EXTENSION OF THE TEMPORARY LIMIT ON THE PUBLIC DEBT

HEARING

BEFORE THE

SUBCOMMITTEE ON TAXATION AND DEBT MANAGEMENT GENERALLY

OF THE

COMMITTEE ON FINANCE

UNITED STATES SENATE

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SECOND SESSION

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EXTENSION OF THE TEMPORARY LIMIT ON THE PUBLIC DEBT

TUESDAY, MARCH 14, 1978

U.S. SENATE,
SUBCOMMITTEE ON TAXATION AND
DEBT MANAGEMENT GENERALLY
OF THE COMMITTEE ON FINANCE,
Washington, D.C.

The subcommittee met, pursuant to notice, at 10:05 a.m. in room 2221, Dirksen Senate Office Building, Hon Harry F. Byrd, Jr. (chairman of the subcommittee) presiding.

Present: Senators Byrd, Jr., of Virginia, Long, and Packwood.

[The committee press release announcing this hearing follows:]

PRESS RELEASE

COMMITTEE ON FINANCE,
U.S. SENATE,
March 7, 1978.

FINANCE SUBCOMMITTEE ON TAXATION AND DEBT MANAGEMENT SETS HEARING ON PUBLIC DEBT

Senator Harry F. Byrd, Jr. (I-Va.), Chairman of the Subcommittee on Taxation and Debt Management of the Senate Committee on Finance, announced today that the Committee has scheduled a hearing on extension of the temporary limit on the public debt. The Honorable W. Michael Blumenthal, Secretary of the Treasury, and Mr. James T. McIntyre, Director of the Office of Management and Budget, will testify on the public debt at 10:00 A.M., Tuesday, March 14, 1978, in Room 2221, Dirksen Senate Office Building.

Senator Byrd noted that the permanent debt limitation under present law is set at $400 billion, with a temporary additional limit of $352 billion. This temporary debt limit of $752 billion is due to expire March 31, 1978.

Written testimony.—The Subcommittee would be pleased to receive written testimony from those persons or organizations who wish to submit statements for the record. Statements submitted for inclusion in the record should be typewritten, not more than 25 doublespaced pages in length and mailed with five (5) copies by March 24, 1978, to Michael Stern, Staff Director, Committee on Finance, Room 2227, Dirksen Senate Office Building, Washington, D.C. 20510.

Senator BYRD. The subcommittee will come to order.

The current statutory debt ceiling of $752 billion will expire on March 31. These hearings will focus upon legislation to extend and increase the debt ceiling. First, some facts and figures to put the matter into perspective.

The Carter budget calls for an increase of more than 8 percent in the cost of Government for fiscal year 1979. Under this spending program, the administration estimates that the gross Federal debt will reach $874 billion by October of next year. This means that the national debt will have doubled since 1972, a period of 7 years.

During this period of time, the interest costs on the national debt will more than double from $23 billion to $56 billion in President Carter's new budget. We need to keep in mind that our Government has two budgets, a unified budget and a Federal funds budget.

The unified budget includes revenues from trust funds. These trust funds can, by law, be used only for specific purposes, such as social security. The trust funds, as a whole, are running a surplus.

The Federal funds budget is for the general operation of Government and the revenues to finance it come from general taxation. It is the Federal funds deficit that determines the size of the Federal debt.

The Carter administration projects a Federal funds deficit of $72 billion for the current fiscal year and more than $74 billion for the upcoming fiscal year. Thus, the 2-year deficit of $146 billion is greater than the entire cost of Government in 1968.

Yes, the 2-year deficit, just the deficit, will be greater than the entire cost of Government 11 years ago.

It is because of these huge and accelerated deficits that the administration witnesses are appearing before this committee today, projecting an unprecedented increase in the statutory debt ceiling of $89 billion for the period ending fiscal year 1979.

It is the accelerated and accumulated deficit spending by the Federal Government that is a major cause, if not the major cause, of the Nation's inflation. Albert E. Sindlinger, the economic pollster, told this committee last month that his daily survey of consumers throughout the Nation finds that the big Government deficits have become a matter of major concern to American consumers and have reduced their confidence in the future growth of our economy.

Until the deficit is reduced or eliminated, there can be no lasting cure for either inflation or economic stagnation.

The Gallup Poll reported on February 16 that, by a 9-to-1 margin, the public agrees that controlling inflation is more important than achieving a tax cut. This is highly significant, as most Americans, I believe, would like a tax cut.

Government planners would be wise to put a greater value on the instincts and collective judgment of the American people. While not pretending to be experts on Government finance, the American people instinctively know there is something rotten in Denmark when the Federal Government is now going deeper into the hole by more than $1 billion per week, on the average.

We are glad to have the Secretary of the Treasury, Mr. Blumenthal, today and the Director of the Office of Management and Budget, Mr. McIntyre. These gentlemen will be testifying on the administration's debt ceiling recommendations to allow for the $72 billion Federal funds deficit for the current fiscal year and the $74 billion deficit for the upcoming fiscal year.

The administration projects that the debt subject to statutory limit as distinguished from the gross Federal debt will be $771 billion at the end of fiscal year 1978 and $860 billion at the end of fiscal year 1979.

Welcome, Secretary Blumenthal. You may proceed as you wish.

STATEMENT OF HON. W. MICHAEL BLUMENTHAL, SECRETARY OF THE TREASURY, ACCOMPANIED BY ROGER ALTMAN, ASSISTANT SECRETARY OF THE TREASURY FOR DOMESTIC FINANCE

Secretary BLUMENTHAL. Thank you very much, Mr. Chairman and distinguished members of the committee. I must say that this is one of the least pleasant duties that I have each year for I agree with you, Mr. Chairman, that the matter of the Federal deficit both in terms of its annual impact as well as the total size of the national debt is a serious matter and one that can have an impact on inflation. The deficit should give us serious concerns for inflation, which is one of the major economic problems that we face.

We appear before you this morning really to discuss three Treasury financing problems with you, Mr. Chairman. The first one is that the temporary debt limit expires on March 31 of this year. It is presently $752 billion and it would revert to $400 billion if the Congress did not act to extend and increase it.

There is a table attached to my formal testimony, which gives you the details on that, and it shows that by September 30 of this year we will need $774 billion in our debt limit. assuming $12 billion of operating cash and $3 billion for a contingency margin.

The tables also indicate that by March 31 of next year we will need $832 billion in our debt limit based on present projections.

That means, then, that the limit must be increased by $19 billion to take us through September 30 of this year and by an additional $89 billion to take us through September 30 of next year.

The second financing problem which I briefly refer to in my formal testimony, Mr. Chairman, relates to the need to increase the Treasury's authority to borrow on the long-term market without regard to the 4.25-percent limitation. This is for long-term bonds, that is, bonds with a maturity of over 10 years.

That authority was increased from $17 billion to $27 billion in October of last year. We have, at this point, used about $20 billion of that authority, and we request that you authorize us to go to $37 billion from the present $27 billion so that we can continue to improve on the maturity structure of the Federal debt, which would be to our advantage.

The third and final point, which is briefly referred to in my testimony also, is our need for authority for the Secretary of the Treasury, with the approval of the President, to increase the interest rate on savings bonds. The current statutory ceiling of 6 percent was enacted in 1970.

We do not need to increase the rate today, but we do need at this time legislation to repeal the statutory 6-percent savings bond ceiling. The statutory ceiling is a very inflexible tool since its requires new legislation each time we wish to respond to changes in the market. We could lose borrowers if we are not able to act more efficiently, and therefore we would request that we be given this authority so that we can use it when and if it is needed.

Those are the major elements of our present financing problem, Mr. Chairman. There are one or two other matters that are touched on in my formal statement, but I do not think I need to take time to summarize them for you here.

I would be glad to answer any questions that you may have, sir.

Senator BYRD. Thank you very much, Mr. Secretary. We appreciate your being here this morning.

Now, the January 23 issue of "Business Week" indicates that the administration's economic strategy places economic expansion as its top priority. Is that correct? Do you agree with that analysis?

Secretary BLUMENTHAL. Well, certainly, Mr. Chairman, we consider it important for the U.S. economy to expand sufficiently in order to provide employment for all Americans. That is clearly an important goal of this administration. We would not feel that we were doing our job if there were Americans who were willing and able to work who were unable to find work.

On the other hand, it is really, I would say, much too simple to say that what we want is expansion. I think, at least as of March 14, I would say that the problem of inflation is as important as the problem of unemployment. Those two things go together, in my judgment, and certainly the stability of the dollar is as important in international markets.

So the President's program is designed to provide growth but to deal with the problem of inflation at the same time and to bring about stability of the dollar in international markets. We do believe that the goal that he has stated as being very important to him, and that he holds to very strongly, is to move to reduce substantially the deficit in fiscal year 1980 and 1981 and to achieve balance as soon as possible. This remains a very important goal that is of great significance to him.

Senator BYRD. I am glad to note your emphasis on inflation. According to both the Gallup poll and the Sindlinger daily survey of consumers, inflation seems to be the most important problem to most Americans. Many feel that it is the most important domestic problem that our Nation faces.

I wonder what your feeling is on that?

Secretary BLUMENTHAL. I think it is certainly one of the two or three most important ones. I always hate to put one above all others simply because we will open ourselves up to the charge that we are insensitive to the others.

There is no doubt that there is no problem that is more important than our ability to control inflation.

Senator BYRD. What is the administration doing to get inflation under control?

Secretary BLUMENTHAL. I think in the first instance, the President's very strict decisionmaking with regards to the 1979 budget, and my colleague from OMB, Mr. Cutter, will be able to attest to that very eloquently, is one such key. Having been able to hold the fiscal year 1979 budget to an increase of less than 2 percent, in real terms, is, I think, a considerable accomplishment, recognizing the fact that so much of that budget is so inflexible and really almost beyond the control of the President to influence, at least in the short or medium term.

Second, the emphasis of reducing the Government's involvement in total economic activity steadily for the next several years so that Federal outlays decrease as a percentage of the GNP is the second way to accomplish this. This is done to return as much money as possible to the private sector so that they can create the jobs on an expanded capacity and therefore counteract the inflationary bottleneck that may be created.

The third and very critical—and I do not say them necessarily in the order of their importance, Mr. Chairman—element in the anti-inflation strategy is the anti-inflation program that the President has announced. This consists of not only certain Government actions that are being proposed, for example, the reduction of certain taxes that would have an anti-inflationary impact, such as the tax on telephones and on unemployment insurance, but also renewed and increased emphasis on inflationary Government rules and regulations, which are, I think, an important factor in fueling inflation.

And then there is the deceleration standard under which both business and labor are being called upon to work with the Government to effect increases in wages and prices at a rate less than in the previous year, and hopefully, next year, again, at a rate lower than this year.

It is my expectation that the President will move strongly in these areas to assure that that program really is effective and has an impact.

Those are three very important elements.

I think the fourth one has to be to try to bring the dollar situation under control, for the decline in the dollar does have an inflationary impact on the economy in raising import costs and the proportion of imports in our overall products in this country.

So, moving on these four areas, we are attempting to deal, and deal vigorously, with the inflationary problem.

Senator BYRD. To take the fourth area first, what was the wage settlement for the coal miners that the administration urged the coal miners to accept? What was that rate of increase?

Secretary BLUMENTHAL. If I remember correctly, the estimated cost of that for a 3-year period is, I think, between 35 and 37 percent, something like that.

Senator BYRD. So it is somewhere——

Secretary BLUMENTHAL. 37 percent.

Senator BYRD. It is somewhere around 11 or 12 percent per year?

Secretary BLUMENTHAL. Let me hasten to add, Mr. Chairman, that that is very, very high. The coal mines are a very special problem. I would certainly anticipate that that is not a pattern or an omen of things to come in other industries.

We do, of course, need to expand the production of coal as quickly and as rapidly as we can. That will reduce both our dependence on imported oil, and on oil as an energy source, and will tend to make us more independent of the international situation. Thus from the standpoint of our national security, we do want to get coal production up.

It is clearly a settlement that is an expensive one.

Senator BYRD. And an inflationary one?

Secretary BLUMENTHAL. We have not been able, up to this point, to staff out and to calculate what the impact on the rate of inflation, on the Consumer Price Index, for example, of that settlement would be, but I cannot imagine that it will not be one that will exert an upward pressure on energy costs.

I think there is no way, Mr. Chairman, incidentally that we could solve our energy problem without seeing increases in the cost of energy all along the line. The OPEC countries certainly, over time, are going to increase the price for their product. They did not do so this year and we are happy that they did not. We think that is the right decision. But that is just for this year.

So there will be increases in energy costs, which make the inflationary problem all the more serious and the more urgent that we take vigorous and effective action in other areas to counteract that.

Senator BYRD. May I take up the first item you mentioned and then my 10 minutes will have expired, and I will turn the questioning over to Senator Long. The first item you mentioned, as an anti-inflationary move, is the budget which the administration submitted. You mentioned the figure of 2 percent for so-called real growth and another figure of more than an 8-percent increase in the cost of Government.

Now, that is a very substantial percentage increase, and I would think it would make it difficult, when Government says we have to increase our spending by 8 percent, to encourage others to be reasonable about some of the matters in which they are interested in.

My 10 minutes is expired, so I will now yield to the distinguished chairman of the Finance Committee, Senator Long.

Senator LONG. In addition to the deficit that we are running in our domestic budget, we have another matter that I think is even more serious and that is the tremendous deficit that we are running in our balance of payments.

How long do you think the rest of the world is going to maintain confidence in the dollar if we keep running the kind of deficit that we ran last year and have been running this year in our balance of payments?

Secretary BLUMENTHAL. Mr. Chairman, while the deficit in our current account and our balance of trade is a serious matter undermining confidence, I believe firmly that what is the fundamental issue here is the strength of the American economy. That remains strong and healthy, indeed, one of the strongest in the world. I think that the disorderly movements we see in the international financial markets are a reflection of that confidence factor.

I think, therefore, it behooves us to act vigorously to deal with that problem, to deal with it in a manner which reduces that deficit as quickly as possible.

Senator LONG. The one way we can show the world that we are going to do something about that deficit is to indicate that we are going to produce more energy, I would think. Do you agree with that?

Secretary BLUMENTHAL. Yes.

Senator LONG. Both produce more and then maybe conserve some.

Secretary BLUMENTHAL. That is right. It is those two things. We should quit wasting energy; we have been too wasteful; produce more and therefore import less, that is the key way of doing it.

We should push, however, our general exports or general merchandise for the rest of the world as much as possible, encourage that, and be as efficient as possible in this country so that we can compete more.

Senator LONG. The Governor of Louisiana frequently expresses a great deal of frustration that our people are feeling in Louisiana when they are asked to make sacrifices—for example, we have had bigger cutbacks in the amount of gas that we can use domestically for our own purposes within our State than any other State in the Union, notwithstanding the fact that we are doing more to try to increase production than any other State in the Union. And it is the cause of rising bitter resentment among our people who feel they are constantly called upon to cooperate when there is no sacrifice being asked to be made on the other end.

Now, we are concerned, for example, that we are being asked to pay a tax which I voted for—at least I voted against dropping it out of the energy bill—and if it were doubled, I might be willing to help do that. But I find myself asking, why do we have to have this Outer Continental Shelf bill that the administration has been pushing.

I read an editorial in the New York Times that said it is too bad that the United States finally won the lawsuit to permit people to drill out in the Atlantic. But, that same editorial urges Congress to hurry up and pass the Outer Continental Shelf bill because that will put this small number of people who go overboard on the environmental problem back in business, that will give them the basis upon which they can again stop development in the Atlantic.

In our part of the country, everywhere you can drill a hole with some possibility of finding something has been drilled already. There has not been the first well drilled out there in the Atlantic. Now, why can't we have some cooperation from the administration in recognizing that there have to be some environmental tradeoffs, for example. We have faced them in Louisiana for many, many years. Why can't this administration face up and support our position that the same thing has got to happen elsewhere?

Secretary BLUMENTHAL. Senator Long, I certainly think that the administration must and does have some priorities. It is a matter of balancing various considerations. The consideration of increasing production in this country is a very critical one and, as you have indicated, I do not doubt that some of these environmental concerns are also very important.

I think the issue is not so much a refusal to set priorities but rather, perhaps, some disagreement about what the relative priorities are, and what you need, additionally in order to get more production in the country.

I certainly have taken speaking personally, the view that we need to do more things to encourage production, research, and development, and I would hope that when the Congress has acted on the energy legislation that is before it that the administration will come forward with additional legislation to provide further incentives for production, for research, to accomplish some of these goals that we are talking about.

Senator LONG. Mr. Secretary, I was with the President when he went aboard his first drilling rig in the Gulf of Mexico. It is a beautiful piece of equipment. Now, that rig is losing money—at least, it was—and rigs like that may still be losing money. That rig was supposed to drill in the Atlantic. That equipment is such a drag on the market that those people having to bid for business bid at a price where they are losing thousands of dollars every day just to keep the equipment working.

Now, that is a sad commentary on a situation where the equipment is desperately needed to go out and find more energy. Now, I know you are doing the best you can to reflect some business judgment in this administration—and they really need it down there, in my judgment. That is something that is in short supply and I am just 100 percent in favor of your attending as many meetings down there as you can.

But do you really not think that if we are serious about this energy problem we ought to get out there on the Continental Shelf in the Atlantic and elsewhere rather than just the Gulf of Mexico? What is so pristine about the Atlantic? It is the same gulf stream flowing there. Some people don't want to take the risk of an oilspill there. But those same folks are not so concerned about water passing through the Gulf of Mexico. What kind of sense does that make?

Secretary BLUMENTHAL. Well, I am not, I must confess, Senator, an expert in these environmental matters. I think we must take some risks. I think we must look for additional oil and energy sources, other energy sources, wherever they are and I think we need to weigh, in each particular instance, the risks involved.

In some instances they are very great, and I can understand that we would go easy there. I do not know the particular situation well enough to be able to judge whether that risk is greater than it would be, say, in the gulf.

Senator LONG. Thank you very much.

Senator BYRD. Now, Mr. Secretary, do you agree or disagree with the feeling of many that if we are to have economic growth, we must move toward reducing inflation?

Secretary BLUMENTHAL. I do not think we can have stable growth unless we bring inflation under better control, Senator. That is absolutely my view.

Senator BYRD. Is a $74 billion Federal funds deficit on top of a $72 billion Federal funds deficit a logical way to control inflation?

Secretary BLUMENTHAL. I think we would have less inflationary pressures, Senator, if the budget were in balance or in surplus. If that were the only consideration, other things being equal, which they never are, clearly that would be inflationary. That is why I want that deficit to come down as quickly as possible.

I think this coming year we are still in a situation where we have substantial unused resources that can be put to work—unused resources which are causing us to have less revenues. To some extent, our deficit is due to the lack of revenues that is occasioned by the recession that we are still coming out of.

But certainly as we go into and beyond 1979, the President's goal of bringing that budget into balance becomes critical.

Senator BYRD. That is a very fine goal and I would like to see that goal accomplished, but I am wondering how we are going to accomplish that goal when, for the fiscal year 1978, our current fiscal year, we have the highest Federal funds deficit in the history of our Nation, and for the upcoming year, for which the budget has just been submitted, we will have an even higher Federal funds deficit, which will become No. 1 in rank, rather than 1978, as the highest Federal funds deficit in our Nation's history.

Maybe I do not see the logic of it, but to me, that is not a very logical way, either to balance a budget or to get inflation under control.

I might say, too, that since the budget was presented to the Congress, inflation has gotten worse.

Secretary BLUMENTHAL. The Federal funds deficit is estimated in the budget to be slightly higher in 1979 than it is in 1978. The unified budget deficit will be slightly lower because of the trust fund surplus which will be greater in 1979 than in 1978.

Senator BYRD. The trust funds, as you well know, are for specific purposes and do not come from general taxation and cannot be used for the general operation of Government.

Secretary BLUMENTHAL. Right.

Senator BYRD. The cost of Government, for the most part, is reflected in the Federal funds budget and, of course, what happens to the national debt results from the Federal funds budget.

Mr. Secretary, you mentioned earlier the importance of protecting the dollar. What is the administration doing to protect the dollar?

Secretary BLUMENTHAL. Well, in the first place, I believe, Mr. Chairman, that we must insure that the American economy remains stable and healthy and I think the President's economic program will accomplish that. I think that will do more over the longer run to protect the dollar than anything else.

Second, we have entered into a number of agreements with particularly the German Government, and we are collaborating actively with other governments, in order to insure that disorderly movements in the market are reduced and eliminated and that order prevails.

Third, we are working together with other governments in order to have a common strategy for economy policies involving their countries as well so that they, these countries, will grow at a satisfactory rate, allowing ourselves and others to expand our exports in response to their increasing domestic demand.

One of the reasons why we have had a substantial increase in the trade deficit is that we have grown more quickly than other countries and therefore we have been increasing our imports more rapidly than we have been able to increase our exports.

These are the measures that we are taking. In addition to that, I think it is very important that the President's anti-inflation program which he has announced and which I expect him to implement vigorously in the coming months, that that program be really accelerated and pushed strongly for containing and decreasing the rate of inflation in this country.

It will also be a critical factor in protecting the dollar.

Senator BYRD. But is it not correct that inflation has increased in the last several months. The tide has not been stemmed.

Secretary BLUMENTHAL. It has not been stemmed. In the last 2 or 3 months, we have seen increases in the Wholesale Price Index. and most recently in the Consumer Price Index that I consider to be disturbing.

Senator BYRD. Will the decline of the dollar abroad have an inflationary impact on our domestic economy?

Secretary BLUMENTHAL. It will, at least in the short run, Mr. Chairman, in that it tends to increase the cost of imported goods into this country and therefore adds to inflation. Now, I would hope that in the longer run there is some offsetting effect in that it increases our ability to export and as we export more and thereby decrease our trade deficit, we would eventually have the opposite effect. But, certainly in the short run, it has an inflationary influence.

Senator BYRD. What does the Treasury predict interest rates will be on 90-day notes over the next 6 months?

Secretary BLUMENTHAL. We do not predict, Mr. Chairman. We think that it is not a good idea for us to be out there indicating what the interest rates will be. For one thing, we are not able to do this with complete accuracy and second, we think that it would be disturbing to the market.

Senator BYRD. I do not disagree with that at all. Of course, you have to use some figure for projecting interest charges. What you put in the fiscal year 1979 budget for interest costs is $56 billion. As I recollect, you used a figure of 6.1 to compute this cost.

Secretary BLUMENTHAL. For 13-week bills; yes.

Senator BYRD. Yes.

The only thing I am suggesting is that it appears to me that interest rates appear to be headed upward and, if that is the case, that $56 billion in the budget for interest charges would be low, perhaps. Would that be a reasonable assumption?

Secretary BLUMENTHAL. It could be. The interest rate assumptions that we made, which involved a 6.1 percent rate for 13-week bills and then 6.4 for 26 weeks and so forth, were based on market yields prevailing in December 1977.

As of March 7, the actual yields are somewhat higher, for example, 6.3 percent on the 13-week bills rather than 6.1. Now, if that prevails during the year—well, certainly if it accelerates further—the actual amount would be higher but, as I say, I cannot predict whether that will actually happen.

Senator BYRD. Dr. Cutter?

Mr. CUTTER. If I could make a point, as you are aware, Mr. Chairman, we have reduced our outlay estimate for fiscal year 1978, therefore, reducing our estimate of the deficit in fiscal year 1978, therefore, reducing our estimate of interest paid for fiscal year 1979.

Senator BYRD. Say that again. You lost me there.

Mr. CUTTER. Yes, sir.

We have recently reduced our estimate for fiscal year 1978 outlays by $8.3 billion. In consequence, we have reduced our estimate of the fiscal year 1978 deficit.

This would reduce our estimate of necessary interest payments.

Senator BYRD. Thank you.

Now, Mr. Secretary, the gross Federal debt is estimated to be $786 billion by the end of fiscal year 1978 and $874 billion by the end of fiscal year 1979.

Often this debt is dismissed on the basis that it is not important since we owe it to ourselves. Do you agree with that viewpoint?

Secretary BLUMENTHAL. No; I do not really think that we can get off that easily, Mr. Chairman. The debt is a direct liability of the U.S. Government and eventually it must be either repaid or refunded. So it certainly does matter, as far as I am concerned.

Now, when you break it down, you find that about 15 percent of it is owed to foreigners, including international institutions. That has to be borne in mind. Another 36 percent is owed to various Government trust funds and accounts and to the Federal Reserve banks. The rest is owned by private individuals and institutions.

But the totality of it is a legal obligation of the U.S. Government and clearly not something to be dismissed at all.

Senator BYRD. And if it were dismissed as being merely a debt owed to ourselves and therefore nothing to be concerned about, would it not, therefore, if it were not paid, be a catastrophe, not only for our Government, but a catastrophe for the banks, insurance companies, social security recipients, virtually everybody in the Nation?

Secretary BLUMENTHAL. I think it would be a very serious error to dismiss it on those grounds.

Senator BYRD. Is not the proposed projected increase in the gross Federal debt the greatest increase in any one year in the history of the Nation?

Secretary BLUMENTHAL. The Federal funds deficit of $74 billion and the Federal debt subject to the limit of almost $90 billion are the largest, but the borrowing from the public in fiscal 1979 of $73 billion will be less than it was in fiscal 1976 when it was $83 billion.

The reason borrowing from the public is less than the increase in the debt subject to the limit in 1979 is because of the large trust fund surplus of $14 billion in 1979 which will be invested in Treasury securities that are subject to the debt limit.

Senator BYRD. Now, most of that $14 billion surplus comes from what source? It is the unemployment trust fund; is it not?

