DEBT CEILING

HEARING

BEFORE THE

COMMITTEE ON FINANCE

UNITED STATES SENATE

EIGHTY-SEVENTH CONGRESS

SECOND SESSION

ON

H.R. 11990

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

JUNE 26, 1962

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DEBT CEILING

TUESDAY, JUNE 26, 1962

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

The committee met, pursuant to notice, at 10:10 a.m., in room 2221, New Senate Office Building, Senator Harry F. Byrd (chairman) presiding.

Present: Senators Byrd (chairman), Kerr, Smathers, Gore, Douglas, Talmadge, McCarthy, Williams, Bennett, Morton, and Hartke.

Also present: Elizabeth B. Springer, chief clerk.

The CHAIRMAN. The committee will come to order.

The bill before the committee is H.R. 11990, to provide for a temporary increase in the public debt limit set forth in section 21 of the Second Liberty Bond Act.

(H.R. 11990 follows:)

[H.R. 11990, 87th Cong., 2d sess.]

AN ACT To provide for a temporary increase in the public debt limit set forth in section 21 of the Second Liberty Bond Act

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That the public debt limit set forth in the first sentence of section 21 of the Second Liberty Bond Act, as amended (31 U.S.C. 757b), shall be temporarily increased—

(1) during the period beginning on July 1, 1962, and ending on March 31, 1963, to $308,000,000,000,

(2) during the period beginning on April 1, 1963, and ending on June 24, 1963, to $305,000,000,000, and

(3) during the period beginning on June 25, 1963, and ending on June 30, 1963, to $300,000,000,000.

Passed the House of Representatives June 14, 1962.

Attest: RALPH R. ROBERTS,
Clerk.

The CHAIRMAN. We have two witnesses, the Honorable Douglas Dillon, Secretary of the Treasury, and the Honorable David Bell, Director of the Bureau of the Budget. These gentlemen will make their statements and both sit at the table to answer whatever questions are propounded.

Mr. Secretary, you may proceed.

STATEMENT OF HON. DOUGLAS DILLON, SECRETARY OF THE TREASURY

Secretary DILLON. The President in his budget message last January requested a temporary debt limit of $308 billion for fiscal 1963. This request was based on his estimate that the fiscal 1962 deficit would amount to $7 billion and that there would be a $500 million surplus in fiscal 1963. I am here today to renew the request for a $308 billion temporary debt limit for fiscal year 1963.

The present temporary limit of $300 billion will expire at the end of this month. On July 1 the debt limit will revert to its permanent level of $285 billion unless new legislation has been enacted prior thereto. Since the debt will substantially exceed the permanent level of $285 billion on July 1, it is essential that there be new legislation prior to that date.

The debt limit bill which passed the House of Representatives on June 14 (H.R. 11990) does not provide the flat $308 billion debt limit which we requested for fiscal 1963. Rather, it provides a graduated debt limit set at $308 billion for the period July 1, 1962 through March 31, 1963, $305 billion for the period April 1, 1963 through June 24, 1963, and $300 billion from June 25, 1963, through the end of the fiscal year. This graduated debt limit is acceptable to the Treasury, provided that it is understood that the debt ceilings in the House bill were carefully tailored to meet the Treasury's seasonal financial requirements under the assumption of a balanced budget. The graduated reductions established in the House bill would not be adequate if we were to run a deficit of any substantial size in fiscal 1963. This fact was specifically recognized and clearly set forth in the report of the House Ways and Means Committee, which reads as follows (p. 2):

> * * * it is the view of your committee that the increases provided by this bill are the minimum necessary to provide for the seasonal variation in the collection of revenues, assuming a balanced budget for the fiscal year 1963. The administration has indicated that there may be a balanced budget for the fiscal year 1963. Your committee has concluded that the series of debt limitations provided under this bill for the various periods of the year will be adequate to provide for the expected seasonal variation in expenditures and receipts, but would not give sufficient flexibility should a deficit be incurred in the fiscal year 1963. In this latter eventuality, your committee believes that it will be appropriate later in the fiscal year 1963 to again review the statutory debt limitation. Thus this "step approach" to the debt limitation, with the two reductions in the latter part of the fiscal year, is designed to provide for seasonal needs, without providing so much leeway that it can subsequently be used to cover deficit financing.

This statement by the House Ways and Means Committee regarding the nature of the graduated set of debt limits passed by the House is, I believe, wholly accurate.

With the fiscal year 1962 now nearly concluded, I can report to you that we still expect the deficit for fiscal year 1962 to be about $7 billion. Past experience has shown, however, that fiscal year-end totals are apt to vary several hundred million dollars in either direction from preliminary estimates. Therefore, the final deficit figure for fiscal year 1962 may prove to be somewhat less than $7 billion or it may exceed that amount by a few hundred million dollars. In order to be on the conservative side, we have used a $7¼ billion figure in the projections on the attached table.

For fiscal year 1963, the January budget document showed a $500 million surplus. The President has requested a few new programs since January, in particular a capital improvement program for distressed areas, that would use the bulk of this estimated surplus but still leave a balance. Whether or not this balance is actually achieved depends largely on revenue receipts which, in turn, are dependent on the state of the national economy. The January revenue estimate of $93 billion assumed that the gross national product would average $570 billion during calendar 1962 and that the economy would continue its upward trend throughout the entire fiscal year.

Admittedly, the expansion of the economy so far this year has not measured up to our expectations. While this has substantially diminished the likelihood of achieving our goals, the economy continues to move steadily forward and it is still too early for a new and refined estimate of the gross national product for 1962 upon which our revenues necessarily depend. As to expenditures, the best we can do is to rely on the January budget document with the realization that Congress has not yet acted on any 1963 appropriation bill, nor has it taken final action on our tax bill, the President's proposals on postal rates and farm price supports or on various other legislative recommendations. Until these matters are decided by congressional action, there is no firm basis for any new estimate of expenditures and revenues.

Accordingly, we have made no change in the basic assumption of a balanced budget in fiscal 1963, and our request for a $308 billion temporary debt ceiling is based squarely on that assumption.

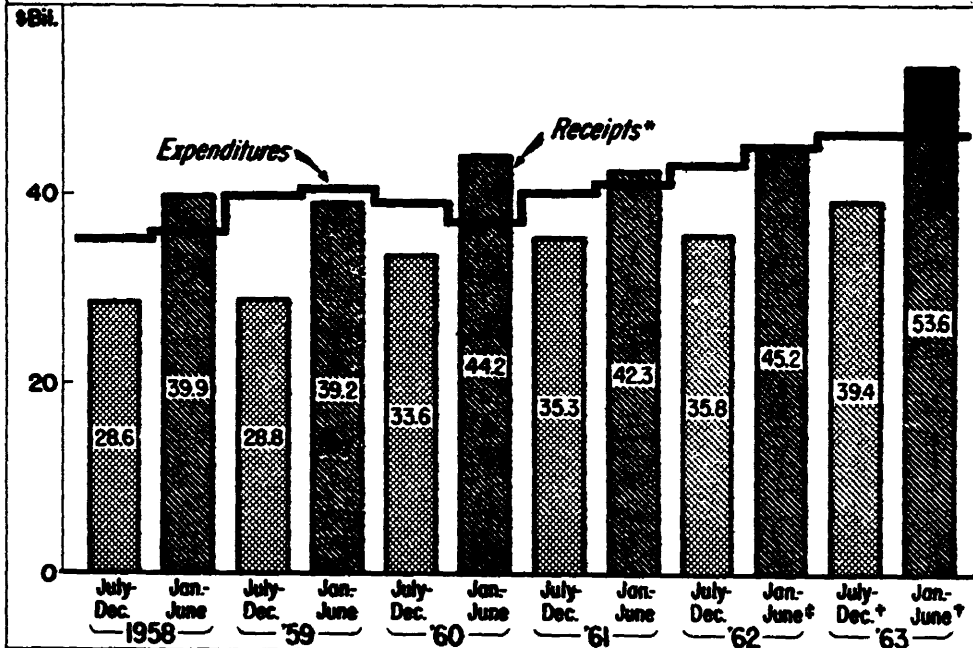
It may seem incongruous to some that, while projecting a balanced budget for fiscal 1963, we are at the same time requesting an $8 billion increase in the temporary debt ceiling. Of course, if the timing of our receipts and expenditures were in balance throughout the year, there would be no need for this increase in the debt ceiling. Unfortunately, this is never the case. Even with a balanced budget for fiscal 1963 as a whole, our estimates indicate that the first half of the fiscal year will show a substantial seasonal deficit, a deficit which will be offset by a surplus during the remainder of the fiscal year.

Specifically, our projections indicate a seasonal cash deficit which reaches a peak of $11.2 billion on December 15, just before the receipt of the large tax payments due on that date. Succeeding peaks of $11 and $10.7 billion will be reached on January 15 and March 15, before the receipt of the substantial tax payments due on those dates. Thereafter, this seasonal deficit will rapidly be erased by a similarly large seasonal surplus; and by June 30, 1963, our projections show the debt returning to approximately the same level as June 30, 1962.

This seasonal imbalance between receipts and expenditures is illustrated on an attached chart. It is the same as this large chart here [pointing to enlarged chart against the wall].

(The chart referred to follows:)

SEMIANNUAL BUDGET RECEIPTS AND EXPENDITURES
Fiscal 1958-'63



*Net receipts after refunds. ‡May 1962 estimate.
†Estimates on basis of January 1962 Budget Message plus formal modifications.

Secretary DILLON. The imbalance in fiscal year 1963 is entirely attributable to the marked seasonal pattern of our tax receipts, since expenditures are projected at a fairly constant level throughout the fiscal year. It is to finance this seasonal deficit of $11 billion in tax receipts, a deficit which will occur even with a fully balanced budget, that we need the $8 billion increase in the temporary debt limit. It should be borne in mind that, since the chart is based on semiannual figures which include the heavy December 15 tax receipts, it understates by several billion dollars the seasonal swing which reaches its peak in mid-December.

As the attached table indicates, we are ending the current fiscal year with a debt projected at about $294 billion, on the basis of a $4 billion cash operating balance. Adding the $3 billion allowance for flexibility to this figure, gives a total of about $297 billion, $3 billion under the current temporary debt limit of $300 billion. It is because of this extra leeway of $3 billion which we will have on June 30 that we will be able to finance a seasonal deficit of $11 billion with an $8 billion increase in the debt limit.

The seasonal imbalance between Federal Government receipts and expenditures is a regular feature of our financial mechanism. It is not just something that will occur in fiscal 1963. I would like to call your attention again to the chart which shows semiannual receipts and expenditures from fiscal 1958 through fiscal 1963. You will note that a pronounced seasonal pattern in revenues shows up in each and every year, the green figures being the revenues in the second half of the fiscal year and the yellow bars the revenues in the first half of the fiscal year. It was as much in evidence in fiscal 1960, when we last ran a budget surplus, as it was in years when we ran budget deficits.

On the assumption of a constant $4 billion operating balance, we expect the debt to rise to about $305 billion before dropping back again to around $294 billion at the end of fiscal 1963. A $308 billion debt ceiling is the minimum needed to provide us with the usual $3 billion leeway for flexibility in debt management and for unforeseen contingencies, a margin which prudent and economic financial management requires.

The bill which passed the House embodies a formal recognition of the seasonal variation in Federal Government revenues by proposing, for the first time, seasonal debt limits. While we would prefer the simpler, overall annual debt limit such as we have had in the past, we recognize that the House bill does have the characteristic of setting forth very clearly the seasonal nature of the Treasury's borrowing requirements under the assumption of a balanced budget in fiscal 1963.

The Treasury's operating cash balance consists essentially of funds on deposit at the 12 Federal Reserve banks and in approximately 11,400 commercial banks throughout the country. For the past few years the Treasury, in its presentations at hearings on the debt limit, has assumed a $3.5 billion constant operating cash balance. Experience has shown that this is an unrealistically low figure. With careful management to have the necessary funds on hand in the proper places and at the proper times to meet the Government's obligations as they come due and with every effort to avoid excess cash balances, our average operating cash balance (excluding gold) for the first 11 months of this fiscal year was $4,755 million. The average for fiscal year 1961 was $4,620 million and for fiscal year 1960 it was $4,638 million. In 1958, when the $3.5 billion figure was first used for illustrative purposes, Federal expenditures amounted to $71.4 billion. Fiscal year 1963 expenditures are expected to be some 30 percent larger. With larger expenditures, we naturally require larger operating cash balances. For these reasons, we have used a $4 billion figure in the attached tables as a conservative figure for a constant operating balance. That this figure is truly conservative can readily be seen by the fact that a 30 percent increase, comparable to the increase in budget expenditures between fiscal 1958 and fiscal 1963, would have indicated a figure of $4½ billion, a figure substantially closer to, but still lower than, the actual average of our operating balance during each of the past 3 years. An operating balance at least as large as the average of the past 3 years is needed to permit the day-to-day operations of the Treasury to be conducted in an efficient manner.

Our estimates also provide, as in the past, for a $3 billion margin to provide much-needed flexibility in debt management and to cover unforeseen contingencies, including the inescapable uncertainties in our month-to-month projections of revenues and expenditures. Since the assumed cash balance of $4 billion is over $500 million less than our actual needs, this margin of flexibility in practice works out to less than $2½ billion. Such a margin for flexibility is the minimum needed for the efficient management of the public debt. It is not in the public interest to require the Treasury to operate with a smaller margin under the debt limit. The end result of an excessively tight debt limit is likely to be higher interest costs on the debt and other serious consequences, not only in our domestic affairs, but also in our balance of payments position and its related effect on our gold stock.

I would like to give you a few examples to illustrate why the $3 billion margin for flexibility is so essential for efficient debt management. First, the Treasury should be able to take advantage of especially favorable conditions in the money and capital markets whenever they arise. However, an excessively tight debt limit may prevent the Treasury from timing its borrowing operations most advantageously and the opportunity to make important savings on interest costs would, therefore, be lost.

Second, in conducting our debt management operations during the past 17 months we have been very conscious of the impact of these operations on our balance of payments position. It is of critical importance to our international financial position that our short-term interest rate structure be in reasonable equilibrium with short-term rates abroad. If this equilibrium is not maintained, funds are induced to flow abroad seeking interest rate differentials, thus increasing the drain on our gold stock. In order to avoid any disturbance of this equilibrium, the Treasury has arranged its recent cash borrowing so as to permit the maximum use of additional quantities of Treasury bills. It is vitally important that the Treasury have enough room under the debt limit to take such actions whenever market conditions warrant. To deny the Treasury a sufficient margin for such debt operations could result in substantial and unnecessary drains on our gold stock.

Third, it may often be in the best interest of both the Government and the private capital markets if the Treasury consolidated some of its refunding operations. For example, in refunding the $7.2 billion in securities maturing this coming November 15, it may be advantageous to make the same refunding offer to the holders of the $2.3 billion of securities maturing December 15. An excessively tight debt limit could prevent us from using the cash refunding approach in handling such an operation, even though market conditions might suggest that a cash refunding operation would be most advantageous to the Treasury.

Fourth, if the debt limit becomes exceedingly binding, the Treasury might have to do some of its financing through the sale of nonguaranteed issues of Federal agencies which are not subject to the debt limit. This was done back in October 1957 and January 1958, under the preceding administration, when the Treasury was struggling to live with an unrealistically low-debt limit. This is a very unsound financial practice which has been severely criticized by the Comptroller General of the United States. It means that the Government has to pay one-half to three-fourths percent more in interest costs than it would have to pay on Treasury obligations. Secretary Anderson used this device only with the greatest reluctance. I would hope that we would never again be forced to use it.

For all of these reasons, a sufficient margin for flexibility in debt management and for contingencies is essential if we are to have efficient and economical management of the Government's finances.

The level of the debt is the result of all of our past decisions on appropriations, expenditures, and taxes. However, it is important to recognize that these decisions are reflected in the debt only after a considerable timelag. The timelag between decisions on appropriations and the impact of those decisions on the debt is, in fact, the reason why we need a substantial increase in the debt limit in fiscal 1963, even under the assumption of a balanced budget. The increased debt level during the coming fiscal year is a product of the deficit in fiscal 1962. If we have a balanced budget in fiscal 1963 and, a year from now, contemplate a balanced budget for fiscal 1964, we could get by in fiscal 1964 with the same $308 billion debt limit which we are requesting now.

The level of the debt is the final link in a sequential chain which has as its first link the appropriations process. Debt levels in the future are the product of past decisions on appropriations and taxes and the debt ceiling must be consistent with those past decisions.

In conclusion, I wish to reemphasize that the increase in the debt ceiling to $308 billion is based on the assumption of a balanced budget in fiscal 1963. The last attached table shows monthly estimates of budget receipts and expenditures in fiscal 1963, under a balanced budget assumption, and their relationship to our month-end debt projections. The $8 billion increase in the temporary debt ceiling is required to cover the seasonal low in receipts, which always occurs during the first half of the fiscal year. Such an increase is needed in fiscal 1963 because of the substantial deficit which has already been incurred in fiscal 1962. In other words, the increase is being requested to meet the fiscal consequences of past deficits and does not reflect the expectation of a deficit in fiscal 1963.

There are those who think our revenue estimates for fiscal 1963 are too optimistic, and certainly they look more optimistic today than they did last January. In April the staff of the Joint Committee on

Internal Revenue Taxation, on the basis of its independent revenue projections, estimated that fiscal 1963 would produce an administrative budget deficit of $4.9 billion, assuming that the administration's tax bill is approved by the Congress. I will not attempt to evaluate this estimate, since I have already given you the reasons why we feel that there is no firm basis, as yet, for revising the estimates presented in the President's budget message. I raise the issue only to emphasize that if the budget deficit forecast for fiscal 1963 by the staff of the Joint Committee on Internal Revenue Taxation should prove to be correct, the graduated set of debt ceilings approved by the House will not be adequate to meet the Treasury's needs, and we will be forced to return to the Congress early in the next session, as was envisioned by the report of the Ways and Means Committee.

A temporary increase in the debt limit to $308 billion, as provided by the House in the bill before you, is the absolute minimum needed if the Government's finances are to be managed in an orderly and economical manner and if we are to be able to finance our purely seasonal cash requirements in fiscal 1963 within the framework of a balanced budget. I earnestly recommend its approval by this committee.

(The tables referred to above follow:)

Actual public debt outstanding, fiscal year 1962, with June 30, 1962, estimate based on operating cash balance of $4,000,000,000 (excluding free gold)—Based on projection of June 22, 1962

[In billions]

	Operating balance Federal Reserve banks and depositaries (excluding free gold)	Public debt subject to limitation	Allowance to provide flexibility in financing and for contingencies	Total public debt limitation required
ACTUAL				
1961—July 15	$3.3	$289.1		
July 31	5.8	292.2		
Aug. 15	4.2	292.1		
Aug 31	5.3	293.5		
Sept. 15	3.1	293.2		
Sept. 30	8.1	293.6		
Oct. 15	7.0	296.0		
Oct. 31	5.4	295.5		
Nov. 15	4.7	296.7		
Nov. 30	5.4	296.9		
Dec. 15	2.8	297.0		
Dec. 31	5.6	296.1		
1962—Jan. 15	3.1	296.3		
Jan. 31	3.9	296.4		
Feb. 15	3.0	296.3		
Feb. 28	4.6	296.9		
Mar. 15	2.7	297.8		
Mar. 31	6.0	296.1		
Apr. 15	2.2	295.8		
Apr. 30	4.7	296.9		
May 15	5.6	296.7		
May 31	7.2	299.2		
June 15	5.2	299.4		
ESTIMATED				
June 30	4.0	293.7	$3.0	$296.7

NOTE.—For seasonal reasons the June 30, 1962, operating balance will be significantly above $4,000,000,000, so the actual debt outstanding will be higher than shown here.

Forecast of public debt outstanding fiscal year 1963, based on constant operating cash balance of $4,000,000,000 (excluding free gold).—Based on 1963 budget document—plus formal modifications

[In billions]

	Operating balance, Federal Reserve banks and depositaries (excluding free gold)	Public debt subject to limitation	Allowance to provide flexibility in financing and for contingencies	Total public debt limitation required
1962—June 30	$4.0	$293.7	$3.0	$296.7
July 15	4.0	297.0	3.0	300.0
July 31	4.0	297.8	3.0	300.8
Aug. 15	4.0	299.2	3.0	302.2
Aug. 31	4.0	299.0	3.0	302.0
Sept. 15	4.0	301.2	3.0	304.2
Sept. 30	4.0	295.7	3.0	298.7
Oct. 15	4.0	299.5	3.0	302.5
Oct. 31	4.0	300.5	3.0	303.5
Nov. 15	4.0	302.3	3.0	305.3
Nov. 30	4.0	302.1	3.0	305.1
Dec. 15	4.0	304.9	3.0	307.9
Dec. 31	4.0	301.5	3.0	304.5
1963—Jan. 15	4.0	304.7	3.0	307.7
Jan. 31	4.0	302.1	3.0	305.1
Feb. 15	4.0	302.8	3.0	305.8
Feb. 28	4.0	302.0	3.0	305.0
Mar. 15	4.0	304.4	3.0	307.4
Mar. 31	4.0	297.9	3.0	300.9
Apr. 15	4.0	301.0	3.0	304.0
Apr. 30	4.0	299.4	3.0	302.4
May 15	4.0	299.4	3.0	302.4
May 31	4.0	299.6	3.0	302.6
June 15	4.0	302.0	3.0	305.0
June 30	4.0	294.0	3.0	297.0

Estimated monthly budget receipts and expenditures and resulting end-of-month debt levels, fiscal year 1963 (based on 1963 budget document—Plus formal modifications)

[In billions of dollars]

	Budget receipts and expenditures				Net receipts of trust and clearing accounts and other transactions	Total to be financed	Operating cash balance [1]	Debt subject to limitation	Allowance for flexibility and contingencies	Total debt limitation required [2]
	Net receipts	Expenditures	Monthly surplus or deficit (−)	Cumulative surplus or deficit(−)						
Balance on June 30, 1962							4.0	293.7	3.0	296.7
1962—July	3.1	7.2	−4.1	−4.1	(3)	4.1	4.0	297.8	3.0	300.8
August	7.0	7.6	−.6	−4.7	−0.6	1.2	4.0	299.0	3.0	302.0
September	10.2	7.6	+2.6	−2.1	+.7	−3.3	4.0	295.7	3.0	298.7
October	3.2	8.1	−4.9	−7.0	+.1	4.8	4.0	300.5	3.0	303.5
November	6.9	7.6	−.7	−7.7	−.9	1.6	4.0	302.1	3.0	305.1
December	9.0	8.4	+.6	−7.1	(3)	−.6	4.0	301.5	3.0	304.5
1963—January	6.3	7.4	−1.1	−8.2	+.5	.6	4.0	302.1	3.0	305.1
February	8.0	7.4	+.6	−7.6	−.5	−.1	4.0	302.0	3.0	305.0
March	11.5	7.7	+3.8	−3.8	+.3	−4.1	4.0	297.9	3.0	300.9
April	5.9	7.6	−1.7	−5.5	+.2	1.5	4.0	299.4	3.0	302.4
May	8.2	8.0	+.2	−5.3	−.4	.2	4.0	299.6	3.0	302.6
June	13.7	8.4	+5.3	0	+.3	−5.6	4.0	294.0	3.0	297.0
Fiscal year 1963	93.0	93.0	0	0	−.3	.3				

1 Excluding free gold.

2 At the midmonth points in December, January, and March the requirements are $307,900,000,000, $307,700,000,000, and $307,400,000,000 respectively.

3 Less than $50,000,000.

Source: Office of the Secretary of the Treasury, Office of Debt Analysis, June 21, 1962.

Secretary DILLON. Thank you, Mr. Chairman.
The CHAIRMAN. Thank you, Mr. Secretary.
Mr. Budget Director, will you make your statement?

STATEMENT OF HON. DAVID E. BELL, DIRECTOR OF THE BUREAU OF THE BUDGET

Mr. BELL. Mr. Chairman and members of the committee, I appreciate this opportunity to appear before this committee in support of the President's request for a temporary increase in the statutory debt limit to be effective throughout fiscal year 1963.

In his budget message last January, the President recommended the enactment of an increase in the temporary debt ceiling from the $298 billion then in effect to $308 billion, to be available during the remainder of fiscal year 1962 and for fiscal 1963. In March, legislation was enacted raising the limit to $300 billion for the duration of fiscal year 1962; the request now before the committee covers the remaining $8 billion increase proposed by the President in the January budget to be in effect during fiscal year 1963. As the President pointed out in the budget message:

> Despite the expectation of budget balance for fiscal 1963 as a whole * * * seasonal requirements will temporarily raise the outstanding debt during the course of the year. * * * To make the usual allowance for a margin of flexibility in fiscal 1963. * * * I urge prompt enactment of a temporary increase of the debt limit to $308 million. * * *

As you know, it is the seasonal nature of the debt limit problem facing us, even with a balanced budget, which led the House to provide for varying the debt limit at different times during the year in the bill passed earlier this month—a less desirable arrangement than a single debt limit, but acceptable if future developments do not result in a substantial departure from our present budget assumptions.

To aid in your consideration of the President's request, I would like to review briefly the budgetary outlook which is, of course, directly related to the debt limit.

Fiscal year 1962: At the present time, it appears that the current fiscal year, 1962, will end with a budget deficit of approximately $7 billion, about the same as estimated in the January budget. Based on data through May, it seems probable that both receipts and expenditures will be somewhat below the January estimates, each by about $1 billion. On the receipts side, corporation income tax collections account for most of the reduction; on the expenditure side, lower farm price support outlays by the Commodity Credit Corporation are the largest single factor in the reduction now anticipated from the January estimate, although there will be numerous smaller decreases and some increases.

Fiscal year 1963: For fiscal year 1963, neither the economic nor legislative situation at this time is clear enough to enable us to make any firm revisions in the budget totals estimated last January.

As you know, the President has recommended certain amendments to the January budget, the largest of which are for the capital improvements program in areas of high unemployment and the continuation of temporary extended unemployment benefits. Smaller revisions—both up and down—have been made in the requested appropriations. In total, however, the changes recommended by the President would not raise the 1963 expenditure estimate above the revenues as projected in January.

The Congress is currently considering the 1963 budget recommendations, and changes will naturally result from final congressional actions as well as other factors. No appropriation bill for 1963 has as yet been enacted during his session. The House thus far voted on seven appropriation bills, including two supplemental appropriation bills for fiscal 1962; the five bills passed by the House for fiscal year 1963 represent 63 percent of the total current authorizations recommended for 1963. The Senate has acted on the two 1962 supplementals and on three 1963 appropriation bills representing 57 percent of total recommended 1963 current authorizations. Our estimates indicate that the House action on the five annual appropriation bills it has passedth us far would have the effect of reducing 1963 budget expenditures by a little more than $300 million below the January estimates for the agencies covered by these bills; the Senate's action on the three bills it has passed would reduce expenditures in 1963 by about $50 million. These figures are, of course, tentative, pending the final outcome of action by both Houses of Congress.

In addition to the uncertainty related to appropriation bills, various legislative proposals by the President affecting the budget are pending in the Congress. These include, among others, the recommendations concerning education, improvements in welfare programs, youth employment opportunities, Federal pay reform, postal rates, and farm price supports. The latter two, if enacted as proposed, were estimated to reduce 1963 expenditures by about $1 billion.

While the situation is subject to change each day, there is no clear trend or firm basis at this time for a specific substantial revision of the total budget expenditure estimate for 1963 made in January, as formally modified since that time.

