333	151	484	90.2	51.1	697	395	204.0	1,549
1938	45.6	19.8	65.4	349	152	501	86.8	50.0	665	383	202.2	1,576
1939	48.8	20.1	68.9	371	153	524	86.8	50.8	660	386	206.5	1,569
1940	52.2	20.2	72.4	393	152	545	89.0	53.0	670	399	214.4	1,615
1941	65.6	20.0	85.6	489	149	638	97.5	55.6	727	414	238.7	1,779
1942	113.7	19.2	132.9	837	141	978	106.3	49.9	782	367	289.1	2,128
1943	171.0	18.1	189.1	1,242	131	1,374	110.3	48.8	801	355	348.2	2,529
1944	233.6	17.1	250.7	1,678	123	1,801	109.0	50.7	783	364	410.4	2,947
1945	279.6	16.0	295.6	1,987	114	2,101	99.5	54.7	707	389	449.8	3,197
1946	260.7	16.1	276.8	1,825	113	1,938	109.3	59.9	765	419	446.0	3,123
1947	257.6	17.5	275.1	1,771	120	1,891	128.9	69.4	886	477	473.4	3,254
1948	253.8	19.6	273.4	1,715	132	1,847	139.4	80.6	942	545	493.4	3,334
1949	257.9	22.2	280.1	1,713	147	1,860	140.3	90.4	932	600	510.8	3,393
1950	257.8	25.3	283.1	1,685	165	1,850	167.7	104.3	1,096	682	555.1	3,627
1951	260.2	28.0	288.2	1,671	180	1,851	191.9	114.3	1,232	734	594.4	3,817
1952	268.3	31.0	299.3	1,694	196	1,890	202.9	129.4	1,281	817	631.6	3,988
1953	276.0	35.0	311.0	1,714	217	1,931	212.9	143.2	1,322	889	667.1	4,142
1954	279.5	40.2	319.7	1,705	245	1,950	217.6	157.2	1,327	959	694.5	4,236
1955	282.2	46.3	328.5	1,691	276	1,961	253.9	180.1	1,522	1,079	762.5	4,552

1956	278.3	50.1	328.4	1,638	294	1,925	277.3	195.5	1,632	1,151	801.2	4,696
1957	278.1	54.7	332.8	1,609	315	1,918	295.8	207.6	1,712	1,201	836.2	4,820
1958	285.3	60.4	345.7	1,624	342	1,960	312.0	222.9	1,776	1,269	880.6	4,992
1959	296.5	66.6	363.1	1,653	371	2,024	341.4	245.0	1,903	1,366	949.5	5,293
1960	296.6	72.0	368.6	1,627	395	2,022	365.1	263.3	2,002	1,444	997.0	5,469
1961	303.0	77.6	380.6	1,635	419	2,054	391.5	284.8	2,112	1,537	1,056.9	5,704
1962	311.3	83.4	394.7	1,654	443	2,097	421.5	311.9	2,240	1,658	1,128.1	5,994
1963	317.4	89.5	406.9	1,663	469	2,131	457.1	345.8	2,395	1,812	1,209.8	6,337
1964	327.0	95.5	422.5	1,690	494	2,183	497.3	380.1	2,570	1,965	1,299.9	6,718
1965	330.7	103.1	433.8	1,688	526	2,214	551.9	416.1	2,818	2,124	1,401.8	7,156
1966	343.3	109.4	452.7	1,733	552	2,285	617.3	466.9	3,116	2,357	1,536.9	7,758
1967	364.8	117.4	482.2	1,822	586	2,409	664.4	480.6	3,319	2,401	1,627.2	8,128
1968	373.1	127.7	500.8	1,845	631	2,476	754.0	520.5	3,727	2,573	1,775.3	8,776
1969	382.0	137.0	519.0	1,869	670	2,539	861.0	555.1	4,212	2,716	1,935.1	9,467

[1] Total Federal securities.

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

[3] Includes debt of federally sponsored agencies excluded from the budget.

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

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

End of calendar year	Gross national product [1] (in billions)	Ratios of debt to gross national product (percent)				
		Federal	State and local	Corporate	Individual and non-corporate	Total
1929	$96.7	18.1	18.4	110.7	75.4	222.5
1930	83.1	20.8	22.7	129.2	86.4	259.2
1931	66.9	28.6	29.1	149.9	97.0	304.6
1932	56.8	38.7	34.7	169.2	100.5	343.1
1933	60.3	42.0	32.3	153.2	84.6	312.1
1934	68.6	48.1	28.0	132.1	72.6	280.8
1935	77.4	46.8	25.3	116.0	64.2	252.3
1936	86.5	46.6	22.7	105.1	58.5	232.8
1937	87.6	49.2	22.4	103.0	58.3	232.9
1938	87.6	52.1	22.6	99.1	57.1	230.8
1939	94.8	51.5	21.2	91.6	53.6	217.8
1940	107.6	48.5	18.8	82.7	49.3	199.3
1941	138.8	47.3	14.4	70.2	40.1	172.0
1942	179.0	63.5	10.7	59.4	27.9	161.5
1943	202.4	84.5	8.9	54.5	24.1	172.0
1944	217.4	107.5	7.9	50.1	23.3	188.8
1945	196.0	142.6	8.2	50.8	27.9	229.5
1946	221.4	117.8	7.3	49.4	27.1	201.4
1947	245.0	105.1	7.1	52.6	28.3	193.2
1948	261.2	97.2	7.5	53.4	30.9	188.9
1949	260.5	99.0	8.5	53.9	34.7	196.1
1950	311.2	82.8	8.1	53.9	33.5	178.4
1951	338.2	76.9	8.3	56.7	33.8	175.8
1952	361.0	74.3	8.6	56.2	35.8	175.0
1953	360.8	76.5	9.7	59.0	39.7	184.9
1954	379.8	73.6	10.6	57.3	41.4	182.9
1955	409.7	68.9	11.3	62.0	44.0	185.9
1956	433.2	64.2	11.6	64.0	45.1	184.9
1957	438.1	63.5	12.5	67.5	47.4	190.8
1958	469.2	60.8	12.9	66.5	47.5	187.6
1959	496.8	59.7	13.4	68.7	49.3	190.8
1960	503.4	58.9	14.3	72.5	52.3	197.7
1961	542.8	55.8	14.3	72.1	52.5	194.7
1962	574.7	54.2	14.5	73.3	54.3	196.6
1963	611.8	51.9	14.6	74.7	56.5	197.9
1964	654.0	50.0	14.6	76.0	58.1	199.1
1965	719.2	46.0	14.3	76.7	57.9	195.1
1966	772.6	44.4	14.2	79.9	60.4	198.9
1967	825.4	44.2	14.2	80.5	58.2	197.1
1968	899.5	41.5	14.2	83.8	57.9	197.4
1969	955.6	40.0	14.3	90.1	58.1	202.5

[1] Implied level end of year, calculated as the average of the 4th and 1st calendar quarters at seasonally adjusted annual rates for the years 1939 through present. Prior to 1939, averages of 2 calendar year figures are used as the best approximation of Dec. 31 levels.

