

# FEDERAL RESERVE DIRECT PURCHASES

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HEARING  
BEFORE THE  
COMMITTEE ON BANKING AND CURRENCY  
UNITED STATES SENATE  
EIGHTY-SEVENTH CONGRESS  
SECOND SESSION  
ON  
**S. 3291**

A BILL TO AMEND SECTION 14(b) OF THE FEDERAL RESERVE  
ACT, TO EXTEND FOR 2 YEARS THE AUTHORITY OF FEDERAL  
RESERVE BANKS TO PURCHASE U.S. OBLIGATIONS DIRECTLY  
FROM THE TREASURY

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JUNE 20, 1962

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Printed for the use of the  
Committee on Banking and Currency



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## FEDERAL RESERVE DIRECT PURCHASES

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WEDNESDAY, JUNE 20, 1962

U.S. SENATE,  
COMMITTEE ON BANKING AND CURRENCY,  
*Washington, D.C.*

The committee met, pursuant to notice, at 10 a.m., in room 5302, New Senate Office Building, Senator A. Willis Robertson, chairman, presiding.

Present: Senators Robertson, Sparkman, Proxmire, Bush, and Tower.

The CHAIRMAN. The committee will please come to order.

We are pleased to have with us this morning one of our monetary experts, the Under Secretary of the Treasury in charge of monetary affairs. We want to ask him some questions about the pending bill, not because we think there is going to be any opposition to the passage of S. 3291, but because it is very well to have a record of why we are acting at all on the matter.

The bill, S. 3291, a letter from the Treasury Department transmitting a draft of a proposed bill, a memorandum showing changes in existing law made by the proposed bill, and such agency reports as we have on S. 3291 will, without objection, go into the record at this point.

(The material referred to follows:)

87<sup>TH</sup> CONGRESS  
2<sup>D</sup> SESSION

# S. 3291

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## IN THE SENATE OF THE UNITED STATES

MAY 14, 1962

Mr. ROBERTSON (by request) introduced the following bill; which was read twice and referred to the Committee on Banking and Currency

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## A BILL

To amend section 14 (b) of the Federal Reserve Act, as amended, to extend for two years the authority of Federal Reserve banks to purchase United States obligations directly from the Treasury.

**1**       *Be it enacted by the Senate and House of Representa-*  
**2**       *tives of the United States of America in Congress assembled,*  
**3**       That section 14 (b) of the Federal Reserve Act, as amended  
**4**       (12 U.S.C. 355) is amended by striking out "July 1, 1962"  
**5**       and inserting in lieu thereof "July 1, 1964" and by striking  
**6**       out "June 30, 1962" and inserting in lieu thereof "June 30,  
**7**       1964".

I

THE SECRETARY OF THE TREASURY,  
Washington, May 4, 1962.

Hon. LYNDON B. JOHNSON,  
President of the Senate,  
Washington, D.C.

DEAR MR. PRESIDENT: There is transmitted herewith a draft of a proposed bill, to amend section 14(b) of the Federal Reserve Act, as amended, to extend for 2 years the authority of Federal Reserve banks to purchase U.S. obligations directly from the Treasury.

The proposed legislation would extend for 2 years, from June 30, 1962 to June 30, 1964, the authority of the Federal Reserve banks to purchase public debt obligations directly from the Treasury, rather than in the open market, in an amount not to exceed \$5 billion outstanding at any one time.

While the direct purchase authority has not been utilized in the past few years, the Department considers its continued existence highly essential. The existence of the authority permits the Treasury to maintain lower cash balances than would otherwise be possible and contributes to flexibility in the management of the public debt. In addition, the authority constitutes a line of credit which would be immediately available for temporary financing in the event of a national emergency. Also, the utilization of the authority has assisted the Treasury in the past in leveling out the impact of short-run fluctuations in the cash balance immediately preceding periods of concentrated tax collections.

There is enclosed for your convenient reference a comparative type showing the changes in existing law that would be made by the proposed bill.

It would be appreciated if you would lay the proposed bill before the Senate. A similar proposal has been sent to the House of Representatives.

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

Sincerely yours,

DOUGLAS DILLON.

A BILL To amend section 14(b) of the Federal Reserve Act, as amended, to extend for two years the authority of Federal Reserve banks to purchase United States obligations directly from the Treasury

*Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That section 14(b) of the Federal Reserve Act, as amended (12 U.S.C. 355), is amended by striking out "July 1, 1962" and inserting in lieu thereof "July 1, 1964" and by striking out "June 30, 1962" and inserting in lieu thereof "June 30, 1964".*

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#### COMPARATIVE TYPE SHOWING CHANGES IN EXISTING LAW MADE BY PROPOSED BILL

Changes in existing law made by the proposed bill are shown as follows (existing law proposed to be omitted is enclosed in black brackets; new matter is printed in *italic*):

#### SECTION 14(b) OF THE FEDERAL RESERVE ACT, AS AMENDED

(38 Stat. 264; 12 U.S.C. 355)

(b) To buy and sell, at home or abroad, bonds and notes of the United States, bonds of the Federal Farm Mortgage Corporation having maturities from date of purchase of not exceeding six months, bonds issued under the provisions of subsection (c) of section 4 of the Home Owners' Loan Act of 1933, as amended, and having maturities from date of purchase of not exceeding six months, and bills, notes, revenue bonds, and warrants with a maturity from date of purchase of not exceeding six months, issued in anticipation of the collection of taxes or in anticipation of the receipt of assured revenues by any State, county, district, political subdivision, or municipality in the continental United States, including irrigation, drainage and reclamation districts, such purchases to be made in accordance with rules and regulations prescribed by the Board of Governors of the Federal Reserve System: *Provided, That notwithstanding any other provision of this Act, (1) until [July 1, 1962] July 1, 1964, any bonds, notes, or other obligations which are direct obligations of the United States or which are fully*

guaranteed by the United States as to principal and interest may be bought and sold without regard to maturities either in the open market or directly from or to the United States; but all such purchases and sales shall be made in accordance with the provisions of section 12A of this Act and the aggregate amount of such obligations acquired directly from the United States which is held at any one time by the twelve Federal Reserve banks shall not exceed \$5,000,000,000; and (2) after **June 30, 1962** *June 30, 1964*, any bonds, notes, or other obligations which are direct obligations of the United States or which are fully guaranteed by the United States as to principal and interest may be bought and sold without regard to maturities but only in the open market. The Board of Governors of the Federal Reserve System shall include in their annual report to Congress detailed information with respect to direct purchases and sales from or to the United States under the provisions of the preceding proviso.

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM,

*Washington, May 22, 1962.*

Hon. A. WILLIS ROBERTSON,  
*Chairman, Committee on Banking and Currency,  
U.S. Senate, Washington, D.C.*

DEAR MR. CHAIRMAN: This is in response to your letter of May 15, 1962, requesting the views of the Board on S. 3291, a bill to amend section 14(b) of the Federal Reserve Act, as amended, to extend for 2 years the authority of Federal Reserve banks to purchase U.S. obligations directly from the Treasury.

The use of this authority by the Federal Reserve enables the Treasury to avoid creating unnecessary financial strains that would otherwise occur if it had to draw heavily on its accounts especially during periods immediately preceding taxpayment dates. Temporary Treasury borrowing at such times, followed by prompt repayment from the proceeds of taxpayments, provides a smooth operating mechanism, without the abrupt money market fluctuations that would otherwise occur. The authority could also be useful in dealing with situations resulting from a national emergency. Since 1942 when the authority was granted it has been used sparingly, and its use is reported, as required by law, each year in detail in the Board's annual report. The results of its use also appear currently in weekly statements issued by the Federal Reserve and in daily statements issued by the Treasury. The Board favors the proposed legislation.

Sincerely yours,

C. CANBY BALDERSTON,  
*Vice Chairman.*

The CHAIRMAN. The Chair takes pleasure in recognizing Mr. Roosa.

Mr. Roosa. Thank you, Mr. Chairman.

**STATEMENT OF ROBERT V. ROOSA, UNDER SECRETARY OF THE  
TREASURY FOR MONETARY AFFAIRS**

Mr. Roosa. I am glad to be here today to represent the Treasury in presenting our views in support of S. 3291, which would extend through June 30, 1964, the existing authority of the Federal Reserve banks to purchase directly from the Treasury Government debt obligations up to a limit of \$5 billion outstanding at any one time. The measure is also supported by the Board of Governors of the Federal Reserve System.

The Federal Reserve banks were given unlimited authority to purchase Government securities either directly from the Treasury or in the open market by the Federal Reserve Act of 1913, when it was first established. Conditions remained that way until the Banking Act of 1935, when the provision was revised to require that all Federal Reserve purchases of Government securities be made in the open market, none from the Treasury directly at all.

Then, 7 years later, in 1942, the Federal Reserve banks were again given authority to buy securities directly from the Treasury subject to the restriction that the outstanding amount of such debt should not exceed \$5 billion. This authority was originally granted through 1944, and has been extended from time to time since then, most of the extensions being for 2-year intervals and the current authority expires June 30, of this year. The direct purchase authority is used only infrequently, and it has not been used at all since 1958. However, we do feel that its continuation is essential because it provides an important backstop for both our cash and debt management operations.

I would like to explain that a little further. It seems from our experience that careful management of our own cash position will make it possible to keep the outstanding public debt to a minimum and that means we don't have to borrow more in order to carry a larger cash balance. In that way we save interest costs to the Government.

The availability of immediate direct access to Federal Reserve credit provides a precautionary reserve for unforeseen contingencies that would otherwise have to be met by maintaining continually a higher level of operating balance.

Specifically:

(1) Direct access to Federal Reserve credit provides the margin of safety necessary if the Treasury is to follow its customary practice of allowing its cash balances to fall to exceptionally low levels just before the usual large inflow of cash over a tax date.