Secretary BLUMENTHAL. I do not have the breakdown of the various trust funds. I think the unemployment trust fund is one of the important ones; yes.

Senator BYRD. And that is a tax paid entirely by business.

Secretary BLUMENTHAL. Yes.

Senator BYRD. Now, you mentioned Treasury rollover financing. During this next year, what is the total volume of rollover financing which the Treasury anticipates?

Secretary BLUMENTHAL. Approximately $175 billion.

Senator BYRD. That is the rollover including the new debt, or the rollover plus the new debt?

Secretary BLUMENTHAL. That is just the rollover.

Senator BYRD. So the rollover is $175 billion and then the new debt would be——

Secretary BLUMENTHAL. In the next fiscal year it would be $76 billion more.

Senator BYRD. It would be $90 billion; would it not?

That $74 would be the Federal funds deficit, so I assume that would be new. Then on top of that, do you not have another $15 billion which is the Federal finance bank?

Secretary BLUMENTHAL. No; let me give you the breakdown, Mr. Chairman.

Senator BYRD. Well, the gross debt will increase $89 billion, so that would be new, I would assume.

Secretary BLUMENTHAL. Just a minute. I think I can give you the breakdown.

[Pause.]

Senator BLUMENTHAL. The gross Federal debt in—the total borrowing from the public in 1979, new borrowing, will be $73 billion according to the numbers which I have, which involves $60 billion in the budget deficit, $60.6 billion, unless that figure is revised as a result of the revisions that the OMB has just announced.

Then there is an offbudget deficit of $12.5 billion which makes it $73.1 billion. And then we have, however, a change in the cash balances.

So the total borrowing from the public is essentially the $60.6 billion in the budget deficit plus $12.5 billion in the offbudget deficit, making it $73 billion.

The debt held by Government agencies will be $15.1 billion. Therefore, the gross Federal debt will increase by $88.1 billion but only $73 billion of that will be borrowed from the public.

Senator BYRD. $73 billion plus the rollover of $175 billion?

Secretary BLUMENTHAL. Yes, sir.

Senator BYRD. Mr. Secretary, the special analysis for the 1979 budget shows that the holdings of the Federal Financing Bank are expected to almost double from $35 billion by the end of fiscal 1977 to $65 billion by the end of fiscal 1979.

Now, how are these holdings accounted for in the public debt calculations?

Secretary BLUMENTHAL. The borrowings for the Federal Financing Bank are included in the total numbers.

Senator BYRD. Are included in the total gross debt?

Secretary BLUMENTHAL. Yes.

Senator BYRD. All of that would not be included in the debt subject to limitation. I do not suppose?

Secretary BLUMENTHAL. That is right. Federal Financing Bank borrowings are included in the debt subject to limit

Senator BYRD. Now, Secretary Blumenthal, a 10-percent across-the-board tax reduction would cost the Government approximately the same amount of revenue as the President's tax cut program. Why would this not be a better approach than the President's program?

Secretary BLUMENTHAL. Well, we are seeking in the President's tax program, Mr. Chairman, to accomplish a variety of purposes. One of them is to provide incentives for business to invest more, and——

Senator BYRD. Excuse me. I am speaking now only of the individual income tax cuts, not the business tax cuts.

Secretary BLUMENTHAL. In terms of the individual tax cuts we feel that the greatest relief is needed at the lower- and middle-income levels and so the tax reductions have been designed to take that into account. Also, we wish to have certain reforms to make the system simpler—for example, the substitution of a single tax credit, for the exemption and general tax credit that are currently in the system.

All of these measures provide a greater relief at the lower and middle levels where about 90 percent of all income-tax payers are concentrated.

We think that that is a fairer and better way of approaching it.

Senator BYRD. That has been the prevailing view around here for a long time. There was a very significant and illuminating article in the Washington Post yesterday, a story by Art Pine, in which he analyzed figures submitted by the Tax Foundation which, as you know, is a nonprofit group, and I think a very fine group. These figures show that 50 percent of the taxpayers are paying 94 percent of the income tax.

It shows further, using round figures, that one-fourth of the taxpayers pay 75 percent of all of the personal income taxes.

So I think that what these figures point out, at least what they point out to me, is that what the Congress has been doing in recent years has been concentrating tax reductions in one income group, which the President's proposal does, to the detriment, of most other groups of the taxpayers.

It just occurs to me that you would have a fairer approach and it would cost the Treasury no more money if, in place of the President's program, a 10-percent across-the-board reduction were made.

I realize that some tax brackets would benefit more by the President's plan, but more of the so-called middle-income groups would benefit, I think, from the across-the-board proposal. Do you have a thought on that?

Secretary BLUMENTHAL. Mr. Chairman, I agree with you that we have to be very careful not to keep making the tax system constantly more progressive and thereby putting an increasing load on the middle and higher income tax payers. I think that is a problem.

Senator BYRD. That is what we have been doing.

Secretary BLUMENTHAL. We have been doing some of that.

This particular proposal that the President has made would really increase progressivity only by a very limited degree and I think it does so for another very important reason that has to be borne in mind. That is that the President is seeking to accomplish certain reforms which would cut down on the ability of middle and upper income-tax payers, but particularly higher income-tax payers, to either postpone or avoid their fair share of taxes.

When you look at the distribution of taxes actually paid as a percentage of personal income you will find that at the upper levels, the opportunities of paying less than your fair share are much greater than they are at the middle or the lower levels where income is typically derived heavily, if not exclusively, from wages and salaries. That is what causes some of this somewhat greater progressivity.

I do agree with you that in the future we must be very careful not to continuously increase the degree of progressivity, for in that way we would harm many groups that are contributing greatly to the economic wealth and health of this country.

Senator BYRD. Well, do you not agree that it is quite significant that 50 percent of the personal income-tax payers pay 94 percent of all of the taxes?

Secretary BLUMENTHAL. I do not have the exact figures with me. One thing that you really have to take into account is that a large number of Americans are in these tax brackets where a lot of the taxes are generated. Clearly, the only way to correct that would be to substantially increase the taxes imposed on lower income-tax payers—those are who earn $10,000 or $15,000 a year, and I do not think that that would be a very fair approach either.

This distribution with the emphasis and where the large number of taxpayers are has been a part of our tax system for a long time. The President's proposals are not recommending anything new in that regard.

Senator BYRD. I know it is not recommending anything new. It goes in the same direction, and that is why the American taxpayer today, particularly those in the middle groups are concerned about their heavy tax burden. This is why we have such figures as 50 percent of the people paying 94 percent of the taxes and 25 percent of the people paying 75 percent of the taxes.

My guess is—you will know better—but my guess is that these figures either are not known to those who developed the President's plan or were not considered.

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Secretary BLUMENTHAL. Oh, they were known, Mr. Chairman. I think it is significant that the President's proposal reduced taxes for all taxpayers, income taxes, for all taxpayers up to $100,000, so that we did move to the upper income levels to give some reductions. We reduced the marginal rate from 70 percent to 68 percent, and we reduced the whole tax schedule in order to bring about some reductions. They are less than for the people at the bottom and in the middle levels, but of course, there are also many less people who are in those very high marginal rates.

Senator BYRD. I would just express the hope, I do not know whether it would be accomplished, but I would express the hope that the Treasury would study these, No. 1, Mr. Pine's piece in yesterday's Post and, No. 2, the figures from which he derived that excellent report.

At the conclusion of the hearings, I want to make it a part of the record.

When the facts show that 50 percent of the people pay 94 percent of the taxes, I think that is something for the Treasury Department to ponder.

I have just one or two other items.

Secretary BLUMENTHAL. Mr. Chairman, may I suggest that, if you wish, I would be happy to submit for the record our analysis and comments on those numbers that were cited in Mr. Pine's story, so that you have available our view on that kind of analysis

Senator BYRD. I would be glad to have it for the record.

[The following was subsequently supplied for the record. Oral testimony continues on p. 20.]

DISTRIBUTION OF TAX BURDENS

A number of issues have been raised by Mr. Pine's article entitled "Richer Half of United States Pays 94% of All Income Taxes" (The Washington Post, March 13, 1978). Before proceeding to Treasury's analysis, two comments are necessary. First, in fairness to Mr. Pine, his follow-up articles on the same subject are attached. When taken as a whole, these articles present a more balanced view of some of the distributive questions that Senator Byrd has raised. Second, the Treasury is well aware of the information; indeed, most of the data from the original article came from the Treasury Department itself, and can be derived from the information contained in Table 10 of the Secretary's January 30 testimony before the Ways and Means Committee.

That article raises two tax policy issues:

How are the President's recommended tax cuts allocated among income classes?

What is the justification for a progressive tax reduction?

Allocation of President's Tax Cuts.—This Administration agrees emphatically with the article's implicit assertion that tax relief should be provided for middle-income individuals. For this reason, the President has proposed a tax program that provides more than a proportionate share of tax reductions in the middle brackets, defined to extend far above the median-income level.

The recommended tax cuts are weighted in favor of the $15,000 to $20,000 and $20,000 to $30,000 income categories as well as individuals in the low- and moderate-income ranges. For example, persons in the $20,000 to $30,000 category—an income group ranging from the highest 16.5 percent of all returns to the highest 5.2 percent—will have their share of the total individual tax burden reduced from

24.2 percent to 23.9 percent, and their effective tax rate dropped from 13.8 percent to 12.5 percent. Consequently, the President's program is progressive in a manner that benefits the vast majority of taxpayers.

The Need for a Progressive Tax Cut. In discussing the rationale for a progressive tax cut, it may be helpful to amplify the *Post's* data on the current tax system.

The article refers to the fact that taxpayers in the highest 1.4 percent of income pay approximately 23 percent of the total individual income tax burden. These taxpayers receive about 11 percent of aggregate individual income. Therefore, even if the U.S. tax system were designed to tax all income at a flat rate, we would expect this highest income class to pay about 11 percent of the income taxes.

But the United States has always embraced the principle that the income tax should be progressive, reflecting an increasing ability to pay. This progressive tax model has also been adopted by virtually every other democratic country in the world. Accordingly, the U.S. tax rate schedule for a joint return now ranges from 14 percent on the first $1,000 of taxable income to 70 percent on taxable income in excess of $200,000. It is this graduated rate schedule, of course, that accounts for the fact that persons in the highest income level have a higher percentage of total tax liability than of total income.

Yet, focusing on the nominal rate schedule greatly exaggerates the progressivity of the income tax system. A more revealing picture is provided by examining the rate of tax actually paid—after allowance for various exclusions, deductions, and credits. The effective income tax rate generally does not exceed 30 percent, even for persons with incomes above $200,000. By comparison, the effective rate is about 14 percent for persons in the $20,000 to $30,000 income category.

This moderately progressive feature of the tax system does not result in a significant redistribution of income. For example, taxpayers above the medium-income level have approximately 80 percent of the total before-tax income and over 79 percent of the disposable income after paying income and social security taxes. Those persons in the highest 5 percent of income enjoy 22 percent of the before-tax income and 20 percent of income after taxes.

Consequently, where the U.S. income tax structure is viewed in perspective, its progressivity does not have a dramatic impact. No income class pays as much as one-third of its income in Federal income taxes. And the tax system has a neglible impact on wealth distribution.

Under the President's program, the 5 percent of taxpayers above the $30,000 income level will, as a class, bear a slight increase over current law in their proportion of the total income tax burden. In assessing these proposed cuts, however, one should also realize that these upper-income individuals have fared rather well over the years as the tax burden has been reallocated.

Since the inception of the current tax Code in 1954, the share of the aggregate income tax burden borne by taxpayers in the highest 5 percent of income has declined from 36.8 percent in 1955 (on 18.8 percent of total income to 32.5 percent in 1975 (on 17.2 percent of total income). And the income tax burden of the highest 1 percent has declined more dramatically, from 22.2 percent in 1955 (on 8.4 percent of total income) to 15.9 percent in 1975 (on 6.5 percent of total income).

When payroll taxes are considered, it is even more apparent that there has been a long-term shift in tax liability away from the high-income group. From 1955 to 1977, a typical family of four with 1979 wages of $15,000 experienced a 43.4 percent increase in income and payroll tax liability; the increase for the $30,000 family was 23.5 percent, and for the $50,000 family, 21.8 percent. Taking into account the President's income tax proposals and the recently enacted social security tax changes, the percentage increase at the $15,000 income level will be 37.1 percent, while the increases at the $30,000 and $50,000 levels will be 30.1 percent and 33.1 percent, respectively. Consequently, the President's proposals mitigate the regressivity of the tax increases that have occurred since 1955.

Therefore, the President's tax proposals reaffirm the principle that tax liability should be based upon ability to pay. More than a proportionate share of the income tax reduction is provided to the income classes comprising 95 percent of taxpayers.

TAX RETURNS, EXPANDED INCOME, AND TAX DISTRIBUTED BY EXPANDED INCOME CLASS[1]

[1976 levels of income]

Expanded income class	Number of returns: Number (thousands)	Number of returns: Percentage distribution: Cumulated from lowest incomes	Number of returns: Percentage distribution: Cumulated from highest incomes	Expanded income: Amount (millions)	Expanded income: Percentage distribution: Cumulated from lowest incomes	Expanded income: Percentage distribution: Cumulated from highest incomes	Tax liability[2]: Amount (millions)	Tax liability[2]: Percentage distribution: Cumulated from lowest incomes	Tax liability[2]: Percentage distribution: Cumulated from highest incomes
Less than $5,000	25,474	28.9	100.0	$57,557	5.3	100.0	$141	0.1	100.0
$5,000 to $10,000	20,109	51.8	71.1	149,590	19.0	94.7	8,227	6.2	99.9
$10,000 to $15,000	16,106	70.1	48.2	201,036	37.4	81.0	18,071	19.5	93.8
$15,000 to $20,000	11,824	83.5	29.9	205,086	56.2	62.6	23,009	36.5	80.5
$20,000 to $30,000	9,907	94.8	16.5	237,041	77.9	43.8	32,778	60.8	63.5
$30,000 to $50,000	3,347	98.6	5.2	124,836	89.3	22.1	22,017	77.0	39.2
$50,000 to $100,000	985	99.7	1.4	67,484	95.5	10.7	15,492	89.2	23.0
$100,000 to $200,000	198	99.9	.3	27,371	98.0	4.5	8,084	95.2	10.8
$200,000 or more	49	100.0	.1	21,573	100.0	2.0	6,476	100.0	4.8
Total	87,998			1,091,573			135,293		

[1] Based on information contained in table 10 of the Secretary's Jan. 30 testimony before the Ways and Means Committee.
[2] 1978 law.

Source: Office of the Secretary of the Treasury, Office of Tax Analysis, Mar. 15, 1978.

Everyone's a Critic of U.S. Tax System

(By Art Pine)

Start talking about who gets hit hardest under the American tax system, and you're headed for a certain argument. Everyone has his own idea of how the tax system is biased. And there are enough seemingly conflicting statistics around so no one has to come out a liar.

To liberals, the big shortcoming in the tax system is that so many of the tax breaks go to the rich. To conservatives, the problem is that wealthy persons have to shoulder so much of the total tax burden. To some, the system is far too progressive. To others, it's not.

The problem has come to the fore in recent weeks in the face of new studies from the Treasury Department and the congressional Joint Committee on Taxation that highlight specific aspects of the overall U.S. tax structure—and not always in ways that please everyone.

The surveys, reported separately in a series of articles in The Washington Post over the past two-and-a-half months, show these major findings:

Just as conservatives have been contending, higher-income taxpayers do indeed pay the bulk of all federal income taxes.

Statistics show the richest one-fourth of American taxpayers—those with incomes of $17,000 a year or more—took home half the reportable income in 1977 and paid 70 percent of all federal personal income taxes—an astonishing figure by any measure.

By contrast, those in the poorest one-fourth—wage-earners making less than $5,000 a year—received less than 5 percent of reportable income in the nation and paid a minuscule 0.1 percent or less of the total federal income tax tab.

But, just as the liberals have been complaining, the richer taxpayers receive the lion's share of the special tax breaks—deductions, credits and other kinds of writeoffs—that the income tax system has to offer.

Of an estimated $84 billion in special tax breaks last year, almost half went to the 5 percent of all taxpayers with incomes of $30,000 a year or more. By contrast, taxpayers earning $10,000 or less got only 12 percent of all tax breaks—much of it stemming from Social Security retirement credits.

Despite the "progressive" structure of the federal income tax system—which taxes the rich more heavily than the poor—the federal income tax isn't the great income leveler it's commonly thought to be.

While the income tax does hit wealthier persons proportionally harder than less-affluent ones, on average it has relatively little effect in redistributing income in this country, as some liberals would like to see.

For example, the richest one-fourth of American taxpayers took home 55.5 percent of the reportable income last year before federal income taxes were taken out. But after taxes, they still had 53.2 percent. The income tax had relatively little impact.

When federal Social Security taxes and state and local taxes of all kinds are included, the nation's overall tax system becomes "proportional"—that is, it taxes both richer and poorer taxpayers at about the same rate—31 to 33 percent of their total income.

It's only when government "transfer payments" are taken into account—welfare and Social Security benefits and other major programs—that the system actually shifts significant amounts of income from rich to poor.

How can all these findings be correct? And what does it all mean?

Well, confusing as some of these conclusions may seem at first blush, tax experts say they aren't contradictory at all.

It shouldn't surprise anyone, for example, that the wealthier segment of society pays the bulk of the total federal income tax tab. After all, that's the way its supposed to work. The system taxes only those persons with income. Those who have larger incomes theoretically are taxed more heavily than the rest. The only surprise is the extent to which richer taxpayers bear the burden.

Nor is it any great wonder that the more affluent taxpayers claim the bulk of the special tax breaks. The bigger your income, the more every deduction is worth in dollars. And many big tax breaks are skewed toward investments, which are made mostly by persons with money.

The reason the federal income tax isn't much of an income redistributor is that, except for the few extremely rich and extremely poor, the tax rates paid by most income groups aren't that dramatically different from one another.

The high tax rates listed for those in the upper income brackets rarely are the ones actually paid. In the first place, wealthier taxpayers can reduce their taxable income by deductions. And the highest rates apply only to the upper portions of a taxpayer's income.

Finally, the impact of Social Security taxes and state and local taxes—to convert the overall tax system from a progressive one to a proportional one in which all taxpayers pay roughly the same percentage—isn't much of a surprise, either.

Both the Social Security tax and state and local taxes are extremely "regressive"—hitting the poor harder than the rich. As a result, their effect is to offset—or at least nullify—the mild progressivity of the federal income tax. And so it goes on.

As might be expected, each segment of the taxpaying public takes umbrage at the notion that the other fellow may be getting hit harder, and ballyhoos those statistics that conform most to what it wants to hear. Conservatives emphasize that richer taxpayers pay most of the taxes. Liberals stress that the burden isn't skewed enough.

The fact is, however, that each of these findings is a valid one, and illustrates some point about the structure of our tax system.

What these studies show, collectively, is that the tax system that's evolved is a complex patchwork of compromises that doesn't really please any segment of the population completely.

On the other hand, neither does the system go overboard in fulfilling the social goals of any one group or segment. Its main impact seems simply as a conduit for collecting taxes—shortcomings and all.

That may not be a very satisfying assessment of a tax system we've come to pride as a social model for the Western world—the "fairest," as campaigning congressmen sometimes contend, in all the free world.

But it may help explain why everyone from President Carter to liberals and conservatives in Congress has been having such a tough time drumming up much sentiment for radical change.

[From the Washington Post, Mar. 27, 1978]

INCOME TAX DOESN'T REDISTRIBUTE U.S. WEALTH

(By Art Pine)

The progressive federal income tax, which is supposed to hit the rich harder than it hits the poor, isn't the great income leveler that it is commonly thought to be, according to new figures.

While the income tax does take proportionally more from wealthier taxpayers than from less affluent ones, it has relatively little effect on the distribution of income in this country.

It's only when government "transfer payments"—such as Social Security benefits, welfare and other major programs—are included that the system actually shifts significant amounts of income from the rich to the poor.

And even that is offset to a large degree by the impact of federal Social Security taxes and state and local taxes. When all federal, state and local taxes and benefits are considered, the system is only virtually proportional—with most taxpayers bearing about the same tax burden.

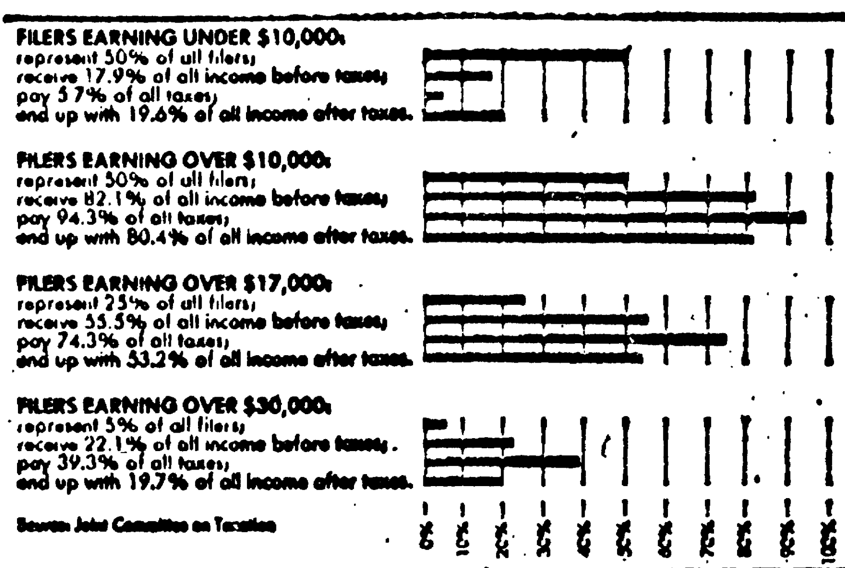
These conclusions are based on statistics compiled from several sources—the Treasury, the congressional Joint Committee on Taxation and computer studies by the Brookings Institution. Experts caution that the figures are not precise, but they're the best that are available.

The ineffectiveness of the federal income tax system in redistributing income stems from its basic structure.

Although wealthier persons are taxed at higher rates than poorer ones—and pay the lion's share of the total income tax tab—taxpayers in almost all brackets wind up with roughly the same portion of the nation's income pie after income taxes as they had before.

A major reason is that while the effective tax rates vary somewhat for persons in different income brackets, they aren't sharply higher or lower except for those in the very top or bottom brackets—groups that may be extremely rich or poor but comprise relatively small numbers of taxpayers.

For the large group of taxpayers in the $10,000 to $30,000 income bracket the effective federal tax rates vary very little, from a low of 9 percent to a high of 13.8 percent. Above that, the rates rise to 17, 24, 29 and 30 percent—but only 5 percent of taxpayers fall in that group.



FEDERAL INCOME TAX DISTRIBUTION UNDER 1977 LAW FOR 1976 INCOME LEVELS

The figures provided by the Joint Committee on Taxation show these results:

The richest one-fourth of American households—those with incomes of $17,000 a year or higher—took home 55.5 percent of the income in this country in 1977. After federal income taxes, they still had 53.2 percent. This is so despite that fact that they paid 74.3 percent of all personal income taxes.

The poorest one-fourth—wage earners making less than $5,000 a year—received 4.6 percent of the income that year. After federal income taxes, their share rose to 5.2 percent. (These taxpayers paid less than 0.1 percent of personal income taxes.)

Those in the richest 5 percent of the country—taxpayers with incomes of $30,000 or more—earned 22.1 percent of the income in 1977. After federal income taxes, they still had 19.7 percent of all income. (These figures include all income from capital gains—profits from the sale of stocks or other assets.)

The richest half of American households received 82.1 percent of all income before taxes. After taxes, they still held 80.4 percent. For the poorest half, the income tax boosted their share only modestly, to 19.6 percent, from 17.9 percent before taxes. (The dividing point between these groups was an income of $10,000 a year.)

Moreover, figures compiled by Benjamin A. Okner, a former Brookings tax specialist now at the Treasury Department, show that when all federal, state and local taxes are taken into account, even this modest income redistribution is almost totally offset.

Using 1970 income levels, Okner has estimated the share of national income held by the poorest fifth of the population edges from 4.9 percent to 5 percent, while that of the richest fifth moves from 45.8 percent to 44 percent.

The biggest changes stem from government transfer payments, such as Social Security and welfare benefits. When these are included, the income share of the poorest fifth of the population nearly doubles, to 8.2 percent, while that of the richest fifth moves from 45.8 percent to 44.

These findings were bolstered in an updated study by another Brookings tax analyst, Joseph J. Minarik, using 1977 data. Minarik found the federal income tax burden varied only slightly last year for households in the $17,000 to $50,000 brackets—ranging between 10 and 17 percent.

When the employe's share of Social Security payroll taxes and state and local taxes of all sorts were included, the figures showed the tax burden is proportional for most of the nation's households. Everyone in the $8,000 to $50,000 categories paid roughly 30 to 32 percent of his income in taxes.

The reason is that the mild progressivity of the federal income tax is offset entirely by Social Security and state and local taxes, which tend to hit lower-income families proportionally harder. State and local sales and excise taxes, for example, took 3.8 percent of a $50,000-a-year family's income in 1977, but 10.7 percent of the earnings of a $5,000-a-year household.

Minarik's study shows that the federal income tax has become somewhat more progressive in the past 11 years—both because of recent changes in the tax law and the fact that inflation has pushed taxpayers into higher brackets, where their income is taxed more heavily. And taxpayers in all groups are paying proportionally more in taxes.

However, the increased progressivity in the federal income tax has been offset by the rising share of the tax burden going to Social Security and state and local taxes. As a result, the total tax burden—federal, state and local—still is proportional.