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

ESTIMATED NET GOVERNMENT AND PRIVATE DEBT OUTSTANDING, BY MAJOR CATEGORIES

[Dollar amounts in millions]

	December 1946		December 1960		December 1968		December 1969	
	Amount	Percent of total	Amount	Percent of total	Amount	Percent of total	Amount	Percent of total
Federal debt	$229.5	57.9	$239.8	27.4	$291.9	18.6	$289.3	17.0
State and local debt	13.7	3.5	64.9	7.4	123.2	7.9	132.4	7.8
Corporate debt [1]	93.5	23.6	306.3	35.0	632.3	40.3	722.7	42.5
Individual and noncorporate debt	59.9	15.1	263.3	30.1	520.5	33.2	555.1	32.7
Total	396.6	100.0	874.2	100.0	1,567.8	100.0	1,699.5	100.0

[1] Includes debt of privately owned federally sponsored agencies.

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

ESTIMATED NET GOVERNMENT AND PRIVATE DEBT, BY MAJOR CATEGORIES

[Dollar amounts in billions]

Dec. 31	Private			State and local	Federal	Total	Percent Federal of total
	Individual	Corporate[1]	Total				
1916	$36.3	$40.2	$76.5	$4.5	$1.2	$82.2	1
1917	37.7	43.7	82.4	4.8	7.3	94.5	8
1918	44.5	47.0	91.5	5.1	20.9	117.5	18
1919	43.9	53.3	97.2	5.5	25.6	128.3	20
1920	48.1	57.7	105.8	6.2	23.7	135.7	17
1921	49.2	57.0	106.2	7.0	23.1	136.5	17
1922	50.9	58.6	109.5	7.9	22.8	140.2	16
1923	53.7	62.8	116.3	8.6	21.8	146.7	15
1924	55.8	67.2	123.0	9.4	21.0	153.4	14
1925	59.6	72.7	132.3	10.3	20.3	162.9	12
1926	62.7	76.2	138.9	11.1	19.2	169.2	11
1927	66.4	81.2	147.6	12.1	18.2	177.9	10
1928	70.0	86.1	156.1	12.7	17.5	186.3	9
1929	72.9	88.9	161.8	13.6	16.5	191.9	9
1930	71.8	89.3	161.1	14.7	16.5	192.3	9
1931	64.9	83.5	148.4	16.0	18.5	182.9	10
1932	57.1	80.0	137.1	16.6	21.3	175.0	12
1933	51.0	76.9	127.9	16.3	24.3	168.5	14
1934	49.8	75.5	125.3	15.9	30.4	171.6	18
1935	49.7	74.8	124.5	16.1	34.4	175.0	20
1936	50.6	76.1	126.7	16.2	37.7	180.6	21
1937	51.1	75.8	126.9	16.1	39.2	182.2	22
1938	50.0	73.3	123.3	16.1	40.5	179.9	23
1939	50.8	73.5	124.3	16.4	42.6	183.3	23
1940	53.0	75.6	128.6	16.4	44.8	189.8	24
1941	55.6	83.4	139.0	16.1	56.3	211.4	27
1942	49.9	91.6	141.5	15.4	101.7	258.6	39
1943	48.8	95.5	144.3	14.5	154.4	313.2	49
1944	50.7	94.1	144.8	13.9	211.9	370.6	57
1945	54.7	85.3	140.0	13.4	252.5	405.9	62
1946	59.9	93.5	153.4	13.7	229.5	396.6	58
1947	69.4	109.6	179.0	15.0	221.7	415.7	53
1948	80.6	118.4	199.0	17.0	215.3	431.3	50
1949	90.4	118.7	209.1	19.1	217.6	445.8	49
1950	104.3	142.8	247.1	21.7	217.4	486.2	45
1951	114.3	163.8	278.1	24.2	216.9	519.2	42
1952	129.4	172.3	301.7	27.0	221.5	550.2	40
1953	143.2	180.9	324.1	30.7	226.8	581.6	39
1954	157.2	184.1	341.3	35.5	229.1	605.9	38
1955	180.1	215.0	395.1	41.1	229.6	665.8	35
1956	195.5	234.1	429.6	44.5	224.3	698.4	32
1957	207.6	249.1	456.7	48.6	223.0	728.3	31
1958	222.9	262.0	484.9	53.7	231.0	769.6	30
1959	245.0	287.0	532.0	59.6	241.4	833.0	29
1960	263.3	306.3	569.6	64.9	239.8	874.2	27
1961	284.8	328.3	613.1	70.5	246.7	930.3	27
1962	311.9	353.5	665.4	77.0	253.6	996.0	25
1963	345.8	383.6	729.5	83.9	257.5	1,070.9	24
1964	380.1	417.1	797.2	90.4	264.0	1,151.6	23
1965	416.1	463.2	879.3	98.3	266.4	1,244.1	21
1966	446.9	517.8	964.7	104.8	271.8	1,341.4	20
1967	480.6	555.6	1,036.2	112.8	286.5	1,435.5	20
1968	520.5	632.3	1,152.8	123.2	291.9	1,567.8	19
1969	555.1	722.7	1,277.8	132.4	289.3	1,699.5	17

[1] Includes debt of privately owned, Federally-sponsored agencies excluded from the budget which amounted to $700,000,000 on Dec. 31, 1947; $21,400,000,000 on Dec. 31, 1968; and $30,500,000,000 on Dec. 31, 1969.

Source: Commerce and Treasury Departments.