(2) There may be occasions when Treasury financing operations themselves ought to be postponed briefly because of market disturbance and in those instances the possibility of having direct access to the Federal Reserve gives us more elbowroom. It doesn't mean we would, and we actually haven't, relied on the actual use of the authority, but the knowledge that it was there and could be used has allowed us to skate a little closer to zero in our own cash balance for a day or two or three at a time and thereby postpone individual borrowing operations.

That hasn't been done since 1954, in any substantial volume, but it did occur then, as I recall, twice.

Our third consideration, and this also, I think, is very relevant in thinking of this authority as a kind of standby, relates to the conditions of a national emergency when financial markets might be disrupted with direct access to Federal Reserve credit then necessary in order to continue the orderly payments that are required for the functioning of government.

These are the principal reasons why the Treasury feels that passage of this bill is essential. I add one other which I think is obvious enough; I don't want to seem to be crying "Wolf" or raising the fear of anything quite unlikely to occur, but I would note that—we didn't put this in the prepared statement—the existence of this authority is an integral, in fact critical part of all of the arrangements that the Treasury has made to be ready in the event of a national defense emergency in the event of nuclear attack. Then parts of the country might be immobilized and this existing authority, always available, to permit the direct use of the Federal Reserve banks to make immediate advances is a part of the legal background, and would be the bul-



wark for a number of the emergency arrangements that have been worked out.

So, what we are concerned with here, then, is basically a standby facility and I should also mention that if we ever were actually to use it that kind of debt, just as much as any other debt, would be subject to the statutory limit on the outstanding Federal debt.

We have been careful, I think, the Treasury traditionally has been careful not to abuse this authority. We have provided a little table to show the instances of actual use since 1952 indicating that there's only been one occasion in the last 8 years when the Treasury did, in fact, borrow directly from the Federal Reserve banks. But it was the knowledge that this line of credit could be drawn upon almost instantly if it were needed that has enabled us on a number of occasions to plan for a close fit between expected outlays and receipts, secure in the knowledge that these supplemental funds could be borrowed in the event that expenditures should unexpectedly, temporarily, outrun our planned receipts.

*Direct borrowing from Federal Reserve banks*

Calendar year	Days used	Maximum amount at any time (millions)	Number of separate times used	Maximum number of days used at any one time
1952.....	30	\$811	4	9
1953.....	29	1,172	2	20
1954.....	15	424	2	13
1955.....	None	-----	-----	-----
1956.....	None	-----	-----	-----
1957.....	None	-----	-----	-----
1958.....	2	207	1	2
1959.....	None	-----	-----	-----
1960.....	None	-----	-----	-----
1961.....	None	-----	-----	-----
1962.....	None	-----	-----	-----

Thank you, Mr. Chairman.

The CHAIRMAN. Mr. Secretary, is the Federal Reserve Board independent of the Treasury?

Mr. ROOSA. Yes, sir; in the legislation providing for the Federal Reserve Board and the Federal Reserve System, it is designated in effect as an instrument of the Congress whereas the Treasury is in the executive branch.

The borrowing arrangements under the authority we are describing here do depend upon the agreement of the Federal Reserve that the borrowing can occur. The legislation we are discussing authorizes it to occur if there were need——

The CHAIRMAN. When you need money and you want a quick way to raise it by selling bonds directly to the Reserve banks, do they have the free option to buy them or not to buy them?

Mr. ROOSA. Yes, sir; they do.

The CHAIRMAN. And suppose you are asking them to buy them for a price that they do not think is the market price, can they then turn them down?

Mr. ROOSA. Yes.

The CHAIRMAN. You can't force these bonds on Federal Reserve banks at any arbitrary interest rate that you might select?

Mr. ROOSA. No, sir.

The CHAIRMAN. When your predecessor, Mr. Julian Baird, was testifying before us in continuation of the same legislation, he said that this power should not be abused by considering it as a device to permit increased Federal Reserve purchases of U.S. Government securities for purposes of influencing the level of interest rates or affecting the overall availability of credit.

Do you agree with that?

Mr. ROOSA. Yes, sir, absolutely.

The CHAIRMAN. Up to the present time, the Federal Reserve direct purchase authority has been used as a temporary rather than a permanent financing device. Ever since the authority was first granted in its present form in 1942 I understand that it has been exercised at any one time for no longer than 28 days.

Do you anticipate that any future use of this authority will continue to be on a very short-term basis?

Mr. ROOSA. Yes, sir; I would think so, with the one possible exception of the national calamity that I mentioned, but no one can foresee that.

The CHAIRMAN. Of course, this committee does not have jurisdiction over the legislation pertaining to how many bonds you can have outstanding at one time. But we are interested because we do have jurisdiction over the Federal Reserve Board, and we have to a large extent delegated to that Board the constitutional power of Congress to coin money and fix its power. By its powers over discount rates, reserve requirements, and open market operations, the Federal Reserve can largely determine the value of our money. Under present law, it can issue money far in excess of what is circulating now, simply by printing a dollar bank note, which is money, against a dollar bond, as long as these notes have a 25 percent gold backing.

The House has recently passed a bill jumping the legal debt limit from \$285 billion to \$308 billion.

What do you think will be the size of the actual debt by the end of this calendar year?

Mr. ROOSA. At the end of this calendar year, 1962, the debt will be very close to \$305 billion; the peaks are hard to predict from day to day. Usually the peak occurs at the middle of the month and our present estimate is that that would be \$304.9 billion, but this is an estimate that was prepared on the basis of the expenditure and revenue estimates in the original budget document. Other changes have occurred and certainly there is a risk already that changes have occurred in expenditures that could involve as much as a half a billion more than that; whether that amount would all be spent before the end of December is doubtful, but we can't be precise within—in these terms—certainly less than a billion dollars on any given date.

The CHAIRMAN. In March of this year we raised the debt limit to \$300 billion.

Mr. ROOSA. Yes, sir.

The CHAIRMAN. Doesn't the House bill (H.R. 11990) provide for \$308 billion through next March, then for \$305 billion through June 24 of next year, and finally for \$300 billion for the remainder of fiscal 1963?

Mr. ROOSA. The present legislation, sir, as I understand it, will expire at the end of June 1962, so that the only remaining debt limit will be that which stands permanently—the \$285 billion, so that there must be given the size of the present debt and the prospective seasonal requirements through the autumn of this year, some legislation in order to validate that. The question is really why should it be \$308 billion, I believe.

The CHAIRMAN. That is what bothers me.

Mr. ROOSA. Yes, sir.

The CHAIRMAN. I am willing to vote for whatever is necessary to pay the debts that the Congress has incurred, but I don't want to put a debt limit up \$2 or \$3 billion above that and invite somebody to see if they can't get up to it. If \$306 billion will take care of the debts that the Congress has authorized in the budget that we have been asked to approve, why put an extra \$2 billion in there?

Mr. ROOSA. The reason for that arises from experience we have had in Treasury administration under the debt limit for the last 10 years. I think you may recall that when you had an opportunity to discuss this with Mr. Baird or Mr. Burgess, my predecessors, they would have explained the same way I am going to, that try as we may the precise timing of these debt requirements cannot, this far in advance, be pinpointed as to individual dates. For simple operating efficiencies the Treasury has asked for, and the Congress has provided, a \$3 billion leeway above the expected, best estimate.

The CHAIRMAN. I don't challenge that, but the trouble is we have been making much of a farce of debt limitation. It was supposed at one time to mean something; now, if we put 2 or 3 billion more above what you are actually going to spend, it looks as if we are challenging Congress—can you get up to that, and if so, we will raise it still higher.

You are our best money experts. Are you just a little disturbed about the balance-of-payments situation?

Mr. ROOSA. Yes, indeed, more than a little.

The CHAIRMAN. We will take that up later. Are you a little worried about the possibility of inflation—possibility, not as it now is, but the possibility?

Mr. ROOSA. The possibility; yes, sir.

The CHAIRMAN. All right. Isn't the gross national product running close now to the annual rate of nearly \$550 billion?

Mr. ROOSA. Yes, sir.

The CHAIRMAN. It didn't go up to the \$570 billion that some people thought, but it is at a grand and glorious high.

Mr. ROOSA. Yes, sir.

The CHAIRMAN. Don't we face a possibility of a \$7 or \$8 billion deficit in this fiscal year?

Mr. ROOSA. Yes, sir; this fiscal year the present estimate is approximately \$7 billion.

The CHAIRMAN. Don't we face the possibility of deficit in the next fiscal year?

Mr. ROOSA. That possibility; yes, sir. But that——

The CHAIRMAN. Of course, if we have a tax cut, whatever the deficit is will be that much bigger?

Mr. ROOSA. Indeed; yes, sir.

The CHAIRMAN. That is right.

So, while we don't have inflation now, and while the speculators on the stock market are making out as though they fear a deflation—we

are not in any depression, of course, but they make it sound that one is coming—there is always the possibility that if we would get reckless we could have inflation.

Mr. ROOSA. Yes, sir.

The CHAIRMAN. Do you, as our top money expert, figure that there is going to be such a great drop in production between now and December that you will have to spend \$2 billion more than you anticipate right now, and borrow the money?

Mr. ROOSA. No, sir; it isn't for that reason that we ask for this leeway, and find from time to time that we need it. I should make very clear that our present presentation of the request for the \$308 billion, in the form in which it has passed the House, would only get by if the budget is balanced in fiscal 1963. The way in which the limit is scaled down in March and again in June could not be satisfied if the budget were out of balance; so I think this formulation has put in a signaling system which makes it imperative, if there is a move away from balance, that a new request would have to be introduced for additional authority on the debt limit in the beginning of calendar 1963. But for the period——

The CHAIRMAN. About balancing the budget, do you want to go to the hocus-pocus of saying that the funds we put in so-called public works or Federal buildings or other things of a public character, are investments that don't count in the budget?