Revenues in fiscal year 1963 will depend directly on economic developments during the calendar year 1962, and on congressional action on taxes. Economic activity continued to advance in January and February of this year, although at a slower rate than the January budget estimates had assumed. In March and April, the pace of economic activity picked up and the outlook for a sustained advance during the coming months was improved. The statistics we have seen for May indicate a continuing recovery, but the vigor of the advance is still not entirely clear.

Economic forecasting is an imprecise art, at best, especially so in as large and varied an economy as ours, and we do not believe there is sufficient evidence at this time on which to base a specific revision of the January budget estimates. Moreover, until the final form of the tax revision bill is settled, its effect on 1963 revenues cannot be accurately gaged.

It has been suggested that we could get along with a smaller increase in the debt limit than we have recommended, even though our request is based on a balanced budget assumption, if the President were to reduce expenditures in fiscal 1963 below the levels appropriated by the Congress. This raises the question of the administrative feasibility of reducing expenditures rapidly enough to help us much with respect to our debt limit needs. As the projection supplied by Secretary Dillon indicates, under a balanced budget assumption the peak level of the debt in fiscal 1963 will be reached on December 15. This means that, in order to be helpful in meeting debt limit requirements, expenditure reductions must be accomplished before that time; in other words, during the first 5 months of the fiscal year.

Bureau of the Budget staff has estimated that expenditures through November 1962 will amount to about $38 billion. Of this total, the military functions of the Department of Defense account for $20 billion. Another $9 billion represents expenditures which are virtually uncontrollable in the short run, since they are legal commitments which the Government cannot reduce by administrative discretion, such as veterans' pensions, interest on the public debt, public assistance grants to States, ship operating subsidies, and farm price supports. Of the remaining $9 billion in expenditures, at least one-third stems from obligations already incurred in prior years pursuant to legislation enacted by the Congress, and the Government is committed to pay these bills when they fall due.

This leaves less than $6 billion of uncommitted, nondefense expenditures to bear the brunt of any expenditure cut. Large items in this total include such essential functions as space, atomic energy, conduct of foreign affairs, public health, water resource and other natural resource projects, medical care for veterans, operation and maintenance of the airways, and the postal service.

I think these figures put the problem in perspective. It is quite clear that to cut expenditures by any substantial amount during such a short span of time as 5 months means that much of the reduction would necessarily have to fall on defense expenditures. This, in fact, is what happened in 1957 when the Eisenhower administration was endeavoring to stay within a restrictive debt limit.

With this in mind, I join the Secretary of the Treasury in recommending favorable action by the committee on the President's request for a temporary increase in the debt limit to $308 billion.

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

Mr. Secretary, I want to ask you a few questions, and also Mr. Bell.

As you know, under article 1, section 8, of the Constitution, the power to borrow on the credit of the United States lies only in the Congress. Prior to World War I the Government entered into debt only for specific purposes authorized by separate acts of Congress. I think you will recall that Andrew Jackson, when he was President, said he was more proud of paying off in toto the public debt than any other action that he achieved.

I was wondering if you thought that any future President would ever have that opportunity.

Secretary DILLON. I think that the tremendous size of the public debt that was incurred as a result of World War II makes that a very difficult assumption to foresee although you can't look indefinitely into the future. Times have changed tremendously between the times of Andrew Jackson and now. The United States of his time and the United States of our time are not recognizable as the same. Another hundred years could certainly produce a situation where there might be no public debt, but it would certainly be a very long time off.

Senator KERR. Would the Senator yield?

The CHAIRMAN. Yes.

Senator KERR. The statement of Andrew Jackson to which he referred is one of the most famous that that great man ever uttered. I believe there were three things that he mentioned. And as he read them, I don't recall that he differentiated between them as to his pride in each. At the end of his second term, as I recall—and the Senator will correct me if I am not accurate—he said, "I have rewarded my friends, I have punished my enemies, I have paid the national debt and distributed the surplus to the States. I am tired and I am going home to Tennessee."

I think that is what the great man said. And I never was able to decide but what the second part of his statement was probably the one he cherished the most.

The CHAIRMAN. I will accept that statement, but paying off debts to his friends and doing whatever he could to his enemies was one thing; and what he did for the U.S. Government was another. He clearly expressed his pride in paying off in toto the public debt, and as the Senator from Oklahoma says, in distributing the surplus to the States. I simply want to mention that the debt in 1932 when I came to the Senate was $19 billion. And now I believe it is $295 billion, or more.

Is that correct?

Secretary DILLON. It is $299 billion.

The CHAIRMAN. Now, Mr. Secretary, you approve, do you not, of the practice of a debt limitation?

Secretary DILLON. I think a debt limitation provides a good occasion, each year when it is renewed, to have a review of the entire fiscal policy of the Government. I think that is the primary function of the debt limitation. However, the size of the debt is controlled by expenditures and by the appropriations which are made. Personally I would feel very happy if a way could be found to relate the mass of appropriations more closely to the mass of revenues, so that our budget when it is adopted could be more clearly adopted in toto rather than in part. But I don't think that it is possible effectively to use the public debt limitation to control appropriations.

The CHAIRMAN. Do you approve of a flexible debt limitation?

Secretary DILLON. As set by the House, I think that that is perfectly acceptable to us. What it requires, if the Congress so decides, is that if our estimates prove wrong and we have a deficit in the early months of the session, we would have to come back and explain why and ask for some sort of further extension of the public debt limit.

The CHAIRMAN. You certainly prefer a general debt limitation to the previous policy of having the Congress enact a separate law to allow each issuance of securities.

Secretary DILLON. Yes; under the size of our current appropriations and our current debt it would be impossible to operate the debt that way.

The CHAIRMAN. Now, the bill pending before this committee raises the limit to $308 billion for the period from July 1, 1962, through March 31, 1963. And then it sets the ceiling at $305 billion from April 1, 1963, to June 24, and reduces it to $300 billion from June 25, to June 30, so there would be a temporary increase in the permanent debt ceiling of up to $23 billion.

Secretary DILLON. Yes, $308 is $23 billion higher than the $285 billion permanent ceiling.

The CHAIRMAN. I take it that the Secretary could use this authority to increase the public debt.

Secretary DILLON. We would use this authority to finance the expenditures of the Government, which would be done by increasing the Federal debt temporarily during the year and paying it off as the moneys come in, particularly during the last half of the fiscal year.

The CHAIRMAN. Do you find anything mythical about the permanent request to raise the public debt?

Secretary DILLON. Mythical?

The CHAIRMAN. That expression has been used by high officials of the Government.

Secretary DILLON. I think it is a very real problem that we face, Mr. Chairman, and it is a reflection of expenditures and deficits which we have already incurred.

The CHAIRMAN. Can the committee regard your estimated debt requirements as a myth?

Secretary DILLON. Debt requirements?

The CHAIRMAN. Can the committee regard your estimated debt requirements as a myth?

Secretary DILLON. No, Mr. Chairman, they are not a myth.

The CHAIRMAN. What does this word "myth" mean? It has been bandied back and forth a great deal lately. We have been hearing about myths in financial matters. There is nothing mythical about debt so far as I can find out. You have got to pay it back with interest.

So you don't regard it as a myth?

Secretary DILLON. I don't regard the Federal debt as a myth; no.

The CHAIRMAN. You don't regard your requests as a myth?

Secretary DILLON. I certainly do not, Mr. Chairman.

The CHAIRMAN. Also we have a great deal of talk by high Government officials about different kinds of budgets, we have a so-called cash budget, a so-called national income budget, and a so-called capital budget. I want to ask you if the fiscal operations of the Federal Government were stated for the past, present, or future in any or all of these forms——

Secretary DILLON. If they were stated in them?

The CHAIRMAN. If the fiscal operations of the Federal Government at any time have been stated in any of the three different kinds of the budgets that we hear about, the so-called cash budget, the so-called national income budget, and the so-called capital budget.

Secretary DILLON. I think in the budget message of the President they did state the summary of Federal finances on page 8 in three different ways. They put the administrative budget, which is the budget we are talking about here, and which governs the size of our debt, first. The administrative budget was the only thing that was called the budget.

The next statement was a consolidated cash statement which showed all the receipts from the public and all the payments to the public. Those two were not very far apart in their final excess of receipts or payments; they are always very close. The consolidated cash statement includes both the receipts and payments of the various trust funds.

And finally, as a third item they listed the national income accounts, the Federal sector of them, which indicates the economic impact of a particular budgetary deficit at the particular time. It has nothing to do with national debt, but it does operate on an accrual basis which lists expenditures, lists revenues, when they are accrued rather than when they are actually paid. This is probably more accurate in showing the economic or the inflationary and noninflationary impact of the budget on the economy at any particular time.

The CHAIRMAN. Do you or the Budget Director, or so far as you know, the President, have any plans in mind to change the present administrative budget?

Secretary DILLON. I don't see how you can change the present administrative budget, because it is the budget——

The CHAIRMAN. What is the use of talking about all these other budgets if they are not practical?

Secretary DILLON. This is the budget on which the national debt is based. There is no publication of a capital budget. The only thing that I can imagine one could do with that would be maybe to identify more clearly within the administrative budget which expenditures were used for certain capital purposes, but you couldn't separate it out, because it would still be part——

The CHAIRMAN. Isn't that very misleading to the people, because the Government is not profitmaking?

Secretary DILLON. I don't think it would be misleading as long as they were included within the administrative budget clearly. I think if it were separated out in a separate document it would be.

The CHAIRMAN. If you build a battleship—incidentally, they are out of date now, we haven't got a single battleship that is operating——

Secretary DILLON. I wouldn't call that a capital item.

The CHAIRMAN. Isn't it costing the Government a good deal of money to keep those battleships in mothballs?

Secretary DILLON. I wouldn't call that a capital item.

The CHAIRMAN. Is there any activity of the Government which shows a profit that you know of?

Mr. BELL. There are several activities of the Government which do not run at a substantial loss. The power operations, for example, of the Bonneville Power Administration, so far as I am aware, have covered costs.

The CHAIRMAN. Does that go into the General Treasury? Isn't it true that in the TVA whatever profits they make are reinvested in the same line of business?

Mr. BELL. It depends on the arrangements under which the particular program is operated. The TVA does make a regular payment to the Treasury, which is established under the laws that control the TVA.

The CHAIRMAN. What is it you say makes a profit for the Government?

Mr. BELL. Well, the power operations of the Government, including those at the TVA the Bonneville Power Administration, and others at least cover their costs.

The CHAIRMAN. Does it make a profit after paying the interest on the investment?

Mr. BELL. I think, sir, that their rates by and large are set and are directed to be set by law to cover costs and not to return a profit in the business sense. I think it is legitimate, therefore, to say that they do cover costs.

The CHAIRMAN. In the estimate of expenses do they include the interest on the amount of money the Federal Government has invested?

Mr. BELL. Yes, they do.

The CHAIRMAN. And you think there is profit there?

Mr. BELL. I think they cover costs.

Mr. CHAIRMAN. Does any money actually come back into the General Treasury?

Mr. BELL. Yes, sir.

The CHAIRMAN. How much?

Mr. BELL. I will have to supply that for the record, if I may, sir.

The CHAIRMAN. Will you furnish that for the record?

[The material referred to was supplied by the Secretary of the Treasury and appears below.]

Secretary DILLON. Mr. Chairman, I had time to remember two other operations of the Government which operate at a profit and which do return Government funds. One is, of course, the Federal Reserve System, which pays a dividend to the Treasury every year. And the other one is the Export-Import Bank, which pays full interest on its money, and pays a dividend to the Government every year.

The CHAIRMAN. Will you furnish it to the committee, and then put it on a percentage basis, as to what we get back in profit on annual expenditures?

Secretary DILLON. The Export-Import Bank has just increased their dividends to 3½ percent on capital which was furnished to them by the Government, so it is approximately ——

The CHAIRMAN. It would be interesting to see what percentage of the expenditures of the Government come back in the way of profits.

Secretary DILLON. Not very much.

Senator WILLIAMS. With your reports furnishing how much the income has been to the Government from these respective organizations, would you also furnish with the same report the amount of money which we have advanced on behalf of the Government either in loans or appropriations to these same organizations, as well as our capital investment?

Secretary DILLON. Yes, sir.

(The information requested follows:)

Table 20 (annual report of the Secretary) shows payments of the Federal Reserve banks to the Treasury representing approximately 90 percent of earnings for the years 1947 through 1961.

TABLE 20.—*Deposits by the Federal Reserve banks representing interest charges on Federal Reserve notes, fiscal years 1947–61* [1]

Federal Reserve bank	1947–58	1959	1960	1961	Cumulative through 1961
Boston	$187,510,033.25	$24,791,243.50	$65,177,632.98	$41,194,897.08	$318,673,806.81
New York	820,226,129.42	130,304,518.13	271,042,719.10	212,079,914.17	1,433,653,310.82
Philadelphia	204,868,751.19	28,615,921.81	72,840,095.47	45,886,308.09	352,211,076.56
Cleveland	292,522,052.77	43,026,591.51	90,521,189.66	66,597,471.42	492,667,305.36
Richmond	200,068,326.88	31,271,236.00	73,461,162.64	49,090,076.11	353,890,801.63
Atlanta	168,242,559.80	22,799,293.27	51,754,685.08	39,571,839.00	282,368,377.15
Chicago	551,568,328.56	90,095,997.31	199,656,095.46	139,200,110.57	980,520,531.90
St. Louis	144,278,700.68	18,039,401.46	47,750,266.32	29,706,375.68	239,774,744.14
Minneapolis	82,769,046.27	8,572,250.85	26,147,203.49	16,489,015.59	133,977,516.20
Kansas City	142,420,544.93	20,631,083.19	45,065,009.42	32,574,465.45	240,691,102.99
Dallas	119,104,394.17	17,338,035.47	37,930,193.44	29,729,590.74	204,102,213.82
San Francisco	321,092,430.74	55,735,036.38	111,761,165.15	86,009,391.12	574,598,023.39
Total	3,234,671,298.66	491,220,608.88	1,093,107,418.21	788,129,485.02	5,607,128,810.77

[1] Pursuant to sec. 16 of the Federal Reserve Act, as amended (12 U.S.C. 414). Through 1959, consisted of approximately 90 percent of earnings of the Federal Reserve banks after payment of necessary expenses and statutory dividends, and after provisions for restoring the surplus of each bank to 100 percent of subscribed capital where it fell below that amount. Beginning in 1960, pursuant to a decision by the Board of Governors of the Federal Reserve System, consists of all net earnings after dividends and after provision for building up surplus to 100 percent of subscribed capital at those banks where surplus is below that amount, and also of the amounts by which surplus at the other banks exceeds subscribed capital.

Table 127 (annual report of the Secretary) shows interest, dividends, and other earnings of public enterprises for the fiscal years 1960 and 1961. Previous annual reports contain similar tables for each of the years covered. However, cumulative figures are not immediately available.

TABLE 127.—*Dividends, interest, and similar earnings received by the Treasury from Government corporations and certain other business-type activities, fiscal years 1960 and 1961*

Agency and nature of earnings	Amounts	
	1960	1961
Atomic Energy Commission, defense production guarantees, earnings		$508,699.11
Civil Service Commission, investigations, earnings	$7,249.08	1,368.87
Commerce Department:		
Defense production guarantees, earnings	5,882.95	
National Bureau of Standards, working capital fund, earnings	247,908.11	228,299.85
Maritime Administration, Federal ship mortgage insurance fund, interest on borrowings	73,881.91	54,250.00
Commodity Credit Corporation:		
Interest on capital stock	2,875,000.00	3,500,000.00
Interest on borrowings	461,910,614.03	406,074,897.12
Defense Department:		
Army Department, defense housing, profits	450,000.00	80,000.00
Navy Department, defense housing, profits	150,000.00	300,000.00
Air Force Department, industrial fund, earnings	11,612,643.09	1,816,502.97
Export-Import Bank of Washington:		
Regular activities:		
Dividends	22,500,000.00	22,500,000.00
Interest on borrowings	45,385,192.80	42,803,072.29
Liquidation of certain Reconstruction Finance Corporation assets:		
Earnings		860,653.52
Interest on borrowings	337,149.76	73,548.23
Farm Credit Administration:		
Banks for cooperatives, franchise tax	1,789,849.71	1,527,632.86
Federal Farm Mortgage Corporation, dividends	1,700,000.00	1,700,000.00
Federal intermediate credit banks, franchise tax	1,695,489.99	1,128,892.81
Farmers' Home Administration:		
Loan programs, interest on borrowings	8,763,363.74	11,612,573.42
Farm tenant mortgage insurance fund, interest on borrowings	1,307,791.78	1,195,868.62
Federal National Mortgage Association:		
Management and liquidating functions, interest on borrowings	29,510,768.86	27,768,315.07
Secondary market operations:		
Dividends	2,472,500.00	3,112,445.64
Interest on borrowings	5,396,520.38	986,051.68
Special assistance functions, interest on borrowings	41,238,875.74	64,147,173.50
Federal Prison Industries, Inc., earnings	3,000,000.00	
General Services Administration:		
General supply fund, earnings	2,531,995.68	1,154,594.50
Buildings management fund, earnings	1,099,824.13	1,803,809.64
Working capital fund, earnings	10,471.72	6,966.51
Government Printing Office, earnings	4,351,127.20	3,000,000.00
Health, Education, and Welfare Department, Social Security Administration, operating fund, Bureau of Federal Credit Unions, interest	33.90	
Housing and Home Finance Administrator:		
College housing loans, interest on borrowings	14,404,921.73	20,017,279.61
Public facility loans, interest on borrowings	967,401.28	1,594,232.01
Urban renewal fund, interest on borrowings	2,514,407.17	2,914,362.22
Interior Department:		
Bureau of Reclamation:		
Colorado River Dam fund, Boulder Canyon project, interest	3,071,872.90	3,113,866.35
Upper Colorado River Basin fund, earnings	31,812.10	1,293.00
Virgin Islands Corporation:		
Interest on appropriations and paid-in capital		396,397.61
Interest on borrowings	108.89	1,362.76
International Cooperation Administration, interest on borrowings	20,695,856.12	19,996,983.81
Panama Canal Company, interest on net direct investment of the Government	9,422,781.44	8,780,538.55
Public Housing Administration, low rent public housing program fund, interest on borrowings	1,331,801.53	1,102,450.67
Rural Electrification Administration, interest on borrowings	60,356,546.06	64,416,156.12

TABLE 127.—*Dividends, interest, and similar earnings received by the Treasury from Government corporations and certain other business-type activities, fiscal years 1960 and 1961*—Continued

Agency and nature of earnings	Amounts	
	1960	1961
Saint Lawrence Seaway Development Corporation, interest on borrowings	$2,504,920.56	$2,000,000.00
Secretary of the Treasury (Federal Civil Defense Act of 1950, as amended), interest on borrowings	24,153.26	25,293.04
Small Business Administration, interest on appropriations	6,657,359.38	15,238,423.13
Tennessee Valley Authority, earnings		41,432,397.60
U.S. Information Agency, informational media guaranty fund, interest on borrowings	413,784.00	1,064,720.00
Veterans' Administration:		
Canteen service revolving fund, profits	$465,444.00	$41,191.00
Rental, maintenance, and repair of quarters, profits	27,000.00	10,000.00
Supply fund, earnings		126,973.47
Veterans' direct loan program, interest on borrowings	23,028,174.13	31,990,233.05
Defense Production Act of 1950, as amended:		
Export-Import Bank of Washington, interest on borrowings	631,972.57	509,787.11
General Services Administration, interest on borrowings	24,611,656.46	781,250.01
Secretary of Agriculture, interest on borrowings	4,948,175.85	6,942.57
Secretary of the Interior (Defense Minerals Exploration Administration), interest on borrowings	383,334.08	
Secretary of the Treasury, interest on borrowings	4,202,448.94	4,842,608.02
Total	831,120,067.01	818,350,357.92

Table 2 (Treasury Bulletin) "Public enterprise revolving funds" shows the net investment in each enterprise and the accumulated net income or deficit from inception. The net investment section of these tables also show advances in the form of loans or appropriations. The figures are net of repayment of capital as well as payments of dividends and other earnings to the Treasury from inception.

Included in these tables are such enterprises as the Post Office Department, Commodity Credit Corporation, and others engaged in nonprofit programs.

The following enterprises each report accumulated net earnings (as of December 31, 1961) in excess of $20 million.

	In thousands
Agency for International Development: Development Loan Fund liquidation account	$31,372
Commerce Department, Maritime Administration: Vessel operations revolving fund	22,241
Defense Department: Interservice activities, Wherry Act Housing	143,724
Housing and Home Finance Agency:	
Federal National Mortgage Association:	
Special assistance functions	59,283
Management and liquidating programs	138,277
Federal Housing Administration	1,043,721
Veterans' Administration:	
Loan guarantee revolving fund	88,833
Veterans' special term insurance fund	58,461
Export-Import Bank of Washington	728,710
Federal Savings and Loan Insurance Corporation	440,887
Panama Canal Company	127,777
Tennessee Valley Authority	353,659
Other activities: Bonneville Power Administration	22,009

TABLE 2.—*Public enterprise revolving funds, Dec. 31, 1961*

[In thousands of dollars]

Account	Total	Agency for International Development [1]			Agriculture Department		
		Development loans	Development loan fund liquidation account	Foreign investment guaranty fund	Commodity Credit Corporation	Federal Crop Insurance Corporation [2]	Farmers Home Administration, direct loan account [3]
ASSETS							
Cash in banks, on hand, and in transit	199,256				14,496	112	25,452
Fund balances with the U.S. Treasury [4]	5,281,883	1,304,848	1,094,074	8,107	14,781	54,433	196,753
Investments:							
Public debt securities (par value)	1,251,744						
Securities of Government enterprises	136,279						
Unamortized premium, or discount (−)	−11,501						
Other securities	191,835						
Advances to contractors and agents:							
Government agencies	4,980						
Other	5,236						
Accounts and notes receivable:							
Government agencies	908,816				835,774	(*)	
Other (net)	257,330				129,697	2,428	19
Inventories	6,802,779				5,249,046		
Allowance for losses (−)	−1,482,222				−1,480,675		
Accrued interest receivable:							
On public debt securities	7,520						
On securities of Government enterprises	1,868						
Other	120,158	2,343	6,221		1,228		19,513
Loans receivable:							
Government agencies	254,050						
Other:							
U.S. dollar loans	14,724,163	201,392			[5] 2,506,479		767,040
Foreign currency loans	493,225		493,225				
Allowance for losses (−)	−363,413				−174,734		−78,006
Acquired security or collateral (net)	602,164						452
Land, structures, and equipment	5,692,104				245,569	464	96
Accumulated depreciation (−)	−1,450,153				−133,563	−245	
Foreign currencies	2,754						
Other assets (net)	1,263,385				665,245		568
Total assets	[6] 34,894,238	1,508,583	1,593,519	8,107	7,873,313	57,192	931,889

LIABILITIES							
Accounts payable:							
Government agencies	102,789		(*)		1,921		
Other	451,345		(*)		65,823	3,818	13
Accrued liabilities:							
Government agencies	269,054				2,633		
Other	127,708				115,278		
Advances from—							
Government agencies	756						
Other	828						
Trust and deposit liabilities:							
Government agencies	179,845		27		172,946	134	
Other	141,637				72,015	4	
Bonds, debentures, and notes payable:							
Government agencies	118,810						
Other:							
Guaranteed by the United States	191,550						
Not guaranteed by the United States	100,028						
Other liabilities (including reserves)	2,543,451		8	11	[5] 1,709,766	998	
Total liabilities	4,227,801	(7)	35	11	2,140,381	4,954	13
NET INVESTMENT							
U.S. interest:							
Interest-bearing investment:							
Capital stock	100,000				100,000		
Borrowings from the U.S. Treasury	22,706,115				11,952,000		471,960
Other	953,405						
Non-interest-bearing investment:							
Capital stock	1,056,000					40,000	
Appropriations	10,608,830	1,112,500	1,562,112			83,216	
Capitalization of assets (net)	1,132,288					219	456,079
Other	1,559,180	395,264				−387	
Accumulated net income, or deficit (−)	−7,449,379	819	31,372	8,096	−6,319,038	−70,810	3,838
Deposits of general and special fund revenues (−)							
Total U.S. interest	30,666,437	1,508,583	1,593,484	8,096	5,732,962	52,238	931,876
Total liabilities and investment	34,894,238	1,508,583	1,593,519	8,107	7,873,343	57,192	931,889
ANALYSIS OF U.S. INVESTMENT							
U.S. investment	38,115,817	1,507,764	1,562,112		12,052,000	123,048	928,038
Accumulated net income, or deficit (−)	−7,449,379	819	31,372	8,096	−6,319,038	−70,810	3,838
U.S. investment including interagency items	30,666,437	1,508,583	1,593,484	8,096	5,732,962	52,238	931,876
Interagency items:							
Due from Government agencies (−)	−1,305,992				−835,774	(*)	
Due to Government agencies	671,254		27		177,499	131	
U.S. investment excluding interagency items	30,031,699	1,508,583	1,593,511	8,096	5,074,687	52,371	931,876

See footnotes at end of table, p. 44.

TABLE 2.—*Public enterprise revolving funds, Dec. 31, 1961*—Continued

[In thousands of dollars]

Account	Agriculture Department—Continued			Commerce Department			
	Farmers' Home Administration—Continued		Expansion of defense production	Aviation war risk insurance revolving fund	Inland Waterways Corporation	Maritime Administration	
	Emergency credit revolving fund	Agricultural credit insurance fund				Federal ship mortgage insurance fund	Vessel operations revolving fund
ASSETS							
Cash in banks, on hand, and in transit	2,346	3,589					966
Fund balances with the U.S. Treasury [4]	85,714	2,170		17	8,715	5,140	11,273
Investments:							
Public debt securities (par value)							
Securities of Government enterprises							
Unamortized premium, or discount (–)							
Other securities							
Advances to contractors and agents:							
Government agencies							
Other							61
Accounts and notes receivable:							
Government agencies							602
Other (net)	274	726				20	1,593
Inventories						3	4,295
Allowance for losses (–)							
Accrued interest receivable:							
On public debt securities							
On securities of Government enterprises							
Other	2,380	341			100	37	
Loans receivable:							
Government agencies							3,500
Other:							
U.S. dollar loans	46,345	29,623			5,001	3,470	
Foreign currency loans							
Allowance for losses (–)	–14,701					–696	
Acquired security or collateral (net)	30	145					
Land, structures, and equipment						4,502	
Accumulated depreciation (–)							
Foreign currencies							
Other assets (net)	209	5					48
Total	122,597	36,599		17	13,816	12,475	29,339

LIABILITIES							
Accounts payable:							
Government agencies							170
Other	(*)	2,589		(*)			345
Accrued liabilities:							
Government agencies	11		7,250		1		17
Other	171	(*)					9
Advances from:							
Government agencies							
Other							
Trust and deposit liabilities:							
Government agencies							
Other							
Bonds, debentures, and notes payable:							
Government agencies							
Other:							
Guaranteed by the United States							
Not guaranteed by the United States							
Other liabilities (including reserves)					47	6,723	181
Total liabilities	182	[7] 2,589	7,250	(*)	48	[7] 6,723	722
NET INVESTMENT							
U.S. interest:							
Interest-bearing investment:							
Capital stock							
Borrowings from the U.S. Treasury		23,170	64,578				
Other							
Non-interest-bearing investment:							
Capital stock					15,000		
Appropriations	205,494	1,000					
Capitalization of assets (net)	364				12,298		
Other							−625
Accumulated net income, or deficit (−)	−83,443	9,841	−71,827	17	−13,530	5,752	22,241
Deposits of general and special fund revenues (−)							
Total U.S. interest	122,415	34,011	−7,250	17	13,768	5,752	21,617
Total liabilities and investment	122,597	36,599		17	13,816	12,475	24,339
ANALYSIS OF U.S. INVESTMENT							
U.S. investment	205,858	24,170	64,578		27,298		−625
Accumulated net income, or deficit (−)	−83,443	9,841	−71,827	17	−13,530	5,752	22,241
U.S. investment including interagency items	122,415	34,011	−7,250	17	13,768	5,752	21,617
Interagency items:							
Due from Government agencies (−)							−4,102
Due to Government agencies	11		7,250		1		187
U.S. investment excluding interagency items	122,425	34,011		17	13,769	5,752	17,702

See footnotes at end of table, p. 44.