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

End of calendar year	Government debt						Private debt				Total government and private debt	
	Amounts outstanding (billions)			Per capita [2]			Amounts outstanding (billions)		Per capita [2]			
	Federal [1]	State and local	Total	Federal	State and local	Total	Corporate business [3]	Individual and non-corporate business	Corporate business	Individual and non-corporate business	Amount outstanding (billions)	Per Capita
1916	$1.2	$4.5	$5.7	$12	$44	$56	$40.2	$36.3	$391	$353	$82.2	$800
1917	7.3	4.8	12.1	70	46	116	43.7	38.7	420	372	94.5	909
1918	20.9	5.1	26.0	199	49	248	47.0	44.5	448	425	117.5	1,121
1919	25.6	5.5	31.1	242	52	294	53.3	43.9	504	415	128.3	1,213
1920	23.7	6.2	29.9	220	58	278	57.7	48.1	537	447	135.7	1,262
1921	23.1	7.0	30.1	211	64	275	57.0	49.2	522	450	136.3	1,247
1922	22.8	7.9	30.7	205	71	277	58.6	50.9	528	459	140.2	1,263
1923	21.8	8.6	30.4	193	76	269	62.6	53.7	554	475	146.7	1,298
1924	21.0	9.4	30.4	183	82	264	67.2	55.8	584	485	153.4	1,334
1925	20.3	10.3	30.6	174	88	262	72.7	59.6	623	511	162.9	1,397
1926	19.2	11.1	30.3	161	93	254	76.2	62.7	639	526	169.2	1,419
1927	18.2	12.1	30.3	152	101	253	81.2	66.4	678	554	177.9	1,485
1928	17.5	12.7	30.2	144	105	249	86.1	70.0	711	578	186.3	1,538
1929	16.5	13.6	30.1	135	111	246	88.9	72.9	726	595	191.9	1,567
1930	16.5	14.7	31.2	133	119	252	89.3	71.8	722	581	192.3	1,555
1931	18.5	16.0	34.5	149	128	277	83.5	64.9	670	521	182.9	1,468
1932	21.3	16.6	37.9	170	132	302	80.0	57.1	638	456	175.0	1,396
1933	24.3	16.3	40.6	193	129	322	76.9	51.0	610	404	168.5	1,336
1934	30.4	15.9	46.3	240	125	365	75.5	49.8	595	392	171.6	1,352
1935	34.4	16.1	50.5	269	126	395	74.8	49.7	585	389	175.0	1,370
1936	37.7	16.2	53.9	293	126	419	76.1	50.6	592	394	180.6	1,405
1937	39.2	16.1	55.3	303	124	427	75.8	51.1	585	395	182.2	1,407
1938	40.5	16.1	56.6	310	123	434	73.3	50.0	562	383	179.9	1,379
1939	42.6	16.4	59.0	324	125	448	73.5	50.8	559	386	183.3	1,393
1940	44.8	16.4	61.2	337	123	461	75.6	53.0	569	399	189.8	1,429
1941	56.3	16.1	72.4	420	120	540	83.4	55.6	622	414	211.4	1,576
1942	101.7	15.4	117.1	749	113	862	91.6	49.9	674	367	258.6	1,903
1943	154.4	14.5	168.9	1,122	105	1,227	95.5	48.8	694	355	313.2	2,275
1944	211.9	13.9	225.8	1,522	100	1,622	94.1	50.7	676	364	370.6	2,662
1945	252.5	13.4	265.9	1,795	95	1,890	85.3	54.7	606	389	405.9	2,885

1946	229.5	13.7	243.2	1,607	96	1,703	93.5	59.9	655	419	396.6	2,777
1947	221.7	15.0	236.7	1,524	103	1,627	109.6	69.4	753	477	415.7	2,858
1948	215.3	17.0	232.3	1,455	115	1,570	118.4	80.6	800	545	431.3	2,914
1949	217.6	19.1	236.7	1,445	127	1,572	118.7	90.4	788	600	445.8	2,961
1950	217.4	21.7	239.1	1,421	142	1,562	142.8	104.3	933	682	486.2	3,177
1951	216.9	24.2	241.1	1,393	155	1,548	163.8	114.3	1,052	734	519.2	3,334
1952	221.5	27.0	248.5	1,399	170	1,569	172.3	129.4	1,088	817	550.2	3,474
1953	226.8	30.7	257.5	1,408	191	1,599	180.9	143.2	1,123	889	581.6	3,611
1954	229.1	35.5	264.6	1,397	217	1,604	184.1	157.2	1,123	959	605.9	3,696
1955	229.6	41.1	270.7	1,376	245	1,616	215.0	180.1	1,289	1,079	665.8	2,975
1956	224.3	44.5	268.8	1,320	261	1,576	234.1	195.5	1,378	1,151	698.4	4,094
1957	223.0	48.6	271.6	1,290	280	1,565	249.1	207.6	1,441	1,201	728.3	4,198
1958	231.0	53.7	284.7	1,315	304	1,614	262.0	222.9	1,491	1,269	769.6	4,363
1959	241.4	59.6	301.0	1,346	332	1,678	287.0	245.0	1,600	1,366	833.0	4,643
1960	239.8	64.9	304.7	1,315	356	1,671	306.3	263.3	1,680	1,444	874.2	4,795
1961	246.7	70.5	317.2	1,331	380	1,712	328.3	284.8	1,771	1,537	930.3	5,021
1962	253.6	77.0	330.6	1,348	409	1,757	353.5	311.9	1,879	1,658	996.0	5,292
1963	257.5	83.9	341.4	1,349	439	1,788	383.6	345.8	2,010	1,812	1,070.9	5,610
1964	264.0	90.4	354.4	1,364	467	1,832	417.1	380.1	2,156	1,965	1,151.6	5,951
1965	266.4	98.3	364.7	1,360	502	1,862	463.2	416.1	2,365	2,124	1,244.1	6,351
1966	271.8	104.8	376.6	1,372	529	1,901	517.8	446.9	2,614	2,256	1,341.4	6,771
1967	286.5	112.8	399.3	1,431	563	1,994	555.6	480.6	2,775	2,401	1,435.5	7,170
1968	291.9	123.2	415.1	1,443	609	2,052	632.3	520.5	3,126	2,573	1,567.8	7,750
1969	289.3	132.4	421.7	1,415	648	2,063	722.7	555.1	3,536	2,716	1,699.5	8,315