Mr. ROOSA. No, sir; there is a——

The CHAIRMAN. It is money out of the Treasury. Any way you cut it, we will still end up in a deficit, whether you call it a budget deficit or other kind of a deficit.

Mr. ROOSA. I am particularly sensitive to that, sir, because my special responsibility in the Treasury is to borrow the money.

The CHAIRMAN. Is to what?

Mr. ROOSA. Borrow the money.

The CHAIRMAN. Borrow the money?

Mr. ROOSA. Borrow the money whichever way it goes.

The CHAIRMAN. That is right.

And are you endorsing the conventional budget? What other kind of budget would you prefer, so that the people you have to borrow money from would know the status of the Government Treasury?

Mr. ROOSA. Well, of course, there are these various concepts of the budget. I think all of them serve a purpose. I think it is useful to see the way in which each one would work out. From the point of view particularly of Treasury debt management there are two of these concepts that are relevant: the usual administrative budget is important, primarily important, and it tells us what the change in the outstanding debt will be. Then sometimes there are adjustments between the outstanding debt and the debt held by the public itself because part of the debt may be acquired by trust funds. Those Government trust funds then, when they are introduced as a special item in the calculation, change the budget from the administrative to the cash budget. So, from our point of view in the handling of the debt, it is important for us to know both.

The CHAIRMAN. Yes. But isn't it true that you also have outstanding liabilities that are not subject to the debt limit?

Mr. ROOSA. Yes, there are a great number of contingent liabilities.

The CHAIRMAN. Would you mention some of those? What are the liabilities that are not subject to the debt limit?

Mr. ROOSA. There is in preparation, I think, a new tabulation of these because they vary in the degree to which they represent a liability. But as an illustration, of course, the Federal Deposit Insurance Corporation, while already possessing large reserves collected through assessments on the banks, has in addition the right to borrow on demand from the Treasury in the event of need, as I recall, an additional \$3 billion—the Savings and Loan Insurance Corporation an additional \$750 million, and so on. There are a number of these—

The CHAIRMAN. But don't let's say "and so on." Give us a total.

Mr. ROOSA. The degree to which this liability represents a meaningful liability, of course, varies, and there are a good many which are extremely difficult to think of adding together. One could say that the Treasury is ultimately liable for all of the currency issued by the Federal Reserve System or all of the deposits issued by the banking system. There have been such tabulations made, they get to very large but not very meaningful figures. In more realistic terms, the liabilities that are incurred by Government-sponsored institutions for which the Government has some responsibility, the figure is now between \$8 and \$9 billion.

The CHAIRMAN. Well, that gives us definite information.

Mr. ROOSA. Yes, sir.

The CHAIRMAN. How has the increase in liabilities not subject to the debt compared with the increase in the debt itself? Have they both been going up by leaps and bounds?

Mr. ROOSA. Yes, sir, they have.

The CHAIRMAN. They have all been going up?

Mr. ROOSA. These have been going up, if anything, percentagewise a little faster. I should have here—

The CHAIRMAN. Do you anticipate any immediate change in the amount of Federal securities outstanding that are not subject to the public debt limit?

Mr. ROOSA. There is a continuing increase in those. In the last calendar year there has been an increase of about a half a billion dollars, such issues as the Tennessee Valley Authority borrowing another \$50 million, and others of that kind. I have a list of the recent ones here if I can put my hand on it, and these, of course, are all carried out under authorizations made by the Congress. The 1963 proposed budget, looking forward in items that may further be approved by the Congress, although action has not yet been taken, include an additional 50 for the TVA, \$475 million for FNMA, \$40 million for the Bank for Cooperatives, \$200 million for the Federal home loan banks, \$125 million for the Federal intermediate credit banks, \$135 million for the Federal land banks, which, of course, are no longer federally owned at all, and that adds up to a total of a billion dollars. That will increase a total that now is nearly 9 to a total that is nearly 10.

The CHAIRMAN. It seems that since a Government bond is as good as Government money, you can exchange one for the other. So we have been investing funds in Government bonds.

Mr. ROOSA. Yes, sir.

The CHAIRMAN. If we don't pay any regard to the limit of public debt and keep on, what is going to happen to those trust funds?

Mr. ROOSA. The trust funds are basically dependent upon the Government's credit.

The CHAIRMAN. Of course. Don't you think it is desirable not only for the taxpayers to know what they owe but also for the people who have their trust funds in Government bonds to know what may be the future value of those bonds? Then they can determine whether we have acted wisely in putting the trust fund in Government bonds, or whether we should put them in the bonds of some of these utilities and General Motors and what not?

Mr. ROOSA. Yes, sir. Well, I agree, it just happens that this also is the area of the Treasury which I deal with primarily.

The CHAIRMAN. It might be helpful if you would indicate, for the record, what trust funds you are now managing that have been invested in Government bonds. The biggest is the social security. So we owe it to ourselves, don't we?

Mr. ROOSA. Yes. The principal funds that we are administering and there are—I can just hold up the list from our annual report of the Secretary of the Treasury.

The CHAIRMAN. We are making a record here that somebody might read.

Mr. ROOSA. I will just submit this for the record because it is perhaps longer than you would like to hear and I can read the principal items, if you wish.

The CHAIRMAN. You can do that. But hit the highlights of them now.

(The information referred to follows:)

## TRUST FUNDS AND CERTAIN OTHER ACCOUNTS OF THE FEDERAL GOVERNMENT

TABLE 64.—*Holdings of Federal securities<sup>1</sup> by Government agencies; and accounts, June 30, 1952-61*

[Par value. In thousands of dollars]

Investments of agencies	1952	1953	1954	1955	1956	1957	1958	1959	1960	1961
<b>HANDLED BY THE TREASURY<sup>2</sup></b>										
Major trust funds and accounts:										
Civil Service Commission:										
Employees health benefits fund.....										12,324
Employees' life insurance fund.....					<sup>3</sup> 3,137	<sup>3</sup> 8,310	<sup>3</sup> 43,910	<sup>3</sup> 101,888	<sup>3</sup> 149,604	<sup>3</sup> 196,625
Federal Deposit Insurance Corporation.....	1,422,300	1,510,700	1,612,750	1,711,200	1,815,200	1,919,000	2,034,400	2,158,000	2,291,996	2,439,517
Federal disability insurance trust fund.....						325,363	1,054,544	1,607,200	2,101,160	2,386,452
Federal employees' retirement funds:										
Civil service retirement and disability.....	4,998,402	5,586,418	5,839,646	6,152,373	6,697,179	7,497,551	8,166,751	9,122,980	9,991,227	11,051,014
Foreign Service retirement and disability.....	16,592	16,130	15,229	16,558	19,451	22,387	24,252	26,416	29,178	32,180
Judicial survivors annuity.....						760	1,000	1,104	1,346	1,556
Federal Housing Administration funds:										
Armed services housing mortgage insurance.....	9,450	12,750	10,550	12,950	12,250	15,500	11,974	11,749	13,454	36,285
Housing insurance.....	4,450	5,950	3,300	3,300	4,400	7,000	4,648	7,068	7,268	7,318
Housing investment insurance.....	800	950	800	800	800	850	870	897	907	910
Mutual mortgage insurance.....	194,167	235,067	212,667	268,267	305,688	363,088	411,326	458,851	501,078	556,223
National defense housing insurance.....		11,500	8,100	5,100	5,720	5,270	5,200	2,370	1,495	530
Section 220 housing insurance.....				750	750	650	1,100	1,770	2,820	4,300
Section 221 housing insurance.....				750	750	750	900	1,030	920	100
Servicemen's mortgage insurance.....				750	1,250	2,650	4,100	5,160	8,163	10,413
Title I housing insurance.....			1,400	1,700	2,400	2,450	2,180	2,070	2,015	2,200
Title I insurance.....				38,000	44,400	56,350	69,529	77,189	87,308	103,523
War housing insurance.....	75,900	77,300	20,600	23,200	28,750	30,820	27,222	29,222	34,118	35,232
Federal old-age and survivors insurance trust fund.....	16,268,037	17,814,387	19,337,092	20,579,051	22,041,438	22,262,664	21,764,964	20,478,466	19,756,158	19,552,914
Federal Savings and Loan Insurance Corporation.....	209,540	218,240	228,940	241,690	256,690	275,190	294,350	311,000	329,500	363,500
Highway trust fund.....						404,444	822,226	429,214	1,335	234,034
Postal Savings System.....	2,558,209	2,481,042	2,246,642	1,997,038	1,741,053	1,459,053	1,206,253	1,052,703	845,703	720,703
Railroad retirement account.....	2,863,144	3,142,803	3,345,255	3,485,903	3,606,505	3,642,058	3,608,953	3,573,604	3,837,767	3,759,509
Unemployment trust fund.....	8,644,000	9,236,000	8,988,000	8,442,915	8,700,688	8,974,894	7,719,944	6,710,565	6,669,557	5,719,956
Veterans' life insurance funds:										
Government life insurance.....	1,300,500	1,299,000	1,234,000	1,232,685	1,216,833	1,200,427	1,144,116	1,127,235	1,106,540	1,071,433
National service life insurance.....	5,190,644	5,249,479	5,272,479	5,345,628	5,481,068	5,570,310	5,665,319	5,741,548	5,803,089	5,759,371
Special term insurance.....		425	3,025	9,589	20,234	34,082	48,267	66,164	84,613	106,280

