PUBLIC DEBT LIMIT: 1979

HEARING

BEFORE THE

SUBCOMMITTEE ON TAXATION AND DEBT MANAGEMENT GENERALLY

OF THE

COMMITTEE ON FINANCE
UNITED STATES SENATE

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FIRST SESSION

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PUBLIC DEBT LIMIT: 1979

TUESDAY, FEBRUARY 6, 1979

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 9:30 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, Boren, Chafee, and Wallop.

[The press release announcing this hearing and summary of administration proposals for the public debt limit and debt management follows:]

[Press release, Jan. 30, 1979]

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, announced today that a hearing on extension of the temporary limit on the public debt has been scheduled. The Honorable W. Michael Blumenthal, Secretary of the Treasury, and Mr. James T. McIntyre, Director of the Office of Mangement and Budget, will testify on the public debt at 9:30 a.m., Tuesday, February 6, 1979, in room 2221, Dirksen Senate Office Building.

Senator Byrd noted that the temporary debt limit of $798 billion is due to expire on March 31, 1979.

Senator Byrd said, "No doubt the Administration will ask for an increase in the debt ceiling above the $798 billion which the Congress approved in July 1978.

"In the short span of 9 years, the debt has increased from $377 billion to $798 billion, an increase of over 110 percent.

"The unchecked growth of the federal debt is the result of accumulated and accelerated deficits piled one upon another.

"In 1979, the interest on the debt will reach $60 billion. This amounts to 22 percent of all individual and corporate income tax payments.

"President Carter, for fiscal year 1980, has proposed a spending increase of 9 percent above spending Congress approved in its Second Concurrent Budget Resolution last year.

"The expansion of the federal debt can only be reversed if the Administration and Congress begin to exercise fiscal discipline."

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 double-spaced pages in length and mailed with five copies by March 1, 1979, to Michael Stern, Staff Director, Committee on Finance, room 2227, Dirksen Senate Office Building, Washington, D.C. 20510.

JOINT COMMITTEE ON TAXATION

SUMMARY OF ADMINISTRATION PROPOSALS FOR THE PUBLIC DEBT LIMIT AND DEBT MANAGEMENT

I. Public debt limit

A. Present law.—Combined permanent and temporary limit is $798 billion through March 31, 1979.

Permanent debt limit is $400 billion.

Temporary debt limit is $398 billion, and this limit expires at the end of March.

Treasury believes the $798 billion will become insufficient around March 9, 1979.

B. Administration proposal.—Increase the public debt to $836 billion through September 30, 1979, and to $896 billion through September 30, 1980.

II. Long-term bond authority

A. Present law.—Treasury may issue up to $32 billion in long-term bonds (maturity longer than 10 years) above the 4¼-percent limit, which are to be held by the public.

Treasury has used about $30 billion of the $32 billion authority to date.

B. Administration proposal.—Increase limit on authority to issue such bonds to $40 billion in fiscal year 1979 and to $55 billion in fiscal year 1980.

III. Interest rate on savings bonds

A. Present law.—The statutory ceiling on the rate of interest on U.S. savings bonds is 6 percent (enacted in 1970).

B. Administration proposal.—Increase the ceiling to 6½ percent.

Senator BYRD. The hour of 9:30 having arrived, the committee will come to order.

As we begin 1979 and fast approach the decade of the 1980's, there are obvious lessons which can be learned from the 1970's. It is clear that our economy can no longer tolerate or accept the accumulated and accelerated deficits of the 1970's.

In the short period from 1970 to 1978, the national debt has more than doubled, from $383 billion to $780 billion.

Thus, more than half of the total debt incurred by the Government in 202 years of U.S. history was piled up in just 8 years.

The inevitable result of this calamitous fiscal policy has been the cruel and hidden tax on inflation. From the base year of 1967, the Consumer Price Index has more than doubled, and the inflation rate for 1978 was 9.0 percent.

Throughout the world, confidence in the American dollar has plummeted.

In past years, foreign nations wanted to accumulate dollars. The dollar was the currency to which other currencies were pegged.

Recently, the situation has reversed. International financial markets have reflected growing concern over the stability of the dollar and its value has been sharply eroded. This results from the refusal of the U.S. Government to put its financial house in order.

Throughout this period, our inflating economy, our shrinking dollar, and the foreign oil price increases have created balance of trade deficits for all but 2 years.

This year will be a test of whether or not policymakers in Washington and Congress have learned the lessons of the last 8 years. The President says his budget is lean and austere. I say nonsense.

How can a budget be lean and austere when it calls for a 9-percent increase in already bloated Federal spending? If one feels Federal spending was not already bloated, let him read candidate Jimmy Carter's 1976 speeches.

The prospective spending increase in the President's budget for fiscal 1980 is higher than the administration's projection of inflation of less than 8 percent.

The No. 1 problem confronting the Nation today is inflation. It is difficult to see how we can get inflation under control when Federal spending rises faster than prices.

The $532 billion in spending in fiscal year 1980 will result in a deficit of $29 billion—and does not include $12 billion off-budget deficits.

Furthermore, the deficit figure is based on economic assumptions which private forecasters—and the Chairman of the Federal Reserve Board—have called very optimistic. A larger deficit is likely.

Inflation will only get worse as long as we finance Government spending with printing press money. The periodic upward revision in the public debt ceiling is an indication of the failure of the Federal Government to exercise the necessary fiscal discipline.

The public debt ceiling of $798 billion will expire on March 31, 1979. No doubt, the testimony today will advocate not only extending the ceiling but also increasing it.

Interest on the Federal debt is an ever-increasing burden. In 1980, it is estimated to reach $65.7 billion. This is one-eighth of the total spending anticipated for 1980.

Fiscal discipline is not a new idea, except for the Federal Government. Individuals, households, and businesses must live within their means or face the consequences of ultimate bankruptcy.

Americans are fed up with reckless and extravagant spending in Washington. They realize that the Government's financial house must be put in order. Proposals to require a balanced budget in our Constitution are becoming more and more popular. Twenty-five States have passed measures calling for the convening of a constitutional convention for the purpose of requiring a balanced Federal budget.

I want to pay tribute here to the National Taxpayers Union and the Balanced Budget Committee of that organization for focusing attention on this vitally important problem.

Whether one agrees or disagrees with the concept of a constitutional convention to require a balanced budget, I think that all of us who favor a balanced budget should give credit to the organization which has done so much to focus attention on this vital problem.

But what is the response in Washington to the demand for balancing the budget; Since the Carter administration assumed office, Federal spending—already too high—has increased 22 percent. Now the administration proposes a 9 percent increase on top of that.

The test of the 1980's will be whether Washington will listen to the people's demand that Federal spending be brought under control.

As evidence that it has not been brought under control is the hearing today, in regard to whether or not the Federal debt limitation ceiling should be increased.

The committee is pleased to have the distinguished Secretary of the Treasury, Mr. Blumenthal and later, after Mr. Blumenthal, the distinguished Director of the Office of Management and Budget, Mr. McIntyre.

Secretary Blumenthal, welcome and you may proceed as you wish.

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

Secretary BLUMENTHAL. Thank you, Mr. Chairman.

Mr. Chairman, it is my somber duty to appear before this committee once again to ask for an increase in the debt limit as well as to ask for action on two other matters, one for increased authority to issue long-term securities in the market; and second for an increase in the statutory ceiling on the interest rate for savings bonds.

I say my somber duty because I share with you the regret, if not dismay, at the large debt and at the continuing deficit, albeit a decreasing one, and no one would be happier than I if a year would occur, hopefully still while I am around, in which I will not have to come here and make this annual and, as we are now seeing, even more than annual, request.

I have a statement which I would like to submit for the record and, with your permission, to briefly summarize the major points of it.

Senator BYRD. Certainly.

Secretary BLUMENTHAL. As to the debt limit itself, Mr. Chairman, as you may know, the present temporary debt limit of $798 billion will expire at the end of March and then would revert back to the permanent limit of $400 billion. Actually, we will need an increase in authority from the Congress by no later than March 9.

This, incidentally, is roughly the date I indicated would be required the last time that I testified on this matter last July and we can do that only by reducing the cash balance which we normally estimate from a prudent point of view as being $15 billion, by reducing that down to $7.4 billion.

That will enable us to go through March 9 and it is in this way that we can last that long.

Therefore, the implication is clear, Mr. Chairman, that the Congress will have to act quickly and we so request. The amounts needed based on the budget that has been presented and with the usual cash balance and contingency amounts figured in would be $836 billion required by September of this year, 1979, and $896 billion by September of 1980.

Therefore, we need $38 billion more by the end of 1979 and $60 billion more by the end of fiscal 1980.

As to the bond authority, Mr. Chairman, this is the authority that allows us to issue long-term bonds without regard to the 4¼ percent ceiling on interest rates on such bonds. This is important, Mr. Chairman, because it enables us to continue our goal of gradually lengthening the maturity of the Federal debt.

We have been successful in that regard, having lengthened that maturity from the low point of 2 years and 5 months in January of 1976 to the present level of 3 years and 4 months.

Now, you may ask the question: Why is that important? There are a whole series of reasons. Clearly, a more balanced maturity structure is, in itself, a desirable thing. It permits easier and sounder management of the debt and, importantly, it is a less-inflationary way of managing the Federal debt if we can lengthen the maturity somewhat, for as we can borrow in bonds rather than bills, we are, in fact, adding less to the money supply, bills being a more near-money instrument than bonds.