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

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

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

End of calendar year	Gross national product [1] (in billions)	Ratios of debt to gross national product (percent)				
		Federal	State and local	Corporate	Individual and noncorporate	Total
1929	$96.7	17.1	14.1	91.9	75.4	198.4
1930	83.1	19.9	17.7	107.5	86.4	234.7
1931	66.9	27.7	23.9	124.8	97.0	273.4
1932	56.8	37.5	29.2	140.8	100.5	308.1
1933	60.3	40.3	27.0	127.5	84.6	279.4
1934	68.6	44.3	23.2	110.1	72.6	250.1
1935	77.4	44.4	20.8	96.6	64.2	226.1
1936	86.5	43.6	18.7	88.0	58.5	208.8
1937	87.6	44.7	18.4	86.5	58.3	208.0
1938	87.6	46.2	18.4	83.7	57.1	205.4
1939	94.8	44.9	17.3	77.5	53.6	193.4
1940	107.6	41.6	15.2	70.3	49.3	176.4
1941	138.8	40.6	11.6	60.1	40.1	152.3
1942	179.0	56.8	8.6	51.2	27.9	144.5
1943	202.4	76.3	7.2	47.2	24.1	154.7
1944	217.4	97.5	6.4	43.3	23.3	170.5
1945	196.0	128.8	6.8	43.5	27.9	207.1
1946	221.4	103.7	6.2	42.2	27.1	179.1
1947	245.0	90.5	6.1	44.7	28.3	169.7
1948	261.2	82.4	6.5	45.3	30.9	165.1
1949	260.5	83.5	7.3	45.6	34.7	171.1
1950	311.2	69.9	7.0	45.9	33.5	156.2
1951	328.2	64.1	7.2	48.4	33.8	153.5
1952	361.0	61.4	7.5	47.7	35.8	152.4
1953	360.8	62.9	8.5	50.1	39.7	161.2
1954	379.8	60.3	9.3	48.5	41.4	159.5
1955	409.7	56.0	10.0	52.5	44.0	162.4
1956	433.2	51.8	10.3	54.0	45.1	161.1
1957	438.1	50.9	11.1	56.9	47.4	166.0
1958	469.2	49.2	11.4	55.8	47.5	163.8
1959	496.8	48.6	12.0	57.8	49.3	167.5
1960	503.4	47.6	12.9	60.8	52.3	173.6
1961	542.8	45.4	13.0	60.5	52.5	171.3
1962	574.7	44.1	13.4	61.5	54.3	173.3
1963	611.8	42.1	13.7	62.7	56.5	175.0
1964	654.0	40.4	13.8	63.8	58.1	176.1
1965	719.2	37.0	13.7	64.4	57.0	172.7
1966	772.6	35.2	13.6	67.0	57.8	173.6
1967	825.4	34.7	13.7	67.3	58.2	173.9
1968	899.5	32.5	13.7	70.3	57.9	174.3
1969	955.6	30.3	13.9	75.6	58.1	177.8

[1] Implied level end of year, calculated as the average of the 4th and 1st calendar quarters at seasonally adjusted annual rates for the years 1939 through present. Prior to 1939, averages of 2 calendar year figures are used as the best approximation of Dec. 31 levels.

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

(1) Borrowing from the public.
(2) Debt divided by the population of the conterminous U.S. and including armed forces overseas. Alaska is included beginning 1959 and Hawaii beginning in 1960.
(3) Includes debt of Federally sponsored agencies excluded from the budget.

ESTIMATED FEDERAL DEBT RELATED TO POPULATION AND PRICES, 1900–1970

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

See footnotes at end of table, p. 77.

ESTIMATED FEDERAL DEBT RELATED TO POPULATION AND PRICES, 1900–1970—Continued

	Federal debt (billions)			Per capita Federal debt [1]			Real per capita Federal debt [2]		
	Gross [3]	Net [4]	Privately held net [5]	Gross [3]	Net [4]	Privately held net [5]	Gross [3]	Net [4]	Privately held net [5]
June 30—Continued									
1908	1.2	1.2	1.2	13	13	13	(6)	(6)	(6)
1909	1.1	1.1	1.1	13	13	13	(6)	(6)	(6)
1910	1.1	1.1	1.1	12	12	12	(6)	(6)	(6)
1911	1.2	1.2	1.2	12	12	12	(6)	(6)	(6)
1912	1.2	1.2	1.2	13	13	13	(6)	(6)	(6)
1913	1.2	1.2	1.2	12	12	12	$49	$49	$49
1914	1.2	1.2	1.2	12	12	12	48	48	48
1915	1.2	1.2	1.2	12	12	12	47	47	47
Dec. 31—									
1916	1.2	1.2	1.1	12	12	11	41	41	38
1917	7.3	7.3	7.2	70	70	69	203	203	201
1918	21.0	20.9	20.7	200	199	198	482	480	471
1919	25.8	25.6	25.3	244	242	239	513	508	502
1920	24.0	23.7	23.4	223	220	218	458	452	448
1921	23.5	23.1	22.9	215	211	210	494	485	483
1922	23.2	22.8	22.4	209	205	202	493	483	476
1923	22.2	21.8	21.7	196	193	192	451	444	441
1924	21.5	21.0	20.5	187	183	178	431	422	410
1925	20.8	20.3	19.9	178	174	171	395	386	379
1926	19.9	19.2	18.9	167	161	159	376	363	358
1927	18.6	18.2	17.6	155	152	147	356	349	338
1928	18.4	17.5	17.3	152	144	143	353	334	332
1929	17.5	16.5	16.0	143	135	131	331	312	303
1930	17.3	16.5	15.8	140	133	128	345	328	315
1931	19.1	18.5	17.7	153	149	142	417	406	387
1932	22.0	21.3	19.4	176	170	155	535	517	471
1933	25.3	24.3	21.9	201	193	174	607	583	526
1934	33.3	30.4	28.0	260	240	221	769	710	654
1935	36.2	34.4	32.0	283	269	250	813	773	718
1936	40.3	37.7	35.3	313	293	275	889	832	781
1937	43.1	39.2	36.6	333	303	283	920	837	782
1938	45.6	40.5	37.9	349	310	290	989	878	822
1939	48.8	42.6	40.1	371	324	305	1,057	923	869
1940	52.2	44.8	42.6	393	337	321	1,110	952	907
1941	65.6	56.3	54.0	489	420	402	1,257	1,080	1,033
1942	113.7	101.7	95.5	837	749	703	1,969	1,762	1,654
1943	171.0	154.4	142.9	1,242	1,122	1,038	2,836	2,562	2,317
1944	233.6	211.9	193.1	1,678	1,522	1,387	3,746	3,397	3,096
1945	279.6	252.5	228.2	1,987	1,795	1,622	4,338	4,312	3,541
1946	260.7	229.5	206.1	1,825	1,607	1,433	3,373	2,970	2,649
1947	257.6	221.7	199.1	1,771	1,524	1,369	3,002	2,583	2,320
1948	253.8	215.3	192.0	1,715	1,455	1,297	2,830	2,401	2,140
1949	257.9	217.6	197.7	1,713	1,445	1,313	2,884	2,433	2,210
1950	257.8	217.4	196.6	1,685	1,421	1,285	2,679	2,259	2,043
1951	260.2	216.9	193.1	1,671	1,393	1,240	2,509	2,092	1,862
1952	268.3	221.5	196.8	1,694	1,399	1,243	2,524	2,085	1,852
1953	276.0	226.8	200.9	1,714	1,408	1,247	2,536	2,083	1,846
1954	279.5	229.1	204.2	1,705	1,397	1,246	2,533	2,076	1,851
1955	282.2	229.6	204.8	1,691	1,376	1,227	2,505	2,038	1,818
1956	278.3	224.3	199.4	1,638	1,320	1,174	2,357	1,899	1,689
1957	278.1	223.0	198.8	1,609	1,290	1,150	2,247	1,802	1,606
1958	285.3	231.0	204.7	1,624	1,315	1,165	2,231	1,806	1,600
1959	296.5	241.4	214.8	1,653	1,346	1,197	2,237	1,821	1,620
1960	296.6	239.8	212.4	1,627	1,315	1,165	2,169	1,753	1,553
1961	303.0	246.7	217.8	1,635	1,331	1,175	2,166	1,763	1,556
1962	311.3	253.6	222.8	1,654	1,348	1,184	2,165	1,764	1,550
1963	317.4	257.5	223.9	1,663	1,349	1,173	2,140	1,736	1,510
1964	327.0	264.0	227.0	1,690	1,364	1,173	2,150	1,735	1,492
1965	330.7	266.4	225.6	1,688	1,360	1,152	2,107	1,698	1,438
1966	343.3	271.8	227.5	1,733	1,372	1,148	2,093	1,657	1,386
1967	364.9	286.4	237.3	1,822	1,431	1,185	2,136	1,678	1,368
1968	373.1	291.9	236.1	1,845	1,443	1,167	2,066	1,616	1,307
1969	382.0	289.3	232.1	1,869	1,415	1,135	1,972	1,493	1,197
1970	401.6	301.1	239.0	1,955	1,466	1,163	1,955	1,446	1,163