TABLE 2.—*Public enterprise revolving funds, Dec. 31, 1961*—Continued

[In thousands of dollars]

Account	Commerce Department—con.	Defense Department					
	Maritime Administration—con.	Interservice activities	Air Force Department	Army Department		Navy Department	
	War risk insurance revolving fund	Wherry Act housing	Defense production guarantees	Defense housing	Defense production guarantees	Defense housing	Defense production guarantees
ASSETS							
Cash in banks, on hand, and in transit							
Fund balances with the U.S. Treasury [4]	2,592	113,865	10,127	87	2,991	475	8,793
Investments:							
Public debt securities (par value)							
Securities of Government enterprises							
Unamortized premium, or discount (−)							
Other securities							
Advances to contractors and agents:							
Government agencies							
Other							
Accounts and notes receivable:							
Government agencies							
Other (net)	51	5,480					
Inventories							
Allowance for losses (−)							
Accrued interest receivable:							
On public debt securities							
On securities of Government enterprises							
Other							
Loans receivable:							
Government agencies							
Other:							
U.S. dollar loans			3,826		2,452		1,667
Foreign currency loans							
Allowance for losses (−)							
Acquired security or collateral (net)							
Land, structures, and equipment		772,288					
Accumulated depreciation (−)							
Foreign currencies							
Other assets (net)							
Total assets	2,643	891,634	13,953	87	5,444	475	10,460

LIABILITIES							
Accounts payable:							
Government agencies				40			
Other	4	718					
Accrued liabilities:							
Government agencies							
Other							
Advances from:							
Government agencies							
Other							
Trust and deposit liabilities:							
Government agencies							
Other	(*)						
Bonds, debentures, and notes payable:							
Government agencies							
Other:							
Guaranteed by the United States							
Not guaranteed by the United States							
Other liabilities (including reserves)		500,191					
Total liabilities	4	500,910		40			
NET INVESTMENT							
U.S. interest:							
Interest-bearing investment:							
Capital stock							
Borrowings from the U.S. Treasury							
Other							
Noninterest-bearing investment:							
Capital stock							
Appropriations		247,000					
Capitalization of assets (net)							
Other							
Accumulated net income, or deficit (−)	2,639	143,724	13,953	47	5,444	475	10,460
Deposits of general and special fund revenues (−)							
Total U.S. interest	2,639	390,724	13,953	47	5,444	475	10,460
Total liabilities and investment	2,643	891,634	13,953	87	5,444	475	10,460
ANALYSIS OF U.S. INVESTMENT							
U.S. investment		247,000					
Accumulated net income, or deficit (−)	2,639	143,724	13,953	47	5,444	475	10,460
U.S. investment including interagency items	2,639	390,724	13,953	47	5,444	475	10,460
Interagency items:							
Due from Government agencies (−)							
Due to Government agencies				40			
U.S. investment excluding interagency items	2,639	390,724	13,953	87	5,444	475	10,460

See footnotes at end of table, p. 44.

TABLE 2.—*Public enterprise revolving funds, Dec. 31, 1961*—Continued

[In thousands of dollars]

Account	Defense Department—Con.		Department of Health, Education, and Welfare		Interior Department		
	Navy Department—Continued—Laundry service, Naval Academy	Office of Civil Defense—Civil defense procurement fund	Public Health Service—Operation of commissaries, narcotic hospitals	Social Security Administration—Bureau of Federal Credit Unions	Bureau of Indian Affairs: Revolving fund for loans	Bureau of Indian Affairs: Liquidation of Hoonah housing project	Office of Territories—Loans to private trading enterprises
ASSETS							
Cash in banks, on hand, and in transit				37			
Fund balances with the U.S. Treasury [4]	75	1,469	41	904	8,427	110	223
Investments:							
Public debt securities (par value)							
Securities of Government enterprises							
Unamortized premium, or discount (−)							
Other securities							
Advances to contractors and agents:							
Government agencies		14					
Other				12			
Accounts and notes receivable:							
Government agencies	13	7					
Other (net)	6	11	18	780			
Inventories	5		20				
Allowance for losses (−)							
Accrued interest receivable:							
On public debt securities							
On securities of Government enterprises							
Other							
Loans receivable:							
Government agencies							
Other:							
U.S. dollar loans					10,296	174	130
Foreign currency loans							
Allowance for losses (−)					−3,167		
Acquired security or collateral (net)							
Land, structure, and equipment	327		26	267			
Accumulated depreciation (−)	−170		−20	−129			
Foreign currencies							
Other assets (net)	11		2				
Total assets	267	1,501	88	1,870	15,556	284	353

LIABILITIES							
Accounts payable:							
Government agencies	1						
Other	14		20	45			
Accrued liabilities:							
Government agencies	10						
Other	8			217			
Advances from—							
Government agencies		(1)					
Other		1					
Trust and deposit liabilities:							
Government agencies							
Other				163			
Bonds, debentures, and notes payable:							
Government agencies							
Other:							
Guaranteed by the United States							
Not guaranteed by the United States							
Other liabilities (including reserves)	22		7	335			
Total liabilities	55	1	26	761			
NET INVESTMENT							
U.S. interest:							
Interest-bearing investment:							
Capital stock							
Borrowings from the U.S Treasury							
Other							
Non-interest-bearing investment:							
Capital stock							
Appropriations		1,500	10		17,799		333
Capitalization of assets (net)			2	2			
Other					2,770	240	
Accumulated net income, or deficit (−)	213		50	1,108	−5,013	44	20
Deposits of general and special fund revenues (−)							
Total U.S. interest	213	1,500	61	1,110	15,556	284	353
Total liabilities and investment	267	1,501	88	1,870	15,556	284	353
ANALYSIS OF U.S. INVESTMENT							
U.S. investment		1,500	12	2	20,569	240	333
Accumulated net income, or deficit (−)	213		50	1,108	−5,013	44	20
U.S. investment including interagency items	213	1,500	61	1,110	15,556	284	353
Interagency items:							
Due from Government agencies (−)	−13	−21					
Due to Government agencies	10						
U.S. investment excluding interagency items	210	1,479	61	1,110	15,556	284	353

See footnotes at end of table, p. 44.

TABLE 2.—*Public enterprise revolving funds, Dec. 31, 1961*—Continued

[In thousands of dollars]

Account	Interior Department—Continued						
	Alaska Railroad—Alaska Railroad revolving fund	Bureau of Mines—Development and operation of helium properties	Bureau of Commercial Fisheries		Bureau of Reclamation		Virgin Islands Corporation
			Federal ship mortgage insurance fund, fishing vessels	Fisheries loan fund	Fund for emergency expenses, Fort Peck project, Montana	Upper Colorado River Basin fund	
ASSETS							
Cash in banks, on hand, and in transit							1
Fund balances with the U.S. Treasury [4]	8,022	7,426	6	5,371	2,152	74,156	709
Investments:							
Public debt securities (par value)							
Securities of Government enterprises							
Unamortized premium, or discount (—)							
Other securities							
Advances to contractors and agents:							
Government agencies				2	50		
Other		*				15	
Accounts and notes receivable:							
Government agencies	947	1,070			2	131	138
Other (net)	743	84		35	21	21	375
Inventories	3,442	1,053			82	326	1,303
Allowance for losses (—)							
Accrued interest receivable:							
On public debt securities							
On securities of Government enterprises							
Other				93			
Loans receivable:							
Government agencies							
Other:							
U.S. dollar loans				7,472			114
Foreign currency loans							
Allowance for losses (—)				—166			
Acquired security or collateral (net)				15			
Land, structures, and equipment	133,362	42,937		3	16,914	33,393	12,158
Accumulated depreciation (—)	—22,798	—14,459			—711	—3,802	—3,116
Foreign currencies							
Other assets (net)	1,734	8,748		10	185	221,770	464
Total assets	125,451	46,860	6	12,836	18,695	326,009	12,145

LIABILITIES							
Accounts payable:							
Government agencies	49	49			2	436	8
Other	245	781		1	56	6,628	93
Accrued liabilities:							
Government agencies	1			2			197
Other	505			15			377
Advances from—							
Government agencies		756					
Other		224					
Trust and deposit liabilities:							
Government agencies	300	288					17
Other	61	8			8	5,379	106
Bonds, debentures, and notes payable:							
Government agencies							
Other:							
Guaranteed by the United States							
Not guaranteed by the United States							
Other liabilities (including reserves)	733	440	1			3	116
Total liabilities	1,895	2,547	1	18	65	12,447	915
NET INVESTMENT							
U.S. interest:							
Interest-bearing investment:							
Capital stock							
Borrowings from the U.S. Treasury							944
Other		42,100					9,895
Non-interest-bearing investment:							
Capital stock							
Appropriations	167,285			13,000	1,793	302,457	855
Capitalization of assets (net)	18,886	76			1,586	11,162	
Other	−63,764				2,067	−59	
Accumulated net income, or deficit (−)	1,148	2,138	5	−182	13,184	2	−464
Deposits of general and special fund revenues (−)							
Total U.S. interest	123,556	44,313	5	12,818	18,630	313,563	11,230
Total liabilities and investment	125,451	46,860	6	12,836	18,695	326,009	12,145
ANALYSIS OF U.S. INVESTMENT							
U.S. investment	122,407	42,175		13,000	5,446	313,560	11,694
Accumulated net income, or deficit (−)	1,148	2,138	5	−182	13,184	2	−464
U.S. investment including interagency items	123,556	44,313	5	12,818	18,630	313,563	11,280
Interagency items:							
Due from Government agencies (−)	−947	−1,070		−2	−52	−131	−138
Due to Government agencies	350	1,093		2	2	436	222
U.S. Investment excluding interagency items	122,959	44,336	5	12,819	18,580	313,868	11,315

See footnotes at end of table, p. 44.

TABLE 2.—*Public enterprise revolving funds, Dec. 31, 1961*—Continued

[In thousands of dollars]

Account	Interior Department—continued	Labor Department: Bureau of Employment Security		Post Office Department	Treasury Department: Office of the Secretary		
	Expansion of defense production	Advances to employment security administrative account, unemployment trust fund	Farm labor supply revolving fund	Postal fund [8]	RFC liquidation fund	Federal Farm Mortgage Corporation liquidation fund	Civil defense loans
ASSETS							
Cash in banks, on hand, and in transit			26	136,280			
Fund balances with the U.S. Treasury [4]	200	40,360	2,095	748,153	481	210	4
Investments:							
Public debt securities (par value)							
Securities of Government enterprises							
Unamortized premium, or discount (−)							
Other securities							
Advances to contractors and agents:							
Government agencies				4,909			
Other				4,933	12		
Accounts and notes receivable:							
Government agencies				32,957			(*)
Other (net)			8	35,739	1		(*)
Inventories			102	6,974			
Allowance for losses (−)							
Accrued interest receivable:							
On public debt securities							
On securities of Government enterprises							
Other		1,969			138		2
Loans receivable:							
Government agencies		250,550					
Other:							
U.S. dollar loans	12,692				8,696	1,525	708
Foreign currency loans							
Allowance for losses (−)	−10,640				−2,150		
Acquired security or collateral (net)					161		
Land, structures, and equipment			529	[9] 1,057,751			
Accumulated depreciation (−)			−162	−439,653			
Foreign currencies							
Other assets (net)			235				
Total assets	2,252	292,879	2,833	[10] 1,588,094	7,339	1,735	714

LIABILITIES							
Accounts payable:							
Government agencies				75,531	13		
Other			121	208,635	(*)	38	
Accrued liabilities:							
Government agencies	2,150						
Other			26				
Advances from:							
Government agencies							
Other			114				
Trust and deposit liabilities:							
Government agencies	1						
Other					79		
Bonds, debentures, and notes payable:							
Government agencies							
Other:							
Guaranteed by the United States						171	
Not guaranteed by the United States							
Other liabilities (including reserves)			120	53,519	6		
Total liabilities	2,151		382	[10] 337,685	99	210	
NET INVESTMENT							
U.S. interest:							
Interest-bearing investment:							
Capital stock							
Borrowings from the U.S. Treasury	31,000						
Other							330
Non-interest-bearing investment:							
Capital stock							
Appropriations		288,000					
Capitalization of assets (net)			486				
Other				1,636,203	[11] 7,240		
Accumulated net income, or deficit (—)	—30,899	4,879	1,965	—385,793		1,525	384
Deposits of general and special fund revenues (—)							
Total U.S. interest	101	292,879	2,451	1,250,410	7,240	1,525	714
Total liabilities and investment	2,252	292,879	2,833	1,588,094	7,339	1,735	714
ANALYSIS OF U.S. INVESTMENT							
U.S. investment	31,000	288,000	486	1,636,203	7,240		330
Accumulated net income, or deficit (—)	—30,899	4,879	1,965	—385,793		1,525	384
U.S. investment including interagency items	101	292,879	2,451	1,250,410	7,240	1,525	714
Interagency items:							
Due from Government agencies (—)		—250,550		—37,866			
Due to Government agencies	2,151			75,531	13		
U.S. investment excluding interagency items	2,252	42,329	2,451	1,288,074	7,253	1,525	714

See footnotes at end of table, p. 44.

TABLE 2.—*Public enterprise revolving funds, Dec. 31, 1961*—Continued

[In thousands of dollars]

Account	Treasury Department—Continued			General Services Administration			
	Bureau of Accounts—Fund for payment of Government losses in shipment	Office of the Treasurer—Treasurer of the United States, check forgery insurance fund	Expansion of defense production	Abaca fiber program	Reconstruction Finance Corporation liquidation fund	Expansion of defense production	Defense production guarantees
ASSETS							
Cash in banks, on hand, and in transit						78	
Fund balances with the U.S. Treasury [4]	27	2	52	99	1,075	18,249	6,226
Investments:							
Public debt securities (par value)							
Securities of Government enterprises							
Unamortized premium, or discount (−)							
Other securities					2		
Advances to contractors and agents:							
Government agencies						5	
Other						2	
Accounts and notes receivable:							
Government agencies			11		6	942	
Other (net)		37	3		3,505	2,026	49
Inventories						1,479,192	
Allowance for losses (−)							
Accrued interest receivable:							
On public debt securities							
On securities of Government enterprises							
Other			1,955		35	2	
Loans receivable:							
Government agencies							
Other:							
U.S. dollar loans			126,454		558		
Foreign currency loans							
Allowance for losses (−)			−13,950		−558		
Acquired security or collateral (net)			150				
Land, structures, and equipment					1,961	4,880	
Accumulated depreciation (−)					−1,372	−2,763	
Foreign currencies							
Other assets (net)						15,547	
Total assets	27	39	114,676	99	5,211	1,518,159	6,276

LIABILITIES							
Accounts payable:							
Government agencies			1			95	
Other			9			349	
Accrued liabilities:							
Government agencies						147,234	
Other							
Advances from:							
Government agencies							
Other							
Trust and deposit liabilities:							
Government agencies							
Other			43		(*)		
Bonds, debentures, and notes payable:							
Government agencies							
Other:							
Guaranteed by the United States							
Not guaranteed by the United States							
Other liabilities (including reserves)			28		1	109	
Total liabilities			82		2	147,787	
NET INVESTMENT							
U.S. interest:							
Interest-bearing investment:							
Capital stock							
Borrowings from the U.S. Treasury			97,500			1,774,700	
Other							
Noninterest-bearing investment:							
Capital stock							
Appropriations	802	50				515	
Capitalization of assets (net)							
Other	242			11,216	[11] 5,210		
Accumulated net income, or deficit (−)	−1,017	−11	17,094	−11,117		−404,843	6,276
Deposits of general and special fund revenues (−)							
Total U.S. interest	27	39	114,594	99	5,210	1,370,372	6,276
Total liabilities and investment	27	39	114,676	99	5,211	1,518,159	6,276
ANALYSIS OF U.S. INVESTMENT							
U.S. investment	1,044	50	97,500	11,216	5,210	1,775,215	
Accumulated net income, or deficit (−)	−1,017	−11	17,094	−11,117		−404,843	6,276
U.S. investment including interagency items	27	39	114,594	99	5,210	1,370,372	6,276
Interagency items:							
Due from Government agencies (−)			−11		−6	−947	
Due to Government agencies			1			147,329	
U.S. investment excluding interagency items	27	39	114,584	99	5,204	1,516,754	6,276

See footnotes at end of table, p. 44.

TABLE 2.—*Public enterprise revolving funds, Dec. 31, 1961*—Continued

[In thousands of dollars]

Account	Housing and Home Finance Agency						
	Office of the Administrator						
	College housing loans	Public facility loans	Public works planning fund	Liquidating programs	Urban renewal fund	Community disposal operations fund	Housing for the elderly
ASSETS							
Cash in banks, on hand, and in transit							
Fund balances with the U.S. Treasury [4]	43,215	4,407	23,418	5,124	251,296	2,035	78,285
Investments:							
Public debt securities (par value)							
Securities of Government enterprises							
Unamortized premium, or discount (−)							
Other securities							
Advance to contractors and agents:							
Government agencies							
Other				5			
Accounts and notes receivable:							
Government agencies				24			
Other (net)	151	29		378	67	[1]	
Inventories							
Allowance for losses (−)							
Accrued interest receivable:							
On public debt securities							
On securities of Government enterprises							
Other	7,862	902	3	881	2,757		6
Loans receivable:							
Government agencies							
Other:							
U.S. dollar loans	1,054,473	61,670		20,111	101,505	[13] 4,079	1,480
Foreign currency loans							
Allowance for losses (−)	−1,326	−1,181		−4,208			
Acquired security or collateral (net)				1,377			
Land, structures, and equipment				5,398			
Accumulated depreciation (−)				−5,189			
Foreign currencies							
Other assets (net)			13,176	3,174		5	
Total assets	1,104,340	65,827	36,597	27,075	355,626	6,119	79,771

LIABILITIES							
Accounts payable:							
Government agencies	1,126	430		105	909	70	227
Other	3	1		32			
Accrued liabilities:							
Government agencies	13,428	1,057			1,706		
Other							
Advances from:							
Government agencies							
Other							
Trust and deposit liabilities:							
Government agencies							
Other	2,365	232		42	6,874	124	
Bonds, debentures, and notes payable:							
Government agencies							
Other:							
Guaranteed by the United States							
Not guaranteed by the United States							
Other liabilities (including reserves)				44	59		
Total liabilities	16,922	1,720		223	[7] 9,547	194	227
NET INVESTMENT							
U.S. interest:							
Interest-bearing investment:							
Capital stock							
Borrowings from the U.S. Treasury	1,089,725	66,727			200,000		
Other							
Non-interest-bearing investment:							
Capital stock							
Appropriations			43,000	1,332,234	664,500		80,000
Capitalization of assets (net)				277,156		59,932	
Other				−388,693		−55,000	
Accumulated net income, or deficit (−)	−2,307	−2,620	−6,403	−1,193,844	−518,421	993	−456
Deposits of general and special fund revenues (−)							
Total U.S. interest	1,087,418	64,108	36,597	26,853	346,079	5,926	79,544
Total liabilities and investment	1,104,340	65,827	36,597	27,075	355,626	6,119	79,771
ANALYSIS OF U.S. INVESTMENT							
U.S. investment	1,089,725	66,727	43,000	1,220,697	864,500	4,932	80,000
Accumulated net income, or deficit (−)	−2,307	−2,620	−6,403	−1,193,844	−518,421	993	−456
U.S. investment including interagency items	1,087,418	64,108	36,597	26,853	346,079	5,926	79,544
Interagency items:							
Due from Government agencies (−)				−24			
Due to Government agencies	14,554	1,487		105	2,614	70	227
U.S. investment excluding interagency items	1,101,972	65,595	36,597	26,933	348,693	5,995	79,771

See footnotes at end of table, p. 44.

TABLE 2.—*Public enterprise revolving funds, Dec. 31, 1961*—Continued

[In thousands of dollars]

Account	Housing and Home Finance Agency—continued				Veterans' Administration		
	Federal National Mortgage Association		Federal Housing Administration	Public Housing Administration	Canteen service revolving fund	Direct loans to veterans and Reserves	Loan guarantee revolving fund
	Special assistance functions	Management and liquidating functions					
ASSETS							
Cash in banks, on hand, and in transit		615	4,545	1	3,486	230	116
Fund balances with the U.S. Treasury [4]	338	6,172	60,890	148,652	2,579	260,741	16,195
Investments:							
Public debt securities (par value)			752,964				
Securities of Government enterprises	20,398	75,027	6,493				
Unamortized premium, or discount (−)			−8,994				
Other securities			463				
Advances to contractors and agents:							
Government agencies							
Other				53			59
Accounts and notes receivable:							
Government agencies	12,178	12,150	51	12	53		
Other (net)	1,009	1,592	14,134	54	446	286	16,149
Inventories				99	4,945		
Allowances for losses (−)							
Accrued interest receivable:							
On public debt securities			2,769				
On securities of Government enterprises	686	1,096	85				
Other	8,871	5,424	(*)	1,073		1,711	1,165
Loans receivable:							
Government agencies							
Other:							
U.S. dollar loans	1,881,181	1,507,909	[12] 236,161	95,357		1,309,313	436,484
Foreign currency loans							
Allowance for losses (−)	[13] −7,389	[14] −24,052	−6,482	−1,336			
Acquired security or collateral (net)	6,948	4,978	439,099			2,771	138,302
Land, structures, and equipment		682	4,123	8,302	6,666		
Accumulated depreciation (−)		−358	−2,236	−3,831	−3,170		
Foreign currencies							
Other assets (net)		1	45,277	57	28	2	103
Total assets	1,924,222	1,591,235	1,549,341	248,495	15,034	1,575,053	608,574

LIABILITIES							
Accounts payable:							
Government agencies		20	480	141	107		
Other		6	10,463	51,974	1,235	20,893	10,574
Accrued liabilities:							
Government agencies	34,755	21,141	1,739	320		20,823	
Other	574	668	5,323	705	343		
Advances from—							
Government agencies							
Other							
Trust and deposit liabilities:							
Government agencies		116	2,047	392	262		
Other	13,392	17,347	20,230	67	479		
Bonds, debentures, and notes payable:							
Government agencies			118,810				
Other:							
Guaranted by the United States			191,062				
Not guaranteed by the United States		10					
Other liabilities (including reserves)		703	155,466	2,026	828	1,899	810
Total liabilities	48,722	40,011	[7] 505,620	[7] 55,625	3,255	43,615	11,384
NET INVESTMENT							
U.S. interest:							
Interest-bearing investment:							
Capital stock							
Borrowings from the U.S. Treasury	1,816,217	1,412,947		30,000		1,530,078	
Other							
Non-interest-bearing investment:							
Capital stock				1,000			
Appropriations				1,179,574			508,357
Capitalization of assets (net)				246,505	363		
Other							
Accumulated net income, or deficit (−)	59,283	138,277	1,043,721	−1,264,210	11,415	1,360	88,833
Deposits of general and special fund revenues (−)							
Total U.S. interest	1,875,500	1,551,225	1,043,721	192,869	11,778	1,531,438	597,190
Total liabilities and investment	1,924,222	1,591,235	1,549,341	248,495	15,034	1,575,053	608,574
ANALYSIS OF U.S. INVESTMENT							
U.S. investment	1,816,217	1,412,947		1,457,080	363	1,530,078	508,357
Accumulated net income, or deficit (−)	59,283	138,277	1,043,721	−1,264,210	11,415	1,360	88,833
U.S. investment including interagency items	1,875,500	1,551,225	1,043,721	192,869	11,778	1,531,438	597,190
Interagency items:							
Due from Government agencies (−)	−33,263	−88,273	−6,629	−12	−53		
Due to Government agencies	34,755	21,277	123,076	853	370	20,823	
U.S. investment excluding interagency items	1,876,992	1,484,228	1,160,167	193,710	12,095	1,552,261	597,190

See footnotes at end of table, p. 44.

TABLE 2.—*Public enterprise revolving funds, Dec. 31, 1961*—Continued

[In thousands of dollars]

Account	Veterans' Administration—Continued					Export-Import Bank of Washington	
	Rental, maintenance, and repair of quarters	Service-disabled veterans' insurance fund	Soldiers' and sailors' civil relief	Veterans' special term insurance fund	Vocational rehabilitation revolving fund	Regular lending activities	Liquidation of certain Reconstruction Finance Corporation assets
ASSETS							
Cash in banks, on hand, and in transit		1		(*)	14	689	
Fund balances with the U.S. Treasury [4]	22	490	105	812	281	1,987	9
Investments:							
Public debt securities (par value)				85,280			
Securities of Government enterprises							
Unamortized premium, or discount (−)							
Other securities							1,250
Advances to contractors and agents:							
Government agencies							
Other							
Accounts and notes receivable:							
Government agencies						1	
Other (net)	3	(*)		10	(*)	401	
Inventories						3	
Allowances for losses (−)							
Accrued interest receivable:							
On public debt securities				1,453			
On securities of Government enterprises							
Other		35		11		49,558	(*)
Loans receivable:							
Government agencies							
Other:							
U.S. dollar loans		1,808	32	570	99	3,683,236	3
Foreign currency loans							
Allowances for losses (−)							
Acquired security or collateral (net)							
Land, structures, and equipment						351	
Accumulated depreciation (−)						−159	
Foreign currencies							
Other assets (net)		6		5		22	
Total assets	25	2,342	137	88,141	394	3,736,088	1,262

LIABILITIES							
Accounts payable:							
Government agencies						39	(*)
Other	2	541		971		75	
Accrued liabilities:							
Government agencies							
Other	(*)						
Advances from:							
Government agencies							
Other							
Trust and deposit liabilities:							
Government agencies						44	
Other						1,377	
Bonds, debentures, and notes payable:							
Government agencies							
Other:							
Guaranteed by the United States							
Not guaranteed by the United States							
Other liabilities (including reserves)		18,476	6	28,710		5,742	100
Total liabilities	2	19,017	6	29,680		7,278	100
NET INVESTMENT							
U.S interest							
Interest-bearing investment:							
Capital stock							
Borrowings from the U.S. Treasury						2,000,100	
Other							
Non-interest-bearing investment:							
Capital stock						1,000,000	
Appropriations		4,500	2,003		400		
Capitalization of assets (net)							
Other	−5						1,162
Accumulated net income, or deficit (−)	27	−21,175	−1,871	58,461	−6	728,710	(*)
Deposits of general and special fund revenues (−)							
Total U.S. interest	22	−16,675	132	58,461	394	3,728,810	1,162
Total liabilities and investment	25	2,342	137	88,141	394	3,736,088	1,262
ANALYSIS OF U.S. INVESTMENT							
U.S investment	−5	4,500	2,003		400	3,000,100	1,162
Accumulated net income, or deficit (−)	27	−21,175	−1,871	58,461	−6	728,710	(*)
U.S. investment including interagency items	22	−16,675	132	58,461	394	3,728,810	1,162
Interagency items:							
Due from Government agencies (−)						−1	
Due to Government agencies						83	(*)
U.S. investment excluding interagency items	22	−16,675	132	58,461	394	3,728,892	1,162

See footnotes at end of table, p. 44.