The combination of these figures appears to dispute one of the longstanding impressions about the federal income tax—specifically that it is so progressive that it results in a major redistribution of income between wealthier taxpayers and poorer ones.

Joseph A. Pechman, the Brookings Institution's top tax expert, says the effect of the income tax in redistributing income is small. "Substantial redistribution through the income tax system is not very popular," he notes. Other tax authorities agree.

Nevertheless, conservatives point out while the impact of the income tax in altering the portion of the income pie held by various categories of taxpayers may seem small in percentage terms, it often can mean substantial dollar losses for some taxpayers.

For example, for taxpayers in the $17,000-a year bracket and up, the income tax produces a shift of only 2.3 percentage points. In dollar terms, however, that amounts to a change of $22.3 billion—or an average $5,000 a taxpayer.

By contrast, for those in the $5,000-and-below brackets, the income tax produces a gain of 0.7 percentage points. However, because there are so many more taxpayers in that category, the already scant amount is spread even thinner. The increase amounts to $263 a taxpayer.

Along with the fact that the tax rates vary so little for the bulk of American taxpayers, there are other factors that tend to reduce the impact of the income tax system in shifting income between rich and poor taxpayers.

To begin with, the tax rates so often cited—the 14 to 70 percent minimum and maximum—are only the marginal rates, and do not apply to all of a taxpayer's income. (The first several thousand dollars is taxed at a lower rate than the second, and so on.)

As a result, the effective tax rates that various income groups pay—the percentage of income that taxpayers actually pay in taxes substantially lower, ranging from 5.5 percent in the $5,000-to-$10,000 brackets to a maximum of 30 percent in the $200,000-and-over bracket.

Then, too, taxpayers in higher brackets get a larger share of the tax breaks and deductions—a factor that tends to reduce the amount of taxes they have to pay. For example, only half the income from capital gains is subject to taxation.

The question is, if the income tax system is taxing middle- and upper-income groups at higher rates, and it isn't redistributing that income to the poor, where is the money going?

The answer: Into government coffers, where some is spent on social benefits (which go mainly to the poor) and some on general government. But the tax system itself, while progressive, is only modestly so.

Senator BYRD. I noticed in your oral presentation you omitted the suggested changes in debt limit procedures. I am glad you did do that. It did not take the House very long to react adversely in that regard, and I would expect the Senate to take the same view.

Secretary BLUMENTHAL. I know your views on this, Mr. Chairman. I did not omit it because I disagree with my own testimony but rather to allow you the maximum amount of time for questioning.

I would just say for the record, since you have invited me to in a way, that I yield to no one in my concern and which I know my colleague, Mr. McIntyre, the Director of OMB shares, in trying to get that deficit down and eliminated and put some limits on this increasing debt.

I would say that we ought to have a sensible procedure, however, or the most sensible procedure for accomplishing this. I am not entirely sure that the present procedure is the most sensible one.

In the first place, spending controls are what really determines the deficit. In the second place, the Budget Act under which Congress is supposed to exercise its control over the budget is clearly a very important piece of legislation passed recently. And, under those circumstances, it is really through spending controls implemented by the President and recommended to the Congress and by the Congress action on the budget that we can effectively influence the debt and the deficit.

In addition to that, to have this limit and to go even over the deadline as we have done in some instances, which disrupts the Government and costs the Government money is really not an effective way of accomplishing it. For this reason, we would like to tie those two things together, if we can.

Senator BYRD. I do not blame you for wanting to get away from the need to have congressional oversight and from taking time testifying in regards to the budget as you say, the key thing is not increasing the national limit; it is upon controlling spending.

But you are not going to control spending, though, by the administration sending in a budget 8 percent greater than the previous year, sending in a budget which falls on its face, without the Congress doing anything, if it were to adopt it as the administration has sent it, for a $74 billion increase in Federal funds—a $74 billion deficit in Federal funds which must be added, of course, to the national debt.

We get back to controlling spending.

Secretary BLUMENTHAL. I agree, Mr. Chairman, but then the Congress has the opportunity through its legislation on the budget if it does not agree with the President's proposals, to reduce the budget.

Once the Congress has acted on that matter, the debt limit becomes a simple arithmetic calculation and I was referring only to that element and suggesting that maybe the limit on the debt ought to be tied to the Congress decision on the budget, because that is what really determines it.

If the Congress accepts the President's recommendations, that is one thing. If it reduces it, we have a different kind of debt limit that needs to be enacted.

But once that is done, we are really, you know, the horse is out of the barn, so to speak.

Senator BYRD. The horse is out of the barn once the administration submits the budget because that is taken as a floor and the various pressure groups decide to build on it. I think it gets back to whether the administration is willing to submit to the Congress a budget either balanced or somewhere near balanced and this clearly is way off that mark.

But I agree to try not to keep you longer than 1 hour, Mr. Secretary. It has been exactly an hour, and I appreciate your being here.

Secretary BLUMENTHAL. Thank you very much, Mr. Chairman. I appreciate your courtesy.

[The prepared statement of Secretary Blumenthal follows:]

STATEMENT OF THE HONORABLE W. MICHAEL BLUMENTHAL, SECRETARY OF THE TREASURY

Mr. Chairman and Members of the Committee: I am pleased to be here today to advise you of the Treasury's financing needs through the fiscal year 1979.

Our immediate problem is that the present temporary debt limit of $752 billion will expire on March 31, 1978, and the debt limit will then revert to the permanent ceiling of $400 billion. Legislative action by March 31 will be necessary, therefore, to permit the Treasury to borrow to refund securities maturing after March 31 and to raise new cash to finance the estimated deficits in the budgets for the fiscal years 1978 and 1979.

In addition, to permit the Treasury to continue borrowing in the long-term market, it will be necessary to increase the $27 billion limit on the amount of bonds which we may issue without regard to the 4¼ percent interest rate ceiling on Treasury bond issues.

Finally, we are repeating our earlier request for authority to permit the Secretary of the Treasury, with the approval of the President, to change the interest rate on U.S. Savings Bonds if that should become necessary to assure a fair rate of return to savings bond investors.

DEBT LIMIT

Turning first to the debt limit, our current estimates of the amounts of debt subject to limit at the end of each month through the fiscal years 1978 and 1979 are shown in the attached table. The table indicates that the debt subject to limit will increase to $771 billion on September 30, 1978, and to $860 billion on September 30, 1979, assuming a $12 billion cash balance on those dates. The usual $3 billion margin for contingencies would raise these amounts to $774 billion on September 30, 1978, and $863 billion on September 30, 1979. Thus, the present debt limit of $752 billion would need to be increased by $19 billion to meet our financing requirements through the remainder of fiscal 1978 and by an additional $89 billion to meet the requirements in fiscal 1979.

BOND AUTHORITY

I would like to turn now to our fiscal 1979 need for an increase in the Treasury's authority to issue long-term securities in the market without regard to the 4¼ percent ceiling. This limit has been increased a number of times, and in the debt limit act of October 4, 1977, it was increased from $17 billion to the current level of $27 billion. To meet our requirements next year, the limit should be increased to $37 billion.

The Treasury to date has used almost $20 billion of the $27 billion authority, which leaves the amount of unused authority at about $7 billion. While the timing and amounts of future bond issues will depend on prevailing market conditions, a $10 billion increase in the bond authority would permit the Treasury to continue its recent pattern of bond issues throughout fiscal year 1979. Thus, the Treasury would be able to make further progress toward achieving a better balance in the maturity structure of the debt.

SAVINGS BONDS

In recent years, Treasury has recommended frequently that Congress repeal the ceiling on the rate of interest that the Treasury may pay on U.S. Savings Bonds. The current 6 percent statutory ceiling was enacted by Congress in 1970. Prior to 1970 the ceiling had been increased many times, as market rates of interest rose, and it became clear that an increase in the savings bond interest rate was necessary to provide investors in savings bonds with a fair rate of return.

Mr. Chairman, we do not feel that an increase in the interest rate on savings bonds is necessary today. Yet, we are concerned that the present requirement for legislation to cover each increase in the rate does not provide sufficient flexibility to adjust the rate in response to changing market conditions. The delays encountered in the legislative process could result in inequities to savings bond purchasers and holders as market interest rates rise on competing forms of savings.

Furthermore, Treasury relies on the savings bond program as an important and relatively stable source of long-term funds. On that basis, we are concerned that participants in the payroll savings plans and other savings bond purchasers might drop out of the program if the interest rate were not maintained at a level reasonably competitive with comparable forms of savings.

Any increase in the savings bond interest rate by the Treasury would continue to be subject to the provision in existing law which requires approval of the President. Also, the Treasury would, of course, give very careful consideration to the effect of any increase in the savings bond interest rate on the flow of savings to banks and thrift institutions.

DEBT LIMIT PROCEDURES

Mr. Chairman, I would also like to comment briefly on the process by which the debt limit is established.

As we indicated in earlier testimony before this committee, we do not think that the present statutory debt limit is an effective way for Congress to control the debt. In fact, the debt limit may actually divert public attention from the real issue—control over the Federal budget. The increase in the debt each year is simply the result of earlier decisions by the Congress on the amounts of Federal spending and taxation. Consequently, the only way to control the debt is through firm control over the Federal budget. In this regard, the Congressional Budget Act of 1974 greatly improved Congressional budget procedures and provided a more effective means of controlling the debt. That Act requires Congressional concurrent resolutions on the appropriate levels of budget outlays, receipts, and public debt. This new budget process thus assures that Congress will face up each year to the public debt consequences of its decisions on taxes and expenditures.

Moreover, the statutory limitation on the public debt occasionally has interfered with the efficient financing of the Federal Government and has actually resulted in increased costs to the taxpayer. For example, when the temporary debt limit expired on September 30, 1977, and new legislation was not enacted on the new debt limit until October 4, Treasury was required in the interim to suspend the sale of savings bonds and other public debt securities. The suspension of savings bonds sales, in particular, resulted in considerable public confusion, additional costs to the Government, and a loss of public confidence in the management of the government's finances.

Accordingly, we believe that the public debt would be more effectively controlled and more efficiently managed by tying the debt limit to the new Congressional budget process. While it may not be timely to change the debt limit procedure this year, because of the need for Congressional action on the debt limit before March 31, I hope that we can work together to devise a more acceptable way to control the debt.

PUBLIC DEBT, SUBJECT TO LIMITATION, FISCAL YEAR 1978 [1]

[In billions of dollars]

	Operating cash balance	Public debt subject to limit	With $3,000,000,000 margin for contingencies
1977 (actual):			
Sept. 30	$19.1	$700.0	
Oct. 31	7.7	698.5	
Nov. 30	5.5	709.1	
Dec. 31	12.3	720.1	
1978 (actual):			
Jan. 31	12.5	722.7	
Feb. 28	7.4	730.9	
1978 (estimated):			
Mar. 31	12.0	744.0	$747
Apr. 19	12.0	747.0	750
Apr. 30	12.0	737.0	740
May 31	12.0	749.0	752
June 21	12.0	749.0	752
June 30	12.0	742.0	745
July 31	12.0	752.0	755
Aug. 31	12.0	766.0	769
Sept. 30	12.0	771.0	774

[1] Based on: Budget receipts of $400,000,000,000, budget outlays of $454,000,000,000, unified budget deficit of $53,000,000,000, offbudget outlays of $12,000,000,000.

PUBLIC DEBT, SUBJECT TO LIMITATION, FISCAL YEAR 1979 [1]

[In billions of dollars]

	Estimated—		
	Operating cash balance	Public debt subject to limit	With $3,000,000,000 margin for contingencies
1978:			
Sept. 30	$12	$771	$774
Oct. 31	12	782	785
Nov. 30	12	793	796
Dec. 31	12	798	801
1979:			
Jan. 31	12	801	801
Feb. 28	12	817	820
Mar. 31	12	829	832
Apr. 18	12	833	836
Apr. 30	12	821	824
May 31	12	838	841
June 20	12	844	847
June 30	12	832	835
July 31	12	840	843
Aug. 31	12	856	859
Sept. 30	12	860	863

[1] Based on: Budget receipts of $440,000,000,000, budget Outlays of $499,000,000,000, unified budget deficit of $60,000,000,000, offbudget outlays of $12,000,000,000.

Senator BYRD. Welcome, Mr. McIntyre.

Mr. MCINTYRE. Thank you, Mr. Chairman.

Senator BYRD. We are delighted to have you with us today. By the way, bring us up to date. Have the confirmation hearings been held yet?

Mr. MCINTYRE. No, sir, they are scheduled for Thursday.

Senator BYRD. Good. That is good.

Do you have a statement?

Mr. McIntyre. I have a prepared statement, Mr. Chairman. I would like to submit it for the record. I do not think it is necessary for me to read it. It is a relatively short statement.

The highlight of my statement, really, I think, revolves around the revised budget estimates and their effect on the public debt subject to the statutory limitation and if I might, I would just briefly highlight some of the points that are made by our revised budget estimates.

STATEMENT OF JAMES T. McINTYRE, JR., DIRECTOR, OFFICE OF MANAGEMENT AND BUDGET, ACCOMPANIED BY W. BOWMAN CUTTER, EXECUTIVE ASSOCIATE DIRECTOR FOR BUDGET, OMB

Mr. McIntyre. Mr. Chairman, yesterday we released a statement revising the budget estimate for 1978 and 1979 and again, rather than going into the detail that is contained in those revisions, I would like to submit for the record a copy of our more detailed release on the revised estimate and I would just try to highlight a few of those this morning.

The fiscal year 1978 deficit is now estimated at $53 billion, which is $8.8 billion less than the January budget estimate. The deficit for 1979 is now estimated at $59.6 billion.

The estimates for 1978 have been reduced by $8.7 billion since the January budget which reflects a very careful scrutiny of the original budget estimate, resulting largely from unexpected spending trends that have appeared since the January estimates were prepared.

Those trends show that the persistent outlay shortfalls of the last few years are continuing in spite of some strenuous efforts of OMB to improve the accuracy of the Agency estimates.

The continuing shortfall demonstrates that renewed efforts must be made to improve the quality of these outlay estimates, and I can assure you and the members of the committee that we will make these efforts this year.

The estimates are highlighted on the revised estimates on page 7 in a table that shows basically where the program areas are in which the changes occur. I will not go into those in detail, but I will just highlight the four or five large ones.

In the Department of Defense there has been a shortfall in the procurement area of some $900 million. The Ex-Im Bank has a shortfall of about $600 million.

In our energy programs, we are seeing a shortfall of approximately $1 billion.

Senator Byrd. Which programs?

Mr. McIntyre. The energy programs. Primarily, the big area there is in the strategic petroleum reserve. We are showing a shortfall of about $700 million.

Those are some of the most significant areas of shortfall.

Senator Byrd. That is a billion out of what was it?

Mr. McIntyre. Well, in Defense, the Department of Defense military, we have $1.5 billion in shortfall and in the international affairs area, which includes the Ex-Im Bank, about $1 billion shortfall. In the energy programs, it is about $1 billion.

In natural resources and environment programs, primarily in the sewage plant production grants program we have a total of a half a billion shortfall.

In transportation, we have a half a billion dollars.

In education, training, employment, and social services we show about $900 million.

In income security and health entitlements programs we show a $1.6 billion shortfall.

Debt interest shortfall was $600 million. This is due primarily to the lower amount of money that we had to borrow in January.

Offshore oil receipts are $500 million, and the other areas total about $600 million. So that is how we arrive at our total of $8.7 billion in changes in budget outlays.

Senator BYRD. Well, then, what figure do you feel you need for a debt ceiling as of September 30?

Mr. McINTYRE. Well, Mr. Chairman, there is a chart I believe the Treasury has worked up which——

Senator BYRD. No, but that chart was worked up before you revised your figures.

Mr. McINTYRE. I think this reflects our revised figures, Mr. Chairman. Let me verify that fact.

Roger, does this incorporate the revised estimate?

Mr. ALTMAN. Yes, Mr. Chairman, it does.

Senator BYRD. Well, then, the revised figure for September 30 would be $771 billion, would it?

Mr. McINTYRE. That is correct.

Senator BYRD. So, according to your revised figures, if Congress increased the debt ceiling to $771 billion through September 30 that would take care of your needs?

Mr. McINTYRE. Based upon the Treasury Department's estimates, that would take care of our needs.

Senator BYRD. Now the budget you have submitted, Mr. McIntyre, calls for an 8-percent increase, a little over an 8-percent increase, in spending by the Federal Government. Of course, that is a very substantial increase in spending.

Mr. McINTYRE. Well, some agencies and some groups in Washington would argue that it is a very tight budget, Mr. Chairman.

Senator BYRD. Well, I would assume that every agency would argue that.

Mr. McINTYRE. Most of them would, let's put it that way. I think that most of them would argue that it is a very tight budget for them.

Senator BYRD. I served in the Virginia Senate and I did not find any agency there which thought it got enough money and in Washington I have found the same thing, and I assume you found it in Georgia.

Mr. McINTYRE. Yes, sir, I did. Except in Georgia, we had to balance the budget every year.

Senator BYRD. The same way in Virginia, and if we could get back to a balance and get such a requirement for the U.S. Government, I think we would all be in much better shape.

Mr. McINTYRE. We certainly share your concern about achieving a balanced budget, Mr. Chairman, and the President is certainly dedicated to that goal, and we are going to do everything we can to try to get this budget back into balance and get out of the situation that we have found ourselves in the last several years, that is a $40 to $60 billion deficit.

Senator BYRD. But, Mr. McIntyre, you are presenting to the Congress a budget which calls for the highest Federal funds deficit in the history of the Nation, substantially higher than the current year. How do you get back to a balanced budget that way?

Mr. MCINTYRE. Well, I am certain that Secretary Blumenthal mentioned the effects of the tax proposal. We think that, based on the advice of our economists and others that deal with the economic policy in the administration, one of our highest priorities was to maintain the strong economic recovery that we have been experiencing the last year, and it was felt that it was important that the Government take some fiscal action to maintain the strong recovery particularly during the latter part of this calendar year.

And so, a substantial portion of this deficit is based upon the belief that the Government needs to reduce taxes in order to maintain the strong, vigorous economy that we have to encourage business expansion and to return some of the tax dollars back to the American taxpayers.

Were it not for that decision to provide for the strong, continued strong, economic recovery, the total deficit would be approximately $15 billion to $20 billion more than is proposed.

Senator BYRD. Well, did you consider offsetting that tax reduction by corresponding holding of the line on expenditures?

Mr. MCINTYRE. Well, we think we made some very tight recommendations and, as I indicated, some of the groups affected by these stringent proposals would agree.

One thing that I might point out, Mr. Chairman, that has concerned me greatly in this budget process is the fact that a substantial amount of the budget, according to our figures, 75 percent of the budget, falls into what I have learned to term the so-called uncontrollables, and it is important that we get a handle on that if we are to really get a handle on the growth in the budget that we have experienced in the last several years.

Senator BYRD. What would be your reaction to this statement:

> When a country with a deficit of $60 billion in the third year of economic recovery thinks of a $25 billion tax cut, it should also be thinking about a restraint on spending?

Mr. MCINTYRE. Well, I think that we have certainly tried to restrain spending in this budget. The budget in 1978, prior to the reestimate, was a 15.3-percent increase—I have not computed what the growth is with the revised estimates—a 15.3-percent increase, as compared to an 8-percent increase in the 1979 budget on expenditures.

I think that that does represent a substantial drop in the percentage increases in the budget and going back to my previous statement about the uncontrollables in the budget, my understanding is that over 50 percent of the increase is due directly to these so-called uncontrollable items.

Senator BYRD. According to both the Gallup Poll and the Sindlinger daily survey of consumers, inflation seems to be the most important problem to most Americans. Do you agree?

Mr. MCINTYRE. I think it is one of the most important, yes, sir. It is certainly one that concerns me.

Senator BYRD. What is the administration doing to get inflation under control?

Mr. McINTYRE. Well, we have proposed an anti-inflation program which the President and the other members of the administration intend to vigorously pursue. We are looking at any new request from the various agencies to determine whether or not enactment of those requests would be inflationary.

We are examining—I think this is very important and something you would be interested in—we are examining the issuance of new regulations by Federal agencies and one of the issues that we raise in our examination of these regulations issued by agencies in the executive branch deals directly with the cost of compliance and whether or not these regulations are inflationary and whether they relate to the agencies' true needs and responsibilities as proposed by the Congress.

Those are some of the things that we are doing and we are very interested in trying to deal with the troublesome problem of inflation.

Senator BYRD. I think that last point you make is a very important one. If the administration follows through on that it could be very helpful.

The trouble is, as I see it, not for this administration but the previous one, they do not always follow through.

Mr. McINTYRE. Mr. Chairman, I agree that it is something that we would have to be constantly vigilant about, otherwise you will wake up and find out that there has been a tremendous number of regulations issued during the period in which you are not vigilant.

So we, in OMB, are attempting to look at the issuance of regulations and to impose some of these criteria that I pointed out.

Senator BYRD. It is a very fertile field. I am very pleased to know that you are actively pursuing that.

Incidentally, I might say that I do not envy you your job. I think it is one of the most difficult ones in Government.

Mr. McINTYRE. Well, we are in the middle a lot of times on a lot of sensitive issues.

Senator BYRD. Do you agree or disagree with the feeling of many that if we are to have economic growth we must move toward reducing inflation?

Mr. McINTYRE. I think that inflation is something that greatly concerns the business community, and their experiences in the last several years, I think, have enhanced their concern over this issue. I think that it is very important that we maintain control and keep inflation from rapidly increasing if we are to get the continued investment and expansion that we desire.

Senator BYRD. I agree with you. I think, though, does not the concern about inflation not apply only to the business community, but also to the housewife and to all consumers?

Mr. McINTYRE. Absolutely.

Senator BYRD. Now, is a $74 billion Federal funds deficit on top of a previously tremendous deficit a logical way to control inflation?

Mr. McINTYRE. Well, I have asked myself the question about whether or not this budget contributes substantially to inflation. I am one that is very concerned about the Federal Government doing its part to reduce inflation.

Of course, I feel that one of the ways that you do that is through the budget process. But, as I have mentioned, a substantial portion of the deficit is comprised of the tax reduction; therefore, I do not feel that the deficit will contribute significantly to inflation and I have tried to get the best advice that I can on this issue, and that is the general conclusion that has been reached in the administration about the effects of this deficit.

It is our hope that this budget, this fiscal policy, as enunciated by this administration, will keep the economy on a very strong, vigorous path so that we can get this deficit down and we can balance the budget. I can assure you that that is my goal.

Senator BYRD. Is that not the old Keynesian theory?

Mr. McINTYRE. Well, my understanding is, and I am not an economist, but it is my understanding that it does represent the Keynesian theory of economics.

Senator BYRD. Our Government has been proceeding on that theory for quite a few years now. I know President Johnson proceeded on that theory and President Nixon did. President Ford started out by not doing it and ended up by doing it.

Now you are coming along—I say you, this new administration is coming along—and talking the same theory which, in my judgment, is an outdated one for the 1970's.

Mr. McINTYRE. I would add one caveat to that general statement and that is that some of us are concerned about the effect of the Federal debt and the fact that we need to get this budget back into a manageable budget, one that we can make decisions so as to keep it in balance. Then, when it is necessary for fiscal policy reasons, we can have a deficit—but not up in the $40 billion to $60 billion range in which we have found ourselves in the last few years.

Senator BYRD. I do not know whether you would have these figures with you, if you do not, I wonder if you would submit them for the record.

If you could take the budget in regard to HEW and eliminate—I do not know exactly how you keep your books, but eliminate social security, which, of course, is not paid from general taxation. It is entirely separate.

What would be the total operating costs of HEW, eliminating the social security payments?

Mr. McINTYRE. I will have to get those specific figures for you, Mr. Chairman. I will get them and supply them for the record.

Senator BYRD. Thank you. If you could, without too much difficulty, if you could do that for the proposed budget of 1979 and the budget of 1978 and 1977.

Mr. McINTYRE. Yes, sir. That we will do.

Senator BYRD. Thank you.

[The following was subsequently supplied for the record:]

The information requested is shown in the first line of the following table showing the composition of the HEW budget by fund group. The estimates correspond to the March 13 revisions.

OUTLAYS FOR THE DEPARTMENT OF HEALTH, EDUCATION, AND WELFARE

[Fiscal years; in billions of dollars]

	1977 actual	1978 estimated	1979 estimated
Federal funds:			
Other than payments to trust funds	42.1	45.7	49.0
Payments to trust funds	6.7	8.0	8.5
Subtotal, Federal funds	48.8	53.7	57.5
Trust funds:			
Social security (OASDI)	83.9	92.7	103.1
Medicare	21.5	25.1	29.4
Other			
Subtotal, trust funds	105.4	117.8	132.5
Deduction for interfund transactions (Federal funds payments to trust funds)	−6.7	−8.0	−8.5
Total HEW outlays	147.5	163.5	181.5

Senator BYRD. Now, did not OMB or the administration recommend just recently a $1 billion increase for HEW in regard to loans, particularly student loans?

Mr. MCINTYRE. A very small portion of that increase related to student loans. A larger portion related to the tuition grant program.

Senator BYRD. Tuition grant. That is what I had in mind.

Mr. MCINTYRE. Yes, sir. The administration felt that it was important to do something to assist those families with children in college and this was its recommendation as to how to deal with that problem.

I might point out that this was anticipated when we sent the budget up to the Congress. In fact, we stated in our budget narrative that we would be sending up a proposal later to deal with this problem and a part of the allowance for contingencies was put in for that purpose.

Senator BYRD. What was the allowance for contingencies?

Mr. MCINTYRE. The total amount of allowances for contingencies was $3 billion in budget authority.