It has lessened the impact of increasing liquidity in the market; therefore, it is a very desirable thing.

Congress, in August of 1978, increased up to $32 billion the authority to issue these long-term bonds. We have now issued $30 billion out of the $32 billion, so we are very close to the limit. We estimate that good management would require that we be given authority to go to a maximum of $40 billion by the end of 1979 and $55 billion by the end of fiscal year 1980.

This is an important measure, and I hope that the Congress will give us that authority.

Finally, Mr. Chairman, as to the savings bonds and the statutory ceiling of interest on those bonds, we are in a situation where, given the type of monetary policy that is being followed in conformity with the restrained fiscal policies, we are now close in terms of market interest rates, close to the highs of 1973 to 1974 when we had to go to 6 percent.

We also face a situation where, under the pressure of these increasing interest rates, we have actually seen redemptions on the net basis increasing over sales by $236 million. So obviously, the source of funds for the Federal Government from savings bonds is a vital and important matter and we have to be competitive in the market in order to be able to direct these funds.

We would like to have the ceiling removed entirely to give us maximum flexibility to be responsive and competitive in the marketplace. If the Congress is not willing to do that, we would request, however, at this time that the rate be increased to 6.5 percent so that we can continue our important program of financing a part of our requirements through savings bonds.

Let me, in conclusion, deal very quickly with two other issues in my testimony. One of these is new. It relates to foreign currency issues, that is Treasury bonds denominated in foreign currencies which have been issued recently in two instances in Germany and in Switzerland as part of the President's program, announced on November 1, to bring about greater strength and stability of the dollar in international exchange markets.

Finally, a word, Mr. Chairman, about the debt-limit process, the process that brings me here and has brought me here in the past. As to foreign currency bonds, as you know, the Treasury announced as part of the November 1 program, its intention to issue up to $10 billion of securities denominated in foreign currencies. We are doing this pursuant to section 16 of the Second Liberty Bond Act, 31 U.S.C. 766, which provides specific authority for the Secretary of the Treasury to issue securities denominated in foreign currencies.

The amount of that issuance is of course subject to the overall limit of the public debt.

On December 15, 1978, the Treasury issued the first of these obligations in the form of 3- and 4-year notes denominated in Deutsch marks in an aggregate amount of approximately 3 billion Deutsch marks equivalent to $1.6 billion.

Just recently on January 26, 1979, the Treasury issued 2½- and 4-year notes denominated in Swiss francs, totalling $2 billion Swiss francs, equivalent to $1.2 billion.

The interest rates which the United States is paying on these obligations are substantially below current interest rates. The notes were offered through the central banks of Germany and Switzerland acting as agents on behalf of the United States. There were no commissions associated with these offerings and this is unprecedented, in both countries, for a public offering of a foreign borrower.

There were special features associated with the German and Swiss offerings which were intended to restrict the final investors and each offering of the notes were placed with only residents of the country in whose currencies they are payable; also only very limited transferability was permitted among such residents.

Further, the German Bundesbank and the Swiss National Bank maintained a register of beneficial owners, and transfers are only effective after each central bank checks to insure that the transferee is a resident of the respective country. These limitations will help minimize the extent to which dollar holdings might be converted into foreign currencies for the purchase of securities which would tend to counter the intended purpose of the offerings.

In other words we do not want people to draw dollar investments out of the United States and to go buy these foreign bonds. What that would mean would be an outflow of dollars and it would add to the problems that we are trying to counteract.

The decision to sell the foreign-denominated securities was made to help deal with the disorders in the foreign exchange markets and excessive declines of the dollar, a program up to this point that we feel has been effective in bringing about the goals that the President intended for the program when he announced it on November 1.

Finally, Mr. Chairman, a word on the debt-limit process itself. I think, Mr. Chairman, that it is recognized that this statutory debt-limit is not an effective way for Congress to control the debt. The present debt-limit process actually diverts public attention from the real issue, which is the issue to which you referred in your opening comments, namely control over the budget, control over spending, and the need to bring the budget into balance.

The increase in the debt each year is simply the result of prior decisions by the Congress on the amounts of Federal spending and taxation. I am here because the Congress has voted on a certain budget and certain spending levels and certain tax levels, and it is simply a mechanical consequence, an arithmetic consequence, of actions which the Congress has taken.

The Budget Act of 1974 approved the congressional budget process and does provide a more effective means to deal with the debt. That Act requires congressional concurrent resolutions.

It would be much better, in my judgment, if the question of the deficit and the financing of the deficit, of the Federal debt, were handled in conjunction with those kinds of decisions.

Let me make one point here, Mr. Chairman, which I think is important. Actually, this procedure which we are following here costs the American taxpayer substantial amounts of money each year. When we get to the point where we can no longer efficiently operate the financial accounts of the Federal Government because we do not have the authority to increase the debt which we must get anyway.

When we get into that delay, we have substantial expenditures. The last time around last August, the American taxpayer lost $1.8 million in foregone interest because we were not able to invest the surplus of the trust funds in a timely and efficient manner, because we did not have authority from the Congress to do so.

If, this time, by March 9 or before, the Congress does not act and it seems to be the history that the Congress is reluctant to do so each time, we will again be losing money, be spending the taxpayers' money in other words, in a manner that really represents waste.

In addition to that, we have additional printing costs. We have to inform people of the fact that Congress has not acted. We cannot go forward and we have to print another notice to tell them that we can go forward again. That costs tens of thousands of dollars each time, and makes no sense.

I would therefore, Mr. Chairman, just point out that we may have the appearance of control but the reality of wasting the taxpayers' money, and I would strongly urge that the Congress face up to this issue and see this important problem of the statutory debt-limit in connection with the budget process and with regard to the decisions that the Congress makes in spending and taxation.

I think that ends my testimony, Mr. Chairman. I would be glad to answer any questions that you or your colleagues may have.

Senator BYRD. Thank you very much, Mr. Secretary. Let me comment first on your last statements.

This hearing today was called at an early date to alleviate the problems to which you referred. As far as changing the procedure for the future, I think that is sort of a moot question.

The upcoming budget that the administration will begin to work on very shortly now, maybe they already have, is the fiscal 1981 budget and the President is committed to the American people for a balanced budget and if we have a balanced budget, then we have no need to increase the debt ceiling. So I think the point you made at the end of your statement is fast becoming a moot one; hopefully, it is.

Let me ask you this, and I will ask the staff to notify me in 10 minutes so that I can yield to my colleagues.

Do you agree, or disagree, that the accumulated Federal deficit, the interest required to fund it, and the size of the national debt is the biggest single contributor to inflation?

Secretary BLUMENTHAL. Mr. Chairman, I would have to say that there are a whole host of contributory reasons why we have inflation and have had increasing inflation in the United States. I think that the size of Government spending, the size of the debt and of the deficit is one important reason, but I could not agree that it is the single most important reason. I think it differs at different times.

There are different factors which are the most important one at different times.

For example, when we have had, as we did some years ago, a sudden major increase in the price of energy imposed on us, that has been the single most important reason. When we have had major problems in agricultural production that pushed up food prices, that has been, for a time, the single most important factor. When we have had deficits during periods of relatively full employment and full utilization of resources, that is the most important factor.

A deficit during periods of recession and slack demand may, at times, be desirable. We ought to have, perhaps, a surplus at other times.

But I would not be in the position to say that it is always the most important factor.

Senator BYRD. In the interests of time, I would try to refrain from agreeing or disagreeing with your assertions. I am mainly interested in getting the facts and getting the thinking of this present administration.

Some say that we owe the debt to ourselves, so that it makes no difference. Do you agree, or disagree?

Secretary BLUMENTHAL. I strongly disagree with that statement, Mr. Chairman. If my memory serves me right, it is indeed true that I believe about 35 or 36 percent of the debt is owed to other institutions of the Federal Government, but the majority of it, most of it, is owed to private individuals, and even to non-Americans. That debt has to be repaid. It has to be serviced. It is an obligation of the U.S. Government. It matters a great deal, and I would not at all agree that simply saying that, well, we owe it to ourselves and we do not need to worry about it should put our mind at ease. That is incorrect and I disagree with it.

Senator BYRD. Well, I certainly agree with your view on that, but unfortunately many of my colleagues take a different view.

Now, on page 3 of your statement, if I read it accurately, between now and October of 1980, in other words, between March of 1979 and October of 1980, a period of 18 to 19 months, our national debt will increase by $98 billion. Is that correct?

Secretary BLUMENTHAL. Between now and October of 1980, it will increase, yes, from $798 billion to $896 billion, $98 billion.

Senator BYRD. So thus, the deficits in the general operation of Government—that is, the Federal funds deficit—will increase by $98 billion?

Secretary BLUMENTHAL. That is correct.

It needs, of course, to be emphasized, Mr. Chairman, that a part of the Federal funds deficit is not merely the unified budget deficit but also the trust fund surplus which is invested.

Senator BYRD. The Federal funds deficit is the deficit in the general operations of budget. The trust fund, the unified deficit, takes into account the surplus of the trust fund.

Secretary BLUMENTHAL. As I understand it. We have gone through that one. Let me see if I have that right.

We have the unified budget deficit. The Federal funds deficit is defined as the unified deficit plus the trust fund surplus, which is invested, plus off-budget financing, less the change in the cash balance, and that, then, gives you the increase in the public debt.

Senator BYRD. In any way that you look at it, the public debt will be increased by $98 billion during the next 18 to 19 months?