TABLE 2.—*Public enterprise revolving funds, Dec. 31, 1961*—Continued

[In thousands of dollars]

Account	Export-Import Bank of Washington—Continued—Expansion of defense production	Farm Credit Administration		Federal Home Loan Bank Board			Panama Canal Company
		Short term credit investment fund [15]	Banks for cooperatives investment fund	Revolving fund	Federal Savings and Loan Insurance Corporation	Home Owners' Loan Corporation (liquidated)	
ASSETS							
Cash in banks, on hand and in transit					232		5,719
Fund balances with the U.S. Treasury [4]		75,115	79,102	296	3,200	406	19,874
Investments:							
Public debt securities (par value)					396,500		
Securities of Government enterprises							
Unamortized premium, or discount (−)					−2,347		
Other securities		54,885	106,817				
Advances to contractors and agents:							
Government agencies							
Other							
Accounts and notes receivable:							
Government agencies				23			2,822
Other (net)				1,516	15,477		3,867
Inventories				13	1		9,810
Allowance for losses (−)							−939
Accrued interest receivable:							
On public debt securities					2,767		
On securities of Government enterprises							
Other	11				524		
Loans receivable:							
Government agencies							
Other:							
U.S. dollar loans	8,047				45,000		
Foreign currency loans							
Allowance for losses (−)							
Acquired security or collateral (net)					6,032		
Land, structures, and equipment				423	126		715,453
Accumulated depreciation (−)				−423	−126		−284,967
Foreign currencies							
Other assets (net)				1	81		11,906
Total assets	8,058	130,000	185,919	1,849	467,465	406	483,546

LIABILITIES							
Accounts payable:							
Government agencies	(*)			9	(*)		142
Other				6	1	73	4,386
Accrued liabilities:							
Government agencies				58	22		5,016
Other				455	32		2,525
Advances from:							
Government agencies							
Other							490
Trust and deposit liabilities:							
Government agencies				301	15		944
Other	50			41	5		74
Bonds, debentures, and notes payable:							
Government agencies							
Other:							
Guaranteed by the United States						316	
Not guaranteed by the United States						18	
Other liabilities (including reserves)				887	26,503		12,330
Total liabilities	50			1,757	26,578	406	24,907
NET INVESTMENT							
U.S. interest:							
Interest-bearing investment:							
Capital stock							
Borrowings from the U.S. Treasury	3,057						
Other							329,862
Non-interest-bearing investment:							
Capital stock							
Appropriations		130,000	500,000				
Capitalization of assets (net)							
Other							
Accumulated net income, or deficit (−)	4,951		−314,081	92	[16] 440,887		127,777
Deposits of general and special fund revenues (−)							
Total U.S. interest	8,008	130,000	185,919	92	440,887		457,639
Total liabilities and investment	8,058	130,000	185,919	1,849	467,465	406	483,546
ANALYSIS OF U.S. INVESTMENT							
U.S. investment	3,057	130,000	500,000				329,862
Accumulated net income, or deficit (−)	4,951		−314,081	92	440,887		127,777
U.S. investment including interagency items	8,008	130,000	185,919	92	440,887		457,639
Interagency items:							
Due from Government agencies (−)				−23			−2,822
Due to Government agencies	(*)			368	37		6,102
U.S. investment excluding interagency items	8,008	130,000	185,919	437	440,924		460,919

See footnotes at end of table, p. 44.

TABLE 2.—*Public enterprise revolving funds, Dec. 31, 1961*—Continued

[In thousands of dollars]

Account	St. Lawrence Seaway Development Corporation	Small Business Administration: Revolving fund	Small Business Administration: Reconstruction Finance Corporation liquidation fund	Tennessee Valley Authority	U.S. Information Agency—Informational media guarantee fund
ASSETS					
Cash in banks, on hand, and in transit	40	110		75	
Fund balances with the U.S. Treasury [4]	338	308,046	353	36,822	(*)
Investments:					
Public debt securities (par value)				17,000	
Securities of Government enterprises				34,360	
Unamortized premium, or discount (−)				−160	
Other securities		28,418			
Advances to contractors and agents:					
Government agencies					
Other	1			32	
Accounts and notes receivable:					
Government agencies	(*)			8,900	
Other (net)	172	557	29	17,252	
Inventories	131			41,934	
Allowance for losses (−)				−608	
Accrued interest receivable:					
On public debt securities				533	
On securities of Government enterprises					
Other		2,998	37	6	
Loans receivable:					
Government agencies					
Other:					
U.S. dollar loans		536,368	3,159		
Foreign currency loans					
Allowance for losses (−)		−17,814	−857		
Acquired security or collateral (net)		1,300	403		
Land, structures, and equipment	127,330			2,495,822	
Accumulated depreciation (−)	−3,047			−523,685	
Foreign currencies					2,754
Other assets (net)	71	9,825	216	264,647	
Total assets	125,036	869,808	3,340	2,392,930	2,755

LIABILITIES					
Accounts payable:					
Government agencies	277			20,392	
Other	60	10	6	59,686	
Accrued liabilities:					
Government agencies	18	9,160			307
Other	31	11	9	425	
Advances from:					
Government agencies					
Other					
Trust and deposit liabilities:					
Government agencies				2,011	
Other		208	63	800	
Bonds, debentures, and notes payable:					
Government agencies					
Other:					
Guaranteed by the United States					
Not guaranteed by the United States				100,000	
Other liabilities (including reserves)	105	4,512	97	10,470	313
Total liabilities	490	[7] 13,901	174	193,782	619
NET INVESTMENT					
U.S. interest:					
Interest-bearing investment:					
Capital stock					
Borrowings from the U.S. Treasury	120,747				20,335
Other	[17] 11,770	559,778			
Noninterest-bearing investment:					
Capital stock					
Appropriations		360,222		1,798,318	
Capitalization of assets (net)				47,171	
Other			6,099		
Accumulated net income, or deficit (−)	−7,971	−64,093	−2,932	[18] 353,659	−18,199
Deposits of general and special fund revenues (−)					
Total U.S. interest	124,546	855,907	3,166	2,199,148	2,135
Total liabilities and investment	125,036	869,808	3,340	2,392,930	2,755
ANALYSIS OF U.S. INVESTMENT					
U.S. investment	132,517	920,000	6,099	1,845,489	20,335
Accumulated net income, or deficit (−)	−7,971	−64,093	−2,932	353,659	−18,199
U.S. investment including interagency items	124,546	855,907	3,166	2,199,148	2,135
Interagency items:					
Due from Government agencies (−)	(*)			−43,260	
Due to Government agencies	295	9,160		22,403	307
U.S. investment excluding interagency items	124,840	865,067	3,166	2,178,291	2,442

See footnotes at end of table, p. 44.

TABLE 2.—*Public enterprise revolving funds, Dec. 31, 1961*—Continued

[1] This Agency was established, and the International Cooperation Administration and the corporate development loan fund were abolished at the close of Nov. 3, 1961, pursuant to the act approved Sept. 4, 1961 (75 Stat. 445), and Executive Order No. 10973, dated Nov. 3, 1961. Development Loan Fund functions and the foreign investment guaranty funds were transferred to this Agency and a new fund for development loans was established.

[2] Includes operating and administrative expenses funds.

[3] Included beginning Dec. 31, 1961. (See table 4, footnote 3.)

[4] See table 1, footnote 1.

[5] Includes guaranteed loans and certificates of interest aggregating $895,232,000, which are held by lending agencies.

[6] Foreign currency assets are included throughout the table. (See table 1, footnote 2.)

[7] Certain corporations and other business-type activities that have submitted statements of financial condition have guaranteed and insured loans which were made by private financial institutions. These commitments are of a contingent nature and have been excluded from their balance sheets. The major agencies that have these contingencies and the amounts are as follows:

Activity	*Thousands*
Development loans	$60,496
Agriculture Department: Farmers' Home Administration: Agricultural credit insurance fund	216,643
Commerce Department: Federal ship mortgage insurance fund	377,762
Housing and Home Finance Agency:	
Office of the Administrator: Urban renewal fund	820,264
Federal Housing Administration	36,383,483
Public Housing Administration:	
Local housing authority bonds and notes (commitments covered by annual contributions)	3,066,300
Local housing authority temporary notes (the full faith and credit of the United States is pledged to the payment of these notes)	936,780
Veterans' Administration (June 30, 1961)	16,394,300
Small Business Administration: Revolving fund	22,174
Defense production guarantees (various activities)	115,136

[8] Figures are as of Jan. 5, 1962.

[9] Valued at cost, estimated if not known. Amounts, including accumulated depreciation, are to some extent preliminary, and subject to adjustment.

[10] The assets and liabilities of this fund exclude resources on order of $172,772,000 as reported by the Post Office Department.

[11] Represents the equity of the U.S. Treasury in this fund.

[12] Represents purchase money mortgages formerly classified as other assets (see footnote 1 at the end of table 7).

[13] Includes unrealized purchase discounts amounting to $6,365,000.

[14] Includes reserves and unrealized equity in the assets of the Defense Homes Corporation which are being liquidated by the Association.

[15] The Federal intermediate credit banks investment fund and the production credit associations investment fund were merged into this revolving fund pursuant to the act approved Oct. 3, 1961 (75 Stat. 758).

[16] The surplus is considered by the Corporation as available for future insurance losses and related expenses with respect to insured institutions.

[17] Represents accrued interest expense on borrowings from the U.S. Treasury Department on which payment has been deferred.

[18] Consists of net income from power operations of $588,701,000 and net expense of non-revenue-producing programs of $235,042,000.

*Less than $500.

The CHAIRMAN. So I understand you to say there is no plan on the part of the administration, notwithstanding all the talk about these different kinds of budgets, to attempt to change what we call the administrative budget, and if you did change it, you would have to borrow money just the same, because if you pay it out you have got to borrow it, if it is in excess of the revenue?

So there is no idea in mind at this time to ask the Congress to change the budget or to submit a budget on any basis different from basis of the administrative budget.

Mr. BELL. No, sir; there is not. I think it is important to comment that the purpose of using—the purpose of showing these other kinds of figures, the consolidated cash statement and the national income accounts, is to provide a basis for useful thinking about questions of Federal financial policy.

Our presentation of the budget figures in three different ways is intended to make figures available which are useful in answering different kinds of questions. The administrative budget figures are those which are directly relevant to the public debt. They also are the figures which are useful to the Congress in enacting appropriations each year. They are equally useful to the executive branch in making plans and in controlling expenditures for the different agencies of the Government.

None of us have any thought of abandoning those figures at all.

The CHAIRMAN. The chairman has no objection to that as a matter of information, so long as it is not confused with the budget on which we must levy taxes and borrow money. But the fact that there has been so much talk by people in high office, from the President down, with respect to other kinds of budgets which would obscure deficits, I wanted to know whether you had any plan in mind to change the type of budget used for the Federal Government.

Now, there is a myth—you say there is no myth about the debt—but there is a myth with respect to this balancing the budget "over the years of a business cycle." Mr. Bell said when he spoke in New York on June 12—

> The usual present-day statement of the accepted standard is to balance the budget over the cycle; that is, to have set deficits in years of recession with surpluses in years of prosperity. But this formulation assumes that all business cycles follow the same pattern, which is far from the case. The standard is clearly inadequate to deal with the situation such as we have been experiencing for the last 5 years, a situation in which we have had years of recession clearly enough, but no years of full employment and full capacity use of our industrial plants. In such circumstances there is plainly a serious question as to what target to choose budget for policy during the period of economic recovery.

That is the statement that you made in New York, Mr. Bell. And the record will show that this highly publicized theory of balancing the budget in times of prosperity and borrowing them in times of so-called prosperity simply hasn't worked out. I think we have had a balanced budget five times in the 29 years that I have been in the Congress. Is that right?

Mr. BELL. Yes.

The CHAIRMAN. So there is no justification for saying the budget will balance out if we borrow now because we have a recession, so-called—sometimes we don't have much of a recession to start deficit financing—and pay it back if we have prosperity. Actually we have been borrowing in times of prosperity as well as times of so-called recession, isn't that the history? We have had only five balanced budgets in 29 years.

Mr. BELL. I think there might be one or two comments I can make on that, Mr. Chairman. First, I doubt if this was indeed the policy which was attempted to be followed during all that period of time. During the war years, for example, which are 5 years of that historical period, of course, the problem of Federal finance was quite different. Business cycle thinking was irrelevant to a period of wartime. I am not trying to say that the financial policy that was followed during the war was right or wrong, but simply that there was a different situation then from what is assumed in the proposition of trying to balance the budget over the cycle.

The point I was trying to make in New York was that we have difficulty in applying that notion, and have had difficulty in the last several years, because we have not really had any periods of full prosperity in the classic sense of the full employment of the Nation's work force and industrial plants. And under such circumstances you are entirely correct, that the policy does not find reality to work against.

Now, the question of what policy should be applied in a period such as we have been in for the last several years, it seems to me, is a very real and difficult policy question. Thus far this administration has, as you know, presented a balanced budget as of January of this year. And whether that will turn out to be appropriate, whether events will happen as we anticipated then, and whether the policy will continue to look correct is something that will have to be looked at from time to time as economic conditions change.

The Chairman. You have got an experience, haven't you, of about 30 years with 25 unbalanced budgets?

Mr. BELL. Yes, sir.

The CHAIRMAN. I am a little mystified by your statement now—and the Secretary of the Treasury when he was here a year ago, he concluded his testimony by saying—

> This statement [of March 26, 1961] by President Kennedy on balancing the budget over the cycle years clearly outlines our budgetary policy from which we have never wavered.

Now, you are going to have a deficit this year, and you admit it to be $7 billion, and my personal opinion is that as a practical matter it is going to be closer to $8 billion, and you are going to have another big deficit next year, although you stated in January that you would have a balanced budget with a surplus of $500 million, and if the Budget Director was correctly quoted in New York, he indicated great concern that you might have a surplus—is that correct?—and that if you did have a surplus, it might result in a recession. The newspapers quoted that.

Mr. BELL. Excuse me, sir. If that was the way it was quoted in the papers, it was not an accurate reflection.

The CHAIRMAN. What did you say?

Mr. BELL. The concern that we have at the present time is essentially whether the economy is indeed going to move on up into a fully prosperous period. This is at this point a matter on which economic observers have some differences. Many business economists and banking economists seem to feel that later this year we may not experience the prosperous conditions which the President assumed in his budget presentation. If we do indeed move upward with the income and product of the country and have economic prosperity, the 1963 budget will be balanced, may be substantially more than balanced.

If, on the other hand, the economic conditions from now on up to next spring are less favorable than the President anticipated, then the budget will not be balanced. This is the key question.

The CHAIRMAN. Do you have any question in your mind about balancing the budget for the fiscal year beginning July 1?

Mr. BELL. I certainly have questions.

The CHAIRMAN. You think the budget will be balanced?

Mr. BELL. I think it depends on how the economy moves.

The CHAIRMAN. I think the Secretary of the Treasury and you ought to get together on this matter, because he answered a question from me in regard to the $500 million surplus by saying that the President had recommended new appropriations that would eat up the $500 million or more.

Didn't you say that?

Secretary DILLON. No, sir. I said the recommended new appropriations would just about use up the $500 million, but no more. And I think that was in the Budget Director's statement.

The CHAIRMAN. That is what I quoted you as saying.

Secretary DILLON. I said no more, just about that much.

The CHAIRMAN. Can you furnish the committee a statement of the new appropriations that the President has asked the Congress to make in addition to original budget requests?

Mr. BELL. Yes, sir; we would be glad to.

The CHAIRMAN. Is that in excess of $500 million or not?

Secretary DILLON. No.

The CHAIRMAN. Have you got it there?

Mr. BELL. I have it in my head only, Senator. If you will permit me, I will put it in the record.

(The following was later supplied for the record:)

Legislative proposals for which specific estimates were not included in the 1963 budget submitted in January

[Amounts in millions]

	Fiscal year 1963 estimates	
	New obligational authority	Expenditures
Allowance for contingencies	$300	$200
Estimated 1963 budget surplus		463
Total	300	663
Less legislative proposals already transmitted which were not specifically itemized in 1963 budget:		
Public works construction in distressed areas (appropriation of $600 million was anticipated for 1962)		300
Extension of temporary unemployment benefits	259	[1] 104
Highway Act of 1962:		
Interior	56	
Agriculture	70	
Trade expansion	107	6
Other (group practice facilities in health message; Senior Citizens Act; reduction in adult illiteracy and numerous relatively small items)	144	83
Less amendments to the appropriation amounts in the 1963 budget:		
I.M.F. (originally proposed as 1962 item but actually submitted as 1963)	2,000	
Atomic Energy Commission	211	45
Other:		
Increases	23	45
Decreases	+26	+12
Total of changes—transmitted legislative proposals not specifically itemized and amendments to appropriations proposed in 1963 budget	2,844	571
Amount of estimated budget surplus remaining		[2] 92

[1] Net of budget receipts of $155,000,000 included in legislative proposal.
[2] Presidential recommendations for which amounts were not itemized in the 1963 budget and for which specific legislative proposals have not yet been transmitted would be covered by this amount.

The CHAIRMAN. You still think that with the additional expenditures that there may be a surplus in the next fiscal year, is that correct?

Mr. BELL. It depends entirely on the course of the economy and its effect on receipts to the Government. If the economy moves forward, as we all hope it will, then the tax system of the country will yield receipts which would more than cover the expenditures that we anticipate, including the additional expenditures that the President has recommended.

The CHAIRMAN. What about the increase in the Federal employment and other budget increases—are they included in your estimates?

Mr. BELL. Yes, sir; all the increases in cost——

The CHAIRMAN. You still think, then, that there is going to be a balanced budget?

Mr. BELL. I am stopping short of a prediction, Senator. I am saying that it depends upon the course of the economy particularly during the next 6 months.

The CHAIRMAN. If you are going to have a balanced budget, why are you here asking for an $8 billion increase in debt?

Secretary DILLON. I explained very carefully, Senator, that the increase has nothing to do with balancing the budget. It is a reflection of the $7 billion deficit we had this year, and it is due to the short fall in receipts that is seen there in the first half of 1963, the lighter shaded bar, which has fallen short of the horizontal black line which is the expenditure part in the second half of the fiscal year.

In the second half, the surplus of receipts will offset that short fall, and we would come out even. It is due to the way our Government receipts and revenues operate. They are much smaller in the first part of the fiscal year, and they have this particular high peak or deficit just before December 15 when we receive very large tax payments, and we have to have debt flexibility to cover that.

The CHAIRMAN. Isn't it true, Mr. Secretary, that the balanced budget was predicated on an increase in the postal rates?

Secretary DILLON. That is right.

The CHAIRMAN. Have you any assurance that that is going to be done?

Secretary DILLON. No assurance except that the President asked it.

The CHAIRMAN. If it isn't done, won't that create a deficit with the new expenditures that you are requesting?

Secretary DILLON. That is right. That is what we both stated in our statements.

The CHAIRMAN. What other increased taxes did you recommend, or did you recommend any, to balance the budget?

Secretary DILLON. There is a big item in what we recommended for farm price supports, and if those recommendations are not enacted—and it certainly looks doubtful at the moment that they will be.

The CHAIRMAN. Is that included in the budget?

Secretary DILLON. Yes, sir.

Mr. BELL. The anticipation of reduced expenditures under the President's farm proposal is included in the budget. If the Congress does not enact the President's farm proposal, expenditures for farm price supports will be higher than those indicated in the budget.

The CHAIRMAN. Will you give a rough statement of what you estimated from tax increases in determining whether or not there would be a deficit? You have got the postal rates. Now, what else?

Secretary DILLON. The new taxes. I think the postal rates was the only substantial item of new revenue. We of course estimated that excise taxes would be extended and the corporate income tax be extended, and we are going to——

The CHAIRMAN. Well, the excise taxes were passed by the Senate.

Secretary DILLON. We may lose close to $100 million from our estimate by congressional action on that bill.

The CHAIRMAN. And then the postal increase would be how much?

Mr. BELL. About $600 million, Senator.

The CHAIRMAN. So these items may lose pretty close to a billion dollars, including increased expenditures. If we have to assume that Congress will make the increases in the postal rates and so forth, I can't understand why you think there is a possibility of a balanced budget in the next fiscal year.

Secretary DILLON. What we are trying to say is that if the Congress adopts the President's program, which is the only way the Chief Executive can figure when he is presenting a budget, that there might be a balanced budget. The two things which are important are the state of the economy, which influences revenues, and the action of the Congress on the expenditure and tax side. They have to be estimated ahead of time, and our estimates are based on that.

That is why we said that we were not in a position now to make new and more refined estimates, and won't be until September, after the Congress finishes work and we know what happens. And then we will as usual in the mid-year review make a completely new estimate which I think will probably be a very accurate estimate. The estimate we made last October of the deficit has turned out to be probably the most accurate estimate that has been made in the last 10 years.

The CHAIRMAN. I won't embarrass you by reading the estimates that you have made in the past.

Secretary DILLON. Those were not formal estimates. The formal estimates made last October turned out very well, I think.

The CHAIRMAN. There are some formal estimates; and I remember the President asked me to come to the White House, and he thought the deficit for last year would be a billion and a half. He called you up, and you thought it would be the same. But actually the deficit was $4 billion. I don't think any administration—and I don't confine it to you, it applies to all the administrations I have served under—has made very accurate estimates about the surplus or deficit.

Secretary DILLON. It is very difficult, because so many things occur. I want to say that I knew we made some estimates in the early days, and to point out that we have had better luck in our latest one.

The CHAIRMAN. Do you think the crisis in the stock market is going to have some bearing on profits?

Secretary DILLON. It will have a bearing on profits provided individuals decide to purchase less, or companies decide to spend less for equipment.

The CHAIRMAN. How much revenue do you get from the capital gains tax?

Secretary DILLON. I think the chances are that the actual revenues from capital gains will be increased by what happened in the stock market, because there was much greater volume and a great deal of selling. And there is no way of knowing at what prices these stocks were originally bought, and it may well be that many of them were bought at lower prices.

The CHAIRMAN. It depends on whether the seller makes a profit or not?

Secretary DILLON. That is right.

The CHAIRMAN. If he has a loss he can carry that forward to some extent.

In addition, it has been indicated that some companies have been discouraged from issuing new stocks to put up plant equipment. I can't see any encouragement in the stock market crash toward a balanced budget.

Secretary DILLON. No, it is certainly an element of discouragement.

The CHAIRMAN. I don't want to take too much time, but I want to get to these matters.

Will you state for the record first the Government's current monetary policy; second, the Government's current fiscal policy; and third, the Government's current budget policy?

I want that because I am confused, and many people are confused, because we are talking about different kinds of policies relating to the expenditures of the Government and to the borrowing of money, and so forth.

Now, would you state the Government's current monetary policy?

Secretary DILLON. I would be glad to do that, Mr. Chairman. With respect to monetary policy, the responsibility for this is vested by law in the Federal Reserve System. We do expect, however, that in working out their monetary policies they will work in consultation with and with full regard for the administration's overall program. Now, that has been the case in the past, and the Federal Reserve and the Treasury have worked closely together to evolve an interrelated program of monetary policy and debt management.

The aims of the monetary policy of the Federal Reserve have been to keep credit amply available while a significant segment of American business capacity and American labor remain unemployed and underemployed. At the same time their monetary policy has been directed to maintaining conditions in the money market, including a level of short-term interest rates that would avoid or minimize the flow of short-term funds out of the United States, and would thereby provide major assistance to the Government's effort to restore balance-of-payments equilibrium.

In carrying out this monetary policy they worked closely with the Treasury, because the Treasury's debt management policy is tied in closely with the monetary efforts of the Federal Reserve. And we have worked closely together with our debt management to meet our overall borrowing requirements at a minimum overall cost. And in doing that we have issued a substantial amount of short-term securities or bills. These bills have also helped to meet a demand, a larger demand, an increasing demand, for short-term securities, and have buttressed the efforts of the Federal Reserve to maintain an equilibrium relationship with foreign money markets.

As far as fiscal policy is concerned, this is a separate matter which is the responsibility of the Executive to propose and of the Congress to dispose. Our fiscal policy has been to undertake those expenditures which are deemed necessary both for defense and for domestic purposes, and only those—as the President pointed out when he first took office.

Our fiscal policy aims at budgetary surpluses when the economy operates at full capacity, and a balance when the economy approaches capacity. That was the reason for the President's submitting a balanced budget for fiscal 1963 which was based on the assumption of an economy that was approaching full capacity and not really reaching it during the course of the fiscal year, but only reaching it at the very end of the fiscal year.

Now, at the same time, I think it is the President's feeling, the administration's feeling, that they should not reduce necessary expenditures at a time when revenue receipts are reduced by an economy which is not operating as it should, when it is either not doing as well as expected or is actually declining.

Now, basic to such policy overall is an increase in our gross national product that is at a substantially faster percentage rate than any increase in the debt. This would decrease steadily the burden of the Federal debt on the people of the United States. That in fact has occurred practically every year since the war. At the end of the war the Federal debt amounted to some 128 percent of gross national product. As of now it amounts to some 53¼ percent, which is substantially less than half of what it was after the war, and it has dropped in practically every year except, I think, one. This past year it dropped about 2 percent.

I would say that is the outline of monetary and fiscal policy, and I think it includes within fiscal policy, budgetary policy. The Director may have something else he wants to say on that.

Mr. BELL. No.

The CHAIRMAN. One factor that hasn't been considered as it should be on this cycle idea, is the interest. You pay the interest on debt whether you are in prosperity or adversity. Now, it so happens that the interest this present fiscal year would be about $9 billion.

Secretary DILLON. This year that we are running in, yes.

The CHAIRMAN. And the deficit will approach $9 billion, approximately?

Secretary DILLON. No, sir.

The CHAIRMAN. Well, you admit that it will approach 7?

Secretary DILLON. Seven.

The CHAIRMAN. We will compromise on 8.

Secretary DILLON. No, sir.

The CHAIRMAN. I have been trying to bet you a hat on this for some time.

Secretary DILLON. This one is too easy, Senator. I won't do it. We will compare figures next week.

Senator KERR. What do you want to bet a hat on?

The CHAIRMAN. I want to bet that the deficit is going to be over 8, and I want to bet another hat that next year it is going to be over 6. If anyone wants to——

Senator DOUGLAS. I will take you up on the first one, Mr. Chairman, and I will buy you a good hat.

The CHAIRMAN. What about the second one?

Senator DOUGLAS. No, sir.

The CHAIRMAN. When I go up in the mountains I like to take two hats with me.

What I am getting to is that for this year we are borrowing money to pay interest, which means interest compounded. If we didn't have this interest we wouldn't have a deficit this year.

Secretary DILLON. That is right, if there was no public debt and no interest to be paid on it.

The CHAIRMAN. I am interested in interest because it is something that these people who know much more than I do about financial matters don't refer to much. But when you have a debt you pay interest on it until you pay the debt. So the other day I looked over the Federal interest expense and I was surprised to find that since the Korean war—and that wasn't so far back—our interest has been $61,700 million. And if we keep it up at the present rate for the next period, about 10 or 11 years, it will be $90 to $100 billion over 10 years. This is something that I think should have consideration. That is not a temporary thing. That is not a matter of being prosperous one year and having a slight recession one year, but you are building up a permanent charge against the Government. And I believe that those who talk about having a deficit one year and then a surplus the next year ought to take that into consideration.