[1] Debt divided by population.
[2] Per capita debt expressed in Dec. 31, 1970, prices (Consumer Price Index for all items).
[3] Total Federal securities outstanding, unified budget concept.
[4] Borrowing from the public, unified budget concept.
[5] Borrowing from the public less Federal Reserve holdings.
[6] Not available.

APPENDIX B

Draft of a proposed bill to authorize the Secretary of the Treasury to transfer to the Government of the Republic of the Philippines funds for making payments on certain pre-1934 bonds of the Philippines, and for other purposes

THE SECRETARY OF THE TREASURY,
Washington, D.C., January 29, 1971.

Hon. SPIRO T. AGNEW,
President of the Senate,
Washington, D.C.

DEAR MR. PRESIDENT: There is transmitted herewith a draft of a proposed bill, "To authorize the Secretary of the Treasury to transfer to the Government of the Republic of the Philippines funds for making payments on certain pre-1934 bonds of the Philippines, and for other purposes."

The proposed bill authorizes the Secretary of the Treasury to transfer to the Government of the Republic of the Philippines, sixty days after the date of enactment, the money then held in a special trust account in the Treasury for making payment on certain Philippine bonds issued before 1934, all of which have matured. The Philippine Government would assume the responsibility for such payments and, as of the date of transfer, the United States would cease to be liable for them. As of December 31, 1970, the total outstanding amount of principal and interest on the bonds was $138,733.69. As of the same date, the special trust account held $138,739.21. There have been few payment transactions during the past several years.

Enactment of the proposed bill would be in the best interests of this Government and of the Government of the Republic of the Philippines for the following reasons. The special trust account was established in 1946 with money received from the Philippine Government in effect to guarantee that payment on its obligations would be made. Those obligations have now matured and the exact liability therefore determined. However, it cannot be said when, if ever, all the outstanding matured bonds and interest coupons will be presented for payment, and the Department of the Treasury considers therefore that it is unnecessary for it to continue to maintain indefinitely the special trust account on the books of the Treasury. Finally, the Philippine Government, by an Executive Agreement dated November 26, 1969, has agreed to assume sole responsibility for the payments on its bonds if and when presented.

I enclose herewith an analysis which offers more detailed information concerning the provisions of the draft bill and the reasons for its proposal.

It would be appreciated if you would lay the proposed bill before the Senate. An identical bill has been transmitted to the Speaker of the House of Representatives.

The Department has been advised by the Office of Management and Budget that there is no objection from the standpoint of the Administration's program to the submission of this proposed legislation to the Congress.

Sincerely yours,

DAVID M. KENNEDY.

Enclosures.

A BILL to authorize the Secretary of the Treasury to transfer to the Government of the Republic of the Philippines funds for making payments on certain pre-1934 bonds of the Philippines, and for other purposes

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That subsection (g) of section 6 of the Act of March 24, 1934 (48 Stat. 456; 22 U.S.C. 1393(g)), as added by the Act of August 7, 1939 (53 Stat. 1226, 1228) and amended by the Act of September 22, 1959 (73 Stat. 621, 622), is repealed.

SEC. 2. In order to implement the Executive Agreement concluded between the Government of the United States and the Government of the Republic of the

Philippines on November 26, 1969, under which the Government of the Republic of the Philippines agreed to assume from the Secretary of the Treasury sole responsibility for payments of the principal of and interest on all outstanding bonds of the Philippines, its Provinces, cities and municipalities, issued prior to May 1, 1934, under authority of Acts of the Congress of the United States, the Secretary of the Treasury is authorized to transfer to the Government of the Republic of the Philippines whatever sums remain on the effective date of this Act in the special trust account with the Treasurer of the United States in the name of the Secretary set up by section 6(g)(4) of the said Act of March 24, 1934, as added by the said Act of August 7, 1939.

SEC. 3. As of the date of the transfer of sums to the Government of the Philippines, authorized by section 2 of this Act, the United States shall cease to be liable for the payment of principal or interest on all outstanding bonds of the Philippines, its Provinces, cities and municipalities, issued prior to May 1, 1934, under authority of Acts of the Congress of the United States.

SEC. 4. This Act shall take effect 60 days after the date of its enactment.

THE DEPARTMENT OF THE TREASURY, WASHINGTON, D.C.

ANALYSIS OF A TREASURY PROPOSED BILL TO AUTHORIZE THE SECRETARY OF THE TREASURY TO TRANSFER TO THE GOVERNMENT OF THE REPUBLIC OF THE PHILIPPINES FUNDS FOR MAKING PAYMENTS ON CERTAIN PRE-1934 BONDS OF THE PHILIPPINES, AND FOR OTHER PURPOSES.

The proposed bill authorizes the Secretary of the Treasury to transfer to the Government of the Republic of the Philippines the money held in a special trust account in the Treasury to make principal and interest payments on outstanding bonds of the Philippines, its Provinces, cities and municipalities, issued before May 1, 1934, pursuant to Congressional authorizations (those bonds are hereafter referred to as pre-1934 Philippine bonds for ease of reference). The Philippine Government would assume responsibility for the payments. The United States would not be liable therefor as of the date of transfer.

In order to accomplish this purpose, the proposed bill repeals subsection (g) of section 6 of the Act of March 24, 1934 (48 Stat. 456), as added by the Act of August 7, 1939 (53 Stat. 1226, 1228) and amended by the Act of September 22, 1959 (73 Stat. 621, 622), codified at 22 U.S.C. 1393(g), which provides the specific statutory authority of the Secretary of the Treasury to make principal and interest payments on pre-1934 Philippine bonds and prescribed the conditions for setting up the sepcial trust account and its authorized investment. The bill provides for an effective date 60 days after enactment to allow the Treasury adequate time for making the necessary fiscal arrangements.