Secretary BLUMENTHAL. Yes, that is correct. It includes—I think I am correct in this—it includes the investment of the surpluses that we generate in the trust funds. That is part of that number. Part of that number is that amount, so that the borrowing from the public, for example, is much less than that.

Senator BYRD. I am not speaking to the borrowing from the public. I am speaking of the debt created, whether you borrow it from the public or borrow it from the trust fund—the social security trust fund, for example, that does not come from general revenues. That comes from the wage earner and his employer, so that when you borrow from that, you are not borrowing from the Federal Government, you are borrowing from the wage earner and his employer.

So whoever the debt is owed to, the debt will be increased by $98 billion. That is the point I am suggesting.

Secretary BLUMENTHAL. As I understand it, what we do as the amounts of money in the trust funds increase, which is money that we have gotten through taxation. we take those surpluses and we invest them in Government securities, so we really transfer them from one account to the other. But in order to allow us to do that, it involves an increasing in the debt limit which is included in the $98 billion figure.

So we have transferred it from one place to the other, having first taxed the American people. We take that money and we invest it in Government securities and hold it, and that increases the amount of the debt that we have to get authority from you.

Senator BYRD. If you did not have that deficit, then, you would not need to increase the debt, would you?

Secretary BLUMENTHAL. If we did have no deficit, we would not have to increase the debt, but I hope I am not getting on thin ice here.

If we could take the surpluses in the trust funds and buy other securities, not Government securities, go out and buy private securities for example, we would not need to increase the debt limit by the same amount. It is because we choose to invest it in Government securities that we do that.

Senator WALLOP. Would you yield?

Senator BYRD. I yield to the Senator.

Senator WALLOP. Mr. Secretary, would that not appear, though, to balance off someplace as some offset against the debt, or do we not consider Government securities offsets?

Secretary BLUMENTHAL. Yes, we do. The point that I am trying to make that we have the practice required in the statute that whatever assets that we have in the trust funds be invesed in Government securities.

We cannot buy General Motors bonds with it. We buy Government bonds with it. Therefore, as a result of that, when we come in here and ask for an increase in the debt limit we have to include in that the amount of securities that need to be issued to invest whatever surplus that has been created in the trust funds.

That is not a reflection of the deficit spending of the Federal Government, not totally.

Senator BYRD. If you would yield at that point, let us take your own figures. Now, your own figures show that the Federal funds deficit for fiscal year 1979 will be $55.2 billion. And it shows that the Federal funds deficit for fiscal year 1980 will be $49 billion and if you add those two together, you have a deficit in the Federal funds of $104 billion. Another way of putting this is that the Federal Government, for the general operations of Government, will spend $104 billion more than it takes in.

Now, the reason that the other figures show up in the press is that you offset that $104 billion deficit in general operations from the surplus in the trust funds, which do not come from general taxation. They come from the civil service retirement, for example. They come from the Highway Trust Fund; they come from the Unemployment Trust Fund where the employers put up all the money. When the Government cites the unified budget figure, it is to reducing the actual deficit in the cost of Government by the surplus in these trust funds.

And that is clearly reflected in your request to increase the national debt by $98 billion during the brief period of 18 months.

Now, let me ask you this. What is the basis for the administration's economic scenario for 1979, particularly the latter part of the year for 1980 and especially in regard to inflation and interest rates?

Secretary BLUMENTHAL. Our basic scenario with regard to inflation and interest rates is our best estimate of what will happen to inflation and hence to interest rates as the economy reacts to the fiscal and monetary policies that the President has committed himself to. In other words, the very tight reins on spending involving an increase in Federal spending of less than 1 percent, in real terms; involving a reduction of the current services budget by some $18 billion, will bring about together with tight monetary policy that is concomitant with that, concurrent with that, will bring about a slowdown in the economy.

In our judgment, that slowdown will lead, in our best estimate, from the figure of real growth for the last calendar quarter of 1978 which was a surprising 6.1 percent, to a growth in real terms of ony a little more than 2 percent in the last calendar quarter of 1978 compared to the last calendar quarter of 1979. That kind of a slowdown will bring out, together with the other anti-inflationary measures that the President has announced as a part of his program, will bring about a reduction in inflation to, we estimate, 7.5 percent roughly by the end of 1979 as compared to 1978 from the level of close to 9 percent that we have had.

So it is these tight policies that will bring the rate of the inflation down, that will lead to some easing of interest rates gradually. Of course, as inflation abates, and the economy slows down, we do not think we are going to get into a recession, as some people have predicted, but a substantial slowdown.

But it is our assumptions about the inflationary, the abating of inflationary pressures, that leads us to assuming that interest rates also then will begin to ease off.

Senator BYRD. Where do you put the inflation rate, as of today?

Secretary BLUMENTHAL. As of today, the latest figures I have, indicate that the Consumer Price Index is between 8 and 9 percent. I do not know what the next month's figures will be.

As to the last ones that we have, we have been seeing something like 8 to 9 percent.

Senator BYRD. How does the President propose to balance the budget in fiscal year 1981 if you will be having a unified budget deficit for 1980 of $29 billion?

Secretary BLUMENTHAL. Mr. Chairman, in the President's budget submission to the Congress, he has included in it the projections based on no further changes, for fiscal 1981 which, if memory serves me, would indicate that the budget would, in fact, be in balance. I think it is a $1.2 billion deficit, but roughly in balance.

That is a projection at this point. It is not a formal budget submission. We do that next year, and, as you indicate, we will begin very soon to work on the details of that.

The President continues to feel strongly that the budget should be brought into balance. He is committed to do that as quickly as possible. He certainly will work very hard, I am sure, to move strongly in that direction for fiscal 1981. Exactly what his program will look like, his budget, and whether it will have budget balance in it or something less than budget balance will depend, really, on the success of the anti-inflation program, the general state of the economy and a lot of other factors.

Also, it will depend on a decision which he and the Congress will have to make—he will have to propose, and the Congress will have to make—with regard to tax action. The President has said that there shall be no tax reduction for fiscal 1980—not that it would not be a good idea, but that we cannot afford it if we are going to get the budget into balance.

This issue will have to be reviewed again for 1981 to the extent to which the Congress vote tax reductions based on present assumptions, it would make the question of bringing the budget totally into balance by 1981 more difficult.

So the way to get it into balance, of course, would be for our assumptions to turn out to be right, for no other action to be taken. Then, according to our calculations, we would, in fact, be in virtual balance.

Senator BYRD. What are the Government's borrowing needs for this calendar year 1979?

Secretary BLUMENTHAL. The borrowing needs for calendar year 1979: in the first half of 1979, our borrowing needs will be reduced from what it has been in the previous year. We estimate that the Treasury will have to borrow about $10 billion in the first half and other sponsored agencies, including Ginny Mae, will borrow about $13.3 billion and sponsored agencies, excluding Ginny Mae, $8.3 billion for the second half of the year.

I do not know if I have those numbers handy. Let me see.

I am afraid that we do not have the amount for the second half available, but we can transmit that to you.

Senator BYRD. It will be $31 billion for the first 6 months of this calendar year?

Secretary BLUMENTHAL. That is right, if you include—no, wait a minute. No. It is including Ginny Mae, $23.3 billion, $23.3 billion for the first 6 months.

Senator BYRD. What was the $8 billion?

Secretary BLUMENTHAL. The $8 billion is you exclude Ginny Mae. In other words, I have given you, with Ginny Mae included, the sponsored agencies would add another $13.3 billion to the $10 billion. Ginny Mae, therefore, by definition, must be about $5 billion.

If you take Ginny Mae out, you only have $8.3 billion.

The answer to your question, for the first 6 months, new market borrowing net will be $23.3 billion including Ginny Mae and I do not have the corresponding ones.

Senator BYRD. New market borrowing, what about the rollovers?

Secretary BLUMENTHAL. We will have to provide that for the record.

Senator BYRD. That is a big figure, is it not?

Secretary BLUMENTHAL. Yes, it is a fairly large figure, but I suspect a smaller figure than for the same period a year ago, but I will give you the exact comparisons.

Senator BYRD. Thank you.

My time has expired. Senator Wallop.

Senator WALLOP. Thank you, Mr. Chairman.

Mr. Secretary, I am going to have to learn the way some of these go. From a country boy's standpoint, if I were to flip-flop my obligations around among accounts as you do, I think the banks back home would be more than halfway upset, so I am going to leave that until I learn how we, as a country, can get away with such accounting practices.

One of the things that concerns me, I was reading in this analysis of the budget, that we have a sharp increase in the percentage of foreign ownership of the U.S. debt. It is now 20 percent where perhaps as little as 6 years ago it was 5 percent.

Does that alarm you in any way?

Secretary BLUMENTHAL. Not really, Senator. There has been an increase. Some of that has been due to the fact that we have been running a current-account deficit. It is important that we get that under control.

The actual number is about 16.9 percent as of November 1978. What alarms me is the number that is behind it that we have been running a current-account deficit which is much too large. We are in the present year expecting, calendar year, to reduce the current-account deficit by about half from about $17 billion to $8 or $9 billion. That will be helpful.

Let me make this other point. One of the reasons why we have had this increase is that certain countries have had a surplus—the OPEC countries, for example. We are substantially better off if those funds are reinvested in the United States in Government securities than if they were invested elsewhere because we get the use of those resources and we certainly have a stronger dollar as a result of it.

Senator WALLOP. There must be a point, where the level of foreign held debt causes the country considerable concern. According to this analysis, at the end of 1978, foreign holdings of Treasury debt reached $121 billion which was 20 percent of the total debt held by the country, not 16 percent.

