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PUBLIC DEBT LIMIT INCREASE

AUGUST 15 (legislative day, AUGUST 14), 1958.—Ordered to be printed

Mr. BYRD, from the Committee on Finance, submitted the following

REPORT

[To accompany H. R. 13580]

The Committee on Finance, to whom was referred the bill (H. R. 13580) to increase the public debt limit, having considered the same, report favorably thereon with amendments and recommend that the bill as amended do pass.

SUMMARY

Section 21 of the Second Liberty Bond Act, as amended, provides a permanent limit of $275 billion on the amount of public debt securities which may be outstanding at any one time. In passing H. R. 9955 (Public Law 85-336) in January of this year, the Congress provided that this limit would be increased to $280 billion for the period ending June 30, 1959, after which time the debt limit will revert to the permanent $275 billion.

The bill provides that the existing permanent debt limit be raised from $275 billion to $283 billion. The temporary increase under present law of $5 billion continues through June 30, 1959. Thus, the overall debt limit will be the $288 billion which the Secretary of the Treasury requested but $5 billion of this will be temporary as provided by existing law.

GENERAL STATEMENT

The action taken by the Congress in January was designed to provide the Treasury with a prudent margin in debt capacity to provide adequate cash balances in the face of irregular tax receipts during the year and to provide an extra borrowing authority for more flexible debt management. At the time of this action in January, it was estimated by the administration that the budgets for the fiscal years 1958 and 1959 would be approximately in balance. The recession which began in the latter part of 1957 cut deeply into expected revenues and also required the adoption of additional expenditure programs. Further increases in expenditure programs were made necessary by the expanding defense requirements of the missile age. The Secretary of the Treasury evaluated this changed situation before the committee in the following terms:

> Instead of a budget deficit of $388 million for the year ended June 30, we incurred a deficit of $2.8 billion. This deficit was brought about because our net revenues amounted to $69.1 billion, against the January estimates of $72.4 billion.
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> Instead of entering the current fiscal year ending June 30, 1959, with an anticipated budget surplus of $466 million, we are now faced with an estimated budget deficit of about $12 billion. This amount is based on estimates of $79 billion for expenditures and $67 billion for receipts. In giving these estimates we recognize the difficulty of making predictions this far ahead. They are our best estimates, and as such, provide a reasonable approach to consideration of the debt limit.
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> This substantial change in the outlook of our fiscal situation for the current year makes it imperative that we again review the statutory debt limit. We can no longer operate with a $5 billion temporary extension of the $275 billion limit because we cannot look forward to a debt of $275 billion or less on June 30, 1959. The estimated deficit will result in the public debt outstanding on June 30, 1959, of nearly $285 billion. It is estimated that our cash working balance will amount to between $4 billion and $5 billion on that date.

The public debt of the United States, subject to the debt limitation, stood at $276 billion on June 30, 1958. This, plus the prospective $12 billion deficit for the fiscal year 1959, supports the request for a debt limit of $288 billion.

On June 30, 1958, an extra margin was provided by the fact that the cash working balance of the Treasury (balances in the Federal Reserve banks and in the Treasury tax and loan accounts in commercial banks) were about $4 billion or $5 billion higher than usual due the high concentration of tax revenues in June. This margin will be required, however, during the fiscal year 1959 to deal with the fact that a significant portion of the year's tax collections will not be realized until the closing months of the fiscal year. A detailed analysis of the expected operating balance of the Treasury and the level of the public debt for the fiscal year 1959 is contained in table 1, which indicates that the proposed debt ceiling of $288 billion will provide only a minimum operating margin under the present expectation for revenues and expenditures.

The problem of the debt limit emerges, of course, because the Congress has committed itself to various expenditure programs in the face of sharply declining tax revenues. The principal reason for lower revenues is the sharp drop in corporate profits before taxes. There were $43.4 billion for the calendar year 1957 and dropped to $31.7 billion for the first quarter of 1958.