Other trust funds and accounts:										
Adjusted service certificate fund.....	5,115	5,113	4,643	4,589	4,580					
Ainsworth Library fund, Walter Reed General Hospital.....	10	10	10	10	10	10	10	10	10	10
Alien property trust fund.....	4,958	7,200	6,650	4,442	4,567	1,732	984	615	570	570
Canal Zone Postal Savings System.....	7,100	7,100	7,100	6,850	6,750	6,752	6,250	6,050	5,350	5,050
Central hospital fund, U.S. Army, Office of the Surgeon General.....	1,570	1,845	1,845	2,045	2,275	2,275	2,075	2,075	1,945	1,945
Comptroller of the Currency.....				4,140	5,140	5,950	5,950	5,335	5,085	4,749
District of Columbia:										
Department of Occupations and Professions.....					266					
Fees and other collections, Recreation Board.....										10
General funds.....	13,974	25,029	21,994	28,190	31,200	39,996	49,679	32,862	27,862	9,213
Highway fund.....		5,779	6,757	10,769	11,985	11,760	11,234	5,288		
Miscellaneous trust funds.....					219	2		19	34	34
Motor vehicle parking fund.....		527	870	1,194	1,391	1,686	2,077	2,576	2,882	3,378
Redevelopment program, Redevelopment Land Agency.....						15,324	4,017	5,165	1,361	409
Sanitary sewage works fund.....				851	1,951	2,134	2,534	729		2,429
Stadium fund, Armory Board.....									12	10,140
Teachers' retirement and annuity fund.....	20,310	21,810	23,510	25,434	27,237	28,890	30,626	32,792	34,793	37,088
Water fund.....	1,773	1,773	1,773	1,673						
Welfare funds.....							15	15	15	10
Exchange stabilization fund.....	20,000	20,000	25,000	25,000	95,000	95,000	35,000	87,120	60,000	46,000
Farm tenant mortgage insurance fund.....	1,250	1,250	1,250	1,250						
Federal ship mortgage insurance escrow fund, maritime activities.....									45,916	35,232
General post fund, Veterans' Administration.....	2,666	2,666	2,866	2,866	2,868	2,660	1,734	1,064	1,086	1,288
Individual Indian money deposit fund and trust funds.....	35,425	34,076	31,831	32,982	33,669	36,081	37,572	42,497	40,541	38,359
Library of Congress trust funds.....					46	136	16	16		
Longshoremen's and Harbor Workers' Compensation Act, relief and rehabilitation.....	632	657	727	759	769	772	772	730	690	588
Merchant marine memorial chapel fund.....				424	424	424	554	509		
National Archives trust fund.....								102	102	102
National Capital Housing Authority.....						49	50	4,027	1,452	1,031
National park trust fund.....	18	18	18	18	18	20	21	21	21	21
Office of Naval Records and History fund.....		44	44	44	44	44	44	100	100	153
Pershing Hall Memorial fund.....	199	199	199	199	199	199	199	211	211	211
Philippine Government pre-1934 bond account.....	15,138	7,471	6,467	6,351	6,251	5,481	5,166	5,068	1,844	1,571
Preservation of Birthplace of Abraham Lincoln, National Park Service.....	63	63	63	63	63	63	63	63	64	64
Public Health Service:										
Gift funds.....	86	86	86	81	81	76	71	71	141	166
Patients' benefit fund, Public Health Service hospitals.....	7	7	7	7	7	7	7	7	7	7

See footnotes at end of table, p. 15.





Workmen's Compensation Act within the District of Columbia, relief and rehabilitation.....									15	
Total handled by agencies.....	445,618	517,250	814,053	807,200	1,252,269	1,212,766	1,561,241	1,278,632	1,397,626	1,695,543
Total holdings of securities by Government agencies and accounts.....	44,333,231	47,558,802	49,338,926	50,537,833	53,496,107	55,552,395	55,896,493	<sup>e</sup> 54,619,473	<sup>e</sup> 55,339,576	<sup>e</sup> 56,088,544

<sup>r</sup> Revised.

<sup>i</sup> Public debt, and guaranteed obligations of the Federal Government.

<sup>2</sup> For further details of certain of these accounts, see tables 65 through 88.

<sup>3</sup> Includes Series F and J savings bonds at current redemption value.

<sup>4</sup> Some of the investment transactions clear through the accounts of the Treasurer of the United States.

<sup>5</sup> Production credit corporations were merged in the Federal intermediate credit

banks as of January 1, 1957, pursuant to the act approved July 26, 1956 (12 U.S.C. 1027(a)). Certain assets, including the Federal securities, and the liabilities of the corporations were transferred to the banks.

<sup>e</sup> Excludes securities in the amounts of \$19,365,000, \$19,222,000, and \$19,247,000 held by the Atomic Energy Commission as of June 30, 1959, 1960, and 1961, respectively, which in turn are held by trustees for the protection of certain contractors against financial loss in event of a catastrophe.

Mr. ROOSA. The civil service retirement and disability which now—this is the report as of the end of 1961—has in terms of funds that are handled by the Treasury a total of just over \$11 billion.

The CHAIRMAN. And how much is the Federal Government delinquent in paying its share of funds into the trust funds? I happen to be on the Appropriations Committee. How much do we owe on that?

Mr. ROOSA. I am not aware of any sidestepping.

The CHAIRMAN. What do you call it when an obligation matures but we don't honor it simply because participants are not drawing out that much right now and we expect that they are going to put in more in the future? We are supposed to put in so much into these trust funds so they will be actuarially sound, but we don't. What do you call that besides sidestepping?

Mr. ROOSA. I am also Chairman of the Investing Board of that body, and I meet with the actuaries twice a year, and we are under the impression that on an actuarial basis and with regard to the accumulation of additional funds over the years as against the incurring of additional obligations that we are on an actuarially sound basis.

The CHAIRMAN. How would you recommend that we meet our recurring obligation to keep these funds actuarially sound, when time after time we have had a budget estimate to pay it in and then we deliberately ignore it and say that we are under the budget. That has been the favorite House way of cutting under the budget by ignoring the liability to the civil service fund.

Mr. ROOSA. Yes, sir; I understand the point now; yes.

The CHAIRMAN. All right.

Mr. ROOSA. Of course, we can't go on doing this. At present the fund is up to this moment sufficiently large; the yield that we are paying on the special Government securities held by the fund is 3½ percent, and on these assets at this average rate of yield, we are for the presently foreseeable requirements actuarially sound.

We will have to be certain, of course, as we go forward in the future, that there is no impairment of the payment by Congress to the fund.

The CHAIRMAN. Now, take these civil service funds, the railroad retirement funds, and the social security funds. When you invest them, do you give them the top paying bonds, the bottom paying bonds, or the medium paying bonds? What kind of bonds do you give them?

Mr. ROOSA. We try in each case to administer them according to the provisions of law affecting each, and so they differ, but I can give you an example. On these larger funds I was mentioning, we now have them so invested that civil service gets an average yield on its special issues at the moment of 3¾ percent; the Federal disability insurance the same; the Federal old age the same; the Government life insurance 3½ percent; some of these are the result of having more investments committed at an earlier period when interest rates were somewhat different—

Senator BUSH. These are all long-term bonds?

Mr. ROOSA. Yes, sir; the highway trust funds, 3¾ percent; the national service life insurance, 3¾ percent; the unemployment trust fund, because according to law there must be more liquidity, shorter holdings there, the average is 3½ percent; and the veterans special

term insurance fund is 3½ percent; both of those reflecting the fact that it is a higher liquidity composition.

In addition, some of these agencies have another special privilege in their relation with the Government; they are able to hold special notes which bear, as a rule, only 2 percent, but they have the right to turn those in for cash on demand at any time. They get 2 percent year in and year out whether the Treasury bill rate is 1 percent or 3 percent.

The CHAIRMAN. What is the total interest you are paying now?

Mr. ROOSA. The total interest on the public debt now is running \$9 billion annually.

The CHAIRMAN. I thought it was in the budget for \$9.3 billion.

Mr. ROOSA. It is for next year, sir.

The CHAIRMAN. I see. Well, it is going up.

Mr. ROOSA. Yes, sir.

The CHAIRMAN. If we have inflation and prices go up and wages go up, will the cost of borrowing money go up, too?

Mr. ROOSA. With inflation, interest rates always rise, yes.

The CHAIRMAN. Is there anything that the Government can legitimately do to keep interest rates down if Congress deliberately goes ahead and spends money and borrows money and has inflation?

Mr. ROOSA. There are things the Government can legitimately do; there are risks in trying to do it wrongly, very grave risks.

The CHAIRMAN. After World War II, didn't we in effect force the Federal Reserve Board to buy Government bonds below what their actual interest rates would be if it was a free market?

Mr. ROOSA. Yes, sir.

The CHAIRMAN. All right. You don't favor that, do you?

Mr. ROOSA. No, sir.

The CHAIRMAN. Well, neither do I. I am monopolizing these questions. I think it is a rather interesting subject.

Senator TOWER. Mr. Chairman, may I ask a question?

The CHAIRMAN. Yes. The Senator from Texas.

Mr. TOWER. In your estimation, what effect does the increase in interest on Government debt obligations have on the investment of capital in stocks?

Mr. ROOSA. The Government interest rate, if we have the free market we should have, will vary roughly in line with the rate on all outstanding long-term fixed indebtedness and in general interest rates on fixed indebtedness tend to rise when stock prices rise. This isn't always true, but this is the general pattern. This means that bond prices tend to decline when stock prices rise.

Senator TOWER. Hasn't the general tendency been for interest yield to compete with dividend yield—very favorably, as a matter of fact?

Mr. ROOSA. Yes, sir, and, of course, no one can be so brave, particularly in the presence of an experienced investment banker, as to venture views on the recent developments. But among the factors is certainly the influence coming from interest rates that were higher than the average yield available on purchases of common stock. This, as it became realized, was an influence in shifting new investment funds from further purchases of stock into the purchase of fixed interest obligations, including to some extent Government securities.

The CHAIRMAN. Mr. Secretary, we mentioned your concern about the balance of payments. What do you mean when you use that term balance of payments?

Mr. ROOSA. In its broadest sense, the balance of payments is the schedule of our receipts and expenditures that cross the national frontier, the things that we spend money for abroad and the sales we make that provide receipts coming in from abroad. This includes, and this is where the analysis becomes more difficult, not only the sale of goods or the purchase of goods but it includes a whole range of services, it includes the receipt of interest on investment made abroad, or the payment of interest and dividends on stocks held here by foreigners, and it includes such other things as tourist remittances, but this whole total——

The CHAIRMAN. Do you think that our balance of payments statistics are adequate to reflect what we are talking about, or do they need some revision?