By 1963 all of the obligations for which the special trust account is liable had matured. The total outstanding liability for principal and interest was $138,733.69 on December 31, 1970. More than enough money, $138,739.21 on the same date, remains in the special trust account to satisfy that liability. The Treasury Bureau of Accounts maintains $57,174.21 of the amount on hand for payments on the peso denominated bonds and the Office of the Treasurer of the United States administers the remainder for payments on the dollar denominated bonds.

The trust account to which the bill refers was set up by the first section of the Act of August 7, 1939 (53 Stat. 1226), which added subsection (g) to section 6 of the Act of March 24, 1934 (48 Stat. 456). That subsection provided for the establishment before July 4, 1946, of a special trust account in the Treasury for the purpose of meeting principal and interest payments on "bonds of the Philippines to which a moral obligation of the United States might have been attached" (H. Rept. 1058, 76th Congress, 3 (1939) and S. Rept. 453, 76th Congress, 3 (1939)), and specified the Secretary of the Treasury as the person authorized to make such payments when the amount in the account was adequate. The account was to consist of all sinking funds maintained by the Government of the Philippines itself for the payment of its bonds, one of which consisted of the proceeds of taxes imposed on exports to the United States, pursuant to section 6(e) of the 1934 Act. The trust account was to consist also of the supplementary sinking fund on deposit with the Treasurer of the United States held for the same purpose, consisting of quarterly payments by the Philippine Government of the proceeds of export taxes imposed and collected by it after August 7, 1939, pursuant to section 6(g)(1) as added to the 1934 Act by the 1939 Act. Pursuant to an agreement between the Government of the Philippines

and the Secretary of the Treasury, that Government also made annual payments into the trust account between 1946 and 1951.

All provisions of section 6(g) of the 1934 Act have either been fulfilled or have expired, except for the provision in subsection (g)(5) authorizing the Secretary of the Treasury to make principal and interest payments on pre-1934 Philippine bonds. In particular, in accord with subsection (g)(5) in November 1951 the Secretary determined that the trust account balance was sufficient to meet principal and interest payments on all outstanding bonds, and all interest and principal payments began to be paid from the account; up to that time the independent Philippine Government had made all principal and interest payments. Also, in accord with the provisions of subsection (g)(5) that, whenever the Secretary determined that the trust account balance was in excess of an amount adequate to meet interest and principal payments on all such obligations, such excess be turned over to the Treasurer of the Philippines, the Secretary determined to be excess and returned to the Philippines an aggregate of $1,838,000, consisting of $1,000,000 in May 1954, $600,000 in February 1962, and $238,000 in August 1965.

The Government of the Republic of the Philippines has agreed to accept the sums which the bill proposes to be transferred and thereafter to assume full responsibility for principal and interest payments in an Executive Agreement with the Government of the United States, dated November 26, 1969, which by its terms will enter into force upon receipt by the Philippine Government of advice from the United States Government that the proposed bill has been enacted. Therefore, enactment of the proposed bill is necessary to implement the Executive Agreement.

The Department of State Legal Adviser's Office, in a 1969 Memorandum of Law, concurred in the Treasury conclusion that enactment of the proposed bill was necessary because section 6(g)(5) of the 1934 Act specifies the Secretary of the Treasury as the official authorized to make principal and interest payments on pre-1934 Philippine bonds.

APPENDIX C

Communication Record by the Committee Expressing an Interest in This Hearing

THE AMERICAN BANKERS ASSOCIATION,
Washington, D.C., March 8, 1971.

HON. RUSSELL B. LONG,
Chairman, Senate Finance Committee, United States Senate,
New Senate Office Building, Washington, D.C.

DEAR MR. CHAIRMAN: The American Bankers Association endorses the recent action by the House of Representatives of passing H.R. 4690, concerned with easing debt management problems, and urges its speedy adoption by the Senate. While we recognize, of course, the need to raise the debt ceiling at this time, we strongly approve of the provision permitting the limited issuance of Treasury bonds at interest rates above the present 4¼ percent ceiling. This provision will be an important step toward freeing the Treasury from a serious impediment to efficient debt management.

It seems hardly necessary to elaborate on the inhibiting effects of the interest rate limit, on Treasury efforts to help achieve major national policy goals. Yet, the importance of the contribution debt management can make towards reaching objectives such as a soundly growing economy and the restraint of inflationary pressures, deserves further comment.

The role of debt manaegment can be significant only if the Treasury is allowed sufficient leeway and flexibility in offering new issue terms which are in accord with current economic conditions. As a result of increases in market rates of interest since 1965, the Treasury has been unable to offer bonds at rates of 4¼ percent or less. Thus, it has been forced to issue notes and short-term securities maturing within 7 years, which are not subject to the interest rate limitation. The effect of this has been a sharp decline in the average maturity of debt. In fact, over one-half of the marketable debt in private hands on January 1, 1971, was in maturities of less than one year. Consequently, the rapidly growing amounts of issues coming due each year have greatly increased the difficulties of handling the Treasury's refinancing operations.

Damage to the maturity structure of the debt is more than a matter of debt management concern, however. During the past few years the excessive crowding of issues into the short-term maturity area was accompanied by an unprecedented escalation of short and intermediate-term interest rates. In turn, this created strong incentives for savers to withdraw funds from financial institutions to invest in marketable securities, mainly to the detriment of the housing industry. In general, however, the effects of the huge increase in short-term rates, the disintermediation of funds from financial institutions, and increased loan demands were felt by all borrowers and, indeed, throughout the economy.

More recently, despite the sharp decline in interest rates due to the current economic slowdown and the easier monetary policy of the Federal Reserve, market yields on long-term Treasury bonds have remained well above the 4¼ percent limit. The Treasury cannot successfully offer new bonds at rates below the yields on existing bonds in the market. Accordingly, under current market conditions, the maturity structure of debt can be materially improved only if the Treasury is given the leeway provided by H.R. 4690.

Experience in the late 1950's and during the first half of the 1960's indicates that prudent use of the authority to issue a limited amount of long-term bonds could help significantly in restructuring the debt without harmful side effects. As the use of appropriate debt management techniques has demonstrated, debt restructuring could be undertaken without raising long-term rates, without impeding economic recovery, and without detriment to the mortgage market.

With the public interest in mind, The American Bankers Association urges the prompt consideration and passage of H.R. 4690.

Sincerely,

CLIFFORD C. SOMMER,
President.

NATIONAL LEAGUE OF INSURED SAVINGS ASSOCIATIONS,
Washington, D.C., March 4, 1971.

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

DEAR SENATOR LONG: It is obvious to the National League of Insured Savings Associations that your committee will soon be having hearings on H.R. 4690. We are particularly interested in Section 3, pertaining to authorizing the Treasury greater flexibility in refinancing. The National League would like to go on record with you and your committee as favoring H.R. 4690.