I do not quarrel with your figures. The only ones I have are the ones in front of me. That is a fairly rapid rise, if you can accept the figures in this OMB report. My question is do you expect those figures to continue to rise as rapidly as they have in the last decade?

Secretary BLUMENTHAL. I do not really think so, given the fact that we are substantially reducing and hopefully eliminating our current-accounts deficit to bring our external accounts into better balance. I do not really think that that kind of increase will occur.

I think that one of the things that is to be noted is that there is a pretty good distribution of the foreign-owned debt among a whole range of countries. The oil-producing countries have about $12 billion of it; Switzerland has about $12 billion. You will notice the three major countries other than the oil-producing countries are Germany, which has almost, as of November 30, $48 billion of that debt; the second one, Japan, $29 billion; and the third country is Switzerland, of $12 billion. And then others, the United Kingdom, Italy, France, Canada and so forth.

But those three countries, Germany, Japan, and Switzerland are also the three countries which have been running very large account surpluses. As those come down, so they have dollars which they invest in U.S. Government securities. That is the proper way to do it.

As those come down, they will not be increasing—the portion of the foreign debt will not be increasing as rapidly or at all, and the situation will improve, from that point of view.

I do not really think that it is a cause for alarm.

Senator WALLOP. At what point would it be a cause for alarm?

Secretary BLUMENTHAL. I cannot give you a precise figure. I think that if there were a continued rapid increase and we get to 25 or 30 percent, we would certainly become concerned because it would mean that we would continue to run very large current-account deficits and that is the matter that we need to be concerned with, for it is really very destabilizing to the international economic community, to exchange rates, and of the position of the dollar as a reserve currency.

Part of it is also that the dollar is considered, and the American economy has been considered, very central to the world economy and people frequently invest in the securities of the currency of a country which represents that central position in that world concept.

Senator WALLOP. There has to be a balance someplace between what you say is a benefit to the United States of having those dollars come back, but also between what we have to pay in interest, which adds to the general destabilization by the increase in the outflow of dollars.

Secretary BLUMENTHAL. Yes; I would certainly agree with you. If that number continued to increase rapidly, that would be a source of concern. I do not expect that it will.

Senator WALLOP. How much is the interest paid abroad?

Secretary BLUMENTHAL. We expect to pay roughly, to fund the national debt in fiscal 1980, it will involve about $65 billion. If you take 17 percent of that——

Senator WALLOP. Twenty percent.

Secretary BLUMENTHAL. 17 percent, 17 percent of the debt is held by foreigners.

Senator WALLOP. According to this, it is 20 percent at the end of 1978.

Secretary BLUMENTHAL. The latest number I have is at the end of November 30, 1978 and that was 17 percent.

Senator BYRD. The figure I have is $132 billion, which would be exactly 20 percent, would it not?

Secretary BLUMENTHAL. I gather that there is a technical point here. There is a difference in measurement.

That 20-percent number is an OMB measure which relates to the debt sold to private individuals as well and we have—the figure that I have been giving you for 17 percent are the official holders of Treasury public debt securities.

If you take 20 percent out of 65—60, because it would be 59 the previous year—that is roughly $12 to $13 billion.

Senator WALLOP. $13 billion; all right. What was the balance of payment last year?

Secretary BLUMENTHAL. The current-account deficit in fiscal—in the last calendar year, 1978 calendar year, was roughly $17 billion.

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Senator WALLOP. What was the U.S. balance-of-payments deficit last year?

Secretary BLUMENTHAL. On current accounts, $17 billion.

Senator WALLOP. $13 billion of that was interest?

Secretary BLUMENTHAL. I do not think you can count it that way, Senator. We have a very, very large surplus on invisible earnings. We earn a great deal more on our investments abroad than the foreigners earn on their investments here.

We have, if I remember correctly, a surplus on invisibles on earnings abroad which is something like $16 billion, $17 billion, so you have to take the net figure. On a net figure, we are big gainers by a substantial amount in that regard, if you take private and public.

This is a source of income for us. We would have a current account deficit that wold be twice as large if we did not have this kind of income from abroad.

Senator WALLOP. Let me ask one last question. How much of foreign debt is held in short-term instruments?

Secretary BLUMENTHAL. The majority of that. Let me see, do we have a majority? Yes.

If you take both marketable and nonmarketable out of $132 billion, $87 billion—again, as of November 30, $87 billion is in maturity under 1 year. $37 billion, 1 to 5 years; $6.7 billion, 5 to 10 years; and a very minor amount over 10 years.

Senator WALLOP. Thank you.

Senator BYRD. Thank you, Senator Wallop.

Before I yielded to Senator Wallop, we were discussing the government borrowing needs for 1979 and 1980. Looking over Mr. McIntyre's statement, I notice that he puts the amount to be financed for 1979 at $67 billion and the amount to be financed in 1980 at $61 billion.

What does the administration plan to do to increase the return on capital to encourage greater capital formation and to encourage greater productivity?

Secretary BLUMENTHAL. I think that is a very important issue, Mr. Chairman. We have, of course, through the actions of the Congress at the end of the last session a new tax law which puts some $7 billion of tax reductions at the disposal of business for that purpose.

In particular, the actions which the Congress took to decrease taxes imposed on capital gains income, the increase in the investment tax credit, the liberalization of the investment tax credit and the reduction in the overall corporate tax rate which increased tax flow should be, as the testimony before the Congress revealed, be very helpful in that regard.

Senator BYRD. Much of that, the President opposed.

Secretary BLUMENTHAL. I do not think that is correct, Mr. Chairman. The President proposed a reduction in the corporate tax rate.

Senator BYRD. The tax on capital gains.

Secretary BLUMENTHAL. The President did not oppose, and agreed and signed a bill that had a compromise on capital gains in it. The President proposed a liberalization of the investment tax credit which is probably, in my judgment, the single most important factor to increased productivity.

Senator BYRD. Look into the future. What is being proposed?

Secretary BLUMENTHAL. We are making available substantial funds for research and development.

Senator BYRD. Excuse me?

Secretary BLUMENTHAL. We are making available substantial funds for R. & D. that will certainly tend to improve productivity and in addition to that, the President is putting a great deal of emphasis on getting a better handle on Government regulations that are cost-increasing to analyze them from the view of cost-effectiveness that will increase productivity in this country; in addition to which, the whole anti-inflation program to the extent that the worst inflationary expectations and brings the deficit down and all the things that go with it will, in itself, provide the kind of greater confidence and better psychology that should improve productivity in the United States.

Senator BYRD. Would that also include capital formation?

Secretary BLUMENTHAL. I think certainly it would. If I were a businessman, and certainly as a businessman to the extent that I do not have to worry about everything going up in the future, I would have more security, more confidence, that I can make an investment and get a return on it and not have it eaten up by inflation.

Senator BYRD. I am confused by what you mentioned—research and development. What are you speaking of there?

Secretary BLUMENTHAL. I am referring to the fact that the Government each year spends a substantial amount of money directly and indirectly to encourage research and development in American industry.

Senator BYRD. Through the budget process?

Secretary BLUMENTHAL. Some of it is through the budget process, by providing R. & D. funds to various contractors, defense contractors and others.

Senator BYRD. Well?

Secretary BLUMENTHAL. Would you like me to provide the detailed numbers on that? I would be glad to do that for the record.

Senator BYRD. The R. & D. budget—you are speaking of the Defense Department?

Secretary BLUMENTHAL. That would be one important area.

Senator BYRD. I was speaking of—my question addressed itself to the private sector and you brought in the R. & D. which is a Government program.

Secretary BLUMENTHAL. Many private companies, Mr. Chairman, to the extent to which they have some Government business, whether it be for defense or for space or for other areas, including energy—for example, in the energy area—get important help and resources from the Federal Government in their research and development efforts.

It is to that whole area of Government support which continues, particularly in the energy area, at a very high level, in fact, at an increased level, that I was referring.

Senator BYRD. In the past, estimates of the amount of interest to be paid on the national debt have been based upon the current interest rates. What figure was used in projecting interest rate charges in the new fiscal year 1980 budget?

Secretary BLUMENTHAL. In the fiscal year 1980 budget, we took the present rate of interest and we held it constant with inflation. In other words, we assumed that we made a calculation as to what the effect on interest rates would be based on the budget and the economic projections upon which the budget was based, and we assumed and we related the interest costs of the Federal Government to the 90-day bill rate. That is coming down, as we estimated it to come down, to a level of, I believe it is 7.9 percent—yes, 7.6 percent by the end of fiscal 1980—so we reduced the rate of interest that the Federal Government would have to pay gradually to be in conformity with that level, eventually going down to 7.6 percent.

Senator BYRD. What does it figure out to on an average?

Secretary BLUMENTHAL. I do not know if I have an average.

The average for the fiscal year would be 7.9.

Senator BYRD. If you take these interest figures, I think they are very interesting and significant. Let's take again 1970. The interest in the budget for the Government to pay was $20 billion. Now, in 1975, the interest was $33.5 billion.

Now, for 1980, you project $65.7 billion which is almost double in that 5-year period. In other words, the American people are paying $65 billion in interest charges on the national debt, $65 billion, and to put that in perspective, that is almost precisely one-half of our total defense spending for that year.

Secretary BLUMENTHAL. I think it is terrible, Mr. Chairman. I agree.