Senator BYRD. And you proposed to take the $1 billion from the contingency fund?

Mr. MCINTYRE. Yes, sir.

Senator BYRD. What has been the general amount of the contingency fund?

Mr. MCINTYRE. I can submit that to you for the record. I can tell you that because of several proposals that the administration viewed that it would be—that we had submitted a very large contingency fund as compared to previous years.

I will have to get the exact amount for those years. I do have those figures.

[The following was subsequently supplied for the record:]

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CONTINGENCY AMOUNTS IN PRIOR BUDGETS

[In millions of dollars]

	Budget authority	Outlays
1978	1,750	1,500
1977	1,750	1,500
1976	750	500
1975	750	500
1974	1,000	750
1973	700	500

Senator BYRD. Why did you submit such a large contingency fund?

Mr. MCINTYRE. Well, we knew that programs, such as this tuition grant program, would be submitted to the Congress and we also knew that we would be sending up some additional urban proposals that would be funded in connection with, or recommended for funding in connection with the President's urban policy proposal.

So there were several programs like this that we had not completely finalized at the time that the budget was submitted in January, and rather than not recognize that fact, we thought it was important to increase the amount for contingencies so that we could try to accommodate those later submissions.

Senator BYRD. What has happened to the zero-based budget concept?

Mr. MCINTYRE. Well, we used it; all agencies complied with the zero-based budget process this past year, and we think that it was successfully implemented in the Federal Government.

We had a tremendous amount of cooperation from the Federal agencies and in particular, from the career civil service employees in establishing this budget process. We think that it was very helpful to the managers in the agencies because, for the first time, they were integrally involved in putting together their budget proposals.

They were required to analyze what they were doing and how they might do it some alternative way as well as being required to rank their programs in priority order.

We think it was very helpful for the agencies in deciding their own initiatives and making their own programmatic trade offs for their budget requests. We found it helpful at OMB for analyzing the requests from the various agencies and in trying to get some relative degree of a sense of priorities of agency managers over their programs.

We think it was very successful.

Some of the agencies were more successful in implementing it than others, obviously, and we are going to address problems that cropped up during the 1979 process and try to remedy those problems in the 1980 budget process.

So we have a report coming out on this. We will be glad to send you a copy of it for your own information.

Senator BYRD. Do you attempt to do the entire Government at once, or do you take, say, 50 percent or 30 percent of the Government 1 year?

Mr. MCINTYRE. This first year it was applicable throughout the executive branch.

Senator BYRD. How can you monitor all of the programs. What do you have, at least 10,000 programs?

Mr. McINTYRE. I do not know the exact number of programs, but it is a large number.

Senator BYRD. Depending upon the definition, I guess you could have 100,000, but, by any reasonable definition, you would probably have at least 10,000. How do you monitor such a vast number?

Mr. McINTYRE. Well, with the size of our staff it is very difficult under any budget process to get a handle on every detail that the agencies have to deal with. But basically we work very closely with the agencies in identifying the level at which the agency would generate its budget request, which is called a decision package. It is very important that the agency develop these packages at a level that is adequate for analysis. If they go too deep in the agencies, in other words, if they go down to such a small level of detail, they will generate more information than they can handle or than we can handle.

If they go too high, then it is so general that it really does not provide sufficient information for analysis.

So we have to work with each agency in establishing the levels at which the information would be generated, and then my staff of budget examiners try to analyze these various decision packages.

Now, you know, obviously you cannot put the same amount of detail in every package, so what we try to do is go over them and if there was something that involved a major policy issue or a significant expenditure of funds, then we looked at it more carefully than we might at something that was more routine in nature.

But you also have to deal sometimes with these things on an exception basis. So we applied different processes to different agencies and different budget requests in our analysis.

Senator BYRD. Just one or two brief questions.

How do you link precisely tax cuts to expansion and ultimately to a balanced budget?

Mr. McINTYRE. Well, it is an economic theory which I am not as qualified as some to discuss, but my understanding is that this will certainly put more money back into the economy and into the hands of individuals and business and that the spending process will generate the additional tax dollars and additional activity that will, in turn, generate more revenues for the Treasury.

Senator BYRD. What are your grounds for an optimistic view of the future of our country?

Mr. McINTYRE. Well, I believe in the American free enterprise system, Mr. Chairman, I believe in it very strongly; I believe that we have the most flexible and viable system in the world; I believe that our people and our industry have the same feeling about this country; and I think that the future looks good. The outlook for business profits looks good. Consumer confidence seems to be high.

I think that this attitude will generate, and continue, the strong, vigorous economy we now have.

Senator BYRD. I agree with everything you say, but I would add the proviso, provided the Government permits private industry to do the job.

Everywhere I go, wherever it might be, almost whatever group of people it might be, there is complaint about the Federal Government trying to run everything out of the city of Washington.

Business people contend that the regulations are such and the demands from Washington are such that they can hardly operate their businesses these days. It is a slightly different field, but the school officials say that the way HEW is operating that it is almost impossible to operate the school system these days.

I just think this country is too big and too diverse to be run out of Washington, and if the Federal Government would permit the free enterprise to work then I think what you said a moment ago is correct. I would agree with every word that you said.

Mr. McINTYRE. Mr. Chairman, I share your concern about the intrusion into individuals' lives and business's lives—unwarranted intrusion. I think there is a certain amount that has to occur.

And, as I indicated to you earlier, we are certainly concerned about the regulatory process and the effect of regulations on individuals as well as business, and we are trying to do something about it. It is an arduous task but we are at least trying. And I think that is important.

Senator BYRD. You think that is important. Do you agree that, rightly or wrongly, for whatever the reason, that there is a lack of confidence on the part of the public these days?

Mr. McINTYRE. I think the confidence is very high now. You know at one point, earlier, there was some concern about the confidence of business. Well, I have met with a number of business people over the past couple of months, and I think that they have seen that the administration has certainly made recommendations and policies and has undertaken efforts, such as the reduction of the paperwork burden, that certainly show a support and concern for those areas. I think that this confidence factor has turned around. I think that now it is a question of trying to implement and execute these policies, and I feel that there is a good deal of confidence in our economy and in our country.

Senator BYRD. I think perhaps—I may be wrong about this, but I think perhaps that your contacts have been mostly with the very large businessmen of this country, the presidents of these great corporations who have so much dealing with Government that they have to give lipservice to what Government does, whichever administration it might be.

If you get out among the average businessman I am not sure you are going to find the same degree of confidence. I hope you will.

Mr. McINTYRE. I think there is concern about the amount of paperwork, the regulations that Government imposes on these small businesses and on individuals out and around the country, but I am not certain that that translates into a lack of confidence in our country and our Government. I think it is basically an issue that we need to recognize and to attempt to deal with.

Senator BYRD. I hope in your dealings with regulatory agencies that you will not exclude the departments of Government and the regulations which the departments of Government enunciate and force upon the American people.

I have particular reference to the Department of HEW. It took an act of Congress last year to prevent HEW from sending out and requiring every school district in the United States to submit a voluminous report dealing with parts of the civil rights law. They wanted to come back and do the same thing this year, and it took an act of Congress to prevent them from doing it. I got the legislation through the Senate over the strong objection of HEW.

Mr. McINTYRE. Let me make one thing clear about my testimony. What I am basically talking about in the executive branch are those agencies that report to the President. There is a concern in Congress about OMB's relationship and dealing with the so-called independent regulatory agencies. Our attempt would be strictly on a voluntary basis on the part of the agencies.

The ones that we really deal with directly are those executive branch agencies that report to the President—the ones you are concerned about, HEW, and the other domestic agencies, as well as some of the regulatory agencies like OSHA. Those are the types of regulations that we will be dealing with directly and we will encourage the so-called independent regulatory agencies to simplify their regulations and their procedures accordingly.

Senator BYRD. Well, I think that is a proper approach, and I do believe you have a fertile field with HEW. Just the last several weeks there have been PTA groups and school oriented groups in several of the large cities in my State, and they say if HEW and Washington would just leave us alone, we can operate our schools. Give us less money. We would rather have less money. Leave us alone. We have got such a mass of requirements placed on us, restrictions placed on us, that we can hardly operate a school system anymore.

You have a fertile field there.

Thank you very much, Mr. McIntyre. I want to end by saying what I said earlier—you have a very tough job and I do not envy you a bit, and I appreciate your being here.

Mr. McINTYRE. Thank you, Mr. Chairman.

[The prepared statement and attachment of Mr. McIntyre follow:]

STATEMENT OF JAMES T. McINTYRE, JR., ACTING DIRECTOR, OFFICE OF MANAGEMENT AND BUDGET

Mr. Chairman and Members of the Committee: I am pleased to support the Treasury's request for an increase in the statutory debt limit and its proposals for improving the management of the debt. My statement will discuss briefly our revised budget estimates and their effect on the public debt subject to the statutory limitation. Yesterday we released a statement revising budget estimates for 1978 and 1979, and I would like to submit for the record a copy of our more detailed release on the revised estimates.

BUDGET TOTALS

As shown in the following table, the fiscal year 1978 deficit is now estimated at $53.0 billion, $8.8 billion less than the January budget estimate, with outlays of $453.5 billion and receipts of $400.5 billion. The deficit for 1979 is now estimated at $59.6 billion. The President's budget proposals call for total 1979 outlays of $499.4 billion, and receipts estimated at $439.8 billion.

BUDGET TOTALS

[In billions of dollars]

	Fiscal year—		
	1977 actual	1978 estimate	1979 estimate
Budget receipts	356.9	400.5	439.8
Budget outlays	401.9	453.5	499.4
Deficit (−)	−45.0	−53.0	−59.6

OUTLAYS AND RECEIPTS

Estimates of outlays for 1978 have been reduced by $8.7 billion since the January budget. This reflects a careful scrutiny of the original budget estimates resulting largely from unexpected spending trends that have appeared since the January estimates were prepared. Those trends show that the persistent outlay shortfalls of the last few years are continuing in spite of efforts to improve the accuracy of the estimates. The continuing shortfall demonstrates that renewed efforts must be made to improve the quality of the estimates. I will assure this Committee and the Congress that we will make these efforts.

Outlay estimates for 1979 have been reduced by $0.8 billion to $499.4 billion. The 1979 change is a net figure reflecting decreases resulting from later information partly offset by actions which increase the estimates. The individual reestimates involved are discussed in the release I am submitting for the record.

Receipts estimates have been increased slightly from the January budget figures: by $0.1 billion for 1978 and $0.2 billion for 1979. These revisions take into account a newly-enacted tonnage tax on coal that will finance benefits for disabled coal miners, and reestimates of the income tax treatment of Americans working abroad, including the effect of legislation proposed by the Administration on February 23.

THE BUDGET BY FUND GROUP

Table 1 shows our current estimates of the budget surplus or deficit for 1978 and 1979 by fund group. As the following table indicates, the decline in the estimated Federal fund deficit for 1978 since January is split between a decline in the Federal fund deficit and an increase in the estimated trust fund surplus.

SURPLUS OR DEFICIT BY FUND GROUP

[In billions of dollars]

	Fiscal year 1978		
	January estimate	Current estimate	Change
Federal funds	−72.1	−64.8	7.3
Trust funds	10.3	11.7	1.4
Off-budget Federal entities	−11.5	−11.5	

TABLE 1.—BUDGET TOTALS BY FUND GROUP

[In billions of dollars]

	Fiscal year—		
	1977 actual	1978 estimate	1979 estimate
Receipts:			
Federal funds	240.4	267.9	289.1
Trust funds	152.8	168.7	188.3
Interfund transactions	−36.3	−36.1	−37.6
Total, budget receipts	356.9	400.5	439.8
Outlays:			
Federal funds	294.9	332.7	363.7
Trust funds	143.3	157.0	174.0
Interfund transactions	−36.3	−36.1	−37.6
Total, budget outlays	401.9	453.5	499.5
Surplus or deficit (−):			
Federal funds	−54.5	−64.8	−73.9
Trust funds	9.5	11.7	14.3
Total, surplus or deficit (−)	−45.0	−53.0	−59.6

Table 2 shows revised estimates of debt subject to statutory limitation, and explains numerically the derivation of the change in debt subject to limit in 1977, 1978, and 1979.

That concludes my prepared statement, Mr. Chairman, but I would be happy to run through some of the detail of our reestimates with you if the Committee so desires.

TABLE 2.—DEBT SUBJECT TO LIMIT

[Fiscal years; in billions of dollars]

	1977 actual	Estimate 1978	Estimate 1979
Unified budget deficit	45.0	53.0	59.6
Portion of budget deficit attributable to trust funds surplus or deficit (−)	9.5	11.7	14.3
Federal funds deficit	54.5	64.8	73.9
Deficit of off-budget Federal entities	8.7	11.5	12.5
Total to be financed	63.2	76.3	86.4
Means of financing other than borrowing, and other adjustments	.9	−5.7	2.6
Change in debt subject to limit	64.1	70.6	89.0
Debt subject to limit, beginning of year	635.8	700.0	770.6
Estimated debt subject to limit, end of year	700.0	770.6	859.6

Current Budget Estimates—March 1978

GENERAL NOTES

1. All years referred to are fiscal years, unless otherwise noted.
2. Details in the tables and text of this document may not add to the totals due to rounding.

BUDGET TOTALS

This report provides revised budget estimates for 1978 and 1979. The current estimates reflect:

A reassessment of 1978 outlays based on reports of actual spending in recent months;

Policy changes enacted by the Congress or proposed by the President since the budget was issued; and

Technical changes in several estimates.

By law, these budget revisions are required by no later than April 10. However, they are being submitted earlier so that they will be available to the Congress as it begins developing the first concurrent resolution on the 1979 budget.

The revised totals for 1978 and 1979 are shown in the table below.

TABLE 1.—BUDGET TOTALS

[In billions of dollars]

	1977 actual	1978 estimate Budget	1978 estimate Current	1979 estimate Budget	1979 estimate Current
Receipts	356.9	400.4	400.5	439.6	439.8
Outlays	401.9	462.2	453.5	500.2	499.4
Deficit (−)	−45.0	−61.8	−53.0	−60.6	−59.6
Budget authority	465.2	502.9	500.8	568.2	565.6

The deficit in 1978 is now estimated to be $53.0 billion, $8.8 billion below the January estimate. Virtually all of this change is due to downward revisions in outlay estimates. The revised estimate of spending in 1978 is $453.5 billion, $8.7 billion below the January estimates. Budget authority in 1978 has been reduced $2.1 billion below the budget estimate to $500.8 billion.

The estimate of the deficit in 1979 is now $59.6 billion, $1.0 billion below the January estimate. As is the case for 1978, the change for 1979 is largely due to revisions in outlays. Outlays are now estimated to be $499.4 billion, $0.8 billion below the January estimate. Budget authority for 1979 is now estimated at $565.6 billion, a decrease of $2.5 billion, largely as a result of revised estimates rather than as a result of policy changes. Because of the significant changes in

1978 outlay estimates, a more comprehensive review of the 1979 estimates will be conducted. The results of that review will be sent to the Congress when completed.

A detailed examination of actual spending in recent months and preliminary indicators of actual spending in February indicate that most Federal agencies are again falling below their spending plans for 1978. The bad weather that much of the country has experienced this winter is partly at fault, particularly in the case of construction programs and major procurement. Smaller than anticipated claims under entitlement programs continue to be a significant factor. However, it is also clear that the general tendency to overestimate spending for the current year, which has caused shortfalls in all but one year since 1970, continues to be a major problem.

During the past year OMB worked with Federal agencies to improve their outlay estimates, and substantial reductions were made in these estimates. The latest reports on actual spending in the current fiscal year demonstrate, however, that renewed efforts must be made to improve the quality of the estimates.

The economic assumptions underlying the revised budget estimates are the same as those published in the January budget. It now appears that the unusually severe winter weather, together with the temporary effects of the coal strike, will reduce output below the level previously expected for the first quarter of this year. It is not yet possible to assess with any certainty the effect that the temporary influences related to the coal strike will have on the economic outlook for the remainder of the year. Assuming that coal production is resumed relatively soon, the level of economic activity for the year as a whole should not be affected significantly.

Interest rates, which are conventionally assumed to continue at current market rates, are now assumed to be higher than in the Janaury budget. However, for reasons noted below, interest payments are expected to drop below the January estimates.

RECEIPTS

Estimates of budget receipts for 1978 and 1979 have changed only slightly since the January budget. The only changes are for:

Enacted legislation levying a tonnage tax on coal to finance benefits for disabled coal miners; and

Revised estimates related to the income tax treatment of Americans working abroad, including the effect of legislation proposed by the Administration on February 23.

These changes increase receipts by $0.1 billion in 1978 and $0.2 billion in 1979. Collection experience to date does not suggest the need for other changes in estimated receipts.

TABLE 2.—CHANGES IN BUDGET RECEIPTS

[In billions of dollars]

	1978	1979
January budget estimate	400.4	439.6
Coal tonnage tax (excise tax)	.1	.2
Tax treatment of Americans working abroad (individual income taxes):		
Proposed legislation		—.1
Reestimates		.1
Current budget estimate	400.5	439.8

OUTLAYS

1978.—Most of the $8.8 billion decrease from the January outlay total is due to reestimates. Table 3 shows the major components of this change, which are discussed below.

Outlays for the *Department of Defense-Military* have been revised downward by $1.5 billion below the budget estimates because actual spending by the Defense Department in recent months, particularly in January, has been running below expectations. Some of this shortfall is undoubtedly due to the bad weather, which affected defense contractors and closed Defense disbursing centers in the Northeast and Midwest, thereby causing delays in industry billings and in the payment of bills by Defense.

Spending for *international affairs* has been revised downward by $1.0 billion. Disbursements for direct loans by the Export-Import Bank have been running well below expectations. As a result, the estimate of outlays has been reduced by $0.6 billion. Estimated outlays for foreign military sales have also been reduced.

TABLE 3.—*Change in 1978 budget outlays*

	Billions
January budget estimate	$462.2
Changes:	
Department of Defense—Military:	
Procurement	−.9
Other	−.6
Subtotal	−1.5
International affairs:	
Export-Import Bank	−.6
Foreign military sales and other	−.4
Subtotal	−1.0
Energy programs:	
Strategic petroleum reserves	−.7
Other [1]	−.3
Subtotal	−1.0
Natural resources and environment:	
Sewage plant construction grants	−.3
Other	−.2
Subtotal	−.5
Transportation:	
Highways	−.3
Other	−.3
Subtotal	−.5
Education, training, employment, and social services:	
Education	−.1
Training and employment	−.2
Social services	−.6
Subtotal	−.9
Income security and health entitlements:	
Medicare	−.4
Food programs	−.4
Social security	−.4
Federal unemployment benefits	−.2
Other (net)	−.3
Subtotal	−1.6
Net interest	−.6
Offshore oil receipts	−.5
Antirecession fiscal assistance	−.2
All other	−.4
Current budget estimate	453.5

[1] Includes a $50,000,000 reduction in atomic energy defense activities.

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The current estimate of spending for *energy* programs is $1.0 billion below the budget estimate. Estimated outlays for the strategic petroleum reserve have decreased by $0.7 billion since January due to delays in the construction of storage facilities. The current estimates assume that 125 million barrels of oil will be stored by the end of December 1978. Cutbacks in power due to the coal strike are largely responsible for a $0.1 billion decrease in outlays for uranium enrichment. The estimates of spending for various conservation and technology programs also have been reduced by $0.1 billion. In addition, outlays for atomic energy activities classified in the defense function have been revised downward by $50 million.

Outlays for *natural resources and environment* have been revised downward by $0.5 billion consistent with recent spending trends. The largest decrease—$0.3 billion—is for the sewage plant construction grants.

Transportation spending has been decreased by $0.5 billion below January, reflecting the actual spending rate experienced in the year to date. This decrease is partly due to construction delays resulting from the bad weather. Highway programs have been reestimated downward by $0.25 billion, railroad programs are down by $0.1 billion, and other programs are also down a total of $0.1 billion.

Outlays for *education, training, employment, and social services* are now expected to be $0.9 billion below the budget estimates. The largest change is associated with an anticipated delay in congressional action on an Administration request to provide $543 million in budget authority and outlays to settle retroactive State claims for social services grants. The budget assumed that these payments would be made in 1978. It is now expected that the Congress will authorize these payments to be made in 1979. The remaining $0.3 billion decrease reflects reestimates of outlays for a variety of training and employment, education, and social services programs.

Outlays for *income security* and *health* entitlement programs have been revised downward by $1.6 billion. The largest reestimate, $−0.45 billion, is for medicare. Actual outlays for this program have been lower than anticipated, particularly in January. The number of participants in the school lunch and food stamp programs has also been lower than anticipated, and the estimate of spending for these programs has been decreased by $0.4 billion. Social security outlays have been reestimated downward by $0.35 billion. Other income security and health programs that have been revised to reflect spending in recent months include Federal unemployment benefits (−$0.2 billion); supplementary security income (−$0.15 billion); and medicaid (−$0.1 billion). The current estimates also include the recently enacted black lung bill, which increases benefits for disabled coal miners by $0.1 billion in 1978.

The $0.6 billion reduction in *net interest* is the result of several partially offsetting changes:

Outlays for interest on the public debt are now estimated to be $47.8 billion, $0.8 billion below the January budget estimate. This revised estimate reflects lower borrowing requirements than assumed in Januray, higher interest rates (a 91-day bill rate of 6.4% as compared to 6.1% in January), and downward reestimates based on recent experience.

Outlays have decreased by $0.1 billion because of a revised estimate for interest payments other than interest on the public debt.

Outlays have increased by $0.3 billion above the January budget estimate because interest received by trust funds, which is counted as an offset to outlays, has been revised from $8.6 billion to $8.3 billion.

Offshore oil receipts, which are recorded as an offset to outlays, are always difficult to predict. The budget estimate for these receipts was $2.0 billion. The revised estimate of $2.5 billion reflects improved information on the value of sales scheduled during the remainder of the year. This reestimate decreases outlays by $0.5 billion.

1979.—Outlays in 1979 are now estimated to be $499.4 billion, $0.8 billion below the January estimates.

TABLE 4.—*Change in 1979 outlays*

	Billions
January budget estimate	$500.2
Reestimates:	
Export-Import Bank	−0.5
Offshore oil receipts	−0.5
Unemployment trust fund	−0.4
Antirecession fiscal assistance	−0.4
Energy programs	0.2
Other	(1)
Policy changes:	
Retroactive social services claims	0.5
Black lung benefits	0.3
Higher education initiative	0.2
Consumer Cooperative Bank	0.1
Contingency allowance	−0.3
Current budget estimate	499.4

[1] $50 million or less.

Estimating changes have reduced outlays by $1.6 billion below the January budget. The budget estimates of outlays for two programs sensitive to unemployment rates—unemployment insurance and antirecession fiscal assistance—did not reflect last-minute adjustments in the unemployment rates forecast in the budget. These adjustments reflected unemployment data that were available too late to permit revision of outlay estimates when the budget was being prepared. The outlay estimates for each of these programs has been revised downward by $0.4 billion to reflect the economic assumptions in the budget.

Outlays for the Export-Import Bank have been revised downward by $0.5 billion. In addition, the estimate of receipts from offshore oil sales scheduled for 1979 has been revised upward by $0.5 billion. This reestimate in offsetting receipts decreases outlays by $0.5 billion. Outlays for energy programs have been revised upward by $0.2 billion largely because some of the outlays for the strategic petroleum reserve, which were previously assumed to occur in 1978, are now assumed to occur in 1979.

There are two policy changes affecting the 1979 outlay totals. The previously discussed shift in the payments of retroactive social services claims from 1978 to 1979, increases 1979 outlays by $0.5 billion. In addition, the recently enacted legislation increasing black lung benefits for disabled coal miners increases 1979 outlays by $0.3 billion. The 1979 outlay costs of the Administration's higher education initiative ($0.2 billion) and the Consumer Cooperative Bank ($0.1 billion) have been offset by decreases in the contingency allowance.

BUDGET AUTHORITY

1978.—The current estimate of 1978 budget authority is $500.8 billion, $2.1 billion below the budget estimate. Most of the change is due to reestimates.

TABLE 5.—*Change in 1978 budget authority*

	Billions
January budget estimate	$502.9
Changes:	
Net interest	−0.6
Offshore oil receipts	−0.5
Retroactive social services claims (congressional action)	−0.5
Energy programs (net)	−0.4
Public assistance payments	−0.2
Other	0.1
Current budget estimate	500.8

Reestimates of offshore oil receipts and net interest, together, reduce budget authority by $1.1 billion. Anticipated congressional action to fund the payment of retroactive social services in 1979 rather than 1978 decreases 1978 budget authority by $0.5 billion.

The decrease for energy programs is largely due to a downward reestimate for the strategic petroleum reserves. Because of delays in this program, the Administration no longer plans to request a $415 million 1978 supplemental appropriation that was anticipated in the budget. The current estimates for energy include an additional $47 million in budget authority recently enacted by the Congress for the Clinch River breeder reactor, and a $13 million supplemental request for power marketing.

The January budget included a $187 million supplemental appropriation to provide fiscal relief to States for welfare payments. Anticipated 1978 outlays for this program remain the same as in the budget. However, it now appears that unobligated carry-over balances of 1977 budget authority will be available to fund the program. Therefore, a supplemental appropriation is no longer required.

1979.—The current estimate of 1979 budget authority is $565.6 billion, $2.5 billion below the January total. This decrease is due to downward reestimates of $3.6 billion, partially offset by anticipated congressional action to delay the payment of retroactive social services claims until 1979 ($0.5 billion), and the recently enacted increase in black lung benefits and taxes $0.5 billion).