Mr. ROOSA. I don't mean to be sounding critical of the work now done but I would say that it is not adequate. I think the people who are engaged in this statistical work would agree that for a long time the United States has, in comparative terms, ignored its balance of payments; we have not developed statistical measurements that were equal to the needs we face at the moment. We are making strides, and I would point out that beginning in March of this year for the first time the Survey of Current Business—this is from the Department of Commerce—began to publish what we will now get from now on, a second major table on the balance of payments in which you get a much finer breakdown of the actual exports and imports so that you can tell what we are really selling, what is going abroad as aid shipments and what is being spent abroad because of military authorities.

Those things are now clearly subdivided and we are getting that kind of data for the first time, but we have been at it, trying to evolve that since about the 20th of January a year ago. It has only begun now.

We have a number of other things that will come along, but we don't have all we should have yet.

The CHAIRMAN. Of course, it is very misleading if we include our military aid and other give-away programs as exports.

What do you mean when you say that we have a deficit in the balance of payments?

Mr. ROOSA. The deficit, again, I apologize for seeming to equivocate, but there are two kinds of deficits.

The CHAIRMAN. I want to hear your comments about them.

Mr. ROOSA. Yes, sir.

The first important one is the overall deficit and that means the difference between the total receipts of the United States and the total out-payments of the United States. That difference—the deficit—is then made up in one of two ways. Either we sell gold—ship gold out in effect in order to pay for the deficit—or we increase our short-term dollar liabilities to foreigners. That means they may hold currency, they may hold Treasury bills, or they may hold bankers acceptances. But it is a short-term liability, the close equivalent of cash.

The CHAIRMAN. All right. The deficit winds up in a reduction in the gold supply if we issue short-term securities and if foreigners buy them and then ask for gold. We have to give them gold, haven't we?

Mr. ROOSA. Yes, sir.

The CHAIRMAN. So a deficit in our balance of payments all winds up as a threat upon our gold supply?

Mr. ROOSA. Yes.

The CHAIRMAN. How much have those deficits caused us to lose in gold in the last 3 years?

Mr. ROOSA. The gold loss has run about \$3.5 billion, the deficit has been—well, I better say 3 years plus calendar 1962, then the total of gold becomes larger. If we take calendar 1959, 1960, 1961, and thus far in 1962, the gold loss is in the rough magnitude of \$4 billion. I will put the precise figure in. Mr. Morris can check this. And the balance of payments deficits, giving rise to this, have been over \$3.5 billion for 2 of those years, \$2.5 billion last year, and is currently running \$1.5 billion.

(The information referred to follows:)

*U.S. overall balance-of-payments deficit and portion of deficit representing U.S. gold loss, 1959 to date*

[In millions of dollars]

Calendar year	Overall balance-of-payments deficit	Gold loss	Calendar year	Overall balance-of-payments deficit	Gold loss
1959.....	3,743	<sup>1</sup> 1,075	1961.....	2,461	857
1960.....	3,925	1,703	1962 to date.....	<sup>2</sup> 1,500	<sup>3</sup> 455

<sup>1</sup> Includes \$344,000,000 gold subscription to IMF.

<sup>2</sup> Based on available data at a seasonally adjusted annual rate.

<sup>3</sup> Change in Treasury gold stock through June 15.

The CHAIRMAN. Well, then, the balance-of-payments deficit has exceeded the gold loss?

Mr. ROOSA. Yes, sir.

The CHAIRMAN. Simply because foreigners haven't asked to cash in all of the dollars?

Mr. ROOSA. That is right.

The CHAIRMAN. How many dollars, in terms of private and public short-term demands and what not, could they demand gold for? What is the total?

Mr. ROOSA. The total of claims that are almost immediately available is roughly \$20 billion. But I should quickly add that that total can be much larger because this figure includes only the short-term holdings of foreigners.

The CHAIRMAN. I heard it was \$21 billion.

Mr. ROOSA. That is right, because in addition, we have to include some of the international institutions, but we don't regard them as likely to draw.

The CHAIRMAN. All right, \$21 billion that they could demand against our gold. How much gold do we have?

Mr. ROOSA. Our present stock is \$16,434 million.

The CHAIRMAN. We have to have a 25-percent backing for Federal Reserve bank deposit liabilities and for Federal Reserve bank notes that are acceptable for all taxes and debts and so forth; how much gold does it take to back our currency?

Mr. ROOSA. The 25-percent requirement now takes in round numbers \$11.8 billion, against the notes and deposits.

The CHAIRMAN. When did it drop from \$12 billion?

Mr. ROOSA. No; it hasn't dropped from \$12 billion. Twelve billion dollars is just a rounded number that has been used.

The CHAIRMAN. Twelve is a rounded number?

Mr. ROOSA. Yes.

The CHAIRMAN. How much free gold does that leave?

Mr. ROOSA. A little over,  $4\frac{1}{2}$ —

The CHAIRMAN. About \$4.5 billion against a potential demand of \$21 billion. Is it important for us to prevent inflation or not?

Mr. ROOSA. Indeed it is. I would like to make one correction, though, if I may, sir.

I didn't mean to imply that only the \$4.5 billion would be available in the event of a gold drain—

The CHAIRMAN. We could borrow a little from the International Monetary Fund maybe.

Mr. ROOSA. No, sir; under the provision, I believe, of the Banking Act of 1935, the Federal Reserve Board may waive the requirements for an initial 30 days, renewing it for successive 2-week periods. Thus in the event there were any concern by foreigners that somehow or other they ought to draw their gold because we are approaching close to a firm and absolute limit, they shouldn't worry. They shouldn't speed up their gold purchases for that reason, because the requirement can be waived.

The CHAIRMAN. The Federal Reserve Board in an emergency, can now print money without any gold behind it—is that what you are saying?

Mr. ROOSA. In effect, sir, I'm saying the law allows—it doesn't have to be an emergency—the law allows the Board on its finding to waive the application of the requirement for additional 2-week intervals. This, of course, becomes a matter of public notice and the Board is required in this circumstance to impose a fee or penalty on the Federal Reserve banks for doing to. I make this point only, sir, because this is an important part of the explanation which our foreign holders of dollars should know, if it is in their minds at any time doubtful that the Federal Reserve Board could provide this waiver in the event of a run on gold it would, of course, increase the chances of a run on gold.

The CHAIRMAN. Well, I don't mean to discount either the wealth or the productive capacity of our Nation. Some persons have suggested that there should be more pay for less work; I don't think this is going to help us. At any rate, we are far from being broke.

You have mentioned the effect of inflation upon the balance of payments. If inflation would happen, foreigners would lose confidence in the dollar. We could then be in a situation requiring us to decide whether to suspend gold reserve requirements, or to revalue the dollar. No matter what we would do would hurt, wouldn't it?

Mr. ROOSA. We can't let ourselves get into the situation where we would have to think of either of those things, so I agree with you emphatically.

The CHAIRMAN. So we have to watch that situation when we vote on how much we are going to raise the debt ceiling. We have to watch that on any proposal to go above the budget and take a second look at some of the budget items. What other steps do you have in mind to protect this diminishing gold supply?

Mr. ROOSA. Our effort is mainly directed toward eliminating the deficit in the balance of payments.

This includes primarily the points you have already been making, that we must avoid inflation, we must keep expanding American industry competitive and improve, if we can, its competitive position—I say we, speaking of the American people, I don't think Government does this by some heroic act of its own—and then in addition we must do all we can to reduce the balance-of-payments burden of our governmental expenditures abroad. We could do that—

The CHAIRMAN. That means we can gut down a little bit on what we give away?

Mr. ROOSA. We are doing it largely by giving away goods in kind, and in that way not making dollars available which can be a drain on our gold.

The CHAIRMAN. I want to recognize at this time one of our advocates of economy. He is a Harvard-trained man in economics and he didn't even want the Congress to authorize a new airplane carrier in the defense appropriation bill because it costs too much. The Senator from Wisconsin.

Senator PROXIMIRE. I would like to ask some questions if I could, Mr. Chairman. But I think the Senator from Texas had a particular question on the points that the Senator from Virginia has been raising. If I could yield to the Senator from Texas for that question, I would be happy to do so. Then I have some questions.

The CHAIRMAN. I know you have some pertinent observations on it.

Senator PROXIMIRE. I do, Mr. Chairman.

The CHAIRMAN. You may help straighten us out.

Senator TOWER. I thank the Senator from Wisconsin.

I would like to ask if you sense any wavering of confidence in the American dollar abroad?

Mr. ROOSA. No, sir; there have been periods, of course, when there have been flutters against us. There will always be some changes in the foreign exchange markets which occur from week to week because of commercial reasons. But I think the most reassuring, gratifying byproduct of the disturbing stock market developments has been that—to me because the balance of payments is where I spend a large part of my life—there have been no appreciable repercussions in the foreign exchange markets.

There is, therefore, a fundamental confidence in the position of the dollar. I should stress though that that confidence arises from our repeated assurances and thus far our demonstration that we are reducing the balance-of-payments deficit and that we are maintaining a position of fiscal responsibility and it is essential that that position be retained, as the chairman has been stressing, if we are to have the continuation of this confidence.

Senator TOWER. Are there some conflicting views between, say, Government economists abroad and those who actually hold claims against American gold reserves?

Mr. ROOSA. Yes, there are.

Senator TOWER. If we raise the debt limit and reduce taxes but maintain spending at present or higher levels, what effect do you perceive this would have on the confidence in the American dollar?