Senator BYRD. To get back again to the question of Senator Wallop, as of last May when this subcommittee held similar hearings on the statutory debt ceiling the Treasury indicated that almost $120 billion of public debt securities were held by foreigners.

I have a chart supplied by the Treasury on January 6 of this year, and that puts foreign and international security holders at $132 billion. That has gone up significantly during that period, has it not?

Secretary BLUMENTHAL. It has. It has gone from, at the end of 1977, it was $109.6 billion, in November 1978, $132.4 billion, so it has gone up a total of $22.8 billion.

Senator BYRD. Could you list the countries as to the amount of interest that is paid to it? Do you have such figures as those?

Secretary BLUMENTHAL. We could certainly provide that. I do not have it calculated in terms of interest. I have the data for the individual countries in terms of the amount of that $132.4 billion. I can do it in terms of interest.

Senator BYRD. Just for the interest of the committee at the moment, could you just indicate which countries hold the larger amounts?

Secretary BLUMENTHAL. Germany would be the largest, Japan would be the second largest. Switzerland and the oil-producing countries the next largest, and then you drop down to the United Kingdom, France, below that.

Senator BYRD. Does Italy hold any of our bonds?

Secretary BLUMENTHAL. Italy holds some, but not very many; $4.1 billion, down from $4.8 billion, out of that $132 billion.

Senator BYRD. Is the dollar still dropping vis-a-vis the lira?

Secretary BLUMENTHAL. No. Actually, the dollar compared to the situation on November 1 of last year has firmed substantially against all currencies, certainly against the lira, so it has not been dropping recently.

Senator BYRD. Thank you, sir. My time has expired.

Senator Wallop?

Senator WALLOP. Mr. Secretary, I just have one other question. You earlier noted in response to a question of Senator Byrd of the timing of the deficit over the business cycle was important with respect to the issue of whether deficits cause inflation.

Now, it appears that we are in the fourth year of a period of economic expansion and it is one of the longest periods of expansion in our history, yet we are still running a higher and higher deficit.

My question is, does this not mean, given your earlier statement, that the deficit does contribute to our current problems in inflation?

Secretary BLUMENTHAL. I have no doubt that it is, Senator. The chairman put a very precise question to me, and I was constrained to therefore give as precise an answer as I could. The precise question that he put to me was do I not agree—I am paraphrasing him—do I not agree that the Federal debt, the total debt and the deficit are always the single largest cause of inflation in the United States and my answer—I thought about it for a minute and my answer was no, I cannot agree that it was always the—always the—single most important factor.

Senator WALLOP. Would you agree that it is usually one?

Secretary BLUMENTHAL. I really would not want to be pinned down quite that way. I think it really depends. I think the point that I made, I really stand by the point that I made. In 1973 and 1974 when the OPEC countries quadrupled the price of oil, that was the singlest largest cause of inflation. When we have major crop failures in the world, that can be the single most important factor.

In the depths of recession, a government deficit is not the most important factor causing inflation. Obviously at the present time it is a very important factor.

I would also say—which I did not say before—I wish that we knew exactly what causes inflation. The problem is that no one, neither the Congress or Government officials or anybody else; everybody thinks they know, but nobody knows. It is hard to make a definitive statement that we know exactly what is generally the most important factor.

Senator BYRD. For the sake of accuracy, would you yield just a moment?

Senator WALLOP. Yes.

Senator BYRD. Here is the precise question—and I did not use the word "always." Here is the precise question.

Do you agree or disagree that the accumulated Federal deficit, the interest required to fund it and the size of the national debt, is the biggest single contributor to inflation?

Obviously, I am speaking of today.

Secretary BLUMENTHAL. I see; is it at this point. I thought you meant is it, which means, is it always?

Is it at this point the single most important contributor? I would also have to say I do not know. It is one of the most important contributors. I do not know whether it is the most important. I do not know enough about economics. Maybe others do; I do not know enough about economics and the causes and cures of inflation to be able to make a definitive statement like that.

Senator WALLOP. I do not agree with the conclusion in a given year an event like the OPEC price increase would, but the one continuum that goes all along, all the time, that we consistently have in modern times, is this increasing deficit and obviously the interest required to service it.

Secretary BLUMENTHAL. I would say that it is one of the principal reasons. I do not want to be recorded here as saying it is not important; I think it is very important. I just want to be careful in pointing out that we do not know enough about it to be quite definitive. To cover myself, it is one of the principal reasons—it generally is, it almost always is. We ought to get rid of it, and it is a very, very important and difficult issue and clearly is inflationary.

Senator WALLOP. We will leave it at that, but it does seem that deficit spending is the one constant that is around, and nobody has tried to deal with that. Crop failures we have; OPEC prices we have; but they show up for 1 year or 2 years. One thing that seems to go on forever and we do nothing about, is inflation.

SecretaryBLUMENTHAL. We have had years in which we have had several hundred billion dollars of Federal deficit and very little inflation. In other words, you cannot make a cause and effect relation between the size of the Federal debt and the level of inflation. We have had long periods where the debt was growing and where the rate of inflation—you take the period 1954 and 1964. During that period, the debt increased by 50 percent, I believe. The interest on the public debt increased by 50 percent accordingly.

We had very little inflation during that period. Other events were important to hold it down.

That is not to say that the kinds of deficits we have been having and the way that it has been increasing has been a critical factor in increasing inflation. It has been. I resist saying that it is the factor.

Senator WALLOP. With regard to the debt and the interest on it, are we not indulging ourselves in another piece of shell game wizardry when we came up with the administration's figure on calculating interest and therefore the amount of interest on the national debt that we will pay?

Is it not a break from the traditional way of figuring it?

Secretary BLUMENTHAL. I think it is a change, but not a shell game wizardry. A budget is supposed to reflect reality. If we put in a figure that is totally arbitrary, I know we would be called to account for that. We all know that we are, at this point, at a very high level of interest rate in this country. Unless the economic program of the administration is totally illusory; unless we assume that we cannot bring inflation under control at all, that we cannot bring about a reduction in the rate of growth in the economy and therefore a decrease in the rate of interest; to posit the same rate of interest into the future as we know the economists coming down here is to be unrealistic.

I think to say that the rate of interest will remain constant in real terms from the present high level, but will decline as inflation declines is to be realistic. I do not think that is wizardry; that is logical.

I, therefore, think it is quite proper. The Congressional Budget Office also makes assumptions about what happens to the rate of interest. All we did, and OMB did, together with the Treasury, was to make what we thought was the most realistic assumption, which was to hold real interest rates constant and to reflect reduction only as we assumed inflation was gradually reduced in the country.

Senator WALLOP. There is a difference between totally unrealistic and being overly optimistic. What if there is a half a percent off. which would seem likely based on last year's performance and your forecast of the rate of inflation?

Secretary BLUMENTHAL. In previous times, when we took an arbitrary number and did not change it at all, one thing we knew was that we would always be off—and frequently we were low when inflation increased. That has happened a number of times.

Senator WALLOP. You admit that last year's forecast of inflation was exceedingly optimistic in light of events that took place?

Secretary BLUMENTHAL. As a result, we underestimated interest rates using the old system. We could be accused of wizardry.

Senator WALLOP. This is even more——

Secretary BLUMENTHAL. No.

Senator WALLOP [continuing]. More of an underestimate.

Secretary BLUMENTHAL. I do not think so at all. What we are, in fact, substituting is a system under which we hold real interest rates constant and only carry through the logic of our economic forecasts. Before, we ignored that and we simply posited an interest rate that would be constant throughout, even when the rate of inflation was increased.

We assumed some increase, but the rate of inflation was even greater so we had even a greater shortfall than we had put into our assumptions.

I do not think trying to make a realistic assumption about interest rates, so long as they are the same as our assumptions about the course of the economy, you can say that we are being too optimistic about both, which I guess that is what you are saying. I understand that.

Senator WALLOP. Based on the track record of last year's forecast.

Secretary BLUMENTHAL. Last year we were too pessimistic about the rate of growth, too pessimistic about the unemployment rate, and too optimistic about inflation. We had worse inflation than we had expected. We had better unemployment performance and better growth performance than we would have thought.

I am sorry—not on growth. Actually, on growth we have been low, and over the years, it has been the other way around. We cannot be totally accurate, nobody can.

Whatever you and I decide today, we will be wrong somehow.

Senator WALLOP. Thank you, sir.

Senator BYRD. In looking over some figures, I find this very interesting. The current budget, the budget that Congress is working on now, carries a figure of $65.7 billion as the amount of interest costs of the American taxpayer on the national debt today. Twenty years ago, the total Federal fund receipts for the entire Government was $65.8 billion, almost identical to what it is costing the taxpayers today to finance this gigantic national debt.

The total cost of the general operation of the Federal Government in 1959 was $77 billion. Today, the interest—first the interest—on the national debt today is $65.7 billion.

The key to controlling inflation is fiscal discipline and expenditure of control. The fiscal year 1980 budget does not reduce spending. It only limits spending increases to roughly 9 percent. The real reason for the lower deficit, is an increase in tax revenues. Should we not be trying to bring spending down and reduce the deficit that way rather than increasing taxes?

That is what is happening.

Secretary BLUMENTHAL. Mr. Chairman, I certainly feel strongly that the way to bring about budget balance is by reducing spending rather than by increasing taxes. I think that that has to be the goal. That is the President's goal. He does not want to balance the budget by having taxes go up.