If H.R. 4690 is adopted, it is our suggestion that Treasury be urged to use its newfound flexibility in financing through the issuance of obligations in the denominations of no less than $25,000. This would provide the thrift industry some protection from the drain that can occur and which has historically occurred, when the Treasury bills are in small denominations.

We support the Treasury in its need for more flexibility in financing and hope that the denominations will be kept at a size that will not be competitive with rate controlled thrift institutions.

Sincerely,

WILLIAM L. REYNOLDS,
Executive Vice President.

ALEXANDRIA, VA., *March 9, 1971.*

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

DEAR MR. CHAIRMAN: Thank you for your letter of March 3 assuring me that a written statement by me would be included in the published record on H.R. 4690.

The Senate ought to delete Section 3 of this bill which the Committee has regrettably approved in the form passed by the House. That section gives to the Treasury complete discretion to make mistakes that can waste billions of dollars of the taxpayer's money, without further authorization or appropriation by Congress. At least in large part it would go to the unjustified and unnecessary enrichment of banks and wealthy bondholders. The arguments advanced by Secretary Connally in support of that section yesterday were misapprehensions on his part. They were invalid, as I hope he will appreciate after he has been in his new position for a longer time and had the opportunity to see through the specious arguments prevalent on this topic.

As deserving of confidence as Secretary Connally and Under Secretary Volcker are, the Congress should not pass permanent legislation involving unlimited billions of dollars of interest payments for the indefinite future without considering safeguards against the discretion falling into inexpert, biased, or excitable hands.

The suggestion made to you yesterday by Representative Patman is an excellent one—that Section 3 be removed from H.R. 4690 for more thorough consideration. (I believe I heard you say that you would vote for doing that.) Some form of Section 2, to grant some increase in the debt ceiling, should be enacted alone for the present.

Ten billion dollars worth of 7% bonds with a 30-year maturity means $21 billion of interest ($21,000,000,000) to be paid during the life of the bonds. Furthermore, the ten billion of bonds would constitute less than ¼ of 1% of the total interest-bearing debt in prospect for next month. The Senate should not pass on such a potentially serious matter without more hearing of informed testimony.[1]

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[1] A typical maturity of new Treasury bond offerings in recent decades has been 30 years. A year ago conditions in the Government securities market (due to Federal Reserve general monetary policy) had new Treasury bills and notes selling to yield over 8% and prices on longest-term 4¼% and 4⅛% Treasury bonds and notes outstanding so low that they yielded over 7%. The same half-truths were being circulated which were stated in yesterday's hearing, such as that the Treasury financing was competing unnecessarily with savings and loan association financing because it could not sell new long-term bonds. Officials less wise than Secretary Connally and Under Secretary Volcker might have concluded that the Treasury's selling some long-term bonds paying around 7% would be advantageous, instead of 7-year notes at 8% and bills and short-term notes at 8¼% or more. Ten billion dollars at 7% for 30 years comes to $21 billion aggregate interest cost—plus repayment of the original principal.

I requested the opportunity to testify in these hearings in person—reluctantly, because I was fully aware of the pressures on the committee's time. But a written statement for the record normally cannot reach the committee members before they have to vote on the bill at issue. I felt obligated to present evidence only on the 4¼% interest rate question, not the debt ceiling.

Secretary Connally yesterday testified that present bond market conditions were such that floating new Treasury bonds would not be advantageous now. Conditions in the Government bond market change only slowly. Accordingly, there is no immediate urgency to enact Section 3.

Secretary Connally also testified candidly to the Ways and Means Committee on this bill (page 24), "This rate had not been changed since 1918, and I frankly didn't think I Iwas going to be so persuasive as to be able to accomplish it this morning." Accordingly, he expected to continue Treasury financing for the near future with bills and notes, not new long-term bonds. In contrast, there is a need within a matter of weeks for some form of Section 2 of H.R. 4690 to raise the debt ceiling.

Secretary Connally also testified to your committee yesterday, as he had done to the Ways and Means Committee, that he would not have utilized the powers of Section 3 during the bond market conditions of the last five years. This deserved much more attention. It means that if the powers of Section 3 had been on the books since 1965, there would have been no Treasury financing with bonds (instead of with notes up to 7 years' duration and bills) and there would have been no related changes in the deplorable events of the last few years. Interest rates would still have gone to 100-year record high levels. There would have been the same shortage of money for home mortgages and the same shifting out of some forms of savings, such as savings and loan shares, and into others, such as Treasury securities. The interest cost of borrowing would have been just as burdensome on the debtors and would have contributed just as much to the rise of prices, taxes, etc.

Presumably due to Secretary Connally's very recent initiation into his new duties, including the extremely specialized field of the principles which should guide Treasury debt management, he showed that he was the victim of the mistaken standards of judgment which tend to dominate popular ideas in this field. It would be unreasonable to hope he could have done better in such a short time in office. Most of those standards on this rarefied subject stem from self-serving misjudgments of individuals closely connected with large banks, investment bank, ing, or other parts of the "financial fraternity." Successful and eminent men in those areas of employment are under pressure to do their utmost in getting as much interest as possible out of the Treasury and other Government borrowers for the benefit of their employers. One should not expect their experience to be unqualifiedly trustworthy, penetrating, and unbiased in how the Treasury may reduce interest payments to banks and wealthy bondholders in order to save money for the taxpayers. Numerous public policy recommendations of leaders from private finance have shown an overindulgent evaluation of the advantages of high interest rates.

In some respects, the Treasury, under Secretary Connally's predecessors and the series of Under Secretaries in charge of debt management, have done better for the country and the taxpayers than Secretary Connally's testimony yesterday gave them credit for. Instead of bemoaning the decline in the average maturity of the Treasury debt since June 1965, as shown in Secretary Connally's chart no. 1. and instead of implying that that state of affairs would be improved *ipso facto* by reversing that trend by Section 3 of H.R. 4690, the Secretary and the committee should have expressed commendation of the course of that chart. When market interest rates are being pushed to abnormally high levels, prudent Treasury policy should shorten maturities and, within reasonable limits, stay away from long-term commitments to pay those rates.

Also, the present average maturity is in a reasonable range historically. As of June 30, 1960, after over 7 years of Republican management of the debt, and with no serious limitations on the interest rate offerable on Treasury bonds, the average maturity was only 4⅓ years (Treasury Annual Report 1961, page 84), as against something between 3½ and 4 years currently.