Now, there is just one other thing. I have asked you a lot of questions. But I want to go into this. It has disturbed me very greatly. As you know, since around 1950 we have lost $8 billion of gold, it has gone down from $24.5 to $16.4 billion. And $12 billion is dedicated to back our own currency. We have only $4 billion of the so-called free gold. I have a table here showing since 1930 the debts, the interest, the budget deficits, the value of the dollar; and the dollar has gone down steadily—I think one year it went up, in 1949 it went up a half a cent. It is now 46.4 cents as compared to 100 cents in 1939.

I shall insert this table in the record at this point.

Federal debt, interest on the debt, budget surplus or deficit, value of the dollar, balance of payments, and U.S. gold stock, 1930–63

[From official Government sources]

Year	Gross public debt and guaranteed obligations (by fiscal year in millions)	Interest on the public debt (by fiscal year in millions)	Budget deficit or surplus (by fiscal year in millions)	Value of the dollar (by calendar year in cents) [1]	Balance of international payments (calendar year in millions)	U.S. gold stock (by fiscal year in millions)
1930	$16,185	$659	+$737	83.2	+$598	$4,535
1931	16,801	612	−462	91.4	+1,132	4,956
1932	19,487	599	−2,735	101.7	+726	3,919
1933	22,539	689	−2,602	107.4	+323	4,318
1934	27,734	757	−3,630	103.8	+1,140	7,856
1935	32,824	821	−2,791	101.2	+1,174	9,116
1936	38,497	749	−4,425	100.2	+896	10,608
1937	41,089	866	−2,777	96.7	+1,053	12,318
1938	42,018	926	−1,177	98.5	+1,482	12,963
1939	45,890	941	−3,862	100.0	+1,915	16,110
1940	48,497	1,011	−3,918	99.2	−2,890	19,963
Depression years		8,660	−27,642			
1941	55,332	1,111	−6,159	94.4	+1,119	22,624
1942	76,991	1,260	−21,490	85.3	−205	22,737
1943	140,796	1,808	−57,420	80.3	−1,979	22,388
1944	202,626	2,609	−51,423	79.0	−1,859	21,173
1945	259,115	3,617	−53,941	77.2	−2,737	20,213
1946	269,898	4,722	−20,676	71.2	+1,261	20,270
World War II years		15,127	−211,109			
1947	258,376	4,958	+754	62.2	+4,567	21,266
1948	252,366	5,211	+8,419	57.8	+1,005	23,532
1949	252,798	5,339	−1,811	58.3	+175	24,466
1950	257,377	5,750	−3,122	57.8	−3,580	24,231
Post-World War II years		21,258	+4,240			
1951	255,251	5,613	+3,510	53.5	−305	21,756
1952	259,151	5,859	−4,017	52.3	−1,046	23,346
1953	266,123	6,504	−9,449	51.9	−2,152	22,463
1954	271,341	6,382	−3,117	51.7	−1,550	21,927
Korean war years		24,358	−13,073			
1955	274,418	6,370	−4,180	51.9	−1,145	21,678
1956	272,825	6,787	+1,626	51.1	−935	21,799
1957	270,634	7,244	+1,596	49.4	+520	22,623
1958	276,444	7,607	−2,819	48.1	−3,529	21,356
1959	284,817	7,593	−12,427	47.7	[2]−3,743	19,705
1960	286,471	9,180	+1,224	46.9	−3,929	19,322
1961	289,211	8,957	−3,856	46.4	−2,454	17,550
Post-Korean war years		53,738	−18,836			
Total, 1930–61, actual		123,141	−266,420			
				April	1st quarter	June 15
Estimates and latest actual:						
1962	295,835	8,998	−6,975	46.0	−1,904	16,434
1963	295,569	9,400	+463			

[1] Based on 100-cent dollars in 1939.
[2] Excludes additional U.S. subscription to IMF of $1,375,000,000.

And coincident with that and the Federal deficits, the gold has gone out. We had our big imbalance of payments with foreign nations in 1950. That was $3,580 million.

In 1947 we had a surplus of foreign payments of $4,567 million.

And then steadily from 1950 with the single exception of 1957, when we had a surplus of $520 million. We have had deficits in our balance of payments. The highest was $3,929 million in 1960, there was another of $3,743 million in 1959, and another of $3,529 million in 1958.

And coincident with that, and with the loss of the purchasing power of the dollar, the gold reserves have gone down. So that today the gold reserves are $16,434 million as compared to the $24.5 billion in 1949.

Now, what is being done, or what can be done to correct that seepage of gold which continues?

Secretary DILLON. A great deal has been done, Mr. Chairman. We have been active in controlling the outflow. The balance-of-payments effect of our own expenditures abroad that we can control—our governmental expenditures, such as defense expenditures to keep our own troops abroad——

The CHAIRMAN. Now, could you itemize our expenditures abroad?

Secretary DILLON. Certainly.

The CHAIRMAN. The troops are how many now?

Secretary DILLON. The gross troop cost abroad, the defense cost abroad, which includes the maintenance and everything connected with defense that it costs us in our balance of payments, has been running about $3 billion a year.

The CHAIRMAN. There are about 750,000 troops abroad.

Secretary DILLON. I am not certain of the number.

The CHAIRMAN. What do you estimate that the tourist trade takes out?

Secretary DILLON. Our next deficit has been about $1 billion a year.

The CHAIRMAN. The bill that you got this committee to pass against their own wishes incidentally, which reduced the amount of merchandise that tourists could bring in duty-free from $500 to $100—has that reduced the dollar outflow?

Secretary DILLON. Yes. The estimate that we got from our Customs Service is that it has probably saved us between $100 and $150 million a year in our balance-of-payments deficit and has contributed to moderating the gold outflow.

The CHAIRMAN. That is not very much in comparison to the whole problem.

Secretary DILLON. The problem is so acute that nothing is inconsequential, and any way we can get at it we do it.

The CHAIRMAN. We have adverse payments of $4 billion. How much is the average net loss after bringing back the profits of the people that put up factories abroad?

Secretary DILLON. The average amount of funds that they are investing abroad each year, direct and portfolio, is about $2.5 billion.

The CHAIRMAN. You offset that, do you not, with the profits that come back?

Secretary DILLON. That $2.5 billion is the net amount of long-term U.S. capital we send abroad to invest and what foreign investors send into the United States to invest. It is not offset by earnings from past investments.

The CHAIRMAN. When American businesses establish plants abroad, some profits come back to this country.

Secretary DILLON. Yes, but it is not offset, because the profits would come back even if new businesses weren't established abroad.

The CHAIRMAN. Then the total of American money that leaves this country is how much?

Secretary DILLON. You mean the gold?

The CHAIRMAN. No, the total expenditures that you make in American dollars that go out of this country.

Secretary DILLON. They haven't all been added up, but last year we had $14.5 billion worth of imports, so money went out to buy that. We had $5 billion of service imports, so that makes a total of $20 billion that went out. Our military expenditures were $3 billion. That is $23 billion.

The CHAIRMAN. On the credit side what is the difference between the exports and the imports?

Secretary DILLON. On commercial account last year we had a balance on trade of about $3.2 billion.

The CHAIRMAN. $3.2 billion. Is that the only credit we had got against these deficits of $4 or $5 billion?

Secretary DILLON. Oh, no. We actually have our service exports, which include income from our investments abroad, which are larger than our service imports, and we had a credit there of about $1.9 billion. And our total net balance on commercial services and exports was just over $5 billion, $5.1 billion. Against that we had to offset military expenditures of about $3 billion, and against that we had net military cash receipts of about $400 million, a net military outflow of about $2.6 billion.

The CHAIRMAN. What is your estimate of total exports?

Secretary DILLON. Total exports or export surplus?

The CHAIRMAN. Total exports.

Secretary DILLON. The total exports, including those financed by Government grants and credits, were $19.9 billion, of which $2 billion, roughly, were financed by Government grants and credits. So merchandise exports, commercial exports, were just over $17.7 billion.

The CHAIRMAN. What figures were you taking when you gave this estimate of $5 billion surplus?

Secretary DILLON. That was the surplus on commercial merchandise exports and on commercial services put together.

The CHAIRMAN. You excluded the surplus food that we sent abroad?

Secretary DILLON. Yes.

The CHAIRMAN. That is about $2.5 billion?

Secretary DILLON. I think food and other items financed by Government grants and credits were $2.2 billion.

The CHAIRMAN. For a long time they were included in the total?

Secretary DILLON. Yes. As you remember, we obtained publication of a table by the Department of Commerce that separated them out, and they carry it regularly now. That is the table I am reading from.

The CHAIRMAN. Suppose the time would come, because of a continuation of this imbalance of payments, when we would not be in a position to honor drafts made upon us by central banks of Europe for gold instead of dollars, what would happen?

Secretary DILLON. Well, I don't foresee any such time occurring. So I think that is a purely hypothetical question. We are working to achieve a balance in our payments by the end of next year, and I think that we have every expectation of doing it.

The CHAIRMAN. How in the world are you going to achieve a balance of your payments? You have got to achieve it by getting about $4 billion.

Secretary DILLON. Our overall deficit last year, counting everything, was about $2.46 billion, of which about $2 billion were short-term money flows. I think those short-term flows will be much less. Every indication is so far this year that they have been very substantially less than they were last year.

Our basic deficit, excluding those, was only $400 million last year. I do think that we can operate with the very substantial savings that we are making in our military expenditures by getting offsets from other countries. We expect to save nearly a billion dollars as compared with last year. And with moderate increases in exports, and a stopping of this private short-term capital outflow, there is no reason why in another year and a half we shouldn't reach a balance. It is because our payments have been improving, and improving very much in this last quarter, that we have lost no gold at all for the last 6 weeks, which is quite a long period. I say 6 weeks, because this week which ends tomorrow we will have no gold loss either, and that will make it 6 weeks in a row.

The CHAIRMAN. The improvement hasn't been constant by this statement that I have got, and I think it is correct. For the first quarter of 1962 we lost $1.904 billion, I mean we had a deficit.

Secretary DILLON. No.

Mr. BELL. That is the annual rate.

The CHAIRMAN. That is correct, isn't it?

Secretary DILLON. Yes, annual rate, that is correct. That is better than last year. But the second quarter will be very substantially better than that. Through May, the best figures we have, which are not broken down, but they were based on balances at U.S. banks and at the Federal Reserve System, indicate that our deficit for the year through May was at an annual rate of something under $1.5 billion. So there was a very sharp improvement for April–May, and there has been substantial improvement in the second quarter as compared with the first quarter.

The CHAIRMAN. In 1960 it was $4 billion, practically $4 billion.

Secretary DILLON. That is right.

The CHAIRMAN. I would like your opinion as to why the European banks called on us for $8 billion of gold in a period of little more than 10 years.

Secretary DILLON. I think there were largely two reasons for that. I think they called on us from the end of 1949 up through about 1958, when they took about half of it, about $4 billion of the total, for a necessary rebuilding of their depleted gold stock, so that they could finance themselves and finance their own trade. This enabled them, at the end of 1958 to begin to make their currencies fully convertible, which has of course now been completed.

Thereafter, the gold flow was due to the fact that most of these central banks operate on a ratio system where they keep a certain proportion of their resources in gold and another proportion in dollars.

As they received dollars over and above this ratio, they converted a portion of it into gold and maintained the ratio, and that took about $4 billion more through the present period.

The CHAIRMAN. Do you think there is any incentive in the fact that they can get gold at $35 an ounce in lieu of dollars, when gold costs more than that to produce at least in this country?

Secretary DILLON. Well, the fact is that gold in the great producing regions of the world, such as South Africa, costs less than that to produce, because it is produced at a very good profit.

The CHAIRMAN. Isn't the average cost more than that?

Secretary DILLON. It is in the United States, but even there, our biggest mine, the Homestead Mine, is operating at a profit, though not much of a profit, at $35 an ounce. But certainly all the smaller mines, I think, have been closing and have not been able to operate. But in any recent years they have produced a very small amount of the world production. The basic part of the world production, something like $800 million a year now, is coming from South Africa. It is being produced at a very good profit, and dividends are paid on the South African gold stocks every year.

The CHAIRMAN. We don't buy that gold, do we?

Secretary DILLON. If and as we buy new foreign gold production we don't buy it directly. The great bulk of it is sold on the London market, and it is distributed through the London gold market, and some of it may find its way to us through those operations indirectly. But we buy nothing directly from South Africa.

The CHAIRMAN. What has puzzled me, looking at these figures, is that in the past 10 years we have brought in only $520 million in gold. In other words, the gold that goes out apparently doesn't come back, isn't that right?

Secretary DILLON. That has largely been the case. But the situation is improving. We have been able, and I think we will be able in the future if we can balance our payments, to obtain gold and obtain it in reasonable quantities.

The CHAIRMAN. I wish I could share your confidence about it, but we have lost two-thirds of our free gold in 10 years.

Secretary DILLON. That is correct. That is why we have to balance our payments.

The CHAIRMAN. Do you think that these imbalances and loss of gold put us in some jeopardy? I assume that you are doing everything that you can do to meet the situation.

Secretary DILLON. Yes, sir. One factor, of course, that I am sure your realize is that in spite of the gold that we have lost we still have in the United States about 40 percent of the gold in the free world.

The CHAIRMAN. Ten years ago we had 75 percent.

Secretary DILLON. Yes, which was too much.

The CHAIRMAN. Do you regard that as a satisfactory condition?

Secretary DILLON. I think 40 percent is probably about right. I don't think that 75 percent was satisfactory, because it made it impossible for other nations to have convertible currencies or to have free multilateral trade in the world.

The CHAIRMAN. Hearings have been held to see if gold production could be subsidized. As I understand it, the testimony was that production of gold would cost $70 an ounce.

Secretary DILLON. That was a request of the mining interests, to have the Interior Department pay them a $35 subsidy, on which basis they thought they might be able to operate.

The CHAIRMAN. You opposed it, and I think you were right because that would have depreciated the dollar.

Secretary DILLON. That is right.

The CHAIRMAN. And here is a situation that we are in. If we raise the price of gold we will depreciate the value of the dollar. Therefore we are in a vise where we can't meet the world market price of gold if it goes above $35.

Secretary DILLON. If it goes above, which it has shown no signs of doing.

The CHAIRMAN. And the only mine that we have, as I understand, that has any production is in Juneau, Alaska, and in the hearings which I read it seems the cost there would be $70.

Secretary DILLON. The only good mine that we have is the Homestead mine in South Dakota, and it was still operating——

The CHAIRMAN. That is a small production, isn't it?

Secretary DILLON. It is much the biggest we have in the United States.

The CHAIRMAN. And that is taken up in the commercial use of gold?

Secretary DILLON. That produces about half of all our domestically mined gold.

The CHAIRMAN. Do you think at any time that we should release this $12 billion of gold that is back of our own currency?

Secretary DILLON. I believe that the basic reason for gold is as a reserve for international transactions—and I would hope we would not have to use any of it for that——

The CHAIRMAN. Wouldn't that be a sign of weakness in the American dollar if we release the $12 billion?

Secretary DILLON. I don't think it would be so looked upon, because we are the only country in the world today that has a specific gold reserve behind its currency, and nobody can get that gold from the domestic currency side. All the other countries and the monetary funds use gold only as a balancing item in international transactions.

The CHAIRMAN. Mr. Alexander, the president of the Guaranty Trust, made a speech indicating that that was a possibility. I communicated with him, and he said that he would not recommend it when the dollar was under pressure. And certainly the dollar is under pressure with these constant deficits abroad.

Secretary DILLON. We have not recommended it, because it is an item of domestic controversy here, and we don't think that a very emotional debate on a subject like that at this time would do the dollar any good in the world market. That is the reason we have never considered making any such recommendations.

The CHAIRMAN. It seems to me it would be a great mistake to do it, although I don't claim to be an expert. But I do think, Mr. Secretary, that it is a very unsound situation that we have deficits at home and abroad. We have a deficit in our budget at home reaching enormous figures and, while you think an international balance will be reached, I am very doubtful about that. There hasn't been a balance but once in 10 years, and that was with a surplus of only about $500 million, I think it was.

And if ever we would have a run on gold—as you know, and why we ever did it I have never been able to find out, we are the only

Nation that offers the option of gold or dollars in the settlement of these accounts with other nations. Am I right about that?

Secretary DILLON. Yes; we are the only ones.

The CHAIRMAN. That was started back when?

Secretary DILLON. That is the reason, Mr. Chairman, that our dollar is acceptable and accepted throughout the world as the equivalent of gold, and why there are some $10 billion worth of dollars in the official reserves of other countries and why they are willing to hold it.

The CHAIRMAN. That is the very point I am making, it is so important and imperative for us to preserve this free gold, which has gone down two-thirds in the space of 10 years.

Secretary DILLON. That is why we have to put our payments in order and balance them, and that is what we are trying to do.

The CHAIRMAN. I won't pursue this any further except to say that I think it is of enormous importance. And I think that these large deficits in our domestic budget have a bearing on the gold.

Now, the Secretary will remember that I saw him in Geneva 2 years ago. Mr. Taylor, from Virginia, was the Ambassador to Switzerland, and I asked him to have a meeting with the President of Switzerland and the bankers so that I could ask them why it was that they had asked for $2 billion of our gold in 1958, I believe.

Secretary DILLON. 1958.

The CHAIRMAN. And they indicated that they thought that the big deficit that we had in 1958 and 1959 of $13 billion, for which they could see no justification, was a deliberate effort by this Government to create inflation. Many people say that deficit spending is not inflationary, and we had long hearings about it, as you know.

Bernard Baruch said that the most inflationary thing that can be done is to have constant deficits—and Mr. Martin, the Chairman of the Federal Reserve—that is what they said about it. And I still think there is a relation in the minds of people who want a sound American dollar as to deficits at home and deficits abroad at the same time.

Now, I want to ask the Budget Director what he has done in order to eliminate or reduce wasteful and nonessential expenditures.

Mr. BELL. Well, sir, you are of course familiar with the basic budget process which we go through each year before the President's budget is prepared and sent to the Congress. This is a process which is carried on very intensively through the 3 months of each fall, September, October, and November.

During that period the proposed budget of each Government agency is scrutinized very carefully indeed by the staff of the Budget Bureau, most of whom, as you know, are permanent employees of the Government, and do not change with the administration.

I have personally, now, been through that process in the last 3 months of last year, and there is no question whatever that this process is an effective and strong process which results in reducing the budget proposals of the different agencies by a few billion dollars each year. I am not making any claim that the reduction last fall was different than has been typically the case. I am sure that this has been true——

The CHAIRMAN. Do you agree with the Secretary of Commerce, Mr. Hodges, who said on May 24, that all sorts of money could be saved for taxpayers if the Government would get rid of deadwood on its payroll, and that 10 percent of the employees in his Department alone were doing jobs started 40 years ago and now are just not needed? That is his statement. And he is a member of the Cabinet. Was he right or wrong?

Mr. BELL. Mr. Hodges, of course, knows his Department better than I do. So far as the Government as a whole is concerned, there is a strong responsibility which has been placed on each Cabinet officer and agency head by the President to insist that he does not carry deadwood or extra personnel.

If Mr. Hodges has identified any individuals who can be reduced or eliminated, it is obviously his responsibility to get rid of them. I think the point he was making at the time when that quotation was made was that the civil service laws and regulations hamper a top ranking Government official in eliminating——

The CHAIRMAN. Have you ever recommended a change in that so as to eliminate—does the civil service keep deadwood or unnecessary employees on the payroll?

Mr. BELL. We have asked Secretary Hodges what changes in the legislation he would propose, and the matter is under discussion right now. My own observation has been that a strong minded and determined administrator in the Federal Government can run a tight and well controlled enterprise which does not have excess employees. I think the record of recent years in the Federal Government—this is not a partisan matter, obviously—in many respects is very impressive. I am sure this committee is well aware of many of the figures which have been made public from time to time. The increase, for example, in the productivity per person in the Post Office; the increase in the productivity per person in the Veterans' Administration, and in the Passport Office, and in many, many parts of the Government. There are in most agencies quite well organized continuing management improvement programs which are aimed precisely at the objective of accomplishing the Government's work with a minimum number of employees. This has typically meant that as additional jobs have been assigned by the Congress to the executive branch, the number of persons in the executive branch has risen less than would otherwise have been necessary.

It has not resulted in an absolute decline in Government employees, because the jobs to be undertaken, the work to be accomplished, have been rising in total.

The CHAIRMAN. At that point are you aware of the fact that in the budget you submitted on page 41 you estimated that for the next year the civilian employment would total 2,538,390?

Mr. BELL. Yes, sir.

The CHAIRMAN. Now, that is 46,045 over the estimate for the current year, and it is 131,000 more than the actual employment last year?

Mr. BELL. Right.

The CHAIRMAN. And you have looked into that, and you think that is justified?

Mr. BELL. Yes, sir, we have; we have scrutinized the proposed increases in personnel with special care——

The CHAIRMAN. Why don't you give Secretary Hodges a free hand, and if there is deadwood in his Department, tell him to get rid of it? He could be an example to these other agencies. When a member of the Cabinet makes a statement such as he made, that all sorts of money could be saved, and they are just not needed, why don't you give him a free hand to go ahead and reorganize his Department and cut out the deadwood?

Mr. BELL. I am not aware of any way in which I am standing in Secretary Hodges' way. I certainly would not wish to stand in his way.

The CHAIRMAN. If he made that statement and made it publicly, you are the person that is supposed to be the guardian of the public purse, aren't you?

Mr. BELL. Yes, we advise the President on the efficiency of management of the Government.

The CHAIRMAN. I also understood that the Budget Director was a restraining influence on spending, not an influence to spending more and more.

Mr. BELL. We are certainly not pushing Secretary Hodges to spend an extra nickel.

The CHAIRMAN. I know you are not, but since he made this speech, wouldn't you be justified in saying to him, "Go ahead and set up your plan and the Budget Director will approve it"?

Mr. BELL. We have discussed the matter.

The CHAIRMAN. What did you say?

Mr. BELL. We are working together on the objective.

The CHAIRMAN. Is he going to get rid of anybody that is not needed?

Mr. BELL. We will have to see.

The CHAIRMAN. You will have to see?

Mr. BELL. His staff and our staff and the Civil Service Commission——

The CHAIRMAN. He made this statement on May 24, and that is a month ago.

Mr. BELL. That is right.

The CHAIRMAN. And it is a very remarkable statement. I have been here a long time, and I don't think I have ever known a Cabinet officer to make a similar statement about his own Department. And I would think that you ought to just write him, just tell him that if he thinks there is deadwood and waste and extravagance, and so forth, to go ahead and clean it up.

Mr. BELL. We haven't written him, but we have proposed to him that we proceed to review the particular jobs to be done in the Commerce Department, the organization——

The CHAIRMAN. Would you keep this committee informed, because we are responsible for raising enough money to try to pay these enormous expenditures, either by authorizing debt, or taxation. Keep us informed as to what is being done in the Commerce Department to reduce the personnel that Secretary Hodges says ought to be reduced.

Mr. BELL. I will be glad to do so.

The CHAIRMAN. And a month has already gone by.

Thank you very much.

Senator Kerr.

Senator KERR. Do you have any authority either to extend or reduce the responsibility and the authority of the Secretary of Commerce with reference to employment in his Department?

Mr. BELL. No, sir; I do not.

Senator KERR. Is there anything to keep him from eliminating or removing from the payroll any person that he has that he doesn't need, other than the civil service laws passed by the Congress?

Mr. BELL. Not that I am aware of.

The CHAIRMAN. Will the Senator yield at that point?

Senator KERR. Yes.

The CHAIRMAN. As Budget Director you are supposed to recommend the appropriations to the President, are you not?

Mr. BELL. Senator, the appropriations which we recommended for the Commerce Department last fall, and which are before the Congress right now, those are the appropriations which seemed to us to reflect the minimum number of persons who were required to carry out the Commerce Department's business. Secretary Hodges——

The CHAIRMAN. But the routine is to go from the Secretary of the Treasury to you, isn't it?

Mr. BELL. The Secretary of Commerce.

The CHAIRMAN. The Secretary of Commerce to you, and then you make recommendations to the President, do you not, when the budget is submitted?

Mr. BELL. Yes, that is right.

The CHAIRMAN. Therefore you did recommend these expenditures?

Mr. BELL. Oh, yes. I said I did, but I understood Senator Kerr's question to be a different one, namely, whether there was any barrier, any bar to Secretary Hodges reducing employees whom he found excess to the needs of the Commerce Department apart from the civil service laws and regulations, and my response was that there is no barrier that I am aware of, of that type.

The CHAIRMAN. Would you furnish a statement of the increase in the employees of the Commerce Department?

Mr. BELL. Yes, sir.

The CHAIRMAN. And the increased expenditures of the Commerce Department that you recommended.

Mr. BELL. Yes, sir.

Senator KERR. Did you recommend to the President a larger or smaller amount for salaries in the Commerce Department than Secretary Hodges asked for from you?

Mr. BELL. A smaller amount than he asked for.

Senator KERR. In other words, you as a Director of the Budget approved an amount of money for employees less than that which Secretary Hodges asked you for?

Mr. BELL. That is correct.

Senator KERR. Are you in a position to tell the committee how much less?

Mr. BELL. We would have to look back in the record, Senator, I did not come prepared for this particular question.

Senator KERR. I know. But you are positive that it was less than he asked you for?

Mr. BELL. Yes; there is no question about that.

Senator KERR. Would you advise the committee how much less?

Mr. BELL. I would be glad to.

(The information requested was subsequently supplied by the Director:)

The budget request of the Department of Commerce for fiscal 1963 involved a total employment by the Department of 33,307 persons as of June 30, 1963. This figure was reduced to 31,541 in the budget allowance approved by the President and transmitted to the Congress in January.

Senator KERR. I really want to ask you a question or two, Mr. Secretary, about the debt limit bill. As I understood it, the bill passed by the House makes provision for a debt limit which is different during three periods of the next fiscal year, but as to each period for which provision is made, it is assumed that there will be a balanced budget for 1963 fiscal year?

Secretary DILLON. That is correct. It is assumed throughout that this will be a balanced budget for the fiscal year.

Senator KERR. So that the amount of the debt limit as fixed in the House bill for the three different periods during fiscal 1963 is adequate provided you have a balanced budget for fiscal 1963?

Secretary DILLON. Yes, as I have stated, it would be adequate under those circumstances.

Senator KERR. But only under those circumstances?

Secretary DILLON. Only under those circumstances.

Senator KERR. So that actually the bill before us is what is required for the Treasury to be able to handle the management of the public debt in the next 12 months in providing a balanced budget?

Secretary DILLON. That is correct.

Senator KERR. Mr. Secretary, do you determine whether or not there is a balanced budget?

Secretary DILLON. No, Senator, I do not.

Senator KERR. Do you have an opinion as to who does?

Secretary DILLON. Yes. This was decided by the action of the Congress on the recommendations for expenditures——

Senator KERR. Would a direct answer be that Congress determines whether or not there is a balanced budget?

Secretary DILLON. Not entirely, because the revenues depend on the economy. But those two things.

Senator KERR. I understood that the revenues depend on the productivity of the economy. But there are no expenditures except those authorized by the Congress, are there?

Secretary DILLON. That is correct, none.

Senator KERR. So you don't have authority to reduce expenditures directed by the Congress in the event revenues do not equal those which are expected either by the executive or legislative departments at the beginning of the fiscal year, do you?

Secretary DILLON. I have no such authority. I know that on occasion Presidents of the United States have from time to time impounded or delayed certain expenditures that have already been voted, and there was always a good deal of controversy about it. They have done it.