I think that we have to be fair. Out of the $531 billion in the spending proposals of the President, there are $400 billion over which he has no immediate control because they are subject to previous statutory commitments that he has to observe. He is operating in a very narrow window to bring down in that narrow window the spending from current services levels by $18 billion.

That is a Herculean task and represents considerable progress. It is a smaller increase than we have ever had before, virtually no increase in real terms, and it is a major step on the road to bring that budget into balance.

Yes, it is. There was a great deal of complaint that he is cutting into vital programs. We do not think he has. I think the President has made the right decisions and distributed that reduction well. There are many who disagree with him.

It would be very difficult to say we can reduce defense spending for defense spending is very important for our security.

I do not think that anyone would want to see the President's proposal for our defense posture weakened. There are multiyear commitments that have been made by the Congress that the President has no flexibility on and must observe, so what he is working with is very, very narrow and he has gone a good ways. He has cut $18 billion out of that, and that is a lot.

Senator BYRD. He has not cut spending at all, Mr. Secretary. He has increased spending. All one has to do is read the figures. The figures show an increase of 9 percent. The President himself stated in 1976 that we had a swollen and bloated budget at that time. Since that time, it has been increased 22 percent and this new budget increases it another 9 percent, so Mr. Carter has not reduced spending.

The reason the deficit has gone down is that taxes have been increased and taxes have been increased because the American people have been thrown into higher tax brackets by the rate of inflation. To say he has reduced spending is not correct; he has increased spending.

Secretary BLUMENTHAL. The Congress has voted in large areas of the budget forced increases which are related to inflation. Now, the President has no flexibility in that area. How can he reduce spending when the Congress has told him to automatically increase the spending?

Senator BYRD. You are the one that said he has reduced spending by $18 billion. He has not reduced spending.

Secretary BLUMENTHAL. If you take the current services, if you take the present programs and add no new programs, no additional spending to it, the budget would have been $18 billion more.

Senator BYRD. I am talking about the money in the budget that the American people are being asked to finance. You do not deny that there has been a substantial increase in the budget, do you, for expenditures?

Secretary BLUMENTHAL. There are more nominal dollars in the budget this year than last year on the spending side.

Senator BYRD. The Congress, by resolution, set $488 billion as the expenditure for side fiscal year 1979. This new budget calls for $532 billion in spending for fiscal year 1980.

That is a $44 billion increase.

Secretary BLUMENTHAL. Almost all of that is inflation mandated by Congress.

Senator BYRD. Whatever it is, it is a 9-percent increase in spending, a $44 billion increase in spending.

Secretary BLUMENTHAL. It is in nominal terms; that is correct.

Senator BYRD. How many Eurodollars are currently outstanding?

Secretary BLUMENTHAL. We are not entirely sure, but we think it is in excess of $500 billion.

Senator BYRD. Some experts believe that the Eurodollar interest rate is the best measure of U.S. inflation. What is your view on that?

Secretary BLUMENTHAL. I do not believe that is correct, Mr. Chairman. Only a portion of the dollars available in the Eurodollar market are owed to Americans. Some of those are dollars owed by some non-Americans to other non-Americans, and second, a portion of that total amount is due to previous deficits in the U.S. external accounts and the current accounts.

A lot of it is due to the fact that the United States, for a long time, has been the only major free capital market in the world and those resources were borrowed by foreigners in this market because ours was an economy in which they had confidence and those resources were available and they helped the development and the growth and the stability of the world economy to a very important extent.

If those resources had not been available, the Western World would be in much poorer shape than it is. So as a measure of U.S. inflation, I certainly would not think that the float in the Euromarket of the dollars available in the Euromarket can be used as a measure of that at all.

Senator BYRD. The domestic prime rate was 7¾ percent when 1978 began. By December, it was up to 11½ percent. Why?

Secretary BLUMENTHAL. It is a reflection of the increasing tightening of monetary policy as the monetary authorities in parallel with the administration tightened up on the supply and the cost of money to counteract these inflationary pressures.

Senator BYRD. Is it correct to say that the prime rate, generally speaking, rises to keep even with, or slightly above, the true inflation rate?

Secretary BLUMENTHAL. I think there is a relationship that you can establish between what happens to interest rates and to the rate of inflation, but interest rates also are a reflection of the policies being followed by the monetary authorities. An interest rate is a price for money, demand and supply for money, but the supply and demand for money are also influenced by the specific policies which the monetary policy authorities follow.

Senator BYRD. Mr. Secretary, the financial press has published statements by German central bankers that intervention to support the dollars has already totalled $50 billion. What has the administration done to support the dollar so far?

Secretary BLUMENTHAL. On November 1, the administration announced a series of measures to bring about greater strength and stability of the dollar. Those measures have been quite successful. They involve, first of all, a commitment to tight fiscal and monetary policy. That has been carried through since then. That is the most important fundamental step that had to be taken.

Second, the development of a series of measures including the borrowing abroad of Treasury of foreign-denominated securities, the drawing on the IMF, higher sales of gold from the U.S. gold stock, an increase of swap lines with a variety of countries, Germany, Japan, and Switzerland in a coordinated program of intervention in the foreign exchange markets, not to peg the rate of the dollar to other currencies, but to be sure speculators would not get the better of it, and to bring about greater strength and stability in the dollar, and that has happened.

Senator BYRD. Assuming this figure, $50 billion is accurate, how is the $50 billion spent?

Secretary BLUMENTHAL. That is a gross figure; that is not a net figure, and when the authorities in foreign countries spend any money, it is that they sell their currency and buy dollars at a particular point in time and other times they reverse that. They buy their currency and they sell dollars and the number that was mentioned was a gross figure, not a net figure.

Senator BYRD. My time has expired, but I want to take this opportunity to welcome to this meeting a new member of the committee, Senator Boren of Oklahoma. We are very pleased to have you.

Senator BOREN. Thank you, Mr. Chairman. I would like to ask one or two questions. I appreciate being able to sit in this morning.

Mr. Secretary, you talk about the fact that so many of these increases are locked in, geared to the cost of living, and have already been enacted in statutory form. What percentage of the increased spending in the budget this year would you say is due to locked-in increases that are statutorily mandated?

Secretary BLUMENTHAL. Seventy-six percent, Senator.

Senator BOREN. Seventy-six percent.

Do you think that we can ever adequately attack the problem of bringing the budget into balance without seeking authority for the President, through proper legislation, to get control of these items that are automatically locked in? That is one question.

Also, has any thought been given to seeking such authority for a more flexible approach so that these will not be locked-in increases in the budget?

I realize there are certainly political problems involved because the groups involved and benefited would be then saying that they were being called upon to make more than their fair share of sacrifice to bring inflation under control. But this becomes a vicious circle. Who is going to take the first step to bring inflation under control?

This is the same problem that we are trying to deal with in the area of wage negotiations. Without taking a step like this, are we really and truly ever going to bring prices down? After a year or two, if you bring down the rate of inflation people would not be so interested about the cost of increases being built in because they would not have such excessive ones to deal with.

Can you ever really break the cycle without biting the bullet and coming to grips with the built-in increases in the budget?

Secretary BLUMENTHAL. This is an important question. I hope you will direct it to my colleague, Jim McIntyre, the Director of OMB, who I am sure will speak to this subject with great feeling for he has to struggle with the implications of that most directly.

My own view would be—and I would hope that you will not find that his view is different than mine—my own view would be that it is a very important issue, that to the extent to which the President can be given greater flexibility, in order to get better control of the budget, he ought to be given that flexibility.

I recognize that it is very difficult to do once the law has been written otherwise, but I think that it is an important issue that needs to be addressed, because, as you say, it is a vicious circle and we cannot get all of it.

I note with some regret that the tendency in the legislation over the last several years has really gone the other way, and the President has been deprived of more and more flexibility and the Congress has increasingly mandated certain actions in that regard.

It is for this reason that it is so difficult; that is to agree with the thrust of the question of the chairman who, rightly, points to the large deficits but who also, I hope, understands that some of these deficits are due to the kind of strictures that have been placed on the President's ability to deal with the budget. It is a real dilemma. I think we ought to go the other way, to some extent, in a fair and proper manner while still protecting those who can least protect themselves.

How that is best done, I hope that you will discuss with Mr. McIntyre who, with his staff, has to take the central responsibility for that kind of process.

Senator BOREN. Have there been any proposals from the administration for the assertion of such control?

Secretary BLUMENTHAL. Not in an overall way. In certain specific instances there have been and, of course, we do review benefit structures and various programs from time to time. We have a very modest proposal in the social security area at the moment which is causing a lot of discussion. It involves some $600 million or $700 million rising to several billion over the next several years which really ought to be changed, and I hope the Congress will accede to that request. It would be helpful.

If not, we are locked in in that area, in the social security area, at one example.

I think we ought to look at different areas and see where we get greater flexibility.

Senator BOREN. Thank you.

Senator BYRD. Thank you, Senator Boren. The committee is glad to have today also another new member of the committee, the Senator from Rhode Island, Senator Chafee.

Senator Chafee?

Senator CHAFEE. Thank you, Mr. Chairman.

Mr. Blumenthal, I just want to ask you a couple of brief questions in line with your testimony as I heard it covered. I regret that I was not here for the entire presentation.

It seems to me that administration officials sing a pretty consistent song about the entitlements—that is the term I use. Is that the correct code word for locked-in programs in which you are committed to spend, entitlement programs? What is the word you use; I use entitlements, is that wrong?

Mr. McINTYRE. Uncontrolled.

Senator CHAFEE. Uncontrolled.