Mr. ROOSA. In my own appraisal, and here it would include foreign financial opinion as well as Government officials, it makes a great



difference as to whether you say maintain or increase on the expenditure side. I think as far as the foreign observer in general is concerned there has emerged out of the discussion of the last 3 years of our balance-of-payments problem a recognition that this is going to take time and a very massive effort to restore the position of the American economy to its previous comparative strength and dominance in world trade, and I think there would be understanding for a tax reduction if it were clear that this was related to an incentive program that gave great promise for future cost reduction as well as for expansion in the producing capacity of the American economy. I think foreign observers of all kinds would clearly distinguish that kind of move from what does worry them, the appearance, and we don't have that now, the appearance of careless expenditure policy.

Senator BUSH. Say that again, the appearance of what?

Mr. ROOSA. Of a careless policy on expenditure.

Senator BUSH. Careless policy?

Mr. ROOSA. Yes. And I would suggest that it makes more sense to the foreign observer that we should have an expenditure limit than it does that we have a debt limit.

Senator TOWER. Let me refer back to a question I asked a while ago which you answered "Yes." Assuming that there are conflicting views between Government economists abroad and between those who actually hold claims against American gold which has the most pessimistic view toward the American dollar? Which seems to be the most confident and which seems to be the least confident?

Mr. ROOSA. I have to make a further distinction there, too, sir. Some of the Government people would be central bank people. They are the people who actually have the immediate claim on gold. In general they would be among the optimistic group, have clearly been since they haven't been taking gold. The other large group of holders who now have dollars could, if they choose, sell the dollars, then as these would tumble in on the central banks the central banks would have to face a new problem, whether to hold additional dollars or convert these new ones. It is a two-stage process.

Going back to the first stage, the private holders of dollars who might unload them, who haven't yet, this group is the group from which you hear the greatest amount of concern, uncertainty, and typified by some of the more extreme comment that sometimes appears in the press. Certainly in this group of private citizens as in the financial community in any country you will find a concentration of a more conservative—I say conservative in the best sense—approach to the role of government and to the performance of an economy. That may turn out in this instance to be pessimistic in your—

Senator TOWER. I think in the terms you used it it has a favorable connotation.

Senator PROXMIRE. Mr. Roosa, in your prepared statement you say:

The Federal Reserve banks were given unlimited authority to purchase Government securities either directly from the Treasury or in the open market by the Federal Reserve Act of 1913. The Banking Act of 1935 revised this provision and required that all Federal Reserve purchases be made in the open market.

Why was that action taken?

Mr. ROOSA. I think, sir, at the time—and I haven't studied the legislative history, this is what I got from textbooks and perhaps is not thoroughly adequate—the feeling was that there was a real risk that there would be abuse of the money creating capacity of the Federal Reserve System; we had just been through the very harsh depression period, the liquidation phase of the great depression. There had been widespread demands for extensive use of the Federal Reserve as a bailout, they had not been fully acceded to, but you might remember Federal Reserve capital was used to provide half of the resources needed for the establishment of the Federal Deposit Insurance Corporation and other such measures were resorted to, I think they were all perfectly proper, but in the air of the time there was a fear of more extreme possibilities.

Senator PROXMIRE. Then, the Congress only restored it in 1942, the middle of the war, of a limited basis, well, \$5 billion, and also the limited time?

Mr. ROOSA. Yes.

Senator PROXMIRE. In your prepared statement you say:

The availability of immediate direct access to Federal Reserve credit provides a precautionary reserve for unforeseen contingencies that would otherwise have to be provided by considerably higher operating balances.

Was this the experience in 1935 to 1942, that the balances had to be higher? Were they in fact higher at that time?

Mr. ROOSA. Yes.

Senator PROXMIRE. Were there any situations that developed which indicated the inconvenience and expense of having this kind of system?

Mr. ROOSA. Yes, there were. As a ratio to total Government expenditures, the balances maintained were higher——

Senator PROXMIRE. For this reason?

Mr. ROOSA. It's hard for me to be sure. I deduced that, but I can't be certain.

Senator PROXMIRE. Why can't you virtually always go to the market instead of going to the Federal Reserve? You gave one instance, that, when this ban was in effect in 1937, you had to go to the market.

Mr. ROOSA. The best illustration, the best evidence I can give is that we need the authority so that we don't use it. In fact, we are using it all the time in the knowledge that we can afford to skate close to the edge, but we have not found ourselves going over the edge with one exception since 1954. The exception, by the way——

Senator PROXMIRE. I would like to hear a little bit about that exception. What would have happened in 1958 if you hadn't been able to make that one borrowing from the Federal Reserve for 2 days?

Mr. ROOSA. Actually, that one wouldn't have created any great crisis.

Senator PROXMIRE. The others were in wartime, were they not?

Mr. ROOSA. No. You see, the others, if you look at the table on page 6, there was considerable use in 1952, 1953, and 1954 and the reason for the decline in use was that we made another change that provided possible economy in the handling of the Treasury cash balances. We made it in July of 1954 and since that time we have

had much less occasion, actually, to rely on the authority. Nonetheless, the existence of the authority has been in our minds. There have been a number of times when we could plan on the assurance that if things went wrong this could be used. But you say why can't we always go to the market?

We always can, but let me explain the timing involved, the procedures there.

The quickest borrowing is a Treasury bill. Even for this the market itself has to make preparation. It's an auction—

Senator PROXMIRE. To interrupt. However, in view of the shortness of the present debt—with so much of it in bills—you are going to the market constantly anyway, aren't you? This is a matter of whether you want to go to the market quite to the same extent as you are as a matter of routine. You are in the market virtually every week, and most days, you are in a pretty big way.

Mr. ROOSA. That's just what I wanted to explain.

Because each Treasury bill auction normally occurs on a Monday, in order to prepare the market for the auction we have to announce it, as we will be today. We send out the first announcements on the confidential wire, in time to get them printed about 11 o'clock this morning, on a Wednesday. They are released Wednesday afternoon. The market then has to have time to prepare. They aren't sure until it's announced what the amount of the auction will be. The auction is held as of 1:30 o'clock on a Monday; then the market has to have time to get the money together to pay for the bills. These are big amounts, even though we are used to them. The total amount each week is about \$2 billion, and they can't make the payment until Thursday. The time interval, then, between the moment when we decide what we want, on the quickest sort of borrowing facility we have, is from Wednesday morning until Thursday, the following week.

This facility at the least provides for the situation that might become urgent in an interval of less than 8 days.

Senator PROXMIRE. And you haven't really had such a situation in the last 8 years. You had one and you said it wasn't very important.

Mr. ROOSA. That's right.

Senator PROXMIRE. However, the fact that you have this ability, No. 1, permits you to keep your balances lower?

Mr. ROOSA. Yes.

Senator PROXMIRE. It conserves, you say, millions of dollars a year.

Mr. ROOSA. Yes.

Senator PROXMIRE. In interest?

Mr. ROOSA. Yes.

Senator PROXMIRE. And No. 2, it tends to stabilize the market because the awareness of the market that you have this alternative.

Mr. ROOSA. Yes, that is a helpful reassurance.

Senator PROXMIRE. I have a very brief question along the extremely interesting lines the chairman was asking about.

What concerns me most about the present situation is that the President has asked for a tax cut for next year at a time when most of the indicators we have are quite favorable:—the best automobile year since 1955, construction is improving, and unemployment has been dropping so that we are half way to the 4 percent goal. My question is this: If we are going to have a tax cut of substantial proportions in 1963, without diminishing our spending, we are going to

deliberately run a deficit, and if so, when in the world are we ever going to run a surplus, at least in the administrative budget?

Let me interrupt to say this. The President has said we aren't getting out of the recession rapidly enough. Certainly, at the time you are getting out of a recession, you are going to run a deficit. Certainly, when you get into a recession, you are going to run a deficit. Almost everyone would agree you would tend to do that, it seems to me. The President and others argue that we should run a surplus in times that the business cycle is moving ahead and we have an expanding economy, and that we should run a deficit in times of retraction. This would seem to me to be the time to run a surplus, if ever.

Mr. ROOSA. This as a concept, and put that way, would express the general position as I understand it, of the administration as well. The view with respect to a tax cut is one that will have to be developed as we know what kind of decisions the President makes on his recommendation and then the way in which Congress will review them as they pass through the legislative process some time early next year. He has indicated that the net effect of the proposals he will submit will be to provide for less revenue from any given income structure, and in the aggregate somewhat less revenue than would arise from existing taxes as applied to the same range of incomes and processes that are taxed. But he has not said by how much, and the decision as to how much and what combination between tax reductions and offsetting broadening of the tax base has not yet been made. So that I'm sure that the factors that you are mentioning have to weigh very heavily in reaching that final decision. And once the President has decided they will come in for much further continuing examination as this is reviewed by the public and then intensively in the Congress.

So, I would say that in broad principle the only exception to your formulation would come in terms that it might be decided, and it has not yet been decided, that a deficit as the result of tax changes in another fiscal year was an appropriate or acceptable price to pay at that stage for a realinement of the tax structure which would promise much greater income-producing potential in future years.

This would have to be the kind of analysis on which it was based, not analysis that would assume continuous deficits.

Senator PROXMIRE. See, here's what the administration has done. They have said we will not have a tax cut apparently this year, probably not; they probably will not recommend it. They will recommend one, however, next year; recommend it next year means it might conceivably be passed as early as April or March and be retroactive to January 1. Certainly, if we try to predict what the situation is going to be 6 months from now or 8 months from now we are really asking for trouble, it seems to me.

Mr. ROOSA. Oh, yes.

Senator PROXMIRE. The situation might be expansive then; it might not be. Why don't we wait until then instead of making an announcement now we are going to have a tax cut, particularly in view of the very vague—I say this with all respect—and general attitude which you have as perhaps the top expert in this field in the Treasury Department, the feeling that this might be primarily a tax change situation with a net reduction; it might be a billion dollar reduction, 2 billion, you don't know how much. From what you said

earlier to Senator Tower or Senator Robertson, I presume that this would be primarily in the incentive area for business to invest more rather than an individual tax cut. It's hard for me to understand why, under these circumstances, it is desirable for the President to say we are going to have a tax cut next year when the thinking is this general and unprecise.