Senator KERR. You mean that they didn't spend money which Congress had appropriated and directed that the executive department spend?

Secretary DILLON. Yes.

Senator KERR. And any controversy that has arisen has been by the Congress wanting to know why the executive didn't spend the money that the Congress appropriated?

Secretary DILLON. That is right.

Senator KERR. You would be very happy to operate on a less rate of expenditure if the Congress would make it either possible or mandatory that you do so?

Secretary DILLON. I would be glad to operate under whatever rate of expenditure the Congress made, and certainly if it was less there would be greater ease in managing the public debt.

Senator KERR. Your responsibility, then, is to pay the bills created by the Congress?

Secretary DILLON. That is right.

Senator KERR. And if the Congress does not provide the revenue for you to pay those bills through taxation or otherwise, you only have the alternative either of having the President refuse to spend the money, although appropriated by the Congress, or borrow the money, or be in the position of the Federal Government not paying for something which it has bought under the direction of the Congress?

Secretary DILLON. That is correct.

Senator KERR. Well, I think that makes it a very simple equation. I will come back to another question or two in a moment.

In the meantime, Mr. Bell, has the Congress in its appropriations appropriated a total that equaled the recommendations of the Budget Bureau, or exceeded the recommendations of the Budget Bureau, or in an amount less than requested by the Budget Bureau?

Mr. BELL. Are you referring to a particular year, Senator?

Senator KERR. While you have been Director—or have you been Director long enough to know?

Mr. BELL. Yes. I have been Director for something over a year, during which time one budget, the 1962 budget, was essentially enacted by the Congress last spring and summer. In connection with the passage of that budget there was—I don't have the picture precisely in my mind, but there was a net reduction as a result of congressional action on appropriation requests in the neighborhood of perhaps a half a billion dollars below the President's request. On the other hand, there were in addition a number of instances in which the Congress added funds to the President's proposals. So that the figure I used is a net figure. Congress increased a number of appropriations. In the military field, for example, and in the health research field, Congress added very substantial sums of money to the amounts proposed. In other instances the Congress reduced the President's proposals.

And if I recall correctly, the net reduction was in the neighborhood of perhaps a half a billion dollars.

Senator KERR. So that during this——

Mr. BELL. We will have to check the figure for the record, Senator.

(The following was later received for the record:)

The expenditure effect of net reductions in appropriations by the Congress was checked by the Budget Director and found to be substantially correct.

Senator KERR. Is the gentleman that is kind of shaking his head there of a different opinion?

Mr. BELL. No, he says he doesn't remember.

Senator KERR. So that as your best memory indicates, insofar as the deficit may be for this current fiscal year, if it exceeds $500 million it exceeds the request of the Budget Bureau by that amount?

Mr. BELL. I am not sure I follow that, Senator.

Senator KERR. Well, Congress, you say, appropriated an amount equal to $500 million less than the total recommended by the President

Mr. BELL. Yes, sir. The deficit for the current year was estimated, of course, after Congress completed its action. The deficit, in other words, might have been as much as $500 million more than that, more than the amount we now estimated, had the Congress enacted precisely what the President had recommended.

Senator KERR. The Secretary of the Treasury, I believe, estimated roughly that the deficit of the fiscal year ending the 30th of this month will be about $7.25 billion.

Mr. BELL. We estimate that it will be about $7 billion. In order to be conservative in his calculations of the debt, he took $7.25 billion.

Senator KERR. But your estimate is that it will be about $7 billion?

Mr. BELL. Yes, sir.

Senator KERR. That is by reason of the fact that Congress appropriated that much more money than the Government collected from taxes and other revenue sources?

Mr. BELL. Yes, that is right.

Senator KERR. Now, if the Congress had appropriated the amount recommended by the President, the difference would have been between a deficit of $7 billion as you expect it to be and $7.5 billion?

Mr. BELL. At the most; that is right.

Senator KERR. So that if you take full responsibility for that part of the expenditures which Congress and you both agreed upon, and the figures as they would be if Congress had appropriated the amount that you agreed upon, the difference in the deficit would have been about $500 million?

Mr. BELL. The reason I say at the most, Senator, is that it might very well have been less, because after Congress completed its action last year and the various other facts were known, such as the anticipated crop yield for last summer's agricultural season, and so on, the President instructed his Cabinet officers and agency heads to reduce expenditures where they could below amounts authorized by the Congress. And in a number of cases that was done.

Senator KERR. Well, was there enough of such action taken to offset the $500 million differential?

Mr. BELL. Yes, sir. So that actually if the President had authorized the spending to the extent that the Congress had approved it, we could easily have had a deficit that is in the neighborhood that Senator Byrd is talking about.

Senator KERR. Well, then, the fact is that the President and the executive department has spent less money than the Congress appropriated?

Mr. BELL. That is correct.

Senator KERR. And your present estimate is how much less?

Mr. BELL. Well, the story is a little complicated, and I don't want to make any undue claims. Some of the reductions and expenditures below what the Congress approved——

Senator KERR. Appropriated?

Mr. BELL. Appropriated—had nothing to do with economy moves. In the military field, for example, there was simply a difference of judgment as to what was or was not required for the national security. Other reductions which were made were simply for economy reasons, and represented the deferral of activities which are well warranted and would be in the national and the public interest, but which, because of the size of the deficit, the President felt could be deferred for a time, and perhaps undertaken in a later year.

Senator KERR. The question that I would like for you to answer is a very simple question. The executive department has actually spent less than the Congress appropriated and authorized?

Mr. BELL. About a billion dollars less.

Senator KERR. About a billion dollars less. Now, reference has been made to the value of the dollar in 1933. Do I understand from this table that the chairman had, that he indicated that the dollar had been at its highest value in 1933 during the last 32 years, at which time it was worth 107.4 cents in relation to its value in 1939, is that what the table shows?

Mr. BELL. That is correct.

Senator KERR. Can either of you gentlemen advise the committee how the value of the dollar could be restored to 107.4 as it was in 1933.

Secretary DILLON. The only way to do that, Senator, would be to reduce the prices of goods in the United States by something over 50 percent.

Senator KERR. As a very simple answer, wouldn't it be correct to say that you would have to reduce the value of commodities and labor and services to what they were in 1933?

Secretary DILLON. That is right.

Senator KERR. There is no other way to do it, is there?

Secretary DILLON. That is the only way; yes.

Senator KERR. So that if we wanted a dollar worth as much in relation to its purchasing power and in relation to 1939, as the dollar in 1933, it would be a very simple process to reduce the value of commodities, agricultural products, labor, congressional salaries, the salaries of the porters, the fees for all services rendered by lawyers and doctors and nurses, optometrists and others, to what the prices were in 1933?

Secretary DILLON. That is right; that is the only way; you would have to deflate prices to the extent they have been inflated.

Senator KERR. In other words, the value of the dollar is a relative thing?

Secretary DILLON. Relative, that is correct.

Senator KERR. And another way to say that the dollar is worth less would be to say that labor and commodities are worth more?

Secretary DILLON. That is right.

Senator KERR. And you can say it either way with equal accuracy.

Secretary DILLON. I think that is correct.

Senator KERR. So if we want to restore the value of the 1933 dollar, all Congress has to do is to pass the laws that would bring about a situation where labor and agricultural products and congressional salaries and all other things for which people pay money could be purchased by people with money at the same figures and at the same rates and at the same level at which they were available to them in 1933?

Secretary DILLON. And persuade the President to approve them.

Senator KERR. Congress and the President together.

Secretary DILLON. Yes.

Senator KERR. If the people decided they wanted that done, all they would have to do would be to elect the Congress and the President that could do that for them?

Secretary DILLON. That is correct.

The CHAIRMAN. Senator Williams.

Senator WILLIAMS. Carrying that to the extreme the other way, then the way to restore full prosperity so that everybody would be happy would be to just do the direct opposite, wouldn't it achieve full prosperity if we were to double wages, double all services, and cut the value of the dollar one-half again?

Secretary DILLON. Not necessarily at all.

Senator WILLIAMS. I agree not any more than the proposals made by the Senator from Oklahoma?

Senator KERR. I want to correct the Senator from Delaware. I did not make a proposal. I don't want to put it back to where you boys had it in 1933. The Senator from Delaware said all you have got to do is the opposite of the proposal by the Senator from Oklahoma, and the Senator from Oklahoma didn't make a proposal, he asked a question. And I want it plain that I do not want it put back where they had it when we had the party in 1933.

The CHAIRMAN. When Roosevelt came into office in 1933 the dollar was 107.

Senator WILLIAMS. You used the value of a dollar in 1939. Who was President during that period?

Secretary DILLON. Franklin D. Roosevelt.

Senator WILLIAMS. And he was not considered such a reactionary, was he?

Secretary DILLON. I don't think he was particularly reactionary.

Senator WILLIAMS. Now, Mr. Secretary, the suggestion has been made that Congress is responsible for the expenditures, and that you merely finance the debt to raise the money to pay it. I might say that I——

Secretary DILLON. I think that is entirely accurate as far as the Treasury Department is concerned. The President, of course, shares the responsibility with the Congress for appropriations, because he makes recommendations.

Senator WILLIAMS. I am in agreement with that, but I am just establishing that as a point. But if it is Congress' responsibility to act on these appropriations, then Congress must, as it has been pointed out, accept the responsibility for having appropriated, authorized the expenditures of the money which creates the $6 billion or $8 billion deficit which you are going to have in 1962 fiscal year, is that not correct?

Secretary DILLON. That is correct.

Senator WILLIAMS. And if we have a deficit in fiscal year 1963 it will result from expenditures which are passed and approved by the Congress during the suggested 3 to 4 weeks here for your budgetary requests, is that correct?

Secretary DILLON. That is right.

Senator WILLIAMS. Now, if Congress does not want the expenditures that result in this deficit, then we should cut those budgets by 10 percent, and we could save $8 billion or $9 billion, is that correct?

Secretary DILLON. If the expenditures estimates, which are about $93 billion, were all cut by 10 percent, you save $9 billion.

Senator WILLIAMS. Of course, you can't cut all of them, there is the interest on the debt and certain factors in there which both you and I realize cannot be cut. But by a 10 percent cut on those items

items which could be cut we could achieve a deficit reduction of $5 billion to $6 billion, could we not?

Secretary DILLON. Yes; if you included defense in that category.

Senator WILLIAMS. Now, to what extent would you go along with the Congress in making cuts in the proposed budget for 1963? Would you endorse Congress cutting some of these items?

Secretary DILLON. Well, the President has made his recommendations, and those are the amounts that he has recommended.

Senator WILLIAMS. I am aware of the President's recommendations. I am asking you, as Secretary of the Treasury, would you recommend it?

Secretary DILLON. I was agreeable to that budget when it was submitted, and we have to see how it is handled as a whole. I think it was a proper budget.

Senator WILLIAMS. I repeat the question. Would you endorse Congress making any cuts in the budget request for 1963?

Senator MCCARTHY. Mr. Chairman, I don't think this is a question to be asked of the Secretary of the Treasury. It is not his responsibility. He is here to testify, it is a Presidential responsibility, he can write to his Congressman if he wants to express his views, but I don't think he should be called on to make a statement on this.

Senator WILLIAMS. If it is going to embarrass him I will withdraw the question, but he is the man that is going to spend the money, and he seems to have some recommendations, and he was very frank in assessing the responsibility to Congress, and I agree with him in that assessment, but he must have some opinion as to the wisdom of Congress in appropriating the funds. But if he does not have an opinion I will direct my question to the Budget Bureau Director, Mr. Bell.

Do you think that Congress would be responsible if they made a few cuts in the President's 1963 budget request, or do you think they should be enacted as proposed by the President?

Mr. BELL. As you indicated, it is the responsibility of the Congress to reach its own decisions on these matters. As far as the decision of the President is concerned, both the Secretary and I participated in it as adviser to him, his recommendations are before the Congress, and they stand as the President's recommendation.

Senator WILLIAMS. And you are not recommending any cut whatever?

The CHAIRMAN. Will the Senator yield at that point?

Senator WILLIAMS. Sure.

The CHAIRMAN. The President in his midyear budget review last October 26 estimated revenue for the current fiscal year at $82.1 billion, expenditures of $89 billion, and a deficit of $6.9 billion. In his statement at that time he told his Cabinet members and Department heads it would be necessary "to defer or limit increases in many programs which in more normal times would be thoroughly desirable, and to shift present staffs and resources to the maximum extent from the lower priority work to higher priority."

Is that order still in operation?

Mr. BELL. Yes, sir.

The CHAIRMAN. What has been the result of it? He said it was necessary to defer a limit increase in many programs, which in more normal times would be thoroughly desirable, and to shift present staffs, and so forth.

Mr. BELL. This was the point that Senator Kerr was asking about a few minutes ago, Senator. The figures which appear in the midyear review dated last October already reflected substantial reductions in the expenditures which would have been possible under the authority enacted by the Congress. So that the expenditure estimate which you have just cited already reflected a number of important decisions of the kind you are just now referring to. Since that time the Cabinet officers and agency heads have continued under the injunction that you have quoted, and the expenditures in many cases which have, in fact, been made or are being made during this fiscal year are reflecting improvement in efficiency, and deferrals of activities where that can be done appropriately, in the judgment of the Cabinet officers and agency heads concerned. As I indicated in my own earlier statements, the present figures are about a billion dollars less both on receipts and on expenditures than the ones you have just cited, leaving the net balance at about $7 billion of anticipated deficit.

The CHAIRMAN. This statement said the deficit would be $6.9 billion. Has that been changed?

Mr. BELL. The January figure, I believe, was almost exactly $7 billion.

The CHAIRMAN. What I am asking is, the order in which the President indicated that it would be necessary to defer or limit increases in the many programs, and so forth, that is still in existence?

Mr. BELL. It is, sir.

The CHAIRMAN. Now, in view of your present estimate of the deficit on Saturday, June 30, Mr. Budget Director, how much expenditure or reduction has resulted from that order?

I don't expect you to answer that offhand. We will have to recess now until 2 o'clock, if that suits you.

Mr. BELL. I already gave part of that answer to Senator Kerr. Before the original estimate of $88,985 million was made, there had already been a reduction in the neighborhood of a billion dollars.

The CHAIRMAN. Be prepared to answer these questions which I hand you when you come back at 2 o'clock, if you can. I am sorry we have to make it at 2, but the Ways and Means Committee wants to have a conference on the tax bill.

The committee will recess until 2 o'clock.

(Whereupon, at 12:35 p.m., the committee recessed, to reconvene at 2 p.m. the same day.)

AFTERNOON SESSION

The CHAIRMAN. The committee will come to order.

Senator Williams?

STATEMENTS OF DOUGLAS C. DILLON, SECRETARY OF THE TREASURY, AND DAVID E. BELL, DIRECTOR OF THE BUREAU OF THE BUDGET—Resumed

Mr. BELL. Senator, the chairman asked me a question just before we broke for lunch.

The CHAIRMAN. Suppose you read the reply. Is that the inquiry I made?

Mr. BELL. This is the inquiry; yes, sir.

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The CHAIRMAN. All right, read it.

Mr. BELL. The chairman quoted from the President's midyear budget review of last October and asked how much expenditure resulted from the President's instruction then that each agency head should defer or limit increases so far as he could.

I started to say, just as we broke up, the reductions which were made in response to the President's instruction were reflected in the figures made public in October, and the amount of the reduction is roughly in the neighborhood of $1 billion, so that had the President's instructions not been issued and followed, the budget deficit predicted at that time would have been in the neighborhood of $8 billion instead of in the neighborhood of $7 billion as it was.

The question that the Senator asked went on to inquire whether the President's instructions of last fall are still in effect.

They most certainly are.

During the fiscal year 1962, it has been the continuous responsibility of the Cabinet officers and agency heads to carry out the President's desire that they defer less important activities wherever they can and improve the efficiency of their activities.

I have one or two illustrations that might be of interest to the committee.

During the present fiscal year, for example, it has been found possible for the Defense Department to revise its requirements for aviation spare parts, and the net saving, as a result of this, is on the order of over $100 million.

This saving during the present year was taken into account and a good part of it resulted in reducing supplemental appropriations that otherwise would have been necessary—for example, for the atomic testing program.

Moreover, also in the Defense Department a new centralized supply and procurement agency has been established, the Defense Supply Agency, which is expected to make substantial savings in the supply operations of the Defense Department, as Senator Douglas is very well aware, and we will be reflecting these savings, have already reflected some of them in the 1963 budget.

And, as they occur, we will be alert to take advantage of them during the execution of the 1963 budget.

The Senator's question also asked how the order was followed up, the President's order was followed up, after it was made.

I think the general point can be made that we followed it up at that time most intensively by thoroughgoing discussions with each agency of their plans for the fiscal year 1962. We will do the same thing again after the Congress has completed action on the 1963 budget, to make sure that, as the spending program is actually carried out during the fiscal year 1963, the President's instructions are going to be followed.

Does this respond to the question, Mr. Chairman?

The CHAIRMAN. Thank you.

Senator Williams?

Senator WILLIAMS. Mr. Bell, in submitting the budget for fiscal year 1962 as submitted in January 1961——

Mr. BELL. Yes, sir?

Senator WILLIAMS (continuing). What were the estimated budget receipts and the estimated expenditures as reported to the Congress in that first budget?

Mr. BELL. In January of 1961?

Senator WILLIAMS. 1961, as submitted for fiscal year 1962.

Mr. BELL. As submitted by President Eisenhower?

Senator WILLIAMS. Well, both.

I was going to ask you the question both as submitted by President Eisenhower and as submitted by President Kennedy.

Mr. BELL. As submitted on January 16, 1961, the estimated total receipts for the fiscal year 1962 were $82.3 billion, and estimated expenditures were $80.865 billion, $80.9 billion.

Senator WILLIAMS. What were the same figures in the budget as submitted by President Kennedy for that same fiscal year?

Mr. BELL. President Kennedy submitted a series of proposals which did not constitute a completely revised budget document.

Senator WILLIAMS. You would not have comparable figures, then, for that, is that correct?

Mr. BELL. Well, I can give you figures. They were summarized at two or three different times.

Senator WILLIAMS. I will direct my question in this way, then:

What was the actual receipts for fiscal year 1962?

Mr. BELL. Of course, the actual figures, we are still 1 week from the end of the year——

Senator WILLIAMS. That is right, but you should have them reasonably close.

Mr. BELL. That is right.

Senator WILLIAMS. What are they?

Mr. BELL. The current estimate for receipts in the present fiscal year is about 81, a little over $81 billion, Senator.

Senator WILLIAMS. A little over 81?

Mr. BELL. Yes, sir.

Senator WILLIAMS. Receipts were down about 1.3 billion less than the estimate then, is that correct?

Mr. BELL. Yes, sir; that is right.

Senator WILLIAMS. That is the estimate.

Mr. BELL. About $1 billion, Senator. I am not giving it exactly. I do not have figures before me that are precise to the $100 million.

Senator WILLIAMS. For fiscal 1962, receipts are expected to be about $1 billion less than the original estimate?

Mr. BELL. Yes, sir; that is correct.

Senator WILLIAMS. Now, the expenditures as recommended in the first budget were how much?

Mr. BELL. They were about $81 billion, and they are now estimated at about $88 billion.

Senator WILLIAMS. About $88 billion.

In other words, the receipts were about $1 billion less than the original estimate, and, to that extent, $1 billion of the deficit would be accounted for by less income than had been anticipated?

Mr. BELL. Yes, sir.

Senator WILLIAMS. And the expenditures were about $7 billion higher, and $7 billion of whatever the deficit may be will be as a result of the increased expenditures during fiscal 1962; is that correct?

Mr. BELL. That does not add up right, Senator, because the deficit is only $7 billion.

Secretary DILLON. The original document proposed a surplus.

Senator WILLIAMS. Yes.

Mr. BELL. Yes.

Senator WILLIAMS. In other words, expenditures had been increased $7 billion over the original estimate?

Mr. BELL. Yes, sir.

Senator WILLIAMS. And the income has dropped about $1 billion?

Mr. BELL. Right.

Senator WILLIAMS. I point that out to confirm what was said earlier:

That this deficit with which we are going to be confronted here on June the 30th results largely from increased expenditures during the past 12 months rather than from a reduction or an overestimation of revenue.

Mr. BELL. That is right.

It is, of course, true, Senator, as you know, that the total volume of business, of income, of production in the economy will be affected or has been affected during this year by the Federal budget, and, insofar as the recovery has been stimulated by the planned deficit in the Federal budget, the receipts of the Government are substantially higher than they would otherwise have been.

But this is an indirect effect through the impact of the budget on the economy.

Senator WILLIAMS. You used the word in that statement, a "planned deficit."

Mr. BELL. Yes, sir.

Senator WILLIAMS. Do I understand that this deficit with which we are now being confronted was deliberately planned and something that you not only anticipated but that you planned for this deficit?

Mr. BELL. Yes, sir.

A deficit was planned for the fiscal year 1962 deliberately as an antirecession measure just as the deficit in 1959 was planned as an antirecession measure at that time.

Senator WILLIAMS. I disagree with the 1959 planned deficit. But am I correct in my understanding that the $1.5 billion surplus which was estimated in the original budget was deliberately done away with and, in turn, converted into this $7 billion deficit, deliberately and as a part of a planned program?

Mr. BELL. The anticipated———

Senator WILLIAMS. May I ask:

Is that what you———

Mr. BELL. I am answering you, sir.

The anticipated surplus, as presented in the January 1961 budget, turned out on close examination not to have been a real one, but, as we assessed the matter in March of that year, it was plain that there would have been no surplus, had there been no change in the expenditure program.

Senator WILLIAMS. That is right.

Mr. BELL. So that the accurate statement of the budget, as best we could estimate it in March, showed that there would, in fact, have been a deficit under any circumstances.

But it would have been a small one.

And the additions on the expenditure side were made deliberately and proposed by President Kennedy because he considered that a number of Government programs needed to be increased and carried out at higher levels, notably defense, space, and various others.

Now, had the economy been in a strong position and the President had felt it necessary, as he did, to recommend higher expenditures, obviously he would then have been impelled to recommend additional taxes to cover those higher expenditures.

Since the economy, however, was in a weak position—indeed, we were at the bottom of a recession in February of 1961—the President considered that it was proper and wise fiscal policy not to propose additional taxes to cover the additional expenditures which he regarded as necessary to meet the country's needs.

In that sense, it is entirely correct, in my opinion, to say that the President accepted the desirability of a deficit under those circumstances, being in a recession and considering that expenditure increases were proper and appropriate to meet the needs of the country.

This is what I meant by the phrase, the shorthand phrase, "a planned deficit."

Senator WILLIAMS. As a result of this planned deficit during the past 12 months that is behind us, and looking backward, do you think it has been a great achievement, do you think our economy is bouncing along better, as a result of this planned deficit, or do you think it has slipped?

Mr. BELL. The economy has come back very strongly from the recession low of February 1961.

The figures, the quarterly figures of the increase in gross national product are very impressive.

We were at about $500 billion annual rate in the first quarter of calendar 1961, gross national product.

The second quarter figures for the present calendar year that will be available in a week or so will probably show an annual rate between $550 billion to $560 billion, and this is a very sharp recovery from the recession which was in effect when the President came in.

I certainly would not argue that the deficit in the budget has been the only contributor to the substantial recovery that has occurred, but I would say that it did help; it was proper under those circumstances to run a deficit, if it was necessary, as the President believed and as the Congress concurred, to increase expenditures.

Senator WILLIAMS. In the face of this substantial improvement to which you refer and this booming economy, how do you associate that with what is happening in the stock market today?

Mr. BELL. I am certainly no expert on the stock market, Senator.

Senator WILLIAMS. Well, as an expert on finances?

Mr. BELL. It has been my understanding that the principal explanation given by everyone, well, by most of the people who watch these matters closely in New York as well as in Washington, is that the stock market values were at an unduly high level.

Stocks were 20 to 25 times their earnings, and these are levels which could only be sustained were there the anticipation of inflation, of continuous rises in the price level in the economy.

As it became clear that there was not going to be a continuing inflation, it was necessary, it was only natural that the stock prices faced a readjustment.

This is obviously not an explanation as to why they fell by a certain amount on any particular day, but this is certainly a significant element in explaining why there has been a substantial drop since the levels of last fall.

Senator WILLIAMS. As one who understands the reasonableness of your explanation and certainly cannot question it, but what disturbs me is my recollection of 1929 when Herbert Hoover said the same thing.

Mr. BELL. I have not looked up what Mr. Hoover said in 1929.

Senator WILLIAMS. I will not push that, but I think we got the same explanations, and I do not know about the conditions, but that the market was too high and that it had to have an adjustment.

Mr. BELL. I take it we both hope that what followed then will not follow now.

Senator WILLIAMS. I am not suggesting that it would, but I am suggesting that that is pretty much the same explanation.

In your speech, Mr. Bell—and perhaps the moral of this is we should not make too many speeches, but we all listen to them—I am going to quote:

> Today there is an equally clear consensus that balancing the budget each year is not the proper standard to follow.

Now, do you think there is anything improper about a standard of trying to balance the Federal budget?

Mr. BELL. "Each year," sir, are the keywords in that sentence.

Senator WILLIAMS. Which year would you propose that we do balance the budget?

You proposed it last year? You had a planned deficit, sir.

Now, in the projected next year, do you suggest we should balance the budget next year, or do you think we ought to have a deficit in fiscal year 1961?

Mr. BELL. 1963, sir?

Senator WILLIAMS. 1963, I mean.

Mr. BELL. The budget that the President presented in January was a balanced budget on the assumption that the economy would rise, as Secretary Dillon said this morning, to a level of full employment defined as 4 percent unemployment by the end of the fiscal year.

If that, in fact, is what happens, we will have a balanced budget in the fiscal year 1963.

I think we would go further and say that in a year in which we have 4 percent unemployment or less throughout the budget year, we would think that it would be desirable to budget for a substantial surplus, not simply for a balance, Senator.

I think that is the basic answer to your question.

Senator WILLIAMS. You would recommend a surplus be created only in years in which you have a 4 percent or less unemployment?

Mr. BELL. In which we have high employment both of the work force and of the country's industrial capacity. There are additional circumstances which would have to be taken into account, depending on the circumstances of the time.

For illustration, right after World War II the budget, by and large, was planned for surpluses, and surpluses were achieved in most of Mr. Truman's years, as you will recall. But the surpluses were not large enough to offset the very great accumulation of liquid purchasing power which had been created during the war, and, in consequence, those were years of budget surpluses but also years of price inflation.

In consequence, I would think, looking back, that the policy I have suggested here would have called for substantial surpluses in the budget in a period like that, even if the unemployment was not absolutely at 4 percent.

Senator WILLIAMS. Using that as a yardstick, in how many years since 1900 would we have had a balanced budget during peacetime if we deliberately unbalanced the budget in every year in which there was an unemployment rate higher than 4 percent?

Mr. BELL. I would be glad to check the figures.

Senator WILLIAMS. Would you furnish that for the record? I would be interested.

Mr. BELL. Yes.

(The information requested follows:)

The Bureau of Labor Statistics series of unemployment statistics starts in 1929. Since then, the peacetime calendar years during which unemployment was 4 percent or less were: 1929, 1946, 1947, 1948, 1951, 1952, and 1953, a total of 7 years. In addition, unemployment was below 4 percent during the war years 1943, 1944, and 1945. Moreover, unemployment was between 4 and 5 percent in the wartime year 1942 and the peacetime years 1955, 1956, and 1957.

Mr. BELL. On the other hand, I want it to be clear that I am not suggesting quite such a rigid standard as you have just indicated.