A $1.8 billion downward reestimate in budget authority for the taxable municipal bond option corrects an error in the January estimates, which were inadvertently made on a calendar year basis Budget authority for the Export-Import Bank has been revised downward by $0.7 billion because of the 1978 shortfall in guaranteed and insured loans. Budget authority for antirecession fiscal assistance has been revised downward by $0.6 billion to be consistent with the economic assumptions in the budget. Finally, the upward reestimate in offshore oil receipts decreases budget authority by $0.5 billion.

TABLE 6.—*Change in 1979 budget authority*

	Billions
January budget estimate	$568. 2
Reestimates:	
Taxable municipal bond option	−1. 8
Export-Import Bank	−. 7
Antirecession fiscal assistance	−. 6
Offshore oil receipts	−. 5
Other	(1)
Policy changes:	
Higher education initiative	1. 2
Retroactive social services claims	. 5
Black lung benefits (enacted legislation)	. 5
Consumer Cooperative Bank	. 1
Contingency allowance	−1. 3
Current budget estimate	565. 6

1 $50 million or less.

The current estimates include two Administration proposals announced after the budget was transmitted: increased loans and grants for higher education ($1.2 billion), and support for the Consumer Cooperative Bank ($0.1 billion). These initiatives do not increase the budget authority totals because their cost was covered by the allowance for contingencies, which has been decreased by a corresponding amount.

TABLE 7.—BUDGET OUTLAYS BY FUNCTION, 1977-79

[In billions of dollars]

	1977 actual	1978 estimate			1979 estimate		
		Budget	Current	Change	Budget	Current	Change
National defense	97.5	107.6	106.1	−1.6	117.8	117.8	...
International affairs	4.8	6.7	5.8	−1.0	7.7	7.2	−.5
General science, space and technology	4.7	4.8	4.8	...	5.1	5.1	...
Energy	4.2	7.8	6.9	−.9	9.6	9.9	.2
Natural resources and environment	10.0	12.1	11.6	−.5	12.2	12.2	...
Agriculture	5.5	9.1	9.1	(1)	5.4	5.4	...
Commerce and housing credit	(1)	3.5	3.5	−.1	3.0	3.1	.1
Transportation	14.6	16.3	15.8	−.5	17.4	17.4	...
Community and regional development	6.3	9.7	9.6	−.1	8.7	8.7	...
Education, training, employment, and social services	21.0	27.5	26.6	−.9	30.4	31.2	.7
Health	38.8	44.3	43.7	−.5	49.7	49.7	...
Income security	137.0	147.6	146.6	−1.1	160.0	159.9	−.1
Veterans benefits and services	18.0	18.9	18.9	(1)	19.3	19.3	...
Administration of justice	3.6	4.0	4.0	(1)	4.2	4.2	...
General government	3.4	4.1	4.0	−.1	4.3	4.3	...
General purpose fiscal assistance	9.5	9.9	9.6	−.2	9.6	9.2	−.4
Interest	38.1	43.8	42.9	−.9	49.0	49.0	...
Allowances	...	...	...	...	2.8	2.5	−.3
Undistributed offsetting receipts:							
Employer share, employee retirement	−4.5	−5.0	−5.0	...	−5.2	−5.2	...
Interest received by trust funds	−8.1	−8.6	−8.3	.3	−9.1	−9.1	...
Rents and royalties on the Outer Continental Shelf lands	−2.4	−2.0	−2.5	−.5	−1.8	−2.3	−.5
Total, budget outlays	401.9	462.2	453.5	−8.7	500.2	499.4	−.8

[1] $50,000,000 or less.

TABLE 8.—BUDGET OUTLAYS BY AGENCY, 1977-79

[In billions of dollars]

	1977 actual	1978 estimate			1979 estimate		
		Budget	Current	Change	Budget	Current	Change
Legislative branch	1.0	1.1	1.0	(1)	1.2	1.2	...
The judiciary	.4	.5	.5	...	.5	.5	...
Executive Office of the President	.1	.1	.1	...	.1	.1	...
Funds appropriated to the President	2.5	4.9	4.5	−.4	5.1	5.1	...
Agriculture	16.7	22.6	22.1	−.5	17.7	17.7	...
Commerce	2.6	4.5	4.5	(1)	4.4	4.4	...
Defense—Military [2]	95.7	105.3	103.8	−1.5	115.2	115.2	...
Defense—Civil	2.3	2.5	2.5	...	2.5	2.5	...
Energy [3]	5.2	8.2	7.2	−1.0	10.1	10.3	.2
Health, Education, and Welfare	147.5	164.6	163.5	−1.1	181.3	181.5	.2
Housing and Urban Development	5.8	8.4	8.4	(1)	9.5	9.5	...
Interior	3.2	3.9	3.7	−.2	4.0	4.0	...
Justice	2.3	2.5	2.5	(1)	2.5	2.5	...
Labor	22.4	23.7	23.3	−.4	25.1	25.0	−.1
State	1.1	1.2	1.2	...	1.4	1.4	...
Transportation	12.5	14.4	13.9	−.5	15.8	15.8	...
Treasury	49.6	56.7	55.1	−1.6	62.6	62.9	.2
Environmental Protection Agency	4.4	5.1	4.8	−.3	5.7	5.7	...
General Services Administration	(1)	.3	.2	−.1	.3	.3	...
National Aeronautics and Space Administration	3.9	4.0	4.0	...	4.3	4.3	...
Veterans' Administration	18.0	18.9	18.9	(1)	19.2	19.2	...
Other independent agencies	19.9	24.5	23.9	−.6	24.9	24.4	−.5
Allowances [4]	...	...	...	...	2.8	2.5	−.3
Undistributed offsetting receipts	−15.1	−15.6	−15.8	−.2	−16.0	−16.5	−.5
Total, budget outlays	401.9	462.2	453.5	−8.7	500.2	499.4	−.8

[1] $50,000,000 or less.
[2] Includes allowances for civilian and military pay raises for Department of Defense.
[3] This agency assumes the energy activities previously performed by the Energy Research and Development Administration, the Federal Energy Research and Development Administration, the Federal Energy Administration, and several other agencies.
[4] Includes allowances for civilian agency pay raises and contingencies.

TABLE 9.—BUDGET AUTHORITY BY FUNCTION, 1977–79

[In billions of dollars]

	1977 actual	1978 estimate			1979 estimate		
		Budget	Current	Change	Budget	Current	Change
National defense	110.4	117.8	117.8		128.4	128.4	
International affairs	6.6	11.1	11.1		13.8	13.1	–.7
General science, space and technology	4.6	4.9	4.9		5.2	5.2	
Energy	5.0	8.5	8.2	–.4	9.5	9.5	
Natural resources and environment	9.5	12.9	12.9		12.7	12.7	
Agriculture	2.4	3.8	3.8		7.2	7.2	
Commerce and housing credit	5.5	5.4	5.4		6.6	6.7	.1
Transportation	10.4	15.1	15.1		18.6	18.6	
Community and regional development	12.8	8.7	8.7		7.7	7.7	
Education, training, employment, and social services	30.4	22.8	22.3	–.5	33.6	35.3	1.7
Health	40.4	46.5	46.5	(1)	52.6	52.6	
Income security	168.6	180.4	180.2	–.1	190.9	191.4	.5
Veterans benefits and services	19.1	19.1	19.1		19.1	19.1	
Administration of justice	3.6	3.9	3.9		4.1	4.1	
General government	3.9	4.1	4.1		4.4	4.4	
General purpose fiscal assistance	9.3	9.7	9.7	(1)	16.6	14.2	–2.4
Interest	38.1	43.8	42.9	–.9	49.0	49.0	
Allowances					4.2	2.8	–1.3
Undistributed offsetting receipts:							
Employer share, employee retirement	–4.5	–5.0	–5.0		–5.2	–5.2	
Interest received by trust funds	–8.1	–8.6	–8.3	.3	–9.1	–9.1	
Rents and royalties on the Outer Continental Shelf lands	–2.4	–2.0	–2.5	–.5	–1.8	–2.3	–.5
Total, budget authority	465.2	502.9	500.8	–2.1	568.2	565.6	–2.5

[1] $50,000,000 or less.

TABLE 10.—BUDGET AUTHORITY BY AGENCY, 1977–79

[In billions of dollars]

	1977 actual	1978 estimate			1979 estimate		
		Budget	Current	Change	Budget	Current	Change
Legislative branch	1.0	1.1	1.1		1.2	1.2	
The judiciary	.4	.5	.5		.5	.5	
Executive Office of the President	.1	.1	.1		.1	.1	
Funds appropriated to the President	4.6	9.0	9.0		11.0	11.0	
Agriculture	15.5	17.2	17.2		20.0	20.0	
Commerce	8.2	2.4	2.4		2.7	2.7	
Defense—military [1]	108.4	115.3	115.3		125.6	125.6	
Defense—civil	2.5	2.7	2.7		2.5	2.5	
Energy [2]	6.6	10.6	10.3	–.4	11.6	11.6	
Health, Education, and Welfare	147.6	162.3	162.1	–.2	185.0	186.2	1.2
Housing and Urban Development	33.9	38.1	38.1		33.1	33.1	
Interior	3.7	4.3	4.3		4.5	4.5	
Justice	2.3	2.4	2.4		2.5	2.5	
Labor	31.2	20.7	20.7	.1	29.9	30.3	.5
State	1.2	1.4	1.4		1.5	1.5	
Transportation	9.3	13.6	13.6		17.4	17.4	
Treasury	49.4	56.6	55.1	–1.4	69.6	67.9	–1.7
Environmental Protection Agency	2.8	5.5	5.5		5.6	5.6	
General Services Administration	.3	.2	.2		.3	.3	
National Aeronautics and Space Administration	3.8	4.1	4.1		4.4	4.4	
Veterans' Administration	19.0	19.0	19.0		19.0	19.0	
Other independent agencies	28.3	31.6	31.6	(3)	32.2	31.5	–.7
Allowances [4]					4.2	2.8	–1.3
Undistributed offsetting receipts	–15.1	–15.6	–15.8	–.2	–16.0	–16.5	–.5
Total, budget authority	465.2	502.9	500.8	–2.1	568.2	565.6	–2.5

[1] Includes allowances for civilian and military pay raises for Department of Defense.
[2] This agency assumes the energy activities previously performed by the Energy Research and Development Administration, the Federal Energy Research and Development Administration, the Federal Energy Administration, and several other agencies.
[3] $50,000,000 or less.
[4] Includes allowances for civilian agency pay raises and contingencies.

Senator BYRD. I have a number of inserts that I would like to put into the record.

[The material to be furnished follows. See also appendix.]

Richer Half of U.S. Pays 94 Percent of Income Taxes

(By Art Pine)

The richest one-fourth of American households—those with incomes of $17,000 a year or higher—took home half the income in this country in 1976 and paid more than 70 percent of all personal income taxes.

By contrast, those in the poorest one-fourth—wage earners making less than $5,000 a year—received less than 5 percent of the nation's income that year and paid a minuscule 0.1 percent or less of the income-tax tab.

Those in the richest 5 percent of the country—taxpayers with incomes of $30,000 or more—earned 22 percent of the income in 1976 and paid 39.2 per cent of all income taxes.

By contrast, the poorer half of all persons filing tax returns earned 19 percent of all income and paid 6 percent of the personal income taxes in 1976, while the richer half paid 94 percent.

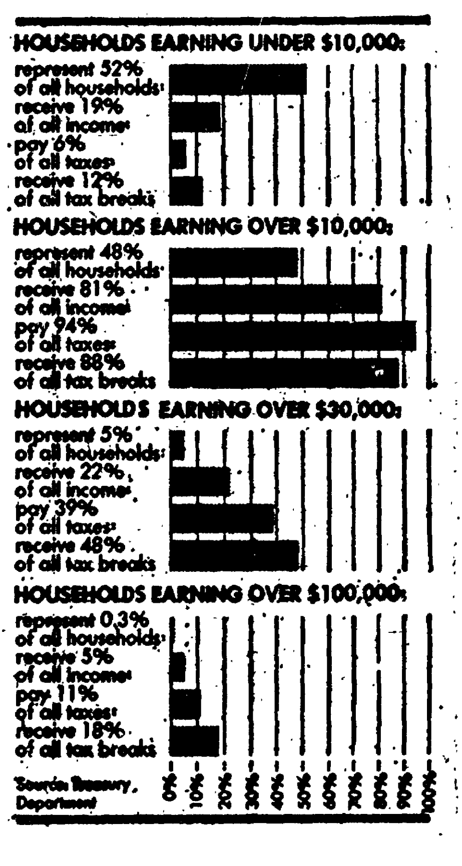
Those figures, compiled by the Tresury Department from estimates based on 1976 income levels, show a stark fact about the way the tax burden is distributed in this country:

While it's true, as some studies show, that wealthier presons enjoy the biggest tax breaks and deductions, they also shoulder a disproportionate share of the burden—far beyond what is perceived generally.

Moreover, the distortion has been heightened by the tendency of Congress in recent years to skew most of the tax breaks it has enacted to those at the lower end of the income scale.

To make up for inflation and higher Social Security payroll taxes, the lawmakers have cut income taxes. But most of the cuts have benefited lower- and lower-middle-income taxpayers—not the middle or the top.

1976 Income and Tax Distribution



The result of all this has been a significant tax squeeze on the so-called "middle" and "upper-middle" income brackets—the 10.7 million taxpayers whose incomes fall between $20,000 and $35,000 a year.

While the proportion of Americans' personal income eaten up by the income tax has remained relatively constant over the past few years, at about 13 percent, the burden of that tax load has shifted to higher-income brackets.

For example, figures compiled by the Tax Foundation show that the richest 25 percent of the nation's taxpayers paid 68.3 percent of all taxes in 1970. By 1975, that figure had risen to 72 percent.

Those in the richer 50 percent paid 89.7 percent of the total tax in 1970. By 1975, that had increased to 92.9 percent. All taxpayers in the richer 50 percent bracket saw their share of the total tax tab rise.

At the same time, those in the poorer half enjoyed a shrinking tax burden during the period. The taxes paid by the lower half fell from 10.3 percent in 1970 to 7.1 percent in 1975.

For the poorest 25 percent of all taxpayers the proportion of the total tax bill fell to 0.4 percent in 1975, from 0.9 percent in 1970. In any case, the trend is clear.

President Carter's new tax-cut package would only heighten the disparity. Carter has proposed replacing the present $750-a-dependent personal exemption with a new $240 credit that would shift the burden further toward the middle- and upper-middle-income brackets.

The battle in Congress now is precisely over how far that shift should be allowed to go. Members of the House and Ways and Means Committee have indicated that they are concerned about the tax burden borne by upper-income brackets and most likely will revamp the Carter proposals.

Moreover, the heavier tax burden continually is reaching downward to include people who used to be in lower-middle-income brackets. As inflation pushes incomes higher, taxpayers are thrust into higher brackets.

With the combination of inflation and higher tax rates in the upper brackets, the wealthiest of the nation's taxpayers pay disproportionately high shares of the total tax burden—even including their shelters and deductions.

For example, the richest 1.4 percent of the nation's citizens—some 985,000 whose incomes total $50,000 or more a year—take home 10.7 percent of the income, but pay 23 percent of the taxes.

The wealthiest 0.3 percent—those in the $100,000-and-up category—receive 4.5 percent of the total income, but pay 10.5 percent of the tax burden. (The poorest 0.3 percent escape taxes altogether.)

The breakdown portrayed by these figures pertains only to personal income taxes. With Social Security payroll taxes included, the pattern is different but the point remains the same.

The figures used in the computations include income from capital gains—profits from the sale of stocks or other assets—only half of which are subject to tax. The totals for tax liability include writeoffs and deductions.

But the fact remains that, for all the complaining about wealthy taxpayers, those in the richer half of the nation's income brackets are paying 94 percent of the personal income taxes. The other half is paying the rest.

National debt in the 20th Century—Totals at the end of fiscal years 1970–79

[Rounded to the nearest billion dollars]

1900	1	1917	3
1901	1	1918	12
1902	1	1919	25
1903	1	1920	24
1904	1	1921	24
1905	1	1922	23
1906	1	1923	22
1907	1	1924	21
1908	1	1925	21
1909	1	1926	20
1910	1	1927	19
1911	1	1928	18
1912	1	1929	17
1913	1	1930	16
1914	1	1931	17
1915	1	1932	20
1916	1	1933	23

National debt in the 20th Century—Totals at the end of fiscal years 1970–79—Con.

[Rounded to the nearest billion dollars]

1934	27
1935	29
1936	34
1937	36
1938	37
1939	40
1940	43
1941	49
1942	72
1943	137
1944	201
1945	259
1946	269
1947	256
1948	251
1949	252
1950	256
1951	254
1952	258
1953	265
1954	271
1955	274
1956	273
1957	272
1958	280
1959	288
1960	291
1961	293
1962	303
1963	311
1964	317
1965	323
1966	329
1967	341
1968	370
1969	367
1970	383
1971	410
1972	437
1973	468
1974	486
1975	544
1976	632
Transition quarter	646
1977	709
1978 [1]	786
1979 [1]	874

[1] Estimated figures.

Source: Office of Management and Budget (January 1978).

DEFICITS IN FEDERAL FUNDS AND INTEREST ON THE NATIONAL DEBT FOR FISCAL YEAR 1959-79, INCLUSIVE

[In billions of dollars]

(Prepared by U.S. Senator Harry F. Byrd, Jr., of Virginia)

Year	Receipts	Outlays	Surplus (+) or deficit (−)	Debt interest
1959	65.8	77.0	−11.2	7.8
1960	75.7	74.9	+0.8	9.5
1961	75.2	79.3	−4.1	9.3
1962	79.7	86.6	−6.9	9.5
1963	83.6	90.1	−6.5	10.3
1964	87.2	95.8	−8.6	11.0
1965	90.9	94.8	−3.9	11.8
1966	101.4	106.5	−5.1	12.6
1967	111.8	126.8	−15.0	14.2
1968	114.7	143.1	−28.4	15.6
1969	143.3	148.8	−5.5	17.6
1970	143.2	156.3	−13.1	20.0
1971	133.8	163.7	−29.9	21.6
1972	148.8	178.1	−29.3	22.5
1973	161.4	187.0	−25.6	24.8
1974	181.2	199.9	−18.7	30.0
1975	187.5	240.0	−52.5	33.5
1976	200.3	269.1	−68.8	37.7
Transition quarter	54.0	65.0	−11.0	8.3
1977	240.4	294.9	−54.5	42.6
1978 [1]	267.9	340.0	−72.1	49.2
1979 [1]	289.1	363.6	−74.5	55.9

[1] Estimated figures.

Source: Office of Management and Budget, January 1978.

UNIFIED BUDGET RECEIPTS, OUTLAYS AND SURPLUS OR DEFICIT FOR FISCAL YEARS 1958-79, INCLUSIVE

[In billions of dollars]

(Prepared by Senator Harry F. Byrd, Jr., of Virginia)

Fiscal year	Receipts	Outlays	Surplus (+) or deficit (−)
1958	79.6	82.6	−3.0
1959	79.2	92.1	−12.9
1960	92.5	92.2	+0.3
1961	94.4	97.8	−3.4
1962	99.7	106.8	−7.1
1963	106.6	111.3	−4.7
1964	112.7	118.6	−5.9
1965	116.8	118.4	−1.6
1966	130.8	134.6	−3.8
1967	149.5	158.2	−8.7
1968	153.7	178.8	−25.1
1969	187.8	184.6	+3.2
1970	193.8	196.6	−2.8
1971	188.4	211.4	−23.0
1972	208.6	231.9	−23.3
1973	232.2	247.1	−14.8
1974	264.9	269.6	−4.7
1975	281.0	326.1	−45.1
1976	299.2	365.6	−66.4
Transition quarter	81.8	94.8	−13.0
1977	356.9	401.9	−45.0
1978 [1]	400.4	462.2	−61.8
1979 [1]	439.6	500.2	−60.6

[1] Estimated figures.

Source: Office of Management and Budget, January 1978.

U.S. GOLD HOLDINGS, TOTAL U.S. RESERVE ASSETS, AND U.S. GOVERNMENT LIQUID LIABILITIES TO FOREIGNERS

[Selected periods in billions of dollars]

(Prepared by U.S. Senator Harry F. Byrd, Jr., of Virginia)

	Gold holdings	Total assets	Liquid liabilities
End of World War II	20.1	20.1	6.9
Dec. 31, 1959	22.8	24.8	19.4
Dec. 31, 1970	10.7	14.5	47.0
Dec. 31, 1973	11.7	14.4	92.6
Dec. 31, 1974	11.6	15.9	119.1
Dec. 31, 1975	11.6	16.2	126.6
Dec. 31, 1976	11.6	18.7	151.4
June 30, 1977	11.7	19.2	163.5
Dec. 31, 1977	11.7	19.3	192.1

Source: U.S. Treasury Department, March 1978.

How To Use Tax Reform To Raise Taxes on Middle-Income Taxpayers

Mr. Curtis. Mr. President, the distinguished chairman of the Senate Budget Committee recently brought to our attention some information prepared by the Treasury at the Senator's request that shows that 21 out of 69 tax breaks that the Congress has legislated over the years provide over half of their benefits to taxpayers earning $50,000 and more. I am certain that neither the Treasury nor my distinguished colleague means to suggest that, as a result of these tax breaks, upper-income taxpayers do not pay any taxes, or do not pay their fair share.

To balance this information, which has been brought to our attention, on the distribution of tax breaks that shows that 30 percent of the breaks go to the upper income taxpayers, I want to call the attention of my colleagues to an article in the March 1978 issue of Harper's magazine. This article is a prominent publication by a well-known economist, Dr. Paul Craig Roberts, shows the distribution of the tax burden. When the distribution of tax breaks is considered in the context of the distribution of the tax burden, we are not likely to make the mistaken inference that upper-income taxpayers do not pay any taxes because of tax breaks.

Dr. Roberts' article points out that the top 1 percent of taxpayers pay 187 times more in taxes than the bottom 10 percent of taxpayers. Moreover, the top 1 percent of income earners pay almost three times the total taxes that are paid by the bottom 50 percent of income earners. Taxpayers whose incomes place them in the top 10 percent—those earning $23,420 or more in 1975—paid almost half of the total income taxes collected. Since the distribution of the tax burden is borne so disproportionately by the higher earners, it does not surprise me that Congress over the years decided to give these heavy taxpayers a few tax breaks.

What concerns me about the tax reformers, however, is that 70 percent of the tax breaks go to people who are not in the upper brackets. The distinguished Budget Committee chairman pointed out that 68 percent of the benefits of the tax treatment of so-called capital gains go to upper-income taxpayers, and that 85 percent of tax-free municipal bonds are held by people in the upper brackets. But the Senator did not remark on very many of the other 69 tax breaks, or tax preferences, or tax expenditures on his list. I think we should be grateful to the budget chairman and to the Treasury for providing this information on the distribution of the benefits of all these tax breaks, because it will keep us from being fooled by people who claim that they mainly benefit the rich.

Let us look at some of these tax expenditures that our distinguished colleague did not emphasize. One of them is social security benefits. Seventy-one percent of untaxed social security benefits go to people whose incomes are less than $15,000 per year. Seventy-one percent of dependents and survivors benefits, which are untaxed, go to people with less than $15,000 in annual income. Seventy-one percent of disability benefits, also untaxed, go to this same income group. In these three items, we have $3.6 billion in tax preferences or so-called tax expenditures that go to people with below-average incomes.

Employee medical insurance paid by employers is another tax break. Eighty-seven percent of the break goes to people earning less than $50,000. Here we have a tax expenditure of $4.9 billion. Who wants to close this tax loophole and the social security tax loopholes? I do not. And I am sure that most of my distinguished colleagues do not either. The tax reformers may, but fortunately for the American people, the so-called tax reformers do not make the tax laws in this country.

I think it is instructive to look at some more of these alleged tax loopholes and see where the benefits go. I am sure that the distinguished budget chairman would not want the Congress to eliminate them thinking that it was making the rich pay taxes.

Workmen's compensation benefits is another tax preference. Seventy-one percent of these tax breaks go to people with incomes of $15,000 or less. Going down the Treasury's list of tax breaks, the upper brackets get only 16 percent of the tax breaks from employer pension plans. Does anyone want to eliminate this tax loophole, when 84 percent of the tax break goes to middle- and lower-income people? Who is so opposed to the rich getting 16 percent of the benefit that he wants to close this loophole?

Employer-paid premiums on group term life insurance and on accident and disability insurance are two more loopholes on the Treasury's list. Only 13 percent of these tax breaks go to the upper brackets. We have a total here of $8.7 billion in untaxed income, 87 percent of which goes to people who are not in the upper brackets. Are we in the Congress so opposed to rich people that we are willing to greatly increase the tax burden on all taxpayers just in order to squeeze a few more dollars out of the rich?

The exclusion of military disability pensions is another tax loophole on the Treasury's list. Eighty-six percent of this break goes to people with income under $20,000. About 50 percent of the benefits go to people with less than $10,000 in income, and disabled people at that. The more I look at the Treasury's list of loopholes that the Budget Committee chairman has brought to our attention, the more I see the good sense and purpose that the Congress had in establishing those preferences.

Let us look at some more of these loopholes that we hear so many complaints about. One is the tax exclusion of scholarships and fellowships. Seventy-three percent of these benefits go to people with below-average incomes. Only 2 percent go to the upper brackets. Another so-called loophole is deferral of capital gain on home sales. Here 81 percent of the benefits go to people earning under $30,000. Only 5 percent of the benefits go to people earning $50,000 or more. Another loophole, one that people have traditionally thought of as benefiting the rich, is the dividend exclusion, but according to the Treasury's figures, 81 percent of this tax break goes to people earning less than $50,000.