Mr. ROOSA. I don't want to try to speak for the President on this subject at this time, but I would point out two other aspects of this.

First, that income earned and taxed in calendar 1963 is the income that is relevant to the budget for fiscal 1964. Consequently, when we talk about a tax cut effective in calendar 1963 we are talking about the effect on the revenues for fiscal 1964 and that budget—

Senator PROXMIRE. That makes it even worse. You go even further ahead.

Mr. ROOSA. Right. That budget will not be submitted in its first form until next January. Consequently, and this is the second point I wanted to make, if the decision is made—and I think we all know to our sorrow how long, and how rightly long, the scrutiny takes to get a tax bill from conception to completion—by putting our proposals before Congress adjourns this year there is a chance that they can be passed and become effective at the beginning of calendar 1963. Although we may not know the terms until some time later as finally passed, this is one of the two variables. We will then know something about the revenue side for the budget for fiscal 1964. The expenditure side which is also relevant in determining whether and how much the deficit will be, we won't know and there won't be any announcement on it until early in calendar 1963.

So, you can conceptually take the tax measure separately, particularly if you view this, and we have so viewed it since early last year as we have been working ahead on this, as a major tax reform and one which ought to be introduced as soon as it's reasonably ready for the scrutiny that such a major reform will have to have. Whether a planned loss of aggregate revenue will in fact produce a deficit of some size thus depends on two unknowns: (1) what will the possible revenue be for fiscal 1964, and (2) what will planned expenditures be in that year?

Senator PROXMIRE. Thank you very much, Mr. Chairman.

The CHAIRMAN. Senator Bush.

Senator BUSH. Mr. Secretary, you said in speaking of the balance of payments problem a little while ago, you gave the figures for the last 3 years and this year to date.

Mr. ROOSA. Yes.

Senator BUSH. If I am correct, you said that this year to date the balance of payments deficit was of the order of \$1¼ billion; is that right?

Mr. ROOSA. I meant, sir, that it's running close to that annual rate.

Senator BUSH. Oh, you meant it was at the annual rate?

Mr. ROOSA. At that annual rate; yes, sir. The actual annual rate deficit for the first quarter, and that's the only one for which we have adequate data so far, was \$1.8 billion. The indicated rate of deficit

to date is slightly under \$1½ billion, and this is, of course, from preliminary data, not complete; it's our hope that the year as a whole when finally totaled will, at the worst, show a deficit no more than 2 billion, but we like to think we will see the prospect of its ending up closer to a billion and a half dollars.

Senator BUSH. You have some reasonable hope of ending up around a billion and a half dollars?

Mr. ROOSA. Yes.

Senator BUSH. What is the balance-of-trade figure so far this year? Have you got those in mind?

Mr. ROOSA. Yes. You may recall I mentioned in response to an earlier question that it has been important to sort out the three levels of trade and after you remove the military, after you remove the aid assisted—and incidentally it's this aid assisted, plus commercial, that has usually been published and therefore has been misleading—you emerge with an actual trade surplus. This is the balance on merchandise trade, excluding everything that has been financed by Government, for calendar 1961 of \$3 billion and we are running just about that right now, I think, but were behind in the first quarter.

If you add services to that, include trade and services, the total for 1961, again now we are excluding the aid assisted, it was \$5 billion, and we are running in that respect about the same.

Senator BUSH. So we are maintaining about the same pace in respect to trade balance as we did in 1961?

Mr. ROOSA. Yes, and for the present we regard this as a very favorable sign because with the economy continuing to expand imports are normally at this stage expected to rise substantially and what we have been able to do is largely match the rise in imports with further exports. So that at this stage we are holding our own and we hope, have reasonable prospect over the remainder of this year that the export position will improve more. We are just coming into the full effect for one thing of the export credit finance arrangements which are serving as a catalyst, not just as finance, but the facilities through which it is made available are alerting a good many businessmen to the feasibility of trade abroad. We think that we are seeing activated a great many more export activities than the country has had in the past.

The Commerce Department is working aggressively to this end and they are having, I think, remarkable success in the business community in organizing, not just through meetings but in business selling campaigns.

Senator BUSH. Thank you, sir.

The CHAIRMAN. Mr. Secretary, I believe you have a table going back to the end of 1945 that shows the trend of the balance of payments, the gold stock, and the demands on it.

Mr. ROOSA. Yes, sir.

The CHAIRMAN. Could you submit that for the record?

Mr. ROOSA. Yes, sir; I would be glad to.

(The information referred to follows:)

## FEDERAL RESERVE DIRECT PURCHASES

*Balance of payments of the United States, 1946-61*

[In millions of dollars]

Year	Basic U.S. position, deficit (-)	Recorded U.S. short-term private capital outflow and foreign com- mercial credits to United States	Transactions unaccounted for, including unrecorded capital flows	Total, re- corded overall U.S. position, deficit (-)
1946	+1,694	-310	+195	+1,579
1947	+4,114	-159	+936	+4,891
1948	-57	-119	+1,179	+1,003
1949	-751	+130	+775	+154
1950	-3,423	-33	-30	-3,486
1951	-710	-61	+470	-301
1952	-1,503	-50	+505	-1,048
1953	-2,565	+117	+296	-2,152
1954	-1,048	-669	+167	-1,550
1955	-1,404	-186	+446	-1,144
1956	-1,083	-482	+643	-922
1957	-22	-191	+748	+535
1958	-3,551	-357	+380	-3,528
1959	-4,348	+77	+528	-3,743
1960	-1,900	-1,433	-592	-3,925
1961	-416	-1,443	-602	-2,461

Source: U.S. Department of Commerce, Survey of Current Business.

*Changes in U.S. gold stock and holdings of convertible currencies, 1945-62*

[In millions of dollars]

## ANNUALLY

Year	U.S. gold (A)	Change	Convertible currencies (B)	Change	Total (A+B)	Change (A+B)
1945	20,083	-548			20,083	-548
1946	20,706	+623			20,706	+623
1947	22,868	+2,162			22,868	+2,162
1948	24,399	+1,531			24,399	+1,531
1949	24,563	+164			24,563	+164
1950	22,820	-1,743			22,820	-1,743
1951	22,873	+53			22,873	+53
1952	23,252	+379			23,252	+379
1953	22,091	-1,161			22,091	-1,161
1954	21,793	-298			21,793	-298
1955	21,753	-40			21,753	-40
1956	22,058	+305			22,058	+305
1957	22,857	+799			22,857	+799
1958	20,582	-2,275			20,582	-2,275
1959	19,507	-1,075			19,507	-1,075
1960	17,804	-1,703			17,804	-1,703
1961	16,947	-857	116	+116	17,063	-741

## MONTHLY

1962:						
January	16,847	-100	116		16,963	-100
February	16,795	-52	153	+37	16,948	-15
March	16,643	-152	230	+77	16,873	-75
Total 1st quarter		-304		+114		-190
April	16,519	-124	(2)	(2)	(2)	(2)
Apr. 30	16,495		(2)	(2)		
May 31	16,435	-60	(2)	(2)		
June 18 *	16,434	-1	(2)	(2)		

\* Includes transfer of \$687,500,000 gold subscription to IMF.

† Not available.

‡ Treasury gold stock.

§ Released June 21, 1962.

NOTE.—U.S. gold stock includes gold in exchange stabilization fund, which is published with a 1-month lag. ESF gold is not included in Treasury gold stock, which is published daily.

The CHAIRMAN. We want to thank you for your appearance and we feel you have given us some very interesting and helpful information.

Senator SPARKMAN. Mr. Chairman, I want to ask some questions.

The CHAIRMAN. Excuse me. All right.

Senator SPARKMAN. I will admit that practically everything has been asked but there are a few things that I want to clear up.

I want to see if I understand correctly something you said. This was about the statistics with reference to the gold outflow and the balance of payments, and so forth. I believe you said that those statistics had not, in the past, been adequate, you feel.

Has there been any change in the setup? In other words, has there been an improvement?

Mr. ROOSA. Yes; there has. Our feeling as to the question of adequacy is not that we have been in any doubt as to what the deficit was, that we know. It's more in terms of some of the detailed items that contribute to it.

Senator SPARKMAN. Some of the analyzing?

Mr. ROOSA. Yes, and some of the things we need to know if we are going to make an effective attack on the problem. There has been a very significant job done by the Department of Commerce and I shouldn't have implied that this was something that the Treasury is responsible for other than having tried to encourage and urge, Commerce is doing the work, doing it very well, and the Treasury people are maintaining very close relations with them, and we have a number of additional improvements, particularly with respect to capital movements where we need much more knowledge than we have had.

You see, one of the large swing items has been the errors and omissions. As long as that's what you have to call it you don't really know what you are dealing with, and this, last year, accounted for a quarter of the deficit.

Senator SPARKMAN. Refresh my recollection on this: Did the changeover in the balance of payments come rather suddenly and unexpectedly, or was it a gradual growth over a period of time?

Mr. ROOSA. No, sir; it was a gradual evolution.

Senator SPARKMAN. As the economy in Europe recovered, was it based mostly on that?

Mr. ROOSA. Yes, there are a great variety of things. To those who point to deficits it's common to say that for the 8 years before 1961 the Government ran a total deficit of \$32 billion and surpluses of only about \$4 billion; and consequently, the Government was running deficits that were—

Senator SPARKMAN. Let me get that figure again. For 8 years prior to what?

Mr. ROOSA. Prior to fiscal 1961 it's about \$32 billion of deficits, and there were 3 years, I believe, of surpluses; at any rate, the total was a little over \$4 billion.

Senator SPARKMAN. So, it ran about \$28 billion over that period of years?