Yet, from the time I have been here and you have been here, Mr. Secretary, I have seen a couple of uncontrollables go on the books with great fanfare from the administration. I particularly think about the increases in the black lung disease program a year ago. That is a program which I do not think anybody ever realized except those of us who fought it on the floor and paid any attention to what we were getting into.

That is going to come back upon this administration and other administrations in the future, yet the President accepted that program. There was a splendid Rose Garden signing ceremony and there we have one more uncontrollable on the books.

Where was the administration on that one?

Secretary BLUMENTHAL. I must confess that I really do not know enough about that program to be able to say where we were. Would you ask my friends at OMB?

Senator CHAFEE. All right.

The next one, it seems to me that you are one of the intimate advisors of the President on financial affairs. You are held to be so in the press and I am confident that it is true. Yet one of the great regrets that I have about the President in domestic affairs is his failure to veto more bills.

I would suspect in the past 2 years, the President has not vetoed more than two significant bills. He vetoed the carrier and the water projects.

If you can give me another significant veto, I would like to hear it.

Secretary BLUMENTHAL. There was what you call entitlements, I call pork barrel. There was a pork barrel bill, a public works bill, I guess.

Senator CHAFEE. That is the one I am talking about. That is true. He vetoed the carrier, and he vetoed the public works water projects. Is there another?

Secretary BLUMENTHAL. No. The water projects—at the end of the last session, there was a public works bill which is a different one, which is a very major one, where in effect people said that that was practically impossible. No President had ever, at the end of a session, successfully had a veto sustained on broad legislation at this time, and he did.

I think that the President has increasingly been willing, and found it necessary, to use his veto powers and he has indicated publicly that he will do so even more frequently in the future, particularly if he sees his spending proposals in his new budget violated. It is very important that that not be done.

Perhaps in the early months, he did not do enough of it. I think you have seen an increasing trend. If you are concerned about that, I do not think there will be a dearth of vetoes. I hope there will not be a dearth of vetoes, because you are observing—the Congress is observing—these limitations that he is recommending.

If they are not, I am sure that he will consider vetoes very seriously.

Senator CHAFEE. My point, Mr. Secretary, if you could go back to tell the President and encourage him to use the power the Presidency has to solve some of these problems, it is not enough to throw it back on Congress, as you have done frequently in your testimony, pointing out that the Congress has done this and the Congress has done this.

Certainly the Congress is not always responsible. After the President talked a good bit about vetoes last year and he was going to get tough on spending, a highway program went through this Congress that the Senate fought against. The Senate came in with a vastly reduced amount from what the House did. We got it down, not as far as we wanted. Again, the President did not veto, but signed it.

So I wish that there was more performance by the President, that his actions would follow his talk. He has more support in this place than he suspects as far as sustaining a veto. He may have vetoed the public works bill at the end of last year, but right after that significant action, he signed the highway bill.

So I would hope that you would convey, as one of the intimate advisors tell him to act like a President and do more vetoing if that's what it takes to keep spending in line. Certainly, we have our burden to carry up here if we are going to balance this budget, but I think the President has to be a little tougher on these things.

Secretary BLUMENTHAL. I will convey that. I think that you will not have to find the President at all reticent in that regard. I think that his record is good on this, and you will find that on his budget.

His commitment to austerity and to tight limits and to getting the deficit down and to bring it into balance is very, very strong and this is not talk, this is reality. I think people are finding out it is reality, and he will follow through on it, I assure you.

Senator CHAFEE. We will find it out when we see what happens, but his record is not very good in view of the two vetoes. If you can come up with more than two, I would be glad to hear them, but, in my judgment, there are only two vetoes of any significance.

I think he vetoed a bill dealing with rabbits, but I do not count that as significant. I think that dealt with rabbit meat and licensing of the same.

As far as significant spending vetoes, if you can name more than those two, I would be glad to hear them.

Secretary BLUMENTHAL. There is a list that I have just been handed of bills that were vetoed. There are quite a few. I can go through them, or submit them to you for the record.

Senator CHAFEE. How many in all in 2 years?

Secretary BLUMENTHAL. The 95th Congress——

Senator CHAFEE. Twenty?

Secretary BLUMENTHAL. Only the ones with budget costs; 13.

Perhaps it is somewhat of a false measure, because sometimes the intelligence that he will veto leads in itself, that has happened in many instances.

The President has preferred, I think quite properly so, to indicate what we will do to work these things out rather than to actually go to the veto.

Senator CHAFEE. He has not done that as much as he should have. That is my message; I am not going to go any further. Would you convey to him that he has a lot of support here in these cuts to use the power of the Presidency more than he has in the past.

Secretary BLUMENTHAL. We will tell him. Thank you.

Senator BYRD. Thank you, Senator.

Senator Wallop?

Senator WALLOP. No questions.

Senator BYRD. I just have two or three additional questions, Mr. Secretary, and then we would be through. If we are unable to control inflation this year, what will happen to the dollar?

Secretary BLUMENTHAL. I try to avoid predicting what will happen to the dollar. That is not a very profitable thing to engage in.

If we cannot control inflation and if we cannot bring down our current-account deficit, the dollar will clearly be weaker in the foreign exchange markets than it would be, and we expect it to be, as the success of our overall program becomes evident.

It is critical—as a matter of fact, it is a vicious circle, because as that happens and the dollar weakens, it adds to inflation again. We think about a full percentage point has been added to last year's inflation because of the substantially weakened dollar, so that it is critical to be successful in the fight against inflation that we strengthen the dollar, and it is critical to strengthening the dollar that we be successful in the fight against inflation. Those two things cannot be separated.

Senator BYRD. In view of the Government's efforts to strengthen the dollar, have you given any thought to a stronger effort to bring Eurodollar's home?

Secretary BLUMENTHAL. We are carefully studying and in examining the Eurodollar market, in order to insure that its operation will not weaken but strengthen the international system, that it will not be a source of instability but rather a source of greater stability in the international system, and obviously we are interested in assuring an inflow of dollars for that will lend added strength to the dollars and international exchange markets.

We are studying those problems and seek to develop programs that bring that about.

Senator BYRD. With some $500 billion of Eurodollars, is that today a source of stability or instability?

Secretary BLUMENTHAL. It can be a source of instability and has been at certain times, Mr. Chairman.

Senator BYRD. What is it now?

Secretary BLUMENTHAL. Given the firmer and more stable tone of foreign exchange markets it has not been a source of instability in the very recent past, but it can be. It is not something that is very worrisome, but something that needs to be watched and, as I say, certainly as the confidence in the U.S. economy in getting inflation under control increases, there will be a natural tendency to invest more in this country and for dollars to flow back.

Senator BYRD. It is a lack of confidence in this country that is forcing American dollars overseas?

Secretary BLUMENTHAL. It is a lack of confidence in the strength and stability and in our ability to bring inflation under control in this country that is causing people not to invest here and to bring resources back into this country that they otherwise would bring here.

Senator BYRD. It goes back to a question of confidence?

Secretary BLUMENTHAL. Confidence and an ability to bring inflation under control, yes.

Senator BYRD. The Wall Street Journal today has an interesting piece on the European view of the dollar and our activities to defend the dollar, and so forth. Among other times, the spokesman for West German Chancellor Helmut Schmidt, and quotes him as saying the United States fully recognizes its obligations to defend the dollar. He is speaking now, today, not in the past.

What additional steps over and beyond what has already been done has been taken, or will be taken, to defend the dollar?

Secretary BLUMENTHAL. We think that the program which is now in effect which is being implemented in cooperation with the Federal Republic as well as Switzerland and Japan and other countries is adequate and successful in bringing about strength and stability of the dollar in international exchange markets and we will pursue that policy, since we are determined that the kind of situation that exists as of the end of October of last year not reoccur.

We will obviously take whatever additional measures that are necessary to prevent that from happening and we reserve the right to do that, but we do not signal before hand what it is, because to do so would be to weaken the impact of whatever it is that we might additionally have to do.

Senator BYRD. Just one additional question and that deals with a new development with the President's action in regard to the People's Republic of China. I suppose that there are large amounts that are owed to the United States, either private American citizens or the U.S. Government, by the People's Republic of China. Could you indicate the amount?

Secretary BLUMENTHAL. Yes, sir.

This relates to the question of settling claims which Americans have for property that they lost in China and which claims have been validated and certified by the Foreign Claims Commission on the one hand, and by assets which were of China which were in the United States and which were blocked by actions of the U.S. Government.

At the same time, that issue has to be settled almost as a prerequisite to the resumption of normal and economic trade relations between the two countries, otherwise there would be considerable legal difficulty in carrying out such economic relations. The total amount of claims that have been certified by Americans against the Chinese amount to $196.6 million.

The United States blocked assets of China in the United States of $80.5 million. However, given the long period of time when that blocking of these assets occurred, and given the variety of legal ownership, it is not at all clear that some of that $80.5 million is still available, nor is it clear who has title to it.

Some of it is in the hands of third countries. It belongs to third country nationals, some of whom were merely residents in China, others of whom were resident out of China.

While we have nominally $80.5 million blocked we do not in fact have $80.5 million available to us.

The question that has to be resolved between us is how the claims of Americans are to be satisfied and what portion of the $80.5 million that we have nominally blocked will be available for that purpose.

This is a difficult negotiation which was begun just shortly before the Vice Premier came here. The matter was discussed briefly between the President and the Vice Premier I had discussions with his foreign minister during that period and that is one of my main assignments when I go to Peking in about 2 weeks.