The Director of the Budget estimated that expenditures in fiscal year 1959 would be approximately $5 billion above those estimated in the January budget. The major components of this increase are as follows:

	Millions
(1) Defense (in addition to the $500 million for contingencies included in the budget)	$500–$700
(2) Pay raises (outside of the Department of Defense and in addition to amounts included in the budget)	400
(3) Agriculture (large wheat crop and expanded export programs)	1,500
(4) Housing (increased purchases by FNMA and increased direct veterans' loans)	1,000
(5) Unemployment benefits (temporary supplemental unemployment benefits plus increase in original estimate for regular programs)	600
(6) Other programs (civil-service retirement fund, lower postal rates than requested, additional public works, etc.)	1,500
(7) Reductions (principally saving on public debt interest)	500

There are, in addition, other programs presently under active consideration by the Congress, such as the community facilities bill, which would add considerably to the expenditures for fiscal year 1959.

As for the future, some of the expenditure programs undertaken for fiscal year 1959 that were directly related to the recession may be reduced. On the other hand, there is clearly in prospect increased expenditures by the Defense Department as deliveries are made under the expanded missiles program. On balance, present evidence makes clear that Federal expenditures over the next 5 years will average very close to $80 billion a year as a minimum. It will be imperative for the Congress to give serious attention to the financing problems created by these commitments. We hope, of course, that a rapid recovery from the present recession will increase the yield of our existing tax rates substantially over the $67 billion anticipated for fiscal year 1959. It can be seen that a substantial increase in revenue must be achieved if we are not to have a succession of higher deficits which will make necessary higher debt limits under this program of spending $80 billion a year.

The following table shows the estimated leeway under the proposed $288 billion limit.

Estimated leeway under proposed $288 billion statutory debt limit

[In billions]

Fiscal year 1959	Proposed $288 billion statutory debt limit	Estimated debt outstanding (subject to limit)	Leeway under $288 billion debt limit		
			Unused borrowing authority	Estimated operating cash balance	Total
Aug. 15	$288	$277.8	$10.2	$5.2	$15.4
Aug. 31	288	278.5	9.5	5.6	15.1
Sept. 15	288	276.3	11.7	2.2	13.9
Sept. 30	288	276.1	11.9	4.0	15.9
Oct. 15	288	280.2	7.8	5.5	13.3
Oct. 31	288	279.9	8.1	4.1	12.2
Nov. 15	288	279.6	8.4	3.0	11.4
Nov. 30	288	279.7	8.3	2.8	11.1
Dec. 15	288	282.0	6.0	2.9	8.9
Dec. 31	288	281.9	6.1	3.9	10.0
Jan. 15, 1959	288	285.1	3.4	5.7	9.1
Jan. 31	288	284.9	3.1	5.5	8.6
Feb. 15	288	283.7	4.3	3.4	7.7
Feb. 28	288	284.1	3.9	4.6	8.5
Mar. 15	288	283.7	4.3	2.8	7.1
Mar. 31	288	280.5	7.5	2.9	10.4
Apr. 15	288	283.7	4.3	4.2	8.5
Apr. 30	288	283.6	4.4	3.0	7.4
May 15	288	284.8	3.2	3.8	7.0
May 31	288	285.8	2.2	4.5	6.7
June 15	288	285.5	2.5	2.2	4.7
June 30	288	283.3	4.7	4.2	8.9

CHANGES IN EXISTING LAW

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

SECTION 21 OF THE SECOND LIBERTY BOND ACT, AS AMENDED

(31 U. S. C., sec. 757b)

SEC. 21. The face amount of obligations issued under authority of this Act, and the face amount of obligations guaranteed as to principal and interest by the United States (except such guaranteed obligations as may be held by the Secretary of the Treasury), shall not exceed in the aggregate [$275,000,000,000] *$288,000,000,000* outstanding at any one time. The current redemption value of any obligation issued on a discount basis which is redeemable prior to maturity at the option of the holder thereof shall be considered, for the purposes of this section, to be the face amount of such obligation.

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