Senator WILLIAMS. No; I am not suggesting it. You have suggested it.

Mr. BELL. Right. I do not suggest that the question of surplus or deficit can be settled simply by looking at the anticipated rate of unemployment. As for the past history of unemployment, we can check the figures. We will be glad to do so and put them in the record.

Senator WILLIAMS. I was just wondering if we did use that—now, in your statement, you also state——

Mr. BELL. May I add one point about that?

Senator WILLIAMS. Sure.

Mr. BELL. I think it would be of interest to note that in recent years, if I can find my copy of economic indicators here, the unemployment rate has been in the neighborhood of 4 percent in 1955, 1956, 1957.

It has not been that low since 1957, but 4 percent unemployment is not unusual—that is to say, we certainly have had many years in which that level of unemployment has been reached.

Senator WILLIAMS. I realize that, but I just wondered if you would furnish that information.

Mr. BELL. Right.

Senator WILLIAMS. Now, in your statement further you said, and I am quoting:

The recovery topped out too soon.

I will go back:

This is apparently exactly what happened in 1959 and 1960. Here, again, Arthur Burns and Walter Heller agree the recovery from the 1957–58 recession sputtered and came to a stop before full employment and full capacity was reached. The recovery topped out too soon, and the decision to balance the 1960 budget, in retrospect, seems clearly to have been one of the factors that led to the abortive recovery and the subsequent downturn in the spring of 1960.

Now, do I understand you figured that balancing the budget in 1960 was a wrong step and it should have been unbalanced at that time?

Mr. BELL. That is the conclusion that Arthur Burns and Walter Heller would agree on.

Senator WILLIAMS. That is your——

Mr. BELL. Well, you know——

Senator WILLIAMS. I am asking you for your opinion.

Mr. BELL. Insofar as I understand the problem, Senator, I think that is correct.

I am, however, relying on the judgment of people like Burns and Heller, who have studied the matter more closely than I have.

Senator WILLIAMS. Then you said that there were "positive benefits from a Federal deficit in a recession."

Mr. BELL. In a recession, right.

Senator WILLIAMS (reading):

> Such a deficit can assist in expanding purchasing power and employment without leading to inflation, witness the $12 billion deficit in fiscal 1959 or the $7 billion deficit in the present fiscal year, neither of which has been accompanied by any significant inflationary pressure.

Mr. BELL. Right.

Senator WILLIAMS. Do you think the $12 billion deficit in 1959 and the $7 billion deficit which we are just going to end up with for fiscal 1962 is a blessing?

Mr. BELL. I think I would rather regard them, Senator, as a necessary evil.

I do not think any of us like deficits. I think the argument I have made here is that they can have some beneficial effects in a recession.

I would think that our objective should be to try to avoid getting into recessions. If we do that, then we do not face the question of whether we have to have recessions—I mean deficits, and we obviously would prefer not to be faced with that kind of a situation.

If we avoid the recessions, we can and should avoid the deficits.

Senator WILLIAMS. I agree with you on that point, but what I am at a loss to understand, though, is: We are confronted with a situation here on June 30, 1962, in which we have the deficit and a prospective recession both together.

Now the deficit, the planned deficit for the last fiscal year, apparently did not achieve its objective. Was it too small a deficit?

Do you think, in looking back, in retrospect, it should have been double?

Mr. BELL. Senator, I personally do not think we have the evidence at hand as yet to answer that question. Our assumption as to what was going to happen in the economy during the present calendar year included a number of different aspects, a certain effect from the level of expenditures and taxation of the Federal Government, and another part, probably the most significant part of the change in the economy, the growth of the economy, which we expected would have resulted from a very strong pickup in private investment.

We have had a pickup in private investment as compared with calendar 1961, but it has not been as large as we had hoped. This is, I think, the most significant difference between the economic circumstances that we projected in January and the circumstances as they have actually developed through the year thus far.

I do not know, I do not have the data in front of me to analyze the reason for the fact that industrial investment has not risen as much over last year as we hoped that it would.

There may be other elements in the economy which will perform better than we had expected in January and which would make up for that difference in the outlook.

All of us, I think, are looking, are expecting to keep examining these questions as the economic indicators of the present fiscal year become clearer week by week, as we go along.

If at any stage it appears that a different economic and fiscal policy seems desirable, why, it would be our responsibility to recommend that to the President.

Senator WILLIAMS. Thank you.

I will not pursue this further. The chairman pretty well covered the next question I have to ask. I will merely ask it to put it in the record.

In speaking of the many different types of budgets, the methods of computing the budgets, if I understood your answer to the chairman's question correctly, you said there is no plan, nor any thought on the part of the administration, to change from the administrative budget as it has been reported to the Congress, is that correct?

Mr. BELL. No, sir.

I think our essential point is that there are different questions to be asked; there are different issues of fiscal policy to be faced.

Some of them are best answered by using the administrative budget figures, some are better answered by using the cash statement or the national income account figures.

Consequently, we have regarded the provision of these other kinds of figures, in addition to those of the administrative budget, to be a contribution to the facts available for policymaking and not as a step toward eliminating the administrative budget figures and replacing them with any of these others.

Senator WILLIAMS. I think it is well to put those other figures in for comparison, for study, for use in making your plans.

Mr. BELL. Right.

Senator WILLIAMS. But when it comes to the actual accounting system, the question of expenditures and receipts, and the question of our national debt and financing the national debt, as I understand it, you are going to continue to use the administrative budget as the best method, is that correct?

Mr. BELL. Well, we believe that those are the best figures for certain purposes.

They are the best figures to relate to the changes in the national debt.

They are the best figures to relate to the actions taken by the Congress on spending authority in a normal year through the appropriations process.

They are the best figures for control purposes within the executive branch for the spending programs of the different agencies.

They are not the best figures when one wishes to try to analyze the impact of Federal financial transactions on the economy.

All the economists of either party agree that for that purpose the national income accounts present better figures, more useful figures, figures which will give us a better guide. So that it is our effort to provide the accounting information which will be most constructive for whatever the purpose is that is to be served at a given point in time.

Whichever the questions are, we want to be able to have the accounts and the figures available that will enable it to be answered most intelligently.

Senator WILLIAMS. I recognize that each of these reports can serve its useful purpose.

Mr. BELL. Right.

Senator WILLIAMS. But the reason that prompted my question, again, was again reading your speech, and I am quoting:

> The administrative budget, the set of figures normally discussed in Congress and in the press, is badly incomplete, misleading in thinking, and a confusing conglomeration of different kinds of activities.

Now, if it is your opinion that the administrative budget is misleading, incomplete, and a confusing conglomeration of different activities, how do you think the Congress is going to make any sense out of it when you submit it to us?

Mr. BELL. We hope that we can augment the administrative budget figures by additional figures which correct those deficiencies.

If the Congress would prefer that we correct them by other means, by altering the administrative budget, that would be another way to do it.

This is not our proposal.

Senator WILLIAMS. No.

Mr. BELL. So far as the administrative budget being misleading in timing, which I think is one of the points that is made there, we do expect to provide figures on an accrual basis which, as any corporation knows, are better figures to use for many purposes than cash figures, the typical figures in which the administrative budget has been presented in the past.

So far as the administrative budget is, as I indicated there, a conglomeration of different kinds of activities, I think it is our responsibility to make plain what is included in it, how much of the budget represents current outlays for goods and services, how much of it represents capital expenditures of one kind or another, how much of it represents loans and so on, so that if we make plain what is included in the administrative budget, rather than regarding it as a uniform set of data, then I think this will improve the usefulness of the figures to those who must act on it.

It is misleading, as I indicated, it would be misleading if it were regarded as a good indicator of the impact of the Federal budget on the economy.

In that sense, the Federal budget is not a good set of figures at all. There are at least two sets of figures which are better.

So it seems to me the desirable function of the Budget Bureau is to present the record of the Government's plans and actions in financial terms so organized as to serve the purposes of those who must make policy decisions based on the figures.

Senator WILLIAMS. I appreciate that and I appreciate your effort to do so.

I was only disturbed that after receiving your budget and studying it a little bit, to read where you used such strong adjectives in describing that which you submitted to us.

Now, one other question:

The interest of the national debt, one of the big items in the budget is the interest on the debt?

Mr. BELL. Yes, sir.

Senator WILLIAMS. What was the interest on the debt in fiscal year 1962? How much interest did we pay?

Secretary DILLON. Fiscal year 1962 is this year.

Senator WILLIAMS. That is this year. And fiscal year 1961?

Secretary DILLON. It will be about $9 billion.

Senator WILLIAMS. $9 billion this year?

Secretary DILLON. Yes.

Senator WILLIAMS. Fiscal year 1962.

What will it be in fiscal year 1963?

Mr. BELL. About $9.4 billion.

Secretary DILLON. $9.4 billion was the figure for the 1963 estimate.

Senator WILLIAMS. Yes. Well, I noticed in your budget you suggested that about half of that increase was to take care of the increased debt which is as a result of this deficit and the other half is to take care of the higher rates of interest on the obligations that have been issued recently.

I put that in the record because we heard a lot said about the high-interest policies once before, and I guess we are going back to paying more realistic interest rates on the market.

You find, as did your predecessor, I guess, Mr. Secretary, that when you borrow money, you have to pay the going rate of interest as it is demanded in the marketplace, is that not correct?

Secretary DILLON. That is certainly what the Treasury has to do.

The going rate of money in the marketplace is somewhat influenced by the credit policies, monetary policies of the Government as set by the Federal Reserve System. But the Treasury, when it borrows money in the market, can only pay the going rate, Senator.

Senator WILLIAMS. Do I understand that the Federal Reserve is raising the interest rates deliberately at this time?

Secretary DILLON. The Federal Reserve System has been keeping credit fully available on a very generous basis so far, and is continuing to do so as long as there is unemployment and as long as our manufacturing capacity is not being used to the full extent.

However, at the same time it has an equally important duty to help preserve our gold stock, and on that side it has been operating to see that the short-term interest differentials stay reasonably in line.

At present, as of today, there is a small advantage to buy British Treasury bills as compared to U.S. bills by about less than two-tenths of 1 percent.

That is not significant and money does not shift with that narrow a margin, but if that margin would rise to as much as one-half of 1 percent, there would be substantial shifts.

So that has to be constantly borne in mind.

Senator WILLIAMS. Speaking of gold, this morning, I think, you referred to the fact that we had lost about $2.5 billion in gold last year as a result of the American capital for investment in plants abroad, was it, or what was that?

Secretary DILLON. No.

I said there was about $2.5 billion that was invested abroad. That was one of the items entering into our overall balance of payments deficit.

Senator WILLIAMS. Yes; I understand.

Secretary DILLON. Which also happened to be about $2.5 billion.

But certainly you cannot put too much weight on that one item?

Senator WILLIAMS. Oh, no. I did not intend it that way.

Secretary DILLON. Now, the gold loss was only about $850 million.

Senator WILLIAMS. I did understand that you had placed some emphasis on that point.

Secretary DILLON. No.

Senator WILLIAMS. The reason I brought that up and raised the question, how much did we receive in dividends from these investments, from our American investments abroad?

Secretary DILLON. Last year I think we received about $3 billion.

Senator WILLIAMS. About $3 billion?

Secretary DILLON. Maybe a little over.

Sentor WILLIAMS. A net gain of about $500 million.

Mr. Secretary, are you going to recommend a tax cut at any time in the near future?

Secretary DILLON. We have stated many a time, for the last year and a quarter, that we intended to submit a tax reform program for action early in 1963. Part of that, I have stated, I think in answer to questions of yours at other hearings, would be an overall restructuring of the income tax rates.

I have stated that restructuring is reduction as far as the income tax rates are concerned, and that we intended to broaden the base to recoup those funds in whole or in part.

The President has since then indicated that the amount to be recouped in this program will not be as large as the reduction.

The 1959–60 experience and again this time shows that our tax burden, the way it happens to impinge on individuals and corporations, is too heavy and acts as a brake against our economy moving toward full employment.

So that is one of the major reasons we wish to reduce it up and down the line, and I think that is generally accepted now in business circles and among economists and in foreign government circles as being a worthwhile objective.

Senator WILLIAMS. The reason I asked the question was to see whether your plans have materialized any further than they were as compared with the last testimony.

Secretary DILLON. No; just the same.

Senator WILLIAMS. Do you have any idea when schedule F will be available?

Secretary DILLON. The President announced at one of his press conferences that it would be available, I think, in 30 days, and at another he said on July 6. We are working very hard to live up to that date, and I think we will make it.

Senator WILLIAMS. Thank you.

That is all.

The CHAIRMAN. Senator Douglas?

Senator DOUGLAS. Thank you, Mr. Chairman.

Gentlemen, I feel very apologetic about asking you any questions at all because you have been here now 2 hours and 50 minutes this morning and 45 minutes this afternoon, and you have been subjected to 2½ hours of questioning.

I hope you will forgive me it I ask a few questions which are designed to put some familiar facts in a different and, I believe, more accurate perspective.

Let me start out with a couple of personal disclaimers. I am not enamored with debt as such. I do not think my worst enemy could accuse me of approving of wasteful expenditures. But I would like to ask this question to begin with.

In any private corporation, if it presents a balance sheet, does it present merely the liabilities, obligations, and debts, or does it also include the assets?

Secretary DILLON. It also includes assets on one side and its accounts and liabilities on the other.

Senator DOUGLAS. But in the examination which has been given to us thus far, the emphasis has been exclusively upon debt, is that not true?

Secretary DILLON. On Federal debt; that is right.

Senator DOUGLAS. That is correct.

Now, you are aware of the fact that the Committee on Government Operations of the House of Representatives has put out a study listing the Federal real and personal property inventory?

Secretary DILLON. Yes, Senator. I am fully aware of that.

Senator DOUGLAS. I hold in my hand, as a Senator once remarked, a copy of this report as of June 30, 1961, and on page 13 of that report there is a grand recapitulation of the personal and real assets of the U.S. Government as of June 30, 1961.

Now, this states that the personal property, total personal property, owned by the Federal Government as of that date, had a value of $201,007 million.

Secretary DILLON. That is correct.

Senator DOUGLAS. And real property, $81,925 million.

Secretary DILLON. Also correct.

Senator DOUGLAS. Or a total of $282,932 million.

Now, these were in terms of original cost, is that not true?

Secretary DILLON. Yes; in general.

Senator DOUGLAS. And in the cases of real property, public lands, and the rest, for instance, donated or otherwise acquired at no cost, only $285 million.

If we were to include reproduction cost, the real property value would be vastly in excess of the $82 billion listed?

Secretary DILLON. I think that is correct.

The major item that is not at original cost is the public domain acreage which includes mineral resources, and they have been given some evaluation by the Interior Department. That is the major item.

The rest are mostly original.

Senator DOUGLAS. As of that date, June 30, 1961, was not the Federal debt $289 billion?

Secretary DILLON. That is right.

Senator DOUGLAS. So that the assets, even in terms of original cost, were approximately equal to the national debt, is that not true?

Secretary DILLON. These assets; yes, that is correct.

Senator DOUGLAS. Yes.

And if reproduction cost were taken into account, in all probability the assets would have exceeded the national debt?

Secretary DILLON. At reproduction costs, they undoubtedly would have.

Senator DOUGLAS. In other words, those who speak of the bankruptcy of the Federal Government do not take account of the assets which the Federal Government owns.

Now, may I ask a question about the nature of the Federal budget.

Do we include in our administrative budget capital investments which the Federal Government makes?

Mr. BELL. Yes, sir; we do.

Senator DOUGLAS. Do we include loans which we make, upon which interest is paid, and upon which the principal is also to be paid?

Mr. BELL. Yes, sir; we do.

Senator DOUGLAS. Do we include investments in such items as reclamation where, although no interest is paid, the principal is returned?

Mr. BELL. Yes, sir; we do.

Senator DOUGLAS. Do we include capital investments which, although neither interest or principal is paid, presumably do add to the productive efficiency of the country?

Mr. BELL. Yes.

Senator DOUGLAS. Now, may I ask this:

Will the private business corporations of the Nation include in their current operating expenditures the capital investments which they make?

Mr. BELL. Not in their current outlays. They, of course, include depreciation.

Senator DOUGLAS. Yes, I understand.

But they isolate, do they not, their capital investments from their operating expenses?

Mr. BELL. They do.

Senator DOUGLAS. Whereas in the Federal budget we combine capital investments and operating expenses?

Mr. BELL. That is correct.

Senator DOUGLAS. So that the standards which we impose upon the Federal Government through the administrative budget are much more severe than the standards which private corporations such as A.T. & T. impose upon themselves, is that not true?

Mr. BELL. That is correct, Senator.

If A.T. & T. kept its books the way the Federal Government does in the administrative budget, A.T. & T. would typically show a deficit every year.

Senator DOUGLAS. Now, some months back, Mr. Bell, I asked you to gather figures on the budgets of major foreign European countries, Britain, France, Germany, Italy. Have you had such study made?

Mr. BELL. Yes, sir.

Excuse me, sir, we did not have it made. It was already being made under a study organized by the Brookings Institute.

Senator DOUGLAS. Yes.

Mr. BELL. We obtained the figures at your request.

Senator DOUGLAS. Yes.

Now, let me first ask:

Does not the United Kingdom separate their capital investments from their current operating expenses?

Mr. BELL. As I understand it, Senator, they make a distinction between what they call items above the line and items below the line.

Senator DOUGLAS. Below the line consists of capital expenditures?

Mr. BELL. It is not as clean as that.

As I understand it, they include most of their capital expenditures below the line, but also from time to time some other items.

Senator DOUGLAS. Most of the capital expenditures are below the line, is that not true?

Mr. BELL. Yes, sir; I believe that is correct.

Senator DOUGLAS. Is not this also true in France?

Mr. BELL. They use still a different distinction but, nevertheless, they also have a split budget.

Senator DOUGLAS. Yes.

Mr. BELL. In which some of the public expenditures, some of the Central Government's expenditures, are regarded as not requiring coverage by the current revenues.

Senator DOUGLAS. Yes.

Mr. BELL. It is appropriate to borrow to cover part of the French national budget every year.

Senator DOUGLAS. What about West Germany?

Mr. BELL. The same.

All the European countries, without exception, so far as I am aware, have some form of split budget.

Senator DOUGLAS. Now, if they were to combine their capital expenditures with current operating costs, as we do, in how many years would France have operated at a deficit?

Mr. BELL. Well, the study which was made under the Brookings Institution, I think, comes pretty close to answering your question.

It was an attempt to put the budgets of the West European governments into the same terms as our consolidated cash statements.

Senator DOUGLAS. Right.

Mr. BELL. And, having done that as well as was feasible, the results were to show that the French budget on those terms would have shown a deficit in each of the last—well, the figures were from 1951 through 1960, the French budget would have shown a deficit in each of those years.

Senator DOUGLAS. And it has been in this period that France has had tremendous economic improvement, is that not true?

Mr. BELL. Particularly the latter part of this period; yes, sir.

Senator DOUGLAS. Now, in the case of the United Kingdom?

Mr. BELL. They showed, of the 11 years, 1950 through 1960, they showed two surpluses and nine deficits by that particular comparison.

Senator DOUGLAS. And in West Germany, I think in West Germany you could only make the comparison for 6 years?

Mr. BELL. 1955 through 1960.

The first 2 of those years showed surpluses; the last four showed deficits.

Senator DOUGLAS. And in the United States, out of the 11 years?

Mr. BELL. Five surpluses and six deficits.

Senator DOUGLAS. Are these the proper proportions: that deficits were incurred in eighteen thirty-thirds of the time in the United States?

Mr. BELL. I guess so, sir. That is in here somewhere.

Senator DOUGLAS. I am reading from page 24.

Mr. BELL. Yes, that is correct, eighteen thirty-thirds for the United States.

Senator DOUGLAS. And in the United Kingdom deficits were incurred twenty-seven thirty-thirds of the time?

Mr. BELL. Right.

Senator DOUGLAS. In France, thirty-three thirty-thirds?

Mr. BELL. Right.

Senator DOUGLAS. And in Germany twenty-two thirty-thirds?

Mr. BELL. Right.

Senator DOUGLAS. So that on this basis the United States has made a better record than any of the nations in the NATO Alliance?

Mr. BELL. It depends on whether——

Senator DOUGLAS. On this basis?

Mr. BELL. You used the word "better," Senator. They had a record showing—the United States had a record showing more surpluses comparatively than any of these other countries.

Senator DOUGLAS. I am using this term just as my eminent colleagues have used it.

Mr. BELL. Right.

Senator DOUGLAS. Now, is it not true that if we were to use the European system and isolate out the capital investments, that in most of the years we would show a surplus?

Mr. BELL. These are figures you have asked us for, Senator.

Senator DOUGLAS. Yes.

Mr. BELL. And we have not yet managed to put them together.

Certainly the result would be to show more surpluses than our system of accounting has shown in the past. I do not know that it would have turned every deficit into a——

Senator DOUGLAS. No; when we had a deficit of $13 billion, I do not think it would.

Mr. BELL. Right.

Senator DOUGLAS. Now, we used to hear a great deal of talk about inflation.

You are acquainted with the monthly economic indicators?

Mr. BELL. Yes, sir.

Senator DOUGLAS. I would like to ask you to turn to page 24 of the current indicators.

Probably the best measure is that of wholesale prices; is that not true?

Mr. BELL. Yes, sir; that is so regarded.

Senator DOUGLAS. Now, if you take 1957–59 as 100, what is the index as of June 12 of this year, 2 weeks back, a little over 2 weeks back?

Mr. BELL. 100.1.

Senator DOUGLAS. In other words, the wholesale price level now is virtually identical, I think we can say is identical, with the average for the 3 years 1957–59?

Mr. BELL. That is right.

Senator DOUGLAS. If you will notice, this has been almost constant during this entire period; is that not true?

Mr. BELL. That is right, for the last 5 years.

Senator DOUGLAS. 100.4 in 1958, 100.6 in 1959, 100.7.

Mr. BELL. 100.7 in 1960.

Senator DOUGLAS. 100.7 in 1960, 100.3 in 1961, and now 100.1.

In other words, during this period in which there was so much talk about the danger of inflation, the wholesale price level has remained constant; this is almost unprecedented in the history of the country.

I do not know that this is anything to cheer. I think the only period which is comparable is the period from 1924 to 1929. But at least there has been price stability?

Mr. BELL. Yes, sir; that is right.

Senator DOUGLAS. While I know that you are much too polite to comment on the economic theories of the Governors of the Federal Reserve System, I hope I may be permitted a parenthetic comment that it has always seemed to me that Mr. Martin was fighting a nonexistent dragon.

In the last 5 years he has talked that we must fight inflation—and there has been no inflation.

As a matter of fact, the index of unemployment has been high throughout this period.

Now, this morning and this afternoon a great deal was made of the size of the Federal budget.

I wondered if you would check these figures.

At the end of 1946, the national debt was approximately $260 billion.

Mr. BELL. 1946, sir?

Senator DOUGLAS. Yes.

Secretary DILLON. It was $269.4 billion at that time.

Mr. BELL. On June 30.

Senator DOUGLAS. I am speaking of the end of the year.

Mr. BELL. December 31, do you have the figures? I do not know whether we have got the year-end figures. We have fiscal years only, unfortunately.

Senator DOUGLAS. I was speaking as of the end of the calendar year.

I think you will find this in the economic report of the President, page 269.

Secretary DILLON. Here we have calendar years from 1948 only.

Mr. BELL. Here it is. The Senator is correct.

Senator DOUGLAS. Page 268.

Mr. BELL. 259.5.

Senator DOUGLAS. Round it to 260.

Mr. BELL. Yes, 260, right.

Senator DOUGLAS. Am I correct that as of the end of 1952 the debt was $267 billion?

Mr. BELL. 267; yes, sir.

Senator DOUGLAS. And that at the end of 1962 the debt was approximately $300 billion?

Secretary DILLON. 299, right now.

Senator DOUGLAS. 299, yes.

Mr. BELL. In December.

Senator DOUGLAS. 299.6; is it not?

Mr. BELL. In December of the present year.

Secretary DILLON. It is a little under that now. It is about 299 right now. In December of this year it was 296.5.

Senator DOUGLAS. 296.5.

Mr. BELL. December 1961.

Secretary DILLON. Yes; December 1961.

Senator DOUGLAS. I beg your pardon, I am speaking as of the present moment.

Secretary DILLON. 299.

Senator DOUGLAS. Call it 300.
Secretary DILLON. Yes.
Senator DOUGLAS. As of the present moment.
Now, lamentations have been made about this increase. This amounts to an increase in 16 years of approximately $40 billion or roughly 15 percent in the total debt; is that not true?
Secretary DILLON. Right.
Senator DOUGLAS. Now, what about the gross national product in 1946?
According to my figures, it was $210 billion.
Secretary DILLON. That is right, 210.
Senator DOUGLAS. And in 1952 it was $347 billion.
Secretary DILLON. That is correct.
Senator DOUGLAS. And as of the first quarter of this year, $548 billion?
Secretary DILLON. 548.
Senator DOUGLAS. That was for the first quarter?
Secretary DILLON. Yes.
Senator DOUGLAS. Now, relative to the gross national product, what was the ratio of the national debt to that gross national product?
If you take the gross national product as 100, what would the national debt have been in 1946?
Secretary DILLON. 128 percent.
Senator DOUGLAS. 128 percent; what would it have been in 1952?
Secretary DILLON. 75 percent.
Senator DOUGLAS. 75 percent; what was it—what is it now?
Secretary DILLON. About 54 percent.
Senator DOUGLAS. In other words, relative to the gross national product, the national debt has diminished from a ratio 28 percent greater than the gross national product to 46 percent less, or, relatively speaking, it is only about 40 percent now of what it was then?
Secretary DILLON. In balancing it with the gross national product, that is right, as the weight of the debt.
Senator DOUGLAS. Now, let us compare the growth of the national debt with the growth of other forms of debt.
The figures which I have compiled indicate that in 1946 the total volume of consumer credit amounted to $8.4 billion, page 266 of the economic report.
Mr. BELL. Which year, Senator?
Senator DOUGLAS. 1946, $8.4 billion.
Mr. BELL. It looks like 8.5. Yes, that is right, that is the volume extended and the volume repaid, is it not, Senator?
Senator DOUGLAS. No; page 266.
Secretary DILLON. 8.3.
Senator DOUGLAS. Now, the total volume of consumer credit today is approximately $57 billion?
Secretary DILLON. That is right.
Senator DOUGLAS. I think the increase will be shown to be somewhere between six and seven times in the volume of consumer credit.
Now, on mortgage debt on page 267, am I correct that at the end of 1946 the total was approximately $42 billion, or, to be precise, $41.8 billion?
Secretary DILLON. That is right.
Senator DOUGLAS. At the end of 1961 it was $223 billion?