Mr. ROOSA. Yes, and this is the period when we were also developing our balance-of-payments deficit, and you can't go on this way indefinitely and still maintain confidence in the dollar.

Senator SPARKMAN. Now, I want to see if I'm correct on this, because I have gotten a good bit of mail about this outflow of gold and the balance-of-payments, and so forth.



I have been under the impression that we have been gradually improving that situation. Is that true?

Mr. ROOSA. Yes, sir; we have.

Senator SPARKMAN. The sum total you gave was over the last 3 or 4 years, was it?

Mr. ROOSA. Yes.

Senator SPARKMAN. Do you have that broken down by years?

Mr. ROOSA. Yes.

Senator SPARKMAN. Would you give us the balance-of-payments first and then the—

Mr. ROOSA. And then the gold.

The deficit in 1958, as I remember, \$3.5 billion. I will give you that in just a second.

Senator SPARKMAN. When you say 1958 you mean fiscal?

Mr. ROOSA. No, this is calendar.

Senator SPARKMAN. Calendar?

Mr. ROOSA. Yes, sir.

I think, sir, I better supply these in better form for the record later.

Senator SPARKMAN. If you will give me the rough numbers and supply the accurate figures for the record, that will be all right.

Mr. ROOSA. The gold sale in calendar 1958 was \$2,275 million. And then in 1959, the deficit was \$3.7 billion, and the gold loss in that year was \$731 million.

Senator SPARKMAN. \$731 million?

Mr. ROOSA. Yes, but we also transferred a large amount to the International Monetary Fund that year which brings the total to about \$1.1 billion.

Senator SPARKMAN. One point one?

Mr. ROOSA. And then in 1960 the indicated deficit, \$3.9 billion, the gold loss \$1,703 million; and then in 1961 the balance of payments deficit is \$2.5 billion—it has been revised since these figures were printed—these figures keep being revised—it's \$2.46 billion, the deficit. The change in gold, \$857 million.

Senator SPARKMAN. \$857 million?

Mr. ROOSA. Yes.

Senator SPARKMAN. And then what is projected for 1962?

Mr. ROOSA. Our hope is that 1962 will be a deficit of \$1.5 billion and I hesitate to predict the gold. So far the net loss has been approximately \$450 million.

Senator SPARKMAN. That's not the annual rate but the total to date?

Mr. ROOSA. No, this is the actual. And, of course, we are hopeful that the last half of the year will not be as great.

I should point out that most of this is of a somewhat different nature. It arises from the fact that the United Kingdom has been rebuilding its reserve position, and as the other key currency they need some gold, so most of the gold sold this year has been mainly to them. It doesn't have quite the same significance it would have otherwise.

Senator SPARKMAN. So you think it will be under a billion dollars this year?

Mr. ROOSA. Yes.

Senator SPARKMAN. \$750 million.

Mr. ROOSA. I might hope so, but I don't want to put my neck out.

Senator SPARKMAN. I'm doing this for rough figures for myself. Eight hundred million.

Mr. ROOSA. That is possible, but I'm not predicting.

Senator SPARKMAN. And you are constantly working on steps to improve this problem?

Mr. ROOSA. Yes, sir.

Senator SPARKMAN. That shows that there has been a decrease in the loss of gold each year since 1958.

Mr. ROOSA. Well—yes.

Senator SPARKMAN. Each year according to the figures I have here.

Mr. ROOSA. Yes, that's the trend.

Senator SPARKMAN. In other words, the big outflow has been slowed down, though not completely checked?

Mr. ROOSA. Yes.

The CHAIRMAN. Inflation has been slowed down, too.

Senator SPARKMAN. We have had a very stable condition for nearly 3 years now with reference to that; that is correct.

I am just interested on the Canadian rate of exchange. A couple of years ago, in terms of the Canadian dollar, the American dollar was only 92 cents as I recall. Wasn't it?

Mr. ROOSA. Yes, sir. The history of the Canadian dollar has, of course, been a variable one because for a long time they didn't try to peg their exchange rate. They did, beginning about the fifth of May this year, finally choose 92½ cents, U.S. cents, as the external value of their dollar, and it had in earlier years been as high in terms of U.S. dollars as \$1.05½.

Senator SPARKMAN. I knew that just a couple or 3 years ago the American dollar held an unfavorable position in the Canadian money market, and then it was reversed more recently.

Mr. ROOSA. Yes, sir. This is, of course, a delicate time for anyone in our Government to be commenting on their affairs since they are in the process of a change. I think it would be recognized——

Senator SPARKMAN. No, I didn't mean to comment on what they have done. But does it indicate, in a sense, a strengthening of our position in the minds of the Canadians; or is it simply a housekeeping proposition of their own?

Mr. ROOSA. It's a mixture of several things. One, to go back to what the chairman mentioned before, the Canadians have run a very high and an increasing internal government budget deficit. Their budget deficit, if you translate it into our terms, they have been running deficits of \$10 billion a year and more, fairly steadily. In addition, they have been running, translated into our terms, balance-of-payments deficits of almost that same magnitude, fairly steadily. You can't do that forever. So, their currency has suffered as a result. They have now reached a sticking point where they will organize government policy around this present rate and hold it and that, of course, will have to mean some change in both of these other respects—the fiscal deficit and the balance-of-payments deficit.

Senator SPARKMAN. I must confess that I'm somewhat puzzled about the use of the tax laws and I'm not clear in my mind about the extent they ought to be used as economic adjusters.

However, there are many factors, I take it, to be considered, and I suppose the principal factor in connection with proposed tax reduc-

tion next year or this year, whenever it may come, is an incentive to stepped up production.

Mr. ROOSA. Yes, sir.

Senator SPARKMAN. Because, after all, the revenues that the Government gets are related directly to the gross national product.

Mr. ROOSA. Yes.

Senator SPARKMAN. And it might be possible to step up production to such an extent that a tax reduction would really pay off, probably not the first year, but on the long-range basis.

Mr. ROOSA. Yes. This would have to be the basis—you have put clearly what I fumbled in trying to mention to Senator Proxmire that the only reason for this kind of tax law change that involves a net revenue loss in a given year—I shouldn't say the only reason but a principal reason for doing it at this time, after we have had other deficits—is that you expect that it's going to produce much greater revenues in the immediate following years.

Senator SPARKMAN. I notice that a paper which our staff prepared for the use of the chairman shows three different kinds of budgets and just where we would stand under each one.

The first is the administrative or conventional budget which shows a projected deficit of \$7 billion in fiscal 1962 and a \$500 million surplus in 1963. The cash consolidated budget shows a projected \$8.5 billion deficit in fiscal 1962, and projected \$1.8 billion surplus in 1963. And the national income accounts show a deficit of half a billion dollars in fiscal 1962 and a \$4.4 billion surplus in 1963.

In tracing the relation between our domestic and our international financial position, what budget measure is most useful? The one we are using? Or do we need to revamp it?

Mr. ROOSA. I think as in so many things we should add without subtracting. I think we need the budgets we have had. I think it's also very useful to employ the newer concepts as well. The main difference, as I'm sure you know well, is, the administrative budget is straightforward totaling of all expenditures and all receipts as incurred during the fiscal year but without inclusion of that part of the receipts and expenditures that may flow through trust funds. These latter come into the Treasury and effect our cash requirements.

That is, then, the difference between the consolidated cash budget and the administrative budget and it's usually a small one, the difference usually runs between \$1 and \$2 billion, and represents whether or not the trust funds are net receiving cash or whether they are net paying out cash, and the swing is usually of that magnitude.

Then the third one, the national income, has a much greater difference, and there is not one standardized way of presenting it. There are actually a dozen ways of computing the national income accounts budget, so that there isn't any real agreement on which is best and appropriate that can stand immutably the tests of criticism. But the one that is used by our Bureau of the Budget I think comes the closest and takes into account the current accrual of liabilities and therefore steps over the kind of distinction I was making when I spoke to Senator Proxmire about the fact that our tax base in calendar 1963 becomes the income for fiscal 1964, and so on; everything is accrued and entered into the accounts as the liability arises, not when it's actually paid, so that it's a measurement of what is going on sumultaneously

and not what has actually reached and passed through the Government's accounts.

It financially produces a difference; it shifts a lot of these things forward in time.

Senator SPARKMAN. I agree with the chairman and most of the others as to the need of having a balanced budget. I wouldn't say necessarily year in and year out. But certainly we need more balanced budgets than unbalanced budgets. We hear a lot of talk about the need of a balanced budget in prosperous times. We have prosperous times and I keep wondering when are we going to get the budget balanced or running in such a way that we would have them in prosperous times so that we would be able to sustain a deficit when bad times hit us and it became necessary.

Are you hopeful in that respect?

Mr. ROOSA. Yes, sir; I'm hopeful to the point of being determined. The question we do face with respect to the new tax suggestions will be whether, if accepted and introduced, they increase the likelihood of this by shifting the incidence of the tax burden in such a way that we get the needed revenue with somewhat greater volume of overall physical activity in the country. Now, this is obviously a nice theory if it works. We have to wait to see just what form that will take.

Senator SPARKMAN. How long a gap or a lag would there be? In other words, if the money saved from taxes is not spent in the form of a purchase of consumer goods or the investment in new productive capacity, it's not going to accomplish the desired results, is it?

Mr. ROOSA. No, sir; it isn't.

Senator SPARKMAN. Now, there will be a lag time. How long do you think it would be before results could be shown?

Mr. ROOSA. I wish I could give a resounding answer. I must say I don't know and our hope has to be that the time will be very short; certainly that a major response would occur within a year. I doubt, though, that you can expect to see much of a response within the interval of, say, 6 months. It takes something like that.

Senator SPARKMAN. That's all. Thank you, Mr. Chairman.

The CHAIRMAN. Mr. Secretary, we thank you very much.

(Thereupon, at 11:45 a.m., the committee proceeded to other business.)