The Secretary and the committee should have recognized, too, that flotation of $10 billion of additional bonds of any reasonable maturity would make a negligible difference in the average maturity of over $4,00,000,000,000 of debt. The main reason the average maturity declined to 3½ years from the peak during the 1960's of around 5½ years was that the Treasury properly elected not to issue a larger proportion of notes with a 7-year maturity or thereabouts. If they had, the country would be locked into paying 7¾% and 8% on more notes until 1976 and 1977.

The 4¼% statutory ceiling on Treasury bond interest rates was blamed in yesterday's testimony and in the House Ways and Means Committee for developments which should have been blamed on the Federal Reserve's idea

that, in conjunction with a tight budget, tight money and high interest rates were capable of curbing our price rise satisfactorily and the lengths to which they carried that misguided policy under conditions in which it could not succeed without precipitating a real depression.

The building industry organizations which have endorsed Section 3 of H.R. 4690 are entirely mistaken about the realities of their problem. They seem to think that if the Treasury had followed the example of the Tennessee Valley Authority, a U.S. Government agency, in February and March 1970 in issuing 25-year bonds paying 9% interest that that would have really encouraged U.S. citizens to finance more home mortgages through savings and loan association passbooks paying 5% interest.

The Secretary's testimony voiced numerous other misapprehensions which I shall not take the space to refute in detail. The debt is manageable using maturities not exceeding 7 years. Enactment of Section 3 would not appreciably simplify the problems of the Federal Reserve System. If the Treasury wants to issue more bonds paying 5½%, it (or Congress) can change the regulations governing E and H Savings Bonds. Selling $10 billion of securities with a maturity in excess of 7 years would not change the monetary effects of M3—a final, broad category of "near-moneys" put into the computers and claims of Professor Milton Friedman, which Secretary Connally unguardedly endorsed yesterday.

If our price level continues to rise more or less as fast as it has been rising, not just since 1965, but since World War II, rates of interest on new Treasury bonds and market yields on outstanding bonds paying 4¼% or less should be higher than 4¼%. At that rate of interest, after payment of income taxes, savers end up a year not only with no real income in dollars adjusted for the loss of value of their principal due to price inflation but with a net permanent loss of purchasing power of their original savings.

The housing industry relied for much of its financing throughout almost all the post World War II period on the owners of savings deposits and savings and loan shares being mulcted of the purchasing power of their savings. The mortgagors, on the other hand, receive voluminous public sympathy for having to pay 7% or more on their home financing. On the contrary, such rates of interest, after tax deduction and with the costs of building and land rising as they have been for 2½ decades, really mean a free gift for most of the borrowers' housing at the savers' expense. The rise in the value of the property outweighs most or all of the interest payments after tax deduction, with some allowance for depreciation.

If, on the other hand, the country adopts the right policies to halt the inflationary price rise, a 4¼% rate (or one not far above it) becomes a reasonable ceiling for interest on new Treasury bonds.

Since the market rate on Treasury bonds has declined so sharply in recent months, it would be prudent to delay any marketing of new long-term Treasury bonds, as Secretary Connally indicated would be his policy. The Congress, however, should not rely too heavily on Mr. Connally's remaining in his present post indefinitely.

On the other hand, the testimony yesterday took an oversimplified attitude toward outstanding, under- 4¼% Treasury bonds in a high-interest-rate episode. The Treasury ought not to regard it as successful finance when it saves interest at the expense of people who bought Treasury bonds at par, either through depreciation of the value of the dollar or through depreciation of the bonds. Treasury bond buyers suffer years of loss—which would take a complicated paragraph to express fully and precisely—when official monetary policy drives the market prices of their purchases down to heavy discounts—90, 80, 70 or less. The same is true of the purchasers of Government agency, municipal, and corporate long-term, low-coupon bonds. This is a contest in which the Government holds the whip hand and in which it should be ashamed of winning an advantage over its less sophisticated citizens.

CONCLUSION

A comprehensive attitude toward the rate of interest properly payable on Treasury debt requires a properly designed program embracing at least four parts:

1. A program to restore prosperous production and employment;
2. A program for effectively curbing those wage and price increases which are properly remediable and appropriately called inflationary, without interfering with those upward and downward changes of wages and prices which serve a different type of valid economic purpose.

3. A revision of Treasury financing methods which will simplify refunding and new borrowing. New methods are available to achieve this, on a large scale, which the Treasury mistakenly implies can be achieved by issuing $10 billion of bonds with rates above 4¼%.

4. A further revision of Treasury finance whereby it does not have to pay high rates of interest to banks for operating their demand-deposit-creating capability. Resort to this revision is particularly desirable now when the country needs a sizable increase in its money supply—provided step 2. above is under control. This can be achieved without serious disturbance through a sharp modification of a plan advanced during or before the early 1930's, by the late Professor Henry Simons of the University of Chicago (reportedly founder the present "monetarist school" now linked with the name of Professor Irving Friedman), Professor Paul Douglas, and the late Professor Irving Fisher of Yale as well as by a number of others. It could save the taxpayers billions of dollars of interest on the public debt as well as make several other major contributions to the national welfare.

Is there any reason to believe my mention of the above possibilities is more than hollow verbiage of a crackpot?

I respectfully refer you to my record of previous statements to committees. In April 1969, for example, in a written statement to the Senate Banking and Currency Committee's hearing on "High Interest Rates" (no actual bill), I warned that the then-prevailing theory being relied on by the Administration that tight money and a firm budget could best curb inflation would fail and cause excessive unemployment instead.

In 1967, when this committee and the Congress reinstated the 7% investment tax credit, I was the only "witness" (via written statement only) in this committee's hearings who recommended permanent repeal rather than reinstatement. It was repealed two years later, though, of course, entirely independently of my buried statement. (There was no opponent in the voluminous Ways and Means hearings on that matter in 1967. My reasons against it were permanent and fundamental, whereas the reasons for repeal which brought action in 1969 were relatively temporary and superficial.)

In December 1963 I warned in a written statement to this committee, regarding the Revenue Act of 1963, H.R. 8363, part 5, pages 2544–5:

Under present conditions, however (and under those prevailing in this country since the Second World War and even back to about 1937), tax cuts financed by borrowing are, broadly speaking, unlikely to achieve a satisfactory increase in jobs without incurring a damaging rise of prices. The increased spending will, other things being equal, probably be nullified far short of the desired goal of reduced unemployment by two or three factors—wage rate and price increases, increased imports of foreign goods and services and increased export of U.S. capital, and restrictions of monetary and credit management.

Could you ask a more accurate warning than that? At that time, in the first month of President Johnson's term. I did not foresee the size of some of his spending programs to stimulate expansion, and I would have better said, "desired goal of durable and high employment at stable prices . . ."

Over a period of 20 years—1933 to the early 1950's (except for the war years)—I was an economist at the Federal Reserve Bank of New York and the U.S. Treasury with some collateral connections and experience with financing policy.

Respectfully submitted.

George A. Eddy.