Secretary DILLON. That is right.
Senator DOUGLAS. Or an increase of approximately 5.5 times?
Secretary DILLON. That is correct.
Senator DOUGLAS. Now, take the corporate debt shown on page 268. In 1946 it was 93.5 billion?
Secretary DILLON. That is right.
Senator DOUGLAS. At the end of 1961 it was 312 billion?
Secretary DILLON. That is right.
Senator DOUGLAS. An increase of approximately 3.5 times in the volume of corporate debt.
Now, take commercial and financial debt which is shown in the next-to-the-last column, 12.1 billion at the end of 1946.
Secretary DILLON. That is right.
Senator DOUGLAS. That is correct, is it not?
Mr. BELL. Yes, sir.
Senator DOUGLAS. At the end of 1961, 35 billion, or almost three times as much.
Secretary DILLON. That is right.
Senator DOUGLAS. Or if you take total private debt, total private debt which is shown in the fifth column, in 1946, $154 billion, now $620 billion.
Secretary DILLON. That is right.
Senator DOUGLAS. Or a fourfold increase?
Secretary DILLON. That is correct.
Senator DOUGLAS. Total private debt increased to a figure, if you take 1946 as 100, to a relative figure of 400.
Mr. BELL. That is right.
Senator DOUGLAS. The Federal debt increased from a relative figure of 100 to 115?
Secretary DILLON. That is correct.
Mr. BELL. 115, did you say, Senator?
Senator DOUGLAS. From 100 to 115, increased by 15 percent.
Secretary DILLON. Fifteen.
Senator DOUGLAS. If you take State and local government, which is presumably close to the people, this same table on page 268 shows 1946, $13.6 billion of debt; at the end of 1961, $65 billion, or almost five times as great.
Secretary DILLON. That is correct.
Senator DOUGLAS. Does it not follow, therefore, that in comparison with private business, all forms of private business, and State and local governments, the Federal Government has made a "better" record than any other?
Mr. BELL. That is correct, Senator.
Senator DOUGLAS. And also that it has made a "better" record in its annual budgets than any of the major European powers, again using the term "better" in quotation marks?
Mr. BELL. That is correct; yes, sir.
Senator DOUGLAS. Now, if you take the annual expenditures of the Federal Government, in 1946 what percentage did they form of the gross national product? Was it not 17 percent?
Mr. BELL. It sounds right, Senator. In 1946, did you say?
Senator DOUGLAS. Well, I suppose technically—you are thinking of budget years?
Mr. BELL. Fiscal years; yes, sir.

Senator DOUGLAS. Let us take 1946-47.

Mr. BELL. Right. 17.4 percent.

Senator DOUGLAS. 17.4 percent in 1946-47?

Mr. BELL. That is right.

Senator DOUGLAS. In the current year what percentage of the gross national product will our expenditures take?

Mr. BELL. About 16 percent, approximately.

Senator DOUGLAS. So that there has been a slight decrease in the percentage of the gross national product which governmental expenditures form.

Although they have increased absolutely, there has been a slight relative decline?

Mr. BELL. Yes, sir; that is right.

They have been approximately stable since the end of the war.

Senator DOUGLAS. Do you not think, if we are to have a dialogue on governmental finances, that of necessity these things need to be considered?

Mr. BELL. I certainly do, Senator, and the point you have been making about the national debt and about Federal expenditures in relation to the gross national product, we have attempted to emphasize both in the 1962 budget review and in the 1963 budget presentation.

Senator DOUGLAS. Now, for the sake of the reporters and for the sake of the record, let me say I am not defending debt as such. I am not defending any governmental expenditure as such.

I think there are many forms of Government expenditure which could be reduced, among them the sugar premium which I hope we will vote on very shortly, and I hope that I may be able to join the eminent chairman of this committee on that subject.

There are many other things, economies that I think we could include.

But we sometimes lose sight of the forest for the trees, and if we are to have a dialog on this subject, and I think it is very important that we should, I believe these factors should be taken into consideration.

With apologies for taking so long——

Mr. BELL. Not at all, Senator.

The CHAIRMAN. Senator McCarthy?

Senator MCCARTHY. Mr. Chairman, may I ask the Secretary:

Does he feel that a debt ceiling of $308 billion will give adequate leeway to the Treasury so they will not be forced to resort to any of the various practices or devices that had to be used and were used in the period, say, from 1953 to 1958, when the debt ceiling was too close, really, to the Federal debt?

Secretary DILLON. We feel that $308 billion debt ceiling that we originally recommended would have done this. As I pointed out, the ceiling as adopted by the House in the bill now before you will only do that, provided our estimates of a balanced budget for next year turn out to be correct, in which case we will have adequate leeway.

If we have any substantial deficit, we will have to come back to the Congress in the first 3 months of next year, because a reduction to $305 billion would be too tight, particularly over the hump period just before June 15, when the big revenues come in.

Senator MCCARTHY. Will you give me your opinion as to whether your experience of the last 10 years is any indication that the existence of the debt ceiling had any effect upon the amount of money which was authorized to be spent by the Federal Government?

Secretary DILLON. I do not think so.

It is my impression that when Congress votes appropriations bills, they do not give consideration to the debt ceiling, but merely give consideration to the appropriation that they are considering.

Senator MCCARTHY. It is on the record that at least in 1952–58 all the evidence is that the debt ceiling did not promote any kind of fiscal prudence, but, on the contrary, brought about some actions which were fiscally imprudent.

Secretary DILLON. Yes.

The only actual effect was during the times when the debt ceiling got too stringent. As I remember, the administration went to Congress and asked that it be increased, and it generally was, but for a period of months before such increase they frequently had to live through stringent periods. They then had to indulge in financial practices that they did not feel were proper or good financial practices.

They regretted having to do it, but they did have to do it, and they cost the Government money.

Senator MCCARTHY. This is not my statement, but I would say I believe it to be a true statement.

The debt limit, instead of promoting fiscal prudence and expenditure restraint, as is claimed by some has actually resulted in the erosion of the integrity of the Federal budget. When national mortgages were being used, as a basis for borrowing, in effect, it did erode the integrity of the budget.

The budget, as it was then presented, was, to some extent, a distorted budget; was it not?

Secretary DILLON. That is correct.

Those are the types of fiscal practices that I referred to that I do not think anybody is particularly happy about using, but which they were forced to use because of a debt ceiling which at that particular moment became too restrictive.

I feel that it is very important to have adequate flexibility and adequate room in any debt ceiling so that we will not again have to undertake those sorts of practices.

Senator MCCARTHY. And the fact is that it did interfere with the efficient handling of the public debt at least two or three times during that period?

Secretary DILLON. Yes.

And it also interfered at one time, I think it was in the fall of 1957, when it was necessary for the administration to hold back the payment of bills that were due. That had a very difficult impact on all the civilian companies which were contracting with the Defense Department particularly.

Senator MCCARTHY. In the opinion of some, it aggravated the recession of 1957–58.

Secretary DILLON. Oh, yes, it is very, very clear in the opinion of many that it did, because this was a time when the recession was just coming. Companies which had expected to have their bills paid did not have them paid, and, naturally, were forced to tighten up their own operations, dismiss people, and things of that nature.

Senator MCCARTHY. And also if the judgment of the military experts was right about the scheduling of defense expenditures in that period, it would be fair to at least suggest that it might have endangered the defense effort for a period of 6 months or more?

Secretary DILLON. It could have, yes.

Senator MCCARTHY. In view of this, if we are to make a mistake here, we ought to make it on the side of raising the debt ceiling somewhat beyond what we might anticipate is necessary, rather than putting it too close to what you anticipate your expenditures or your borrowing may necessarily be?

Secretary DILLON. I would think so. A debt ceiling, if it is a little bit larger than is needed, does not promote extra expenditures because your expenditures are limited by your appropriations.

If it is too tight, on the other hand, and is lower than is needed to carry through those appropriations, it can lead to these unsound financial practices.

Senator MCCARTHY. I was going to suggest that we set the debt ceiling at the equivalent of the national income; do you think that would be a reasonable relationship?

Secretary DILLON. I think that would give us a great deal of flexibility, more than we would need.

Senator MCCARTHY. What would it do to the crisis in confidence that supposedly exists today, Mr. Secretary?

Secretary DILLON. Well, I think that people, so far as the debt is concerned, look at the level of the national debt rather than the ceiling, and they would continue to look at the debt and see how high it rose.

Senator MCCARTHY. If we were to do this, we would have both the income and the debt considered at the same time, which might be helpful?

Secretary DILLON. It could be.

Senator MCCARTHY. I have no other questions.

The CHAIRMAN. Senator Kerr?

Senator KERR. Mr. Secretary, I want to talk to you a little bit about the gold. Reference was made here to a requirement of the law that we have a certain amount of gold back of our currency.

Will you advise the committee as to just what the law is in that regard?

Secretary DILLON. The law provides that a 25-percent reserve shall be kept behind our currency and our deposits in the Federal Reserve System.

Senator KERR. Now, the deposits in the Federal Reserve System were made by the member banks?

Secretary DILLON. That is right.

Senator KERR. And by the U.S. Government?

Secretary DILLON. A small amount only by the U.S. Government, because we only keep our active working balances there.

The bulk of our working balances are kept in the regular banks.

Senator KERR. Commercial banks?

Secretary DILLON. Commercial banks.

Senator KERR. How much currency is there outstanding?

Secretary DILLON. I do not have the exact figure. Something over $30 billion, about $33 billion, in circulation.

Senator KERR. Maybe one of your experts or technicians there could tell us.

Secretary DILLON. The second half of May showed $29.9 billion of currency in our money supply.

Senator KERR. What were the deposits in the Federal Reserve System?

Secretary DILLON. Deposits in the Federal Reserve System at the end of May, was $16.5 billion.

Senator KERR. Deposits?

Secretary DILLON. That is right.

Senator KERR. How many ways can a deposit by a member bank in a Federal Reserve bank become a reality?

Secretary DILLON. How can the deposit——

Senator KERR. How many ways can a member bank make a deposit in the Federal Reserve?

Secretary DILLON. I do not quite understand what that question is.

Senator KERR. Well, if they took $1 million in currency down there, they could make a deposit?

Secretary DILLON. That is right, that is one way.

Senator KERR. Now, what other way can they make a deposit?

Secretary DILLON. Well, they could transfer their surpluses which they may receive from another bank to the Federal Reserve and make a deposit.

Senator KERR. What do you mean, "their surpluses that they may receive from another bank"?

Let us say that the First National City Bank of New York has what, $4 billion, $5 billion, $6 billion of deposits, $2 billion deposits of the banks in the Nation.

What do the banks in the Nation do in order to get that credit in the First National City Bank or any other depository in a financial center?

Secretary DILLON. They transfer their funds to the First National City Bank.

Senator KERR. In what form are those funds?

Secretary DILLON. They are generally transferred merely in the form of a book entry, a checking account.

Senator KERR. What does the member bank send to its correspondent, say, the First National City Bank of New York, Chemical Corn, Guarantee Trust, or whatever it may be, in order to get a certificate of deposit so that it is in the posture of having funds in that bank?

Secretary DILLON. It receives a certificate of deposit.

Senator KERR. That is what the City Bank issues?

Secretary DILLON. That is right.

Senator KERR. But what does it require as the basis for the issuance of the certificate of deposit other than currency?

Secretary DILLON. Well, a certificate that funds have been transferred and that there are adequate reserves, that the bank has adequate reserves with the Federal Reserve.

Senator KERR. How are funds transferred there?

Secretary DILLON. Transferred usually by telegraph.

Senator KERR. But what do they transfer?

Secretary DILLON. They transfer a book entry usually. You don't transfer any note, no securities are moved. They are transferred generally just by book entries.

Senator KERR. Is it not actually a check on another bank that is deposited in the First National City Bank in New York?

Secretary DILLON. It might not be a check on another bank but balances with some bank that they wish to deposit with the City Bank, and then the City Bank could draw on whoever the draft was drawn upon.

Senator KERR. How can the Riggs National Bank of Washington make a deposit in the First City National Bank of New York City other than by forwarding a check or currency?

Secretary DILLON. They could forward a check of their own and they could forward a check or the equivalent of a check from another bank that was deposited at the Riggs Bank.

Senator KERR. It would be by check, would it not?

Secretary DILLON. It would be by check.

Senator KERR. What is the basis of having something in the bank that enables you to issue a check on it?

Secretary DILLON. The basis of having something in the bank?

Senator KERR. The way I get something in the bank, I either take a check down and put it in or I go down and make a note and they give me a deposit slip.

Secretary DILLON. That is right.

Senator KERR. I go down and I make a note out and they give me a deposit slip.

Then I write a check on another bank to give me back a note I had made to them for which they had given me a deposit slip and on which I had a check until it was exhausted.

Then, having received this check that I gave them on the bank where I made my last note, they want to transfer that to their depository in New York. They send that check up there?

Secretary DILLON. That is right.

Senator KERR. Now, the bank from which I borrowed has to have reserves somewhere so that when that bank is handled by the New York City bank, they get something for it.

Secretary DILLON. All member banks are required to have a certain percentage of reserves with a Federal Reserve bank.

Senator KERR. Let us say the National City Bank takes that check over and deposits it in the Federal Reserve bank.

Do they thereby have such a deposit in it that the Federal Reserve bank has to have a gold balance of 25 cents on the dollar back of it?

Secretary DILLON. That is correct, once it becomes a valid deposit in the Federal Reserve bank.

Senator KERR. What are the total deposits in commercial banks in the United States?

Secretary DILLON. Demand deposits as of May 30.

Senator KERR. What kind of deposits?

Mr. BELL. Demand deposits.

Senator KERR. Let us take total deposits, whether they are savings account or demand, total deposits.

Secretary DILLON. Total deposits are $237 billion.

Senator KERR. $237 billion?

Secretary DILLON. That is right.

Senator KERR. Is it possible for all the commercial banks in the country to deposit all of their funds in the Federal Reserve banks?

Secretary DILLON. They do not do that.

Senator KERR. I understand that, but would it be possible for them to do that?

Secretary DILLON. I do not know anything that would prevent them if they wanted to.

Senator KERR. Then where would the Federal Reserve bank be with reference to having 25 percent gold reserve back of its deposits?

Secretary DILLON. It would not have it.

Senator KERR. What would happen?

Secretary DILLON. It would not be complying with the requirement that 25 percent gold reserve——

Senator KERR. I understand it would not be complying with the requirement, but what would happen?

Secretary DILLON. Nothing would happen. The country would go on just the same.

Senator KERR. You mean the heavens would not fall?

Secretary DILLON. No, the heavens would not fall.

Senator KERR. The financial world would not come to an end?

Secretary DILLON. No.

Senator MCCARTHY. We might have to declare all gold fillings to be a part of the national reserve at that point to restore confidence.

Senator KERR. Whether they are in living or dead bodies.

Senator MCCARTHY. That is right.

We might recover——

Senator KERR. Could we not officially make the tooth of the dead person a recognized depository?

Senator MCCARTHY. The right of the Federal Government to reclaim it on death.

Senator KERR. And transfer title of it to the Federal Government.

Senator MCCARTHY. In response to the President's plea to do something for the country.

Senator KERR. Yes.

What is the limitation on the Federal Reserve bank about issuing a Federal Reserve note?

Secretary DILLON. Federal Reserve notes, again, have to be covered by 25 percent in gold certificates.

Senator KERR. Can they just issue 400 percent of what gold reserves they have, or do they have to have 25 percent of what certificates they issue?

Secretary DILLON. They have to have 25 percent in gold certificates representing gold which is in the Treasury gold stock behind their certificates as well as behind their deposits.

So if we leave aside the deposits, they are required to leave 25 percent behind currency.

Senator KERR. Is the formula that they follow, if there is one—I do not want to embarrass you, Mr. Secretary. Have you got some currency in your pocket?

Secretary DILLON. Yes.

Senator KERR. Would you get in front of you a $1 bill and two or three $5 bills and then one or more larger ones, either of your own or those of your associates there?

Secretary DILLON. I happen to have a Federal Reserve $5 note, although there are other kinds of $5 notes.

Senator KERR. Do you have a $5 bill that says it is a Federal Reserve note?

Secretary DILLON. That is right.

Senator KERR. Do you have a $5 bill that says it is a silver certificate?

Secretary DILLON. I do not happen to have one with me, but there are such.

Senator KERR. Do you have a $1 bill?

Secretary DILLON. I have a $1 bill that is a silver certificate.

Senator KERR. Now, what other kind of currency do we have?

Secretary DILLON. Here is a $5 silver certificate someone has loaned me.

Senator KERR. Mark it so that the man who gave it to you can get it back.

What other kind of currency do you have?

Secretary DILLON. Well, U.S. notes are also issued in $5 denominations. I do not happen to have one.

Senator KERR. What difference is there between a $5 U.S. note and a $5 Federal Reserve note except that the seal on the Federal Reserve note is green and the seal on the U.S. note is in red?

Secretary DILLON. For purposes of cashing it and buying something, there is no difference whatsoever. But as a claim it is treated somewhat differently. The U.S. note is listed as part of our Federal debt, only it is part of the debt which is not subject to the limit.

Senator KERR. How much currency is there outstanding that is designated U.S. notes?

Secretary DILLON. I think there are about $300 million, something of that order.

Senator KERR. I thought it was about $340 million.

Secretary DILLON. $314 million, in circulation.

Senator KERR. $314 million.

Could you tell the committee when those notes were first issued?

Secretary DILLON. As I recall, it was shortly after the Civil War or during the Civil War.

Senator KERR. During and after the Civil War?

Secretary DILLON. Yes.

Senator KERR. That is my recollection.

Is the fact that Lincoln's picture—it is on all $5 bills; is it not?

Secretary DILLON. That is correct.

Senator KERR. Is the reason for it that he is the fellow that issued those $5 U.S. notes?

Secretary DILLON. I am not sure whether that was the reason his picture is on it. I am not even sure it has always been on the $5 note, but it is certainly there.

Senator KERR. He was the fellow——

Secretary DILLON. That is when they started it.

Senator KERR (continuing). That issued it.

Well, what is the commitment contained in the language on the $5 Federal Reserve note?

Secretary DILLON. The $5 Federal Reserve note, it says "will pay to the bearer."

Senator KERR. It says who will?

Secretary DILLON. The United States of America.

Senator KERR. Will what?

Secretary DILLON. Will pay to the bearer on demand $5.

Senator KERR. Where would you take that if you wanted to demand $5?

Secretary DILLON. I would take it to either the Federal Reserve bank, as an agent, or I would take it to the U.S. Treasury.

Senator KERR. Suppose I came down there with one and said, "I demand $5." What would you give me?
Secretary DILLON. I would ask you in what form you wanted your $5.
Senator KERR. Suppose I said in any form you could give it to me.
Secretary DILLON. I would give you five $1 bills or another $5 bill or silver.
Senator KERR. How many $1 bills are there outstanding? How much currency is there outstanding that is called silver certificates?
Secretary DILLON. Virtually all the $1 bills are silver certificates, and at the end of March there were $1,484 million outstanding.
Senator KERR. Of $1 bills, or of silver certificates?
Secretary DILLON. They are the same thing.
Senator KERR. Not necessarily. There are $5 silver certificates.
Secretary DILLON. Oh, $1 bills are also certificates. The total silver certificates, the total outstanding is $2.3 billion.
Senator KERR. Silver certificates?
Secretary DILLON. Yes.
Senator KERR. Now, what does the silver certificate say?
Secretary DILLON. The silver certificate says:

This certifies there is on deposit in the Treasury of the United States of America $1 in silver payable to the bearer on demand.

Senator KERR. But there is only $2.4 billion of that outstanding?
Secretary DILLON. That is the total outstanding silver certificates, yes.
Senator KERR. Suppose a man brought——
Secretary DILLON. That is not all in circulation. In circulation there actually is only about $1.9 billion.
Senator KERR. $1.9 billion.
Well, suppose a fellow brought down $3 billion worth of Federal Reserve notes, each one of which said, "The United States of America will pay the bearer on demand so many dollars," and he brings down $3 billion of it and says, "I want my $3 billion."
What would you give him?
Secretary DILLON. Well, we could give him only the silver certificates that were on hand, that were not already outstanding.
Senator KERR. You could not give him any silver certificates except those such as you had?
Secretary DILLON. That is right.
The rest of them you would just give him back another Federal Reserve note.
Senator KERR. Now, what is the difference in language on—how much did you say the outstanding debt is?
Secretary DILLON. The total?
Senator KERR. The total public debt.
Secretary DILLON. The total public debt as of the latest published figure is about $299 billion.
Senator KERR. How much cash on hand?
Secretary DILLON. How much cash?
Senator KERR. Cash.
Secretary DILLON. The only cash that is included in that figure would be these U.S. notes, which are $300 million.
Senator KERR. No, no, he said how much did you have in the Treasury.

Secretary DILLON. Oh, how much is our cash balance in the Treasury now?

Senator KERR. Yes.

Secretary DILLON. I think it is about $9 billion.

Senator KERR. So you have about $11 billion leeway as of today?

Secretary DILLON. Yes.

We have just received about $5 billion in taxes in the last week, and that is the reason our balance is so high.

Senator KERR. Now, that $299 billion of indebtedness is in what form?

Secretary DILLON. That is in various forms.

It is in what we call Treasury bills, Treasury certificates, Treasury notes, and Treasury bonds.

Senator KERR. Is there any difference in the language evidencing the debt?

What does each one of them say?

Secretary DILLON. The United States will pay to the bearer——

Senator KERR. On a certain date?

Secretary DILLON. On a certain date whatever the amount may be, and then if it is a coupon bond, there would be coupons for interest; if it is a discount certificate, it just would say the face amount that would be payable on a certain day.

Senator KERR. Then we have outstanding $30-some billion in currency; we have $200 and how many billion in commercial bank deposits?

Secretary DILLON. That figure, I think, was $220 or $237 billion?

Senator KERR. That makes a total of $267 billion, and we have approximately $300 billion in public debt.

Secretary DILLON. That is right.

Senator KERR. Each one of which is a signed statement by a representative of the U.S. Government that the U.S. Government, the Government of the United States will pay to the bearer on such and such a date these numbers of dollars?

Secretary DILLON. The whole public debt says that, yes.

Senator KERR. So that $237, $267 and $300, that is $567 billion?

Secretary DILLON. That is right.

Senator KERR. You said a while ago it was entirely possible that the $237 billion could be deposited in the Federal Reserve System?

Secretary DILLON. I cannot quite conceive how that would be done, because, ordinarily, a bank would deposit currency or make a check deposit in the Federal Reserve System which would then credit that bank and debit the other bank.

Senator KERR. But if there is that much deposits and if a bank can put any amount of its money in the Federal Reserve Bank, it is physically possible for that all to be deposited?

Secretary DILLON. Then it would be the depository, I suppose, for all the deposits in the country, and all the banks would have those claims on the Federal Reserve.

Senator KERR. That is right.

So then, in actuality, there is $667 billion which are either promises of the U.S. Government to pay dollars——

Secretary DILLON. 567, yes.

Senator KERR. 567, either promises of the Federal Government to pay dollars or theoretically deposits in the Federal Reserve Bank.

Now, would it be possible for everybody that owns Government bonds, when they come to you, to say, "I don't want a new bond; I just want the dollars"?

Secretary DILLON. That is perfectly possible.

Senator KERR. And if such should develop to be the situation, and the Treasury could not sell any more bonds, what would you do?

Secretary DILLON. Well, if that was the case, the only way you could handle the matter would be to pay the bonds off in currency.

Senator KERR. Now, where would you get it?

Secretary DILLON. You would have to print it.

Senator KERR. Does not all this add up to the definite reality that the business of having so much gold back of our currency is Federal Reserve deposits is a pure myth?

Secretary DILLON. It does not have any effect on domestic credit at the moment at all. That was the theory, but it has not worked in that way because it could not work. As you say, every time we have approached that situation, we have had to lower the limit, which Congress has done a number of times, from 40 percent down to 25 percent. They would have to do it again, because it would be totally impractical, if you got to that situation, to try to enforce the limit. So, to that extent, the fact that that limit would have any real effect on our economy domestically is inconceivable, and it would be a myth.

Senator KERR. What is the total public and private debt?

Secretary DILLON. The latest figures we have are $1.073 billion.

Senator KERR. $1.073 trillion?

Secretary DILLON. $1.073 trillion, excuse me.

Senator KERR. How much credit can the Federal Reserve banks create?

Secretary DILLON. The banking system can create credit, based on the Reserve regulations of the Federal Reserve System, in varying amounts depending on the amount of reserves they have to keep—but the general rule-of-thumb is $6 for every $1.

Senator KERR. Of deposits?

Secretary DILLON. Yes.

Senator KERR. But a deposit can be created if the Federal Reserve so accepts it and the member bank so desires it by the discounting by the member bank of the notes of its customer?

Secretary DILLON. That is correct.

Senator KERR. Then is it not a fact that under the present system that there is no limit to the public and private debt that can be created and handled through the Federal Reserve System?

Secretary DILLON. No legal limit, no, no real limit.

Senator KERR. And since whatever amount of debt is created, theoretically, a very great proportion of it could, through the working of our system of bank credit and member bank relationship to the Federal Reserve Board, become a deposit in the Federal Reserve bank.

This business of talking about having gold back of our currency in deposits in the Federal Reserve bank is a relic of another age when we had a limited economy and a limited structure of credit, and that aside from the psychological elements involved, the theory of gold back of the currency in the Federal Reserve deposits is a myth and a relic of a period that is no part of this day and this economy.

Secretary DILLON. I think that is perfectly true, as I think I said earlier in answer to some questions from another member of the committee, that the real purpose of gold in the world today is to balance international accounts, and that is the only real use it has.

No other country in the world tries to or has a similar provision of law as ours that there should be a——

Senator KERR. The primary function of our gold, then, is to maintain the convertibility of the dollar?

Secretary DILLON. That is the purpose of our gold reserve.

Senator KERR. The Senator from Oklahoma was among those on the Finance Committee who in 1957 and 1958 saw the situation developing where it was perfectly apparent that our so-called gold reserve was melting and moving from the situation where we owned gold beyond what our requirements were for reserve back of our currency and our Federal Reserve deposits to meet the legitimate claims of foreign central banks owning dollars.

It was perfectly apparent in 1957 and 1958 that the trend of the times was such that the day was not far distant, unless the circumstances were changed, that there would be more claims against gold than there was gold in this country to meet them if everybody came and asked for it.

That has arrived.

Secretary DILLON. That is correct.

Senator KERR. I want to congratulate the Treasury upon the efforts it is making to restore a balance or equilibrium in the balance of payments.

I believe that the only question the Senator from Oklahoma had to ask the Secretary of the Treasury when he was before us for confirmation, maybe two questions, was whether or not a balance or an equilibrium could be restored in the balance of payments, and the Secretary said it could, and I asked the Secretary if it was his fixed purpose and that of this administration to bring that condition about as quickly as it could be, without disrupting the domestic economy, and the foreign relations, and the trade and commerce of the country, and he said that it was.

And I want to congratulate him on the fact that that was his position then and that he has been moving in that direction, and I am of the opinion that that is still the fixed purpose of the Secretary and the administration.

Secretary DILLON. That is still the fixed purpose of the administration, and we are continually making progress in that direction.

The underlying situation in our balance of payments continues to improve.

Senator KERR. I would say that probably no matter how hard you are working in that direction now, you are not working any harder than the administration was 10 years ago to handle its balance of payments so that our amount of gold would decrease and that of other countries increase to close the so-called dollar gap.

Secretary DILLON. I think that work of theirs was probably a little easier than our present job.

Senator KERR. Well, they succeeded in closing it and got up such momentum in doing it that when a lot of people woke up, the stream of gold in the trade and commerce of the world in maintaining convertibility of the dollar was such that, instead of having a dollar gap, we had a dollar deficit.

Secretary DILLON. That is right.

Senator KERR. I hope we will be as successful in restoring it as we were in eliminating the gap.

Secretary DILLON. So do I.

I am sure we will be.

Senator KERR. Thank you very much, Mr. Secretary. You have been very kind, very patient, and very informative—both you and the Director of the Budget.

The chairman asked me to announce that the committee would meet in the morning at 10 o'clock.

(Whereupon, at 3:55 p.m., the hearing was adjourned, to reconvene at 10 a.m., Wednesday, June 27, 1962.)