Another loophole is the tax credit for the elderly. All of this tax break goes to people with less than $50,000, and 65 percent of it goes to people with $10,000 or less in income. Another loophole is the additional personal exemption for the aged. Here we have over $1 billion in so-called tax expenditures, only 12 percent of which go to people in the upper brackets. More than half of the benefits of this tax break go to people with less than $15,000 in income.

The earned income credit is another loophole on the Treasury's list. Here we have tax expenditures of about $1.3 billion, all of which goes to people with $10,000 or less in income. Veterans' disability compensation is another loophole. Only 3 percent of these benefits go to the rich. GI bill benefits, the exclusion of sick pay, the exclusion of unemployment benefits, and the exclusion of public assistance are additional loopholes on the Treasury's list where the tax breaks go mainly to the lower-income groups.

So, Mr. President, what I have learned from this list of loopholes is that people who speak so derisively of loopholes as if they were something we did for the benefit of the rich are well meaning, perhaps, but uninformed.

When I see that the great majority of these benefits go to people who are not rich, I wonder what the tax reformers are up to. Dr. Roberts, in his article about tax reform in Harper's says that the reformers are out to raise taxes on everybody. He says that the purpose of closing loopholes is to enlarge the tax base by redefining personal income to include fringe benefits and capital gains and by reducing deductions. The reformers are talking about three-martini lunches, but they are refashioning the tax net to catch those they pretend to protect. Enlarging the tax base will raise everyone's taxes, but it will have the most severe effect on middle-income earners. Fringe benefits are a larger percentage of a $15,000 salary than they are of a $100,000 salary, and so are itemized deductions.

Dr. Robert points out that the people who brought us the income tax talked then the same way tax reformers talk today. It was something, they said, that would only affect the rich. When the income tax was put on, only one-half of 1 percent of the population had to pay—only people with above-average incomes. But it was not long before it was brought down to middle incomes and to lower incomes, because that is where most of the income is. Before long the tax rate on people with below-average incomes was twice as high as the initial tax rate been on people with multimillion-dollar incomes. It will be the same way with the fringe benefits and the deductions. They will not raise much money from taxing three-martini lunches, so they will go for the fringe benefits in the union contracts.

They will go for nonmonetary forms of income such as insurance protection, and the average person will have to cut back on his living standard in order to pay taxes on the insurance coverage that his employer provides. People may say no! no! But it is right here on the Treasury's list of loopholes: Employer contributions for medical insurance, a tax expenditure of $5.56 billion; premiums on group term life insurance; premiums on accident and disability insurance; employer pension plans; individual pension plans; and so forth. Closing all these loopholes is the same thing as raising tax rates on existing wage and salary levels. As Dr. Roberts says—

"You can't pay the IRS with part of your parking space, employer-subsidized meal, employee discount, or employer-paid health insurance and pension premiums."

We should all understand that eliminating the so-called tax preferences does not mean that only the rich will pay more taxes. For example, if we knock out the deduction for mortgage interest, the deduction for real estate taxes, the deduction of interest on consumer credit, and the deferral of capital gains on home sales, the effect will be to raise taxes on people with average income and below-average incomes by about $3 billion.

Two loopholes that we hear so much about are the deductions for mortgage interest and for interest on consumer credit. According to the Treasury, together people in the upper brackets. I fail to understand how it can be said that these deductions benefit the rich when 88 percent of the benefits go to people who are not rich.

President Carter has obviously been influenced by the tax reformers. On January 21, 1978, the President proposed $9 billion in revenue-raising tax reforms along with tax cuts for lower- and middle-income earners that increase in the progressivity of the income tax. Under Carter's proposals, $6 billion in tax revenues would be raised from the taxation of unemployment benefits and the elimination of deductions for sales, gasoline, and personal property taxes and medical expenses.

Mr. President, the elimination of these deductions will reduce the tax advantage of itemized deductions for homeowners. Carter also proposed replacing the $750 personal exemption with a $240 tax credit on the grounds that this would benefit those who presently have below-average incomes. I emphasize presently, because after inflation pushes them into higher brackets, the change works to their disadvantage. I also want to point out something that has escaped everyone's notice. Take for example a married taxpayer with two children. The personal exemption lets him deduct $3,000 before he figures his taxes. But if we replace the exemption with a credit, his income on which he has to pay taxes is $3,000 greater. That throws him into a higher tax bracket before he gets to use the credit. When we take this into account, we see that this change would mean, after some years of inflation, higher taxes on lower incomes as well as on higher incomes. It looks to me that Dr. Roberts may be right that these reforms are designed to make everyone pay higher taxes.

In closing I want to come back to the distinguished Budget Committee chairman's concern that capital gains are escaping taxation and costing the Government revenues and also to his concern that tax-free municipal bonds mean higher incomes for the rich. I want to make one point about the tax-free bonds and two points about capital gains. First, the tax-free bonds. They do not mean higher incomes for the rich. Take someone in the 50 percent marginal tax bracket. If he makes an investment paying 10 percent, his after-tax rate of return is only 5 percent. If there is any risk associated with this investment, he will obviously prefer to but a tax-free bond paying 5 percent rather than to make the investment that would pay 10 percent before tax. It does not mean that he gets any more after-tax income. It just means that more of the Nation's savings go into the growth of municipal government and less into the growth of the economy. In other words, a person buys the tax-free bonds only because the after-tax rates of return are the same in either case. So the rich are not gaining anything or getting away with anything.

As for capital gains, Dr. Roberts points out that to tax capital gains as ordinary income during periods of inflation is really to redefine assets as income, and in addition to taxing the income from the asset, to also confiscate part of the asset. Suppose, he says, that you invest $10,000 in an income-producing asset and that inflation drives the price of that asset to $15,000. Suppose that family educational or medical expenses force you to sell the asset. Even though its replacement cost of $15,000, and the $15,000 you receive will not buy any more than the $10,000 you paid, the IRS will say that you have a $5,000 capital gain and tax it. Suppose you are in the 50 percent bracket. That means $2,500 of your assets will be confiscated. I want to quote Dr. Roberts on this point:

"The greatest loophole of all in our income tax system works for the benefit of government. It is the loophole that allows government to use inflation to increase taxes on constant and even declining levels of purchasing power without having to legislate higher tax rates. The central issue of tax reform is closing this loophole. But in their proposal to tax capital gains as ordinary income, the tax reformers show every intention of opening this loophole wider. The widening of this loophole allows government to establish a wealth tax in the guise of an income tax—wealth meaning asset. A wealth tax is not only on the wealthy. Whereas a rich man owns more assets than one who is not rich, the nonrich collectively own many assets."

Mr. President, the distinguished chairman of the Senate Budget Committee is concerned that the Government losses $6.9 billion a year as a result of not taxing capital gains as ordinary income. He is concerned that 67 percent of these benefits go to taxpayers earning $50,000 or more. But as to whether or not the Senator's concerns are justified depends upon how sophisticated we are when we calculate who benefits and figure our revenue estimates. As the members of the Finance Committee know, the Senate has not been able to get accurate revenue estimates. The estimates have been made in simplified ways that do not produce an accurate figure.

According to the Washington Post on March 3, Data Resources, Inc. has just completed a study which shows that the budget chairman's concerns are unjustified. As our distinguished colleague knows, Data Resources, Inc. is not a spokesman for the rich. The Budget Committees of the Congress themselves rely on the Data Resources model when they formulate the economic policy contained in the budget resolutions that they bring to the floor. The Senator must think that Data Resources is reliable or he would not rely upon the firm.

Data Resources, Inc., has the following to say about taxing capital gains. Their study shows that the effects of taxing capital gains as ordinary income would be to reduce GNP by $115 billion over the next 5 years' to cause more than 1½ million additional people to be unemployed, and to reduce Federal tax revenues by $25 billion. So if we eliminate the tax preference for capital gains, we are not going to increase Federal revenues over the next 5 years by $34.5 billion, as the budget chairman might think, but reduce them by $25 billion. That shows us that the concept of "tax expenditures" may be more dangerous than it is worthless. The capital gains preference is not a tax expenditure at all, but a revenue-raiser.

Indeed, the Data Resources study shows that if we want to increase the Government's tax revenues, then we must entirely eliminate the taxation of capital gains.

The study finds that the effect of eliminating all taxes on capital gains would be to increase the GNP by $199 billion over what it would otherwise be. Business investment would climb an additional $81 billion. An additional 3.1 million jobs would be created. And tax revenues to the Government would increase by $38 billion. Obviously, the tax expenditure consists in the taxation of capital gains. Taxing capital gains even at the existing so-called preference rate is costing the Federql Government $38 billion over the next 5 years. It also means that we are going to have 3.1 million less jobs, $81 billion less business investment, and $199 billion less GNP. That is what the taxation of capital gains, even at preference rates, is costing us. If we increase, rather than eliminate, the cpaital gains tax, the cost in terms of higher unemployment, lower GNP, lower tax revenues and higher deficits will be even greater.

Mr. President, according to Data Resources, the reason for the results being the opposite of what is implied by the concept of "tax expenditures" is that, and I quote from the study, "improving capital mobility through the tax system and encouraging savings and investment can improve economic growth to such an extent that both more investment and more consumption are achieved." The Data Resources study says that "current tax policy discourages savings and investment through the imposition of multiple taxes on investment income at several levels." As Dr. Roberts has explained, the effect of the high taxes is to encourage people to choose additional leisure and current consumption instead of additional current and future income. As a result, work effort and savings and investment are all less than they would be. If we remove, or just reduce, the tax barriers, the greater incentives will produce greater GNP, more employment, and more tax revenues.

I realize that the big spenders in the Congress want more tax revenues. I just hope they can understand the only way to go about getting them. If they stay under the illusion that they can get them by closing loopholes and eliminating so-called tax expenditures, then they are going to wreck the economy and reduce the living standard of the poor as well as the rich. The Government cannot raise revenues by taxing so-called capital gains as ordinary rates. Once we try that, the amount of investment will fall. People are not going to invest if there is no pay-off or if their assets are confiscated. Only an uninformed person can believe that it is possible to increase tax revenues by lowering the after-tax rate of return to investment.

Dr. Roberts' article in the March 1978 issue of Harper's is titled "Disguising the Tax Burden." Since it contains startling and valuable information and makes many points that the Congress needs to take into account, I ask unanimous consent that it be made part of the Record.

There being no objection, the article was ordered to be printed in the Record, as follows:

Disguising the Tax Burden

(By Paul Craig Roberts)

Even when they appear singly, major tax increases have a way of slowing down the legislative process. It has to be worked out how to disguise the tax so everyone thinks it is falling on someone else. Then the Congress and the Administration have to work out among themselves who gets to hand out how much to which spending constituency. This is what is known as politics, and ordinarily the politicians can think of enough new rhetoric to explain the levying of new taxes. But by the end of his first year in office President Carter had proposed so many tax increases (the energy tax, the Social Security tax, and the tax-reform tax) that the system temporarily collapsed.

It was more new taxes than could be negotiated, and the major tax-reform proposals of last September have been withdrawn but not discarded.

From the standpoint of the government's interest, tax reform is a necessity. The rich are a depleted resource, and so it is inevitable that the government will come up with a new source of revenue in tax reform. As is customary in these matters, tax reform will be justified on the grounds of "equity," that is, closing loopholes and helping the poor. Tax reform to help the poor is easy, because the poor don't pay any taxes. Therefore, it doesn't cost the government anything. Look at the table prepared by the Tax Foundation from data published by the Internal Revenue Service in Statistics of Income, and be amazed at the distribution of the tax burden.

Half of the taxpayers, those whose adjusted gross incomes place them in the bottom 50 percent, account for only 7 percent of the total personal-income-tax collections. Taxpayers in the lowest 25 percent account for less than half of 1 percent of the personal income tax collected by the government. That's why the government likes to cut taxes for lower-income groups. It doesn't cost much to buy half the votes, and what guilt-ridden upper-income taxpayer would complain about compassionate government?

Beside "everyone knows" that the bulk of the taxes is paid by lower-income earners, while the rich largely escape taxation. Public citizens' tax-reform organizations, peoples' tax lobbies, and other sheltered spokesmen for organized welfare groups have no difficulty getting out their well-packaged, public-spirted message. Meanwhile the true facts pass unnoticed in the IRS's Statistics of Income.

The table shows that taxpayers with incomes in the top 5 percent—those with adjusted gross incomes of $29,272 or more—paid over one-third of the total personal income taxes collected by the federal government in 1975. The top 10 percent of taxpayers—those earning $23,420 or more—paid nearly half the total tax bill. In contrast, the lowest 10 percent of taxpayers paid only one-tenth of 1 percent of the total tax bill. Taxpayers earning $15,898 or more—those in the top 25 percent—paid 72 percent of total personal income taxes. Taxpayers whose incomes placed them in the top 1 percent paid more than two and a half times the total taxes collected from the bottom 50 percent.

PERCENT OF TOTAL TAXES PAID BY HIGH- AND LOW-INCOME TAXPAYERS, 1970 AND 1975

Adjusted gross income class	Income level		Percent of tax paid	
	1970	1975	1970	1975
Highest 1 percent	[1] $43,249	[1] $55,338	17.6	18.7
Highest 5 percent	[1] 20,867	[1] 29,272	34.1	36.6
Highest 10 percent	[1] 16,965	[1] 23,420	45.0	48.7
Highest 25 percent	[1] 11,467	[1] 15,898	68.3	72.0
Highest 50 percent	[1] 6,919	[1] 8,931	89.7	92.9
Lowest 50 percent	[2] 6,918	[2] 8,930	10.3	7.1
Lowest 25 percent	[2] 3,157	[2] 4,044	.9	.4
Lowest 10 percent	[2] 1,259	[2] 1,527	.1	.1

[1] Or more. [2] Or less.

Source: Tax Foundation computations are based on Internal Revenue Service, Statistics of Income.

An income of $59,338 may qualify for the top 1 percent, but what about the really rich? The latest Statistics of Income shows that the 1,149 taxpayers earning $1 million or more in 1975 paid an average tax of $1,011,317. The total tax paid by these few high-income taxpayers added up to $1.15 billion. All of us might pause to ask what public services a taxpayer receives for a million dollars in income taxes.

The table reveals another interesting fact. Since 1970 the tax burden has shifted further away from the lower brackets. In 1970 the bottom 50 percent paid 10.3 percent of total income taxes, and the top 50 percent paid 89.7 percent. By 1975 the bottom's share had declined to 7.1 percent, while the burden carried by the top has risen to 92.9 percent. In addition, the Tax Foundation reports that "several million taxpayers disappeared from the tax rolls altogether as a result of legislative changes benefiting those with lower incomes during the period 1970–75." Many of the untaxed receive transfers in kind, such as food stamps and housing subsidies, together with earned-income credits (negative income tax) and welfare checks, so that their real income exceeds that of many taxpayers.

Most people think that tax reform means making the rich pay taxes. They do not realize that the purpose of closing loopholes is to enlarge the tax base by redefining personal income to include fringe benefits and capital gains and by reducing deductions. Enlarging the tax base will raise everyone's taxes, but it will have the most severe effect on middle-income earners. The government is refashioning its tax net to catch those it pretends to protect. Fringe benefits are a larger percentage of a $15,000 salary than they are of a $100,000 salary, and so are itemized deductions. The government, of course, will give reassurances that it is only after the rich, just as it did when it brought in the income tax in 1914. Initially the personal-income-tax burden rested on only 357,515 people—less than one-half of 1 percent of the population. Only people with incomes much greater than average were subject to the tax. The rates ranged from 1 percent to 7 percent. Only income in excess of $117,000 in today's dollars encountered the first sur-tax bracket of 2 percent. The top tax bracket of 7 percent was encountered only by income in excess of $2.9 million in today's dollars. The personal income tax soon found its way into the lower brackets. The income thresholds were lowered and the tax rates raised. The bottom bracket today, an income level not subject to taxation in 1914, is taxed at 14 percent—twice 1914's top rate.

The tax rate today on the first $500 of taxable income is twice as great as the tax rate on a multimillionaire's income in 1914. This does not mean that things got better for the millionaire. The rate in his bracket today is ten times greater, and his average tax rate is 11.4 times greater. In 1914 the total tax on a million-dollar income was $60,000. Today it is $685,000. Since, as a result of inflation, the value of money today is only about one-sixth of what it was in 1914, today's millionaire's after-tax income of $315,000 is equivalent to a 1914 purchasing power of $53,800. He has only one-seventeenth of the purchasing power of his 1914 counterpart. During a period that has seen a rise in the average standard of living, the millionaire's has declined drastically.

It is an interesting story to trace the growth of the personal income tax, but it can be summarized in the following way: Between 1914 and 1975 the population grew 120 percent, but the number of individual-income tax returns grew by 23,800 percent.

Hailed everywhere as loopholes for the rich, deductions are the primary income shelter for those in the middle to lower tax brackets, where most of the income is. The percentage difference between adjusted gross income and taxable income is greater the lower the income bracket. For example, in the under-$10,000 adjusted-gross-income class, deductions come to 48.9 percent of adjusted gross income. In the $10,000-to-$24,999 class, deductions are 31.1 percent of adjusted gross income, and in the over-$25,000 class they are only 22.8 percent. The higher the income, the less it is sheltered by deductions.

According to the latest Treasury figures, the upper-income groups benefited from about $16 billion in deductions, exclusions, and other privileges, about half of which resulted from recognizing the difference between capital gains and ordinary income. Lower- and middle-income groups benefited from about $50 billion in deductions and exclusions, such as the exclusion of unemployment benefits, Social Security payments, workers' compensation benefits, pension contributions and earnings, employer-paid medical insurance premiums and medical care, the deduction of interest on consumer credit and home mortgages, property taxes, medical expenses, and state and local taxes, and the deferral of capital gains on the sale of a home plus credit for the purchase of a new home. For every dollar of upper-bracket tax savings, $3 went to the lower and middle brackets.

Dr. Roger Freeman, former White House aide and Hoover Institution Fellow at Stanford University, summed up his book on tax loopholes (Tax Loopholes: The Legend and the Reality) as follows:

"The literature of the tax reform drive usully asserts that most of the loopholes were designed for and work for the benefit of the rich, that poor and middle income taxpayers are taxed on all of their income, with no escape possibilities, and that most of the income that avoids taxation is to be found in the very high income brackets. The facts, however, suggest the opposite: much or most of the untaxed income is in the low and medium brackets."

That neatly sums up why the goverment's tax reformers are interested in reducing deductions. You can't raise revenues for the government unless you go where the untaxed income is.

Untaxed income also means fringe benefits. The President says that taxing fringe benefits means "the three-martini lunch." But the unions are concerned rather than fooled. They know where the untaxed benefits are that would yield substantial tax revenue. Sen. Orrin G. Hatch (Rep.-Utah), a member of the Joint Enonomic Committee, has calculated that taxing fringe benefits as personal income "would mean an increase in taxes of $240 on the average taxpayer." With the 76 million tax returns filed in 1975 that reported wage and salary income, that would come to $18.21 billion, a tidy sum for government. That's why the unions are supporting the resolution introduced by Senator Hatch and Rep. Jack Kemp (Rep.-N.Y.) against the taxation of fringe benefits. They know that taxing fringes is the same as raising tax rates on existing wage and salary levels. You can't pay the IRS with part of your parking place, employer-subsidized meal, employee discount, or employer-paid health insurance and pension premiums.

The third plank of the tax reform redefines assets as income, and in addition to taxing the income from the asset confiscates part of the asset. Suppose you invest $10,000 in an income-producing asset, and inflation drives the price of that asset to $15,000. Suppose that family educational or medical expenses force you to sell the asset. Even though its replacement cost is $15,000—the $15,000 you receive will not buy any more than the $10,000 you paid—the government will claim that you have a $5,000 capital gain and tax it. Suppose you are in the 25 percent bracket. That means $1,250 of your assets will be confiscated by the government. The greater the inflation, the longer you hold the asset, and the higher your tax bracket, the more will be confiscated. The reformers are even talking about taxing the "capital gain" on an accrual basis whether or not you sell the asset.

The tax reformers showed how far they want to go by proposing to tax homeowners on the rental value of their homes. It's called taxing imputed rent. The reasoning is that owning a home provides income in kind (shelter). The value of that income is the rental value, so up goes your taxable income by the rental value of your home—even though it is not rented and you are living in it. This reform is especially valuable to the government as it pushes homeowners into higher tax brackets, which means they pay higher tax rates on the same money incomes. It is valuable also because it establishes a new principle of taxation that can be applied to home vegetable gardens and to the services of housewives. Cooking services, sexual services, cleaning services, child-rearing services, and laundry services are also income in kind. The imputed value of a housewife who is good at all of these tasks would exceed the salaries and wages of many husbands. The government could then take your house and make you hire out your wife to cover the unpaid taxes you couldn't pay.

So many major tax-increase proposals indicate runaway greed in Washington. It's not as if the government hasn't had a raise. The government gets an automatic increase in tax revenues every year as a result of inflation. Look at what happens to the real tax burden on a person whose income rises with the rate of inflation over the course of his working life. To show that it is not just the upper-income taxpayers who are harmed, let's take for an example someone who is today earning only $6,240 a year. In 1976 he would have paid no taxes. Instead, he would have received a check from the Treuasry for $155 as a result of the earned-income credit. But after 45 years of 5 percent inflation he would be earning $56,077 a year, on which he would have to pay $17,019 in taxes (at present rates). His after-tax money income would have risen from $6,395 in 1976 to $38,058 in 2021, or by substantially less than the rates of inflation. His after-tax income in 2021 would have a purchasing power equal to only $4,345 in 1976 dollars. In spite of his much larger money income, this person would have experienced a decline in his living standard of nearly one-third. This is the result of progressive income taxation plus inflation, which together cause taxes on the same amount of purchasing power—$6,240 in 1976 dollars—to rise from a refund of 2.5 percent in 1976 to a tax of 30 percent in 2021. The higher the inflation, the worse it would be for him, because the faster he would reach the higher brackets.

Indexing the tax structure (adjusting it to offset inflation) would prevent this deterioration in the living standards of all Americans. One might think that this would make indexing an important issue of tax reform. Yet, it is not part of the tax reformers' proposals. The reformers argue that inflation causes government's costs to rise, so it also needs more revenues. However, the way it is now, the government's revenues don't simply rise by the amount of the inflation. They rise by 1.65 times the rate of inflation. A 10 percent rate of inflation means a 16.5 percent increase in government revenues. That is why governments prefer to fight unemployment.

The claim that inflation hurts the lower income brackets more than the upper income brackets is deceitful. What inflation really does is to push everyone into higher tax brackets. As average incomes rise, more and more people will experience the woes of being nominally rich. One of the woes is that the higher your nominal or money income, the harder it is to stay even with inflation. As the tax bill gets bigger on every raise, your income has to increase progressively faster than the rate of inflation in order to stay even. This is another reason government prefers to reduce the tax rates in the lower brackets. Inflation soon moves the people out of them and into the higher brackets that were not cut.

Dale W. Sommer in the September 26, 1977, issue of Industry Week presents some interesting statistics from the U.S. Department of Commerce's National Income and Products Accounts that illustrate the extent to which American incomes have been undone by taxflation. Over the past ten years the average wage has risen 77.3 percent, whereas the consumer price index has risen 75.4 percent. So the average worker has kept up with inflation. But the tax burden has risen 144 percent during the same period. On a per capita basis, Americans paid $2,261 in taxes in 1976 compared with $1,014 in 1966. The 144 percent growth in the tax bite exceeded the 126.6 percent growth in total production of goods and services (GNP) and the 119.2 percent growth in total national income.

Last year Americans paid $16.7 billion more in taxes than they spent on the three basic necessities of food, clothing, and housing. The total tax bill came to $486.4 billion, whereas the total spent on food, clothing, and housing came to $469.7 billion. Compared with the $2,261 per capita expenditure on taxes, $1,048 was spent on food, $354 on clothing, and $780 on shelter. Added together the three necessities are still $79 less than per capita taxes paid.

Taxes far outpace the growth in real income. In 1976 federal taxes grew 20.8 percent. The entire economy grew 11.6 percent, and 5.3 percent of that growth was the result of inflation rather than an actual increase in the production of goods and services.

The greatest loophole of all in our incometax system works for the benefit of government. It is the loopole that allows government to use inflation to increase taxes on constant and even declining levels of purchasing power without having to legislate higher tax rates. The central issue of tax reform is closing this loophole. But in their proposal to tax capital gains as ordinary income, the tax reformers show every intention of opening this loophole wider. The widening of this loophole allows government to establish a wealth tax in the guise of an income tax—wealth meaning asset. A wealth tax is not a tax only on the wealthy. Whereas a rich man owns many more assets than one who is not rich, the nonrich collectively own many assets.

We have come a long way from the time three decades ago when F. A. Hayek said something about the road to serfdom. A serf was a person who did not own his own labor. Although he was not himself owned by another—that is, he could not be bought and sold like a slave—the feudal nobility, the state of that time, had rights over the serf's labor. When we say that a peasant was enserfed, we mean that he owed a certain amount of his working time to the state. Over time and regions this obligation averaged about one-third of a serf's working life.

The serf's position provides a perspective that lets us sum up the success of reactionary forces in this century in simple economic terms. In 1929 government in the U.S. had a claim to only 12 percent of the national income. By 1960 government had a claim to 33 percent of the national income. By 1976 government had extended its share to 42 percent. In relative terms our position today is worse than that of a medieval serf who owed the State one-third of his working time.

Many may reject this parallel. They may say that we have a democratic government controlled by the people, and that high taxes and big government merely reflect the voter's demands for public goods in the public interest. Such an argument is reassuring but problematical. The income tax was voted in under one guise and retained under another.

Furthermore, it was the action of a past generation. For us it is an inherited obligation, as were feudal dues, and it is seen that way by the Internal Revenue Service. All of us have been born to the statist gospel that government is the instrument of social progress. Any clamors for tax reduction are translated into proposals for tax reform, which are further transformed into proposals for securing more revenues for government. As we hear the talk about tax reform and "equity," we might pause to consider, if our cultivated progressive image will allow, that "equity" means more taxes on the productive to provide the revenues that build the spending constituencies of Congress and the federal bureaucracy. What is operating is not equity, but the government's self-interest.

The advent of several major tax increases in tandem will destabilize the economy, but from the government's perspective that is desirable. There will have to be more government programs to deal with the consequences of instability. Every sophisticated person is aware of how special interests use the legislative process for their own benefit, but the same sophisticate is badly schooled in how the legislative process furthers the special interests of those in government. Inflation leads to the imposition of wage and price controls and credit allocation, all of which increase the spoils, money, and influence divvied up in Washington. Unemployment means more CETA jobs and public works, and what member of the government class is hurt by that? Put simply, instability increases the demand for the services of bureaucrats and for pork-barrel legislation that builds the spending constituencies of both Congress and the Executive branch. It advances the careers of academics and technocrats who move back and forth from their think tanks and universities and in and out of government.

Perhaps all of this won't come to pass all at once. Government might so engorge itself with Social Security and energy taxes that it can't reach the tax-reform dish. Or perhaps in a last-gasp effort the vested interests of old will flex their flabby biceps and hammer through a tax cut that will stave off enserfment and economic stagnation for a while longer.

EXECUTIVE OFFICE OF THE PRESIDENT,
OFFICE OF MANAGEMENT AND BUDGET,
Washington, D.C., April 10, 1978.

Hon. HARRY F. BYRD, Jr.,
Chairman, Subcommittee on Taxation and Debt Management, Committee on Finance, U.S. Senate, Washington, D.C.

DEAR MR. CHAIRMAN: Your letter of March 17 to Mr. McIntyre requested information on the receipts, outlays, and surplus or deficit of trust funds for your Subcommittee on Taxation and Debt Management. The requested information is enclosed.

We hope it will be helpful to you.

Sincerely,

HUBERT L. HARRIS, Jr.,
Assistant Director.

Enclosure.

OUTLAYS AND RECEIPTS OF TRUST FUNDS

[In billions of dollars]

Description	1978 Receipts	1978 Outlays	1978 Surplus or deficit (−)	1979 Receipts	1979 Outlays	1979 Surplus or deficit (−)
Federal old-age, and survivors, and disability insurance trust funds	89.6	94.4	−4.8	101.5	104.5	−2.9
Railroad employees retirement funds	4.0	4.1	−.1	3.9	4.3	−.4
Veterans life insurance trust funds	1.0	.8	.2	1.0	.8	.2
Federal employees retirement funds	17.7	11.0	6.7	19.5	12.3	7.2
Unemployment trust fund	15.7	11.8	3.9	16.8	11.2	5.6
Health insurance trust funds	27.5	25.1	2.4	31.7	29.4	2.3
Highway trust funds	7.7	6.6	1.1	8.1	7.5	.6
Airport and airway trust funds	1.5	1.1	.4	1.3	1.1	.2
State and local government fiscal assistance trust fund	6.9	6.8	(1)	6.9	6.9	(1)
Foreign military sales trust fund	8.7	8.2	.5	9.2	9.5	−.3
Other trust funds (nonrevolving)	1.1	.8	.3	1.1	1.0	.2
Trust revolving funds		−1.0	1.0		−1.5	1.5
Subtotal	181.3	169.7	11.6	201.0	186.9	14.1
Intrafund transactions	−1.7	−1.7		−1.4	−1.4	
Proprietary receipts from the public	−9.8	−9.8		−10.3	−10.3	
Receipts from off-budget Federal entities	−1.2	−1.2		−1.2	−1.2	
Total	168.6	157.0	11.6	188.1	174.0	14.1

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

Source: Office of Management and Budget. Estimates are from the Current Budget Estimates, Mar. 13, 1978.
Note: Proposed legislation is unchanged from the January estimates.

Senator BYRD. The subcommittee is adjourned.

[Thereupon, at 11:40 a.m., the subcommittee was adjourned.]

APPENDIX

TABLES ON ESTIMATED GROSS AND NET GOVERNMENT AND PRIVATE DEBT

(1) Estimated Gross Government and Private Debt, by Major Categories
(2) Estimated Per Capita Gross Government and Private Debt
(3) Estimated Gross Government and Private Debt related to Gross National Product
(4) Estimated Net Government and Private Debt, by Major Categories
(5) Estimated Per Capita Net Government and Private Debt
(6) Estimated Net Government and Private Debt related to Gross National Product
(7) Estimated Federal Debt Related to Population and Prices
(8) Privately-Held Federal Debt Related to Gross National Product
(9) Changes in Per Capita Real Gross National Product

TABLE 1.—ESTIMATED GROSS GOVERNMENT AND PRIVATE DEBT, BY MAJOR CATEGORIES

[Dollar amounts in billions]

Year	Private [1]			State and local	Federal [2]			Total gross debt	Percent Federal of total
	Individual	Corporate	Total		Public	Agency	Total		
1929	$72.9	$107.0	$179.9	$17.8	$16.3	$1.2	$17.5	$215.2	8.2
1930	71.8	107.4	179.2	18.9	16.0	1.3	17.3	215.4	8.1
1931	64.9	100.3	165.2	19.5	17.8	1.3	19.1	203.8	9.4
1932	57.1	96.1	153.2	19.7	20.8	1.2	22.0	194.9	11.3
1933	51.0	92.4	143.4	19.5	23.8	1.5	25.3	188.2	13.5
1934	49.8	90.6	140.4	19.2	28.5	4.8	33.3	192.9	17.3
1935	49.7	89.8	139.5	19.6	30.6	5.6	36.2	195.3	18.6
1936	50.6	90.9	141.5	19.6	34.4	5.9	40.3	201.4	20.1
1937	51.1	90.2	141.3	19.6	37.3	5.8	43.1	204.0	21.2
1938	50.0	86.8	136.8	19.8	39.4	6.2	45.6	202.2	22.6
1939	50.8	86.8	137.6	20.1	41.9	6.9	48.8	206.5	23.7
1940	53.0	89.0	142.0	20.2	45.0	7.2	52.2	214.4	24.4
1941	55.6	97.5	153.1	20.0	57.9	7.7	65.6	238.7	27.5
1942	49.9	106.3	156.2	19.2	108.2	5.5	113.7	289.1	39.4
1943	48.8	110.3	159.1	18.1	165.9	5.1	171.0	348.2	49.2
1944	50.7	109.0	159.7	17.1	230.6	3.0	233.6	410.4	57.0
1945	54.7	99.5	154.2	16.0	278.1	1.5	279.6	449.8	62.2
1946	59.9	109.3	169.2	16.1	258.9	1.5	260.4	445.7	58.5
1947	69.4	128.9	198.3	17.5	255.4	.7	256.1	471.9	54.3
1948	80.6	139.4	220.0	19.6	251.6	1.0	252.6	492.2	51.4

1949	90.4	140.3	230.7	22.2	256.1	.8	256.9	509.8	50.4
1950	104.3	167.7	272.0	25.3	255.4	1.1	256.5	553.8	46.4
1951	114.3	191.9	306.2	28.0	258.1	.8	258.9	593.1	43.7
1952	129.4	202.9	332.3	31.0	266.2	.8	267.0	630.3	42.4
1953	143.2	212.9	356.1	35.0	273.8	.9	274.7	665.8	41.3
1954	157.2	217.6	374.8	40.2	277.2	.8	278.0	693.0	40.2
1955	180.1	253.9	434.0	46.3	279.1	1.5	280.6	760.9	36.9
1956	195.5	277.3	472.8	50.1	275.5	1.7	277.2	800.1	34.7
1957	207.6	295.8	503.4	54.7	274.2	3.2	277.4	835.5	33.3
1958	222.9	312.0	534.9	60.4	282.2	2.3	284.5	879.8	32.4
1959	245.0	341.4	586.4	66.6	288.7	5.7	294.4	947.4	31.1
1960	263.3	365.1	628.4	72.0	287.7	6.4	294.1	994.5	29.6
1961	284.8	391.5	676.3	77.6	293.6	6.9	300.5	1,054.4	28.5
1962	311.9	421.5	733.4	83.4	300.2	7.8	308.0	1,124.8	27.4
1963	345.8	457.1	802.9	89.5	306.0	8.1	314.1	1,206.5	26.0
1964	380.1	497.3	877.4	95.5	314.3	9.1	323.4	1,296.3	24.9
1965	424.6	551.9	976.5	103.1	317.2	9.8	326.9	1,406.5	23.2
1966	454.7	617.4	1,072.1	109.3	325.6	14.0	339.6	1,521.1	22.3
1967	489.1	672.9	1,162.0	117.3	341.8	20.1	361.9	1,641.0	22.2
1968	529.3	779.1	1,308.4	127.2	356.2	15.1	371.3	1,806.9	20.5
1969	566.2	912.7	1,478.9	137.9	367.4	13.8	381.2	1,997.9	19.1
1970	600.0	997.9	1,597.9	149.2	388.3	12.5	400.8	2,147.8	18.7
1971	667.5	1,087.8	1,755.3	167.0	423.4	11.0	434.4	2,356.6	18.4
1972	763.9	1,214.3	1,978.2	181.2	448.4	11.8	460.2	2,620.7	17.6
1973	854.4	1,390.5	2,244.9	196.1	469.1	11.6	480.7	2,921.7	16.5

See footnotes at end of table.

TABLE 1.—ESTIMATED GROSS GOVERNMENT AND PRIVATE DEBT, BY MAJOR CATEGORIES—Continued

[Dollar amounts in billions]

Year	Private[1]			State and local	Federal[2]			Total gross debt	Percent Federal of total
	Individual	Corporate	Total		Public	Agency	Total		
1974	$922.1	$1,546.4	$2,468.5	$214.7	$492.7	$11.3	$504.0	$3,187.2	15.8
1975	994.4	1,626.1	2,620.5	229.6	576.7	10.9	587.6	3,437.7	17.1
1976	1,106.8	1,781.7	2,888.5	246.4	653.5	11.3	664.8	3,799.7	17.5
1977					718.9	10.2	729.2		

[1] Private corporate debt includes the debt of certain federally sponsored agencies in which there is no longer any Federal proprietary interest. The debt of the following agencies are included beginning these years: FLB's in 1949; FHLB's in 1951; FNMA-secondary market operations, FICB's and BCOOP's in 1968. The total debt for these agencies amounted to $0.7 billion on Dec. 31, 1947, $3.5 billion on Dec. 31, 1960, $38.8 billion on Dec. 31, 1970, $78.8 billion on Dec. 31, 1975, and $81.4 billion on Dec. 31, 1976.

[2] Total Federal securities includes public debt securities and budget agency securities.

Source: Federal debt, Treasury Department; other data, Bureau of Economic Analysis, Commerce Department.

Note: Detail may not add to totals because of rounding. Real GNP is in constant 1972 dollars. Real per capita debt expressed in 1967 prices (i.e., Consumer Price Index for all items).

TABLE 2.—ESTIMATED PER CAPITA GROSS GOVERNMENT AND PRIVATE DEBT [1]

[Amounts in dollars]

Year	Private [2]			State and local	Federal [3]			Total gross debt
	Individual	Corporate	Total		Public	Agency	Total	
1929	$599	$879	$1,477	$146	$134	$10	$144	$1,767
1930	583	873	1,456	154	130	11	141	1,750
1931	523	809	1,332	157	144	10	154	1,643
1932	457	770	1,227	158	167	10	176	1,561
1933	406	736	1,142	155	190	12	201	1,499
1934	394	717	1,111	152	226	38	264	1,526
1935	391	706	1,096	154	240	44	284	1,535
1936	395	710	1,105	153	269	46	315	1,573
1937	397	700	1,097	152	290	45	335	1,584
1938	385	669	1,054	153	303	48	351	1,557
1939	388	663	1,051	154	320	53	373	1,578
1940	400	671	1,071	152	339	54	394	1,617
1941	415	728	1,143	149	432	58	490	1,783
1942	369	785	1,154	142	799	41	840	2,136
1943	356	804	1,159	132	1,209	37	1,246	2,537
1944	365	785	1,150	123	1,660	22	1,682	2,954
1945	389	708	1,098	114	1,980	11	1,990	3,202
1946	422	770	1,192	113	1,824	11	1,835	3,140
1947	480	891	1,370	121	1,765	5	1,770	3,261
1948	548	947	1,494	133	1,709	7	1,716	3,344

See footnotes at end of table.

TABLE 2.—ESTIMATED PER CAPITA GROSS GOVERNMENT AND PRIVATE DEBT [1]—Continued

[Amounts in dollars]

Year	Private [2]			State and local	Federal [3]			Total gross debt
	Individual	Corporate	Total		Public	Agency	Total	
1949	$604	$937	$1,540	$148	$1,710	$5	$1,715	$3,404
1950	685	1,101	1,786	166	1,677	7	1,684	3,637
1951	738	1,239	1,977	181	1,666	5	1,672	3,829
1952	821	1,288	2,109	197	1,690	5	1,695	4,001
1953	894	1,329	2,223	218	1,709	6	1,715	4,156
1954	964	1,335	2,299	247	1,700	5	1,705	4,251
1955	1,085	1,530	2,616	279	1,682	9	1,691	4,586
1956	1,157	1,642	2,799	297	1,631	10	1,641	4,737
1957	1,207	1,720	2,927	318	1,594	19	1,613	4,858
1958	1,275	1,784	3,059	345	1,614	13	1,627	5,031
1959	1,378	1,920	3,298	375	1,623	32	1,656	5,328
1960	1,457	2,021	3,478	399	1,592	35	1,628	5,504
1961	1,550	2,131	3,682	422	1,598	38	1,636	5,740
1962	1,672	2,260	3,932	447	1,609	42	1,651	6,030
1963	1,827	2,415	4,243	473	1,617	43	1,660	6,375
1964	1,981	2,592	4,572	498	1,638	47	1,685	6,755
1965	2,185	2,840	5,026	531	1,633	50	1,682	7,239
1966	2,313	3,141	5,454	557	1,656	71	1,728	7,739
1967	2,461	3,386	5,848	590	1,720	101	1,821	8,258
1968	2,637	3,882	6,519	634	1,775	75	1,850	9,003

1969	2,794	4,503	7,297	680	1,813	68	1,881	9,858
1970	2,929	4,871	7,799	728	1,895	61	1,956	10,483
1971	3,224	5,254	8,478	807	2,045	53	2,098	11,382
1972	3,658	5,814	9,472	868	2,147	56	2,203	12,548
1973	4,061	6,609	10,669	932	2,229	55	2,285	13,886
1974	4,352	7,298	11,649	1,013	2,325	53	2,379	15,041
1975	4,657	7,615	12,272	1,075	2,701	51	2,752	16,099
1976	5,145	8,282	13,428	1,145	3,038	53	3,090	17,663
1977					3,316	47	3,364	

[1] Per capita debt is calculated by dividing debt figures by population of conterminous United States. Beginning 1949, population includes Armed Forces overseas, Hawaii and Alaska.

[2] Private corporate debt includes the debt of certain federally sponsored agencies in which there is no longer any Federal proprietary interest. The debt of the following agencies are included beginning these years: FLB's in 1949; FHLB's in 1951; FNMA-secondary market operations, FICB's and BCOOP's in 1968. The total debt for these agencies amounted to $0.7 billion on Dec. 31, 1947, $3.5 billion on Dec. 31, 1960, $38.8 billion on Dec. 31, 1970, $78.8 billion on Dec. 31, 1975, and $81.4 billion on Dec. 31, 1976. on Dec. 31, 1976.

[3] Total Federal securities includes public debt securities and budget agency securities.

Source: Federal debt, Treasury Department; other data, Bureau of Economic Analysis, Commerce Department.

Note: Detail may not add to totals because of rounding. Real GNP is in constant 1972 dollars. Real per capita debt expressed in 1967 prices (i.e., Consumer Price Index for all items).

TABLE 3.—GROSS GOVERNMENT AND PRIVATE DEBT RELATED TO GROSS NATIONAL PRODUCT

Year	Gross national product (billions)	Ratios of debt to gross national product							
		Private [1]			State and local	Federal [2]			Total gross debt
		Individual	Corporate	Total		Public	Agency	Total	
1929	$103.4	70.5	103.5	174.0	17.3	15.8	1.2	17.0	208.1
1930	90.7	79.2	118.5	197.6	20.9	17.7	1.5	19.1	237.5
1931	76.1	85.4	131.9	217.2	25.7	23.4	1.8	25.2	268.0
1932	58.3	98.0	164.9	262.9	33.9	35.7	2.1	37.8	334.5
1933	55.8	91.4	165.6	257.0	35.0	42.7	2.7	45.4	337.2
1934	65.3	76.3	138.8	215.1	29.5	43.7	7.4	51.1	295.5
1935	72.5	68.6	123.9	192.5	27.1	42.3	7.8	50.0	269.5
1936	82.7	61.2	109.9	171.1	23.7	41.6	7.2	48.8	243.5
1937	96.7	52.9	93.3	146.1	20.3	38.6	6.0	44.6	210.9
1938	85.0	58.9	102.2	161.1	23.4	46.4	7.3	53.7	238.0
1939	90.8	56.0	95.6	151.6	22.2	46.2	7.6	53.8	227.5
1940	100.0	53.1	89.1	142.1	20.3	45.1	7.3	52.3	214.5
1941	124.9	44.6	78.1	122.6	16.1	46.4	6.2	52.6	191.2
1942	158.3	31.6	67.2	98.7	12.2	68.4	3.5	71.9	182.7
1943	192.0	25.5	57.5	82.9	9.5	86.5	2.7	89.1	181.4
1944	210.5	24.1	51.8	75.9	8.2	109.6	1.5	111.0	195.0
1945	212.3	25.8	46.9	72.7	7.6	131.0	.8	131.7	211.9
1946	209.6	28.6	52.2	80.8	7.7	123.6	.8	124.3	212.7
1947	232.8	29.9	55.4	85.2	7.6	109.8	.4	110.1	202.8
1948	259.1	31.2	53.9	85.0	7.6	97.2	.4	97.5	190.0

1949	258.0	35.1	54.4	89.5	8.7	99.3	.4	99.6	197.6
1950	286.2	36.5	58.6	95.1	8.9	89.3	.4	89.7	193.6
1951	330.2	34.7	58.2	92.8	8.5	78.2	.3	78.5	179.7
1952	347.2	37.2	58.5	95.8	9.0	76.7	.3	77.0	181.6
1953	366.1	39.2	58.2	97.3	9.6	74.8	.3	75.1	181.9
1954	366.3	43.0	59.5	102.4	11.0	75.7	.3	75.9	189.2
1955	399.3	45.2	63.6	108.7	11.6	69.9	.4	70.3	190.6
1956	420.7	46.5	66.0	112.4	12.0	65.5	.5	65.9	190.2
1957	442.8	46.9	66.9	113.7	12.4	62.0	.8	62.7	188.7
1958	448.9	49.7	69.6	119.2	13.5	62.9	.6	63.4	196.0
1959	486.5	50.4	70.2	120.6	13.7	59.4	1.2	60.6	194.8
1960	506.0	52.1	72.2	124.2	14.3	56.9	1.3	58.2	196.6
1961	523.3	54.5	74.9	129.3	14.9	56.2	1.4	57.5	201.5
1962	563.8	55.4	74.8	130.1	14.8	53.3	1.4	54.7	199.6
1963	594.7	58.2	76.9	135.1	15.1	51.5	1.4	52.9	202.9
1964	635.7	59.8	78.3	138.1	15.1	49.5	1.5	50.9	204.0
1965	688.1	61.7	80.2	142.0	15.0	46.1	1.5	47.5	204.4
1966	753.0	60.4	82.0	142.4	14.5	43.2	1.9	45.1	202.0
1967	796.3	61.4	84.5	145.9	14.7	42.9	2.5	45.4	206.1
1968	868.5	60.9	89.7	150.7	14.6	41.0	1.7	42.8	208.0
1969	935.5	60.5	97.6	158.1	14.7	39.3	1.5	40.7	213.6
1970	982.4	61.1	101.6	162.7	15.2	39.5	1.3	40.8	218.6
1971	1,063.4	62.8	102.3	165.1	15.7	39.8	1.0	40.9	221.6
1972	1,171.1	65.3	103.7	168.9	15.5	38.3	1.0	39.3	223.8
1973	1,306.3	65.4	106.4	171.9	15.0	35.9	.9	36.8	223.7

See footnotes at end of table.

TABLE 3.—GROSS GOVERNMENT AND PRIVATE DEBT RELATED TO GROSS NATIONAL PRODUCT—Continued

Year	Gross national product (billions)	Ratios of debt to gross national product: Private[1] Individual	Private[1] Corporate	Private[1] Total	State and local	Federal[2] Public	Federal[2] Agency	Federal[2] Total	Total gross debt
1974	$1,412.9	65.3	109.4	174.7	15.2	34.9	.8	35.7	225.5
1975	1,528.8	65.0	106.4	171.4	15.0	37.7	.7	38.4	224.9
1976	1,706.5	64.9	104.4	169.3	16.9	38.3	.7	39.0	222.7
1977	1,890.4	...	...	...	...	38.0	.5	38.6	...

[1] Private corporate debt includes the debt of certain federally sponsored agencies in which there is no longer any Federal proprietary interest. The debt of the following agencies are included beginning these years: FLB's in 1949; FHLB's in 1951; FNMA-secondary market operations, FICB's and BCOOP's in 1968. The total debt for these agencies amounted to $0.7 billion on Dec. 31, 1947, $3.5 billion on Dec. 31, 1960, $38.8 billion on Dec. 31, 1970, $78.8 billion on Dec. 31, 1975, and $81.4 billion on Dec. 31, 1976.

[2] Total Federal securities includes public debt securities and budget agency securities.

Source: Federal debt, Treasury Department; other data, Bureau of Economic Analysis, Commerce Department.

Note: Detail may not add to totals because of rounding. Real GNP is in constant 1972 dollars. Real per capita debt expressed in 1967 prices (i.e., Consumer Price Index for all items).

TABLE 4.—ESTIMATED NET GOVERNMENT AND PRIVATE DEBT, BY MAJOR CATEGORIES

[Dollar amounts in billions]

Year	Private [1]			State and local	Federal [2]	Total net debt	Percent Federal of total
	Individual	Corporate	Total				
1916	$36.3	$40.2	$76.5	$4.5	$1.2	$82.2	1.5
1917	38.7	43.7	82.4	4.8	7.3	94.5	7.8
1918	44.5	47.0	91.5	5.1	20.9	117.5	17.8
1919	43.9	53.3	97.2	5.5	25.6	128.3	20.0
1920	48.1	57.7	105.8	6.2	23.7	135.7	17.5
1921	49.2	57.0	106.2	7.0	23.1	136.3	17.0
1922	50.9	58.6	109.5	7.9	22.8	140.2	16.3
1923	53.7	62.6	116.3	8.6	21.8	146.7	14.9
1924	55.8	67.2	123.0	9.4	21.0	153.4	13.7
1925	59.6	72.7	132.3	10.3	20.3	162.9	12.5
1926	62.7	76.2	138.9	11.1	19.2	169.2	11.4
1927	66.4	81.2	147.6	12.1	18.2	177.9	10.3
1928	70.0	86.1	156.1	12.7	17.5	186.3	9.4
1929	72.9	88.9	161.8	13.6	16.5	191.9	8.6
1930	71.8	89.3	161.1	14.7	16.5	192.3	8.6

See footnotes at end of table.

TABLE 4.—ESTIMATED NET GOVERNMENT AND PRIVATE DEBT, BY MAJOR CATEGORIES—Continued

[Dollar amounts in billions]

Year	Private[1]			State and local	Federal[2]	Total net debt	Percent Federal of total
	Individual	Corporate	Total				
1931	$64.9	$83.5	$148.4	$16.0	$18.5	$182.9	10.2
1932	57.1	80.0	137.1	16.6	21.3	175.0	12.2
1933	51.0	76.9	127.9	16.3	24.3	168.5	14.5
1934	49.8	75.5	125.3	15.9	30.4	171.6	17.8
1935	49.7	74.8	124.5	16.1	34.4	175.0	19.7
1936	50.6	76.1	126.7	16.2	37.7	180.6	20.9
1937	51.1	75.8	126.9	16.1	39.2	182.2	21.6
1938	50.0	73.3	123.3	16.1	40.5	179.9	22.6
1939	50.8	73.5	124.3	16.4	42.6	183.3	23.3
1940	53.0	75.6	128.6	16.4	44.8	189.8	23.7
1941	55.6	83.4	139.0	16.1	56.3	211.4	26.7
1942	49.9	91.6	141.5	15.4	101.7	258.6	39.4
1943	48.8	95.5	144.3	14.5	154.4	313.2	49.3
1944	50.7	94.1	144.8	13.9	211.9	370.6	57.2
1945	54.7	85.3	140.0	13.4	252.5	405.9	62.3
1946	59.9	93.5	153.4	13.7	229.5	396.6	57.9
1947	69.4	109.6	179.0	15.0	221.7	415.7	53.4
1948	80.6	118.4	199.0	17.0	215.3	431.3	50.0
1949	90.4	118.7	209.1	19.1	217.6	445.8	48.9
1950	104.3	142.8	247.1	21.7	217.4	486.2	44.8

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1951	114.3	163.8	278.1	24.2	216.9	519.2	41.8
1952	129.4	172.3	301.7	27.0	221.5	550.2	40.3
1953	143.2	180.9	324.1	30.7	226.8	581.6	39.0
1954	157.2	184.1	341.3	35.5	229.1	605.9	37.9
1955	180.1	215.0	395.1	41.1	229.6	665.8	34.5
1956	195.5	234.1	429.6	44.5	224.3	698.4	32.2
1957	207.6	249.1	456.7	48.6	223.0	728.3	30.7
1958	222.9	262.0	484.9	53.7	231.0	769.6	30.1
1959	245.0	287.0	532.0	59.6	241.4	833.0	29.0
1960	263.3	306.3	569.6	64.9	239.8	874.3	27.5
1961	284.8	328.3	613.1	70.5	246.7	930.3	26.6
1962	311.9	353.5	665.4	77.0	253.6	996.0	25.5
1963	345.8	383.6	729.4	83.9	257.5	1,070.8	24.1
1964	380.1	417.1	797.2	90.4	264.0	1,151.6	23.0
1965	424.6	463.2	887.8	98.3	266.4	1,252.5	21.3
1966	454.7	517.8	972.5	104.7	271.8	1,349.1	20.1
1967	489.1	562.6	1,051.7	112.8	286.4	1,450.8	19.7
1968	529.3	653.0	1,182.3	122.7	291.9	1,596.8	18.3
1969	566.2	764.7	1,330.9	133.3	289.3	1,753.4	16.5
1970	600.0	836.1	1,436.1	144.8	301.1	1,881.9	16.0

See footnotes at end of table.

TABLE 4.—ESTIMATED NET GOVERNMENT AND PRIVATE DEBT, BY MAJOR CATEGORIES—Continued

[Dollar amounts in billions]

Year	Private [1]			State and local	Federal [2]	Total net debt	Percent Federal of total
	Individual	Corporate	Total				
1971	$667.5	$911.2	$1,578.7	$162.7	$325.9	$2,067.3	15.8
1972	763.9	1,016.7	1,780.6	178.0	341.2	2,299.8	14.8
1973	854.4	1,166.5	2,020.9	192.3	349.1	2,562.3	13.6
1974	922.1	1,299.4	2,221.5	211.2	360.8	2,793.5	12.9
1975	994.4	1,365.4	2,359.8	222.7	446.3	3,028.8	14.7
1976	1,106.8	1,496.1	2,602.9	236.3	515.8	3,354.9	15.4
1977					572.5		

[1] Private corporate debt includes the debt of certain federally sponsored agencies in which there is no longer any Federal proprietary interest. The debt of the following agencies are included beginning these years: FLB's in 1949; FHLB's in 1951; FNMA-secondary market operations, FICB's, and BCOOP's in 1968. The total debt for these agencies amounted to $0.7 billion on Dec. 31, 1947, $3.5 billion on Dec. 31, 1960, $38.8 billion on Dec. 31, 1970, $78.8 billion on Dec. 31, 1975, and $81.4 billion on Dec. 31, 1976.

[2] Borrowing from the public equals gross Federal debt less securities held in Government accounts (a unified budget concept).

Source: Federal debt, Treasury Department; other data, Bureau of Economic Analysis, Commerce Department.

Note: Detail may not add to totals because of rounding. Real GNP is in constant 1972 dollars. Real per capita debt expressed in 1967 prices (i.e., Consumer Price Index for all items).

TABLE 5.—ESTIMATED PER CAPITA NET GOVERNMENT AND PRIVATE DEBT [1]

[Amounts in dollars]

Year	Private [2]			State and local	Federal [3]	Total net debt
	Individual	Corporate	Total			
1916	$356	$394	$750	$44	$12	$806
1917	375	423	798	46	71	915
1918	431	455	887	49	203	1,139
1919	420	510	930	53	245	1,228
1920	452	542	994	58	223	1,275
1921	453	525	978	64	213	1,256
1922	462	532	995	72	207	1,274
1923	480	559	1,039	77	195	1,310
1924	489	589	1,078	82	184	1,344
1925	515	628	1,142	89	175	1,406
1926	534	649	1,183	95	164	1,441
1927	558	682	1,240	102	153	1,494
1928	581	715	1,295	105	145	1,546
1929	599	730	1,329	112	136	1,576
1930	583	726	1,309	119	134	1,562

See footnotes at end of table.

TABLE 5.—ESTIMATED PER CAPITA NET GOVERNMENT AND PRIVATE DEBT [1]—Continued

[Amounts in dollars]

Year	Private [2]			State and local	Federal [3]	Total net debt
	Individual	Corporate	Total			
1931	$523	$673	$1,196	$129	$149	$1,475
1932	457	641	1,098	133	171	1,402
1933	406	612	1,018	130	194	1,342
1934	394	597	992	126	241	1,358
1935	391	588	978	127	270	1,375
1936	395	594	989	127	294	1,410
1937	397	588	985	125	304	1,414
1938	385	565	950	124	312	1,386
1939	388	562	950	125	325	1,401
1940	400	570	970	124	338	1,431
1941	415	623	1,038	120	420	1,579
1942	369	677	1,045	114	751	1,910
1943	356	696	1,051	106	1,125	2,282
1944	365	677	1,042	100	1,525	2,668
1945	389	607	997	95	1,798	2,890
1946	422	659	1,081	97	1,617	2,794
1947	480	757	1,237	104	1,532	2,873
1948	548	804	1,352	115	1,463	2,930
1949	604	793	1,396	128	1,453	2,977
1950	685	938	1,623	143	1,428	3,193

1951	738	1,058	1,796	156	1,400	3,352
1952	821	1,094	1,915	171	1,406	3,492
1953	894	1,129	2,023	192	1,416	3,631
1954	964	1,129	2,094	218	1,405	3,717
1955	1,085	1,296	2,381	248	1,384	4,013
1956	1,157	1,386	2,543	263	1,328	4,135
1957	1,207	1,448	2,655	283	1,297	4,235
1958	1,275	1,498	2,773	307	1,321	4,401
1959	1,378	1,614	2,992	335	1,357	4,684
1960	1,457	1,695	3,153	359	1,327	4,839
1961	1,550	1,787	3,338	384	1,343	5,064
1962	1,672	1,895	3,567	413	1,360	5,339
1963	1,827	2,027	3,854	443	1,361	5,658
1964	1,981	2,174	4,154	471	1,376	6,001
1965	2,185	2,384	4,569	506	1,371	6,446
1966	2,313	2,634	4,948	533	1,383	6,864
1967	2,461	2,831	5,293	568	1,441	7,301
1968	2,637	3,254	5,891	611	1,454	7,956
1969	2,794	3,773	6,567	658	1,427	8,651
1970	2,929	4,081	7,010	707	1,470	9,185

See footnotes at end of table.

TABLE 5.—ESTIMATED PER CAPITA NET GOVERNMENT AND PRIVATE DEBT—Continued

[Amonuts in dollars]

Year	Private[1] Individual	Private[1] Corporate	Private[1] Total	State and local	Federal[2]	Total net debt
1971	$3,224	$4,401	$7,625	$786	$1,574	$9,984
1972	3,658	4,868	8,526	852	1,634	11,012
1973	4,061	5,544	9,605	914	1,659	12,178
1974	4,352	6,132	10,484	997	1,703	13,183
1975	4,693	6,444	11,136	1,051	2,090	14,293
1976	5,145	6,955	12,100	1,098	2,398	15,596
1977	...	...	...	...	2,641	...

[1] Per capita debt is calculated by dividing debt figures by population of conterminous United States. Beginning 1949, population includes Armed Forces overseas, Hawaii, and Alaska.

[2] Private corporate debt includes the debt of certain federally sponsored agencies in which there is no longer any Federal proprietary interest. The debt of the following agencies are included beginning these years: FLB's in 1949; FHLB's in 1951; FNMA-secondary market operations, FICB's and BCOOP's in 1968. The total debt for these agencies amounted to $0.7 billion on Dec. 31, 1947, $3.5 billion on Dec. 31, 1960, $38.8 billion on Dec. 31, 1970, $78.8 billion on Dec. 31, 1975, and $81.4 billion on Dec. 31, 1976.

[3] Borrowing from the public equals gross Federal debt less securities held in Government accounts (a unified budget concept).

Source: Federal debt, Treasury Department; other data, Bureau of Economic Analysis, Commerce Department.

Note.—Detail may not add to totals because of rounding. Real GNP is in constant 1972 dollars. Real per capita debt expressed in 1967 prices (i.e., Consumer Price Index for all items).

TABLE 6.—NET GOVERNMENT AND PRIVATE DEBT RELATED TO GROSS NATIONAL PRODUCT

Year	Gross national product (billion)	Ratios of debt to gross national product					
		Private [1]			State and local	Federal [2]	Total net debt
		Individual	Corporate	Total			
1929	$103.4	$70.5	$86.0	$156.5	$13.2	$16.0	$185.6
1930	90.7	79.2	98.5	177.7	16.3	18.2	212.1
1931	76.1	85.4	109.8	195.1	21.1	24.4	240.5
1932	58.3	98.0	137.3	235.3	28.5	36.6	300.3
1933	55.8	91.4	137.8	229.2	29.3	43.6	301.9
1934	65.3	76.3	115.7	192.0	24.4	46.6	262.9
1935	72.5	68.6	103.2	171.8	22.3	47.5	241.4
1936	82.7	61.2	92.0	153.2	19.6	45.6	218.3
1937	96.7	52.9	78.4	131.2	16.7	40.6	188.4
1938	85.0	58.9	86.3	145.2	19.0	47.7	211.8
1939	90.8	56.0	81.0	136.9	18.1	47.0	201.9
1940	100.0	53.1	75.7	128.7	16.5	44.9	189.9
1941	124.9	44.6	66.8	111.4	12.9	45.1	169.3
1942	158.3	31.6	57.9	89.4	9.8	64.3	163.4
1943	192.0	25.5	49.8	75.2	7.6	80.5	163.2

See footnotes at end of table.

TABLE 6.—NET GOVERNMENT AND PRIVATE DEBT RELATED TO GROSS NATIONAL PRODUCT—Continued

Year	Gross national product (billion)	Ratios of debt to gross national product					
		Private [1]			State and local	Federal [2]	Total net debt
		Individual	Corporate	Total			
1944	$210.5	24.1	44.8	68.8	6.7	100.7	176.1
1945	212.3	25.8	40.2	66.0	6.4	119.0	191.2
1946	209.6	28.6	44.7	73.2	6.6	109.5	189.3
1947	232.8	29.9	47.1	76.9	6.5	95.3	178.6
1948	259.1	31.2	45.7	76.9	6.6	83.1	166.5
1949	258.0	35.1	46.1	81.1	7.5	84.4	172.8
1950	286.2	36.5	49.9	86.4	7.6	76.0	169.9
1951	330.2	34.7	49.7	84.3	7.4	65.7	157.3
1952	347.2	37.3	49.7	86.9	7.8	63.8	158.5
1953	366.1	39.2	49.5	88.6	8.4	62.0	158.9
1954	366.3	43.0	50.3	93.2	9.7	62.6	165.5
1955	399.3	45.2	53.9	99.0	10.3	57.6	166.8
1956	420.7	46.5	55.7	102.2	10.6	53.4	166.1
1957	442.8	46.9	56.3	103.2	11.0	50.4	164.5
1958	448.9	49.7	58.4	108.1	12.0	51.5	171.5
1959	486.5	50.4	59.0	109.4	12.3	49.7	171.3
1960	506.0	52.1	60.6	112.6	12.9	47.4	172.8
1961	523.3	54.5	62.8	117.2	13.5	47.2	177.8
1962	563.8	55.4	62.7	118.1	13.7	45.0	176.7
1963	594.7	58.2	64.6	122.7	14.2	43.3	180.1

1964	635.7	59.8	65.7	125.5	14.3	41.6	181.2
1965	688.1	61.7	67.3	129.0	14.3	38.7	182.0
1966	753.0	60.4	68.6	129.2	13.9	36.1	179.2
1967	796.3	61.4	70.7	132.1	14.2	36.0	182.2
1968	868.5	60.9	75.2	136.1	14.1	33.6	183.9
1969	935.5	60.5	81.7	142.2	14.2	30.9	187.4
1970	982.4	61.1	85.1	146.2	14.7	30.6	191.6
1971	1,063.4	62.8	85.7	148.5	15.3	30.6	194.4
1972	1,171.1	65.2	86.8	152.0	15.2	29.2	196.4
1973	1,306.3	65.4	89.3	154.7	14.6	26.7	196.1
1974	1,412.9	65.3	92.0	157.2	14.9	25.5	197.7
1975	1,528.8	65.0	89.3	154.4	14.6	29.2	198.1
1976	1,706.5	64.9	87.7	152.5	13.8	30.2	196.6
1977	1,890.4					30.3	

[1] Private corporate debt includes the debt of certain federally sponsored agencies in which there is no longer any Federal proprietary interest. The debt of the following agencies are included beginning these years: FLB's in 1949; FHLB's in 1951; FNMA-secondary market operations, FICB's, and BCOOP's in 1968. The total debt for these agencies amounted to $0.7 billion on Dec. 31, 1947, $3.5 billion on Dec. 31, 1960, $38.8 billion on Dec. 31, 1970, $78.8 billion on Dec. 31, 1975, and $81.4 billion on Dec. 31, 1976.

[2] Borrowing from the public equals gross Federal debt less securities held in Government accounts (a unified budget concept).

Source: Federal debt, Treasury Department; other data, Bureau of Economic Analysis, Commerce Department.

Note: Detail may not add to totals because of rounding. Real GNP is in constant 1972 dollars. Real per capita debt expressed in 1967 prices (i.e., Consumer Price Index for all items.

TABLE 7.—ESTIMATED FEDERAL DEBT RELATED TO POPULATION AND PRICES

[Amounts in dollars]

Year	Outstanding Federal debt			Per capita Federal debt [1]			Real per capita Federal debt		
	Gross [2]	Net [3]	Privately held net [4]	Gross [2]	Net [3]	Privately held net [4]	Gross [2]	Net [3]	Privately held net [1]
1929	$17.5	$16.5	$16.0	$144	$136	$131	$281	$265	$256
1930	17.3	16.5	15.8	141	134	128	292	279	266
1931	19.1	18.5	17.7	154	149	142	354	342	327
1932	22.0	21.3	19.4	176	171	155	451	437	396
1933	25.3	24.3	21.9	201	194	174	513	492	443
1934	33.3	30.4	28.0	264	241	221	657	600	551
1935	36.2	34.4	32.0	284	270	251	688	654	607
1936	40.3	37.7	35.3	315	294	275	752	704	658
1937	43.1	39.2	36.6	335	304	284	776	706	658
1938	45.6	40.5	37.9	351	312	291	837	744	695
1939	48.8	42.6	40.1	373	325	306	893	780	733
1940	52.2	44.8	42.6	394	338	321	934	802	761
1941	65.6	56.3	54.0	490	420	403	1,059	909	871
1942	113.7	101.7	95.5	840	751	705	1,661	1,486	1,394
1943	171.0	154.4	142.9	1,246	1,125	1,041	2,388	2,156	1,995

1944	233.6	211.9	193.1	1,682	1,525	1,390	3,156	2,863	2,608
1945	279.6	252.5	228.2	1,990	1,798	1,624	3,653	3,299	2,981
1946	260.4	229.5	206.1	1,835	1,617	1,452	2,841	2,504	2,248
1947	256.1	221.7	199.1	1,770	1,532	1,375	2,522	2,183	1,960
1948	252.6	215.3	192.0	1,716	1,463	1,304	2,384	2,032	1,811
1949	256.9	217.6	197.7	1,715	1,453	1,320	2,427	2,056	1,867
1950	256.5	217.4	196.6	1,684	1,428	1,291	2,252	1,909	1,725
1951	258.9	216.9	193.1	1,672	1,400	1,246	2,109	1,767	1,573
1952	267.0	221.5	196.8	1,695	1,406	1,249	2,119	1,758	1,562
1953	274.7	226.8	200.9	1,715	1,416	1,254	2,131	1,759	1,558
1954	278.0	229.1	204.2	1,705	1,405	1,252	2,128	1,754	1,563
1955	280.6	229.6	204.8	1,691	1,384	1,234	2,102	1,720	1,534
1956	277.2	224.3	199.4	1,641	1,328	1,180	1,983	1,605	1,426
1957	277.4	223.0	198.8	1,613	1,297	1,155	1,892	1,521	1,356
1958	284.5	231.0	204.7	1,627	1,321	1,170	1,876	1,523	1,349
1959	294.4	241.4	214.8	1,656	1,357	1,207	1,881	1,542	1,372
1960	294.1	239.8	212.4	1,628	1,327	1,175	1,823	1,486	1,316
1961	300.5	246.7	217.8	1,636	1,343	1,185	1,820	1,494	1,319
1962	308.0	253.6	222.8	1,651	1,360	1,194	1,815	1,495	1,313
1963	314.1	257.5	223.9	1,660	1,361	1,183	1,795	1,472	1,279

See footnotes at end of table.

TABLE 7.—ESTIMATED FEDERAL DEBT RELATED TO POPULATION AND PRICES—Continued

[Amounts in dollars]

Year	Outstanding Federal debt			Per capita Federal debt [1]			Real per capita Federal debt		
	Gross [2]	Net [3]	Privately held net [4]	Gross [2]	Net [3]	Privately held net [4]	Gross [2]	Net [3]	Privately held net [1]
1964	$323.4	$264.0	$227.0	$1,685	$1,376	$1,183	$1,801	$1,470	$1,264
1965	326.9	266.4	225.6	1,682	1,371	1,161	1,764	1,438	1,217
1966	339.6	271.8	227.5	1,728	1,383	1,157	1,753	1,403	1,174
1967	361.9	286.4	237.3	1,821	1,441	1,194	1,793	1,419	1,176
1968	371.3	291.9	238.9	1,850	1,454	1,190	1,739	1,367	1,119
1969	381.2	289.3	232.1	1,881	1,427	1,145	1,666	1,265	1,014
1970	400.8	301.1	239.0	1,956	1,470	1,166	1,643	1,234	979
1971	434.4	325.9	255.1	2,098	1,574	1,232	1,705	1,279	1,001
1972	460.2	341.2	269.9	2,203	1,634	1,292	1,732	1,284	1,015
1973	480.7	349.1	268.6	2,285	1,659	1,276	1,650	1,198	922
1974	504.0	360.8	280.1	2,378	1,703	1,322	1,531	1,096	851
1975	587.6	446.3	358.2	2,752	2,090	1,677	1,655	1,257	1,009
1976	664.8	515.8	418.5	3,090	2,398	1,945	1,773	1,376	1,116
1977	729.2	572.5	470.8	3,364	2,641	2,171	1,810	1,422	1,170

[1] Per capita debt is calculated by dividing debt figures by population of conterminous United States. Beginning 1949, population includes Armed Forces overseas, Hawaii, and Alaska.

[2] Total Federal securities includes public debt securities and budget agency securities.

[3] Borrowing from the public equals gross Federal debt less securities held in Government accounts (a unified budget concept).

[4] Borrowing from the public less Federal Reserve holdings.

Source: Federal debt, Treasury Department; other data, Bureau of Economic Analysis, Commerce Department.

Note: Detail may not add to totals because of rounding. Real GNP is in constant 1972 dollars. Real per capita debt expressed in 1967 prices (i.e., Consumer Price Index for all items).

TABLE 8.—PRIVATELY HELD FEDERAL DEBT RELATED TO GNP

[Dollar amounts in billions]

Year	Gross national product	Privately held debt [1]	Ratio of debt to GNP	Year-to-year price changes [2]
1929	$103.4	$16.0	15.5	....
1930	90.7	15.8	17.5	−6.0
1931	76.1	17.7	23.3	−9.5
1932	58.3	19.4	33.3	−10.2
1933	55.8	21.9	39.3	.6
1934	65.3	28.0	42.9	2.1
1935	72.5	32.0	44.2	3.0
1936	82.7	35.3	42.7	1.3
1937	96.7	36.6	37.9	3.2
1938	85.0	37.9	44.7	−2.7
1939	90.8	40.1	44.2	−.4
1940	100.0	42.6	42.7	1.0
1941	124.9	54.0	43.3	9.8
1942	158.3	95.5	60.4	9.3
1943	192.0	142.9	74.5	3.2
1944	210.5	193.1	91.8	2.2
1945	212.3	228.2	107.5	2.3
1946	209.6	206.1	98.4	18.6
1947	232.8	199.1	85.6	8.7
1948	259.1	192.0	74.2	2.6
1949	258.0	197.7	76.7	−1.8
1950	286.2	196.6	68.7	5.9
1951	330.2	193.1	58.5	6.0
1952	347.2	196.8	56.7	.9
1953	366.1	200.9	54.9	.7
1954	366.3	204.2	55.8	−.4
1955	399.3	204.8	51.3	.4
1956	420.7	199.4	47.4	2.9
1957	442.8	198.8	44.9	3.1
1958	448.9	204.7	45.7	1.8
1959	486.5	214.8	44.2	1.5
1960	506.0	212.4	42.0	1.5
1961	523.3	217.8	41.7	.7
1962	563.8	222.8	39.6	1.3
1963	594.7	223.9	37.7	1.7

See footnotes at end of table.

TABLE 8.—PRIVATELY HELD FEDERAL DEBT RELATED TO GNP—Continued

[Dollar amounts in billions]

Year	Gross national product	Privately held debt [1]	Ratio of debt to GNP	Year-to-year price changes [2]
1964	$635.7	$227.0	35.8	1.2
1965	688.1	225.6	32.8	2.0
1966	753.0	227.5	30.3	3.4
1967	796.3	237.3	29.9	3.0
1968	868.5	238.9	27.6	4.7
1969	935.5	232.1	24.9	6.1
1970	982.4	239.0	24.4	5.5
1971	1,063.4	255.6	24.0	3.4
1972	1,171.1	271.1	23.1	3.4
1973	1,306.3	270.4	20.7	8.8
1974	1,412.9	280.1	19.8	12.2
1975	1,528.8	358.2	23.4	7.0
1976	1,706.5	418.5	24.5	4.8
1977	1,890.4	470.8	24.9	6.8

[1] Borrowing from the public less Federal Reserve holdings.
[2] Measured by all item Consumer Price Index, December to December basis.

Source: Federal debt, Treasury Department; other data, Bureau of Economic Analysis, Commerce Department.

Note: Detail may not add to totals because of rounding. Real GNP is in constant 1972 dollars. Real per capita debt expressed in 1967 prices (i.e., Consumer Price Index for all items).

TABLE 9.—CHANGES IN PER CAPITA REAL GROSS NATIONAL PRODUCT

Year	GNP in billions of 1972 dollars	GNP per capita constant 1972 dollars [1]	GNP per capita, change from year ago: Constant 1972 dollars	Percent
1929	314.7	2,584	......	......
1930	385.1	3,129	544	21
1931	263.3	2,123	−1,006	−32
1932	227.1	1,819	−303	−14
1933	222.1	1,769	−50	−2
1934	239.3	1,894	125	7
1935	261.0	2,051	157	8
1936	297.1	2,320	269	13
1937	310.8	2,413	92	4
1938	297.8	2,294	−118	−4
1939	319.7	2,443	148	6
1940	343.6	2,591	148	6
1941	396.6	2,962	370	14
1942	454.6	3,358	396	13
1943	527.3	3,842	483	14
1944	567.0	4,082	239	6
1945	559.0	3,980	−101	−2
1946	477.0	3,361	−618	−15
1947	468.3	3,236	−124	−3
1948	487.7	3,313	76	2
1949	490.7	3,276	−36	−1
1950	533.5	3,504	227	6
1951	576.5	3,722	218	6
1952	598.5	3,799	76	2
1953	621.8	3,882	83	2
1954	613.7	3,764	−117	−2
1955	654.8	3,946	181	4
1956	668.8	3,960	13	......
1957	680.9	3,959	......	......
1958	679.5	3,885	−73	−1
1959	720.4	4,051	165	4
1960	736.8	4,078	27	......
1961	755.3	4,112	33	......
1962	799.1	4,284	172	4
1963	830.7	4,390	105	2

See footnotes at end of table.

TABLE 9.—CHANGES IN PER CAPITA REAL GROSS NATIONAL PRODUCT—Continued

Year	GNP in billions of 1972 dollars	GNP per capita constant 1972 dollars [1]	GNP per capita, change from year ago: Constant 1972 dollars	GNP per capita, change from year ago: Percent
1964	874.4	4,557	167	3
1965	925.9	4,765	208	4
1966	981.0	4,991	225	4
1967	1,007.7	5,071	80	1
1968	1,051.8	5,241	169	3
1969	1,078.8	5,323	82	1
1970	1,075.3	5,249	−74	−1
1971	1,107.5	5,349	100	1
1972	1,171.1	5,607	258	4
1973	1,235.0	5,869	262	4
1974	1,217.8	5,747	−122	−2
1975	1,202.1	5,629	−118	−2
1976	1,274.7	5,926	297	5
1977	1,337.6	6,169	243	4

[1] Per capita debt is calculated by dividing debt figures by population of conterminous United States. Beginning 1949, population includes Armed Forces overseas, Hawaii, and Alaska.

Source: Federal debt, Treasury Department; other data, Bureau of Economic Analysis, Commerce Department.

Note: Detail may not add to totals because of rounding. Real GNP is in constant 1972 dollars. Real per capita debt expressed in 1967 prices (i.e., Consumer Price Index for all items).

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