We have normally settled these claims and asset questions on the basis of a package deal and we will have to do that again. The precise nature of that package deal, I cannot tell you. I can say that obviously we will try to do the best we can for the American claimants, but these claimants know that, based on past settlements of this kind, they will only get a portion of what it is that they are claiming, going back to something like 30 years ago, and I think that they will be glad to get it when they do.

Senator BYRD. Thank you, Mr. Secretary.

I think that the most significant part of your statement is on page 3 of your written statement and I will just end by making a comment on it. It shows, which we have already discussed before, but it shows that between now and October of 1980, namely, a period of 18 and 19 months, the national debt will increase by $98 billion.

I think that is the figure that the American people might want to bear in mind, that in that short period of time the national debt, which is now approximately $800 billion will increase another $98 billion in that short period of time, and that the interest charges which the American taxpayers on that is now a total of $65 billion.

Thank you, Mr. Secretary. We appreciate your being here today.

Secretary BLUMENTHAL. Thank you.

[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 here today to advise you of the need for an increase in the public debt limit. I am also requesting an increase in the authority to issue long-term securities in the market and an increase in the statutory interest rate ceiling on savings bonds. After discussing these specific debt management requirements, I would like to comment on our recent issues of securities denominated in foreign currencies. Then, I will discuss the need to strengthen the process by which Congress establishes the debt limit.

Debt limit

Turning first to the debt limit, the present temporary debt limit of $798 billion will expire at the end of March, and the debt limit will then revert to the permanent ceiling of $400 billion. Based on our current estimates, however, the $798 billion ceiling will be exceeded sooner—around March 9. Legislation by that date will be necessary, therefore, to permit the Treasury to borrow to refund maturing securities and to pay the Government's other legal obligations. This assessment on timing is virtually identical to that which I presented to you in testimony last July. Thus, Congress was made aware at that time that the $798 billion limit probably would not be enough to carry us through March 31.

Let me explain why legislative action is needed by early March. The debt subject to limit actually would exceed the $798 billion sooner—by the end of this month—unless we reduce our normal $15 billion cash balance assumption.

As a practical matter, we believe that we can get through this month without any serious debt limit problems, since the assumed $15 billion cash balance is more than we need for this period.

Our cash balance requirements fluctuate substantially, because of the seasonal flows of tax receipts and outlays, but we think that we can safely run the cash balance down to approximately $7 billion at the end of this month. At the end of February last year our cash balance was $7.4 billion. On this basis, the debt subject to limit could be kept below $798 billion until approximately March 9.

In the circumstances, I strongly urge that Congressional action on the debt limit be completed as soon as possible.

Over the longer term, our current estimates of the amounts of debt subject to limit at the end of each month through the fiscal years 1979 and 1980 are shown in the attached table. The table indicates that the debt subject to limit will increase to $833 billion at the end of September 1979, and to $893 billion on September 30, 1980, assuming a $15 billion cash balance on those dates. These estimates are consistent with the budget estimates which the President submitted to Congress on January 22. The usual $3 billion margin for contingencies would raise these amounts to $836 billion in September 1979, and $896 billion in September 1980. Thus, the present debt limit of $798 billion should be increased by $38 billion to meet our financing requirements through the remainder of fiscal 1979 and by an additional $60 billion to meet the requirements in fiscal 1980.

The amount of the debt subject to limit approved by Congress in the September 1978 Budget Resolution is also $836 billion for the fiscal year ending September 30, 1979. Yet, since the Budget Resolution does not have the force of law, it will be necessary for Congress to enact a new debt limit bill before the Treasury can borrow the funds needed to finance the programs approved by Congress last September.

Bond authority

I would like to turn now to our need for an increase in the Treasury's authority to issue long-term securities in the market without regard to the 4¼ percent ceiling.

Under this Administration, the Treasury has emphasized debt extension as a primary objective of debt management, a policy which we believe to be fundamentally sound. This policy has caused a significant increase in the average maturity of the debt, reversing a prolonged slide which extended over more than 10 years. In mid-1965, the average maturity of the privately-held marketable debt was 5 years, 9 months, because huge amounts of new cash were raised in the bill market and in short-term coupon securities. Since that time, despite the continuing large needs for cash of the Federal Government, Treasury has succeeded in lengthening the debt to 3 years, 4 months currently.

Debt extension has been accomplished primarily through continued and enlarged offerings of long-term bonds in our mid-quarterly refundings as well as routine offerings of 15-year bonds. These longer-term security offerings have contributed to a more balanced maturity structure of the debt in order to facilitate efficient debt management in the future. Also, these offerings have complemented the Administration's program to restrain inflation. By meeting some of the Government's new cash requirements in the bond market rather than the bill market, we have avoided adding to the liquidity of the economy at a time when excessive liquidity is being transmitted into increasing prices.

Congress has increased the Treasury's authority to issue long-term securities without regard to the 4¼ percent ceiling a number of times, and in the debt limit act of August 3, 1978, it was increased from $27 billion to the current level of $32 billion. To meet our requirements in the remainder of the fiscal year 1979, the limit should be increased to $40 billion; and to meet our requirements in the fiscal year 1980, the limit should be increased to $55 billion.

The Treasury to date has used about $30 billion of the $32 billion authority, which leaves the amount of unused authority at about $2 billion. While the timing and amounts of future bond issues will depend on prevailing market conditions, a $23 billion increase in the bond authority would permit the Treasury to continue its recent pattern of bond issues throughout fiscal year 1980. We are currently issuing long-term securities at an annualized rate of approximately $15 billion.

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 if interest rates rise on competing forms of savings.

The 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 the comparable forms of savings. In this regard, market interest rates increased substantially in 1978 and are currently close to the historic highs reached in the 1973–74 period when the savings bond interest rate was increased from 5½ percent to 6 percent. Moreover, there was a significant increase in savings bond redemptions last year. Savings bond sales exceeded redemptions by $748 million in 1975, $793 milion in 1976, and $840 million in 1977. However, in 1978, as market rates of interest increased, redemptions exceeded sales by $236 million. The resulting cash loss to the Treasury, which has been steadily increasing in the past few months, must be made up by increasing the amounts the Treasury borrows in the market, and the Treasury is currently paying significantly higher interest rates on its market borrowings. If this situation continues, it may be essential to increase the savings bond interest rate in order to avoid further substantial cash drains to the Treasury and permanent damage to the savings bond program.

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.

While I continue to believe that the savings bond interest ceiling should be removed, I recognize that it may not be possible to gain prompt approval by Congress of a proposal to eliminate the ceiling. Thus, I am requesting that the ceiling be increased at this time from 6 percent to 6½ percent. This one-half of one percent increase should be enough ot provide us with the flexibility we need at this time.

Foreign currency issues

Let me turn briefly to the issuance of Treasury securities denominated in foreign currencies.

As you know, Mr. Chairman, on November 1, 1978, the Treasury announced its intention to issue up to $10 billion in securities denominated in foreign currencies. The purpose of these borrowings is to acquire foreign currencies which the United States can use in its exchange market operations.

The securities are issued pursuant to Section 16 of the Second Liberty Bond Act (31 U.S.C. 766), which provides specific authority for the Secretary of the Treasury to issue securities denominated in foreign currencies. These are public debt securities, and, as such, are direct obligations of the United States. The amount of their issuance is subject to the public debt limit.

On December 15, 1978, the Treasury issued the first of these obligations, in the form of three- and four-year notes denominated in Deutsche marks, in an aggregate amount of approximately DM 3.0 billion ($1.6 billion dollar equivalent). Just recently, on January 26, 1979, the Treasury issued two and one-half and four-year notes denominated in Swiss francs totaling SF 2.0 billion ($1.2 billion dollar equivalent).

The interest rates which the United States is paying on these obligations are substantially below current domestic interest rates. The notes were offered through the central banks of Germany and Switzerland, acting as agent on behalf of the United States. There were no commissions associated with these offerings, and this is unprecedented in both countries for a public offering of a foreign borrower.

There were special features associated with our German and Swiss offerings which were intended to restrict final investors. In each offering, the notes were placed only with residents of the country in whose currency they are payable. Also, only very limited transferability was permitted among such residents. Further, the German Bundlesbank and the Swiss National Bank maintain a register of beneficial owners, and transfers are only effected after each central bank checks to insure that the transferee is a resident of the respective country. These limitations will help minimize the extent to which dollar holdings might be converted into foreign currencies for the purchase of the securities, which would tend to counter the intended purpose of the offerings.

The decision to sell these foreign-denominated securities, as part of the November 1 program, was made to help deal with the severe and persistent disorders in foreign exchange markets, and excessive declines in the dollar, which were undermining our efforts to control inflation and damaging the climate for investment and growth in the United States.

Debt limit process

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

It is well recognized that the present statutory debt limit is not an effective way for Congress to control the debt. In fact, the present debt limit process 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 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, and again when the limit lapsed from July 31, 1978 to August 3, 1978, Treasury was required in the interim periods 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, I 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. I hope that we can work together to devise an acceptable way to do this.

Attachment.

PUBLIC DEBT SUBJECT TO LIMITATION—FISCAL YEAR 1979

[Based on budget receipts of $456,000,000,000, budget outlays of $493,000,000,000, unified budget deficit of $37,000,000,000, off-budget outlays of $12,000,000,000; amounts in billions of dollars]

	Operating cash balance	Public debt subject to limit	With $3,000,000,000 margin for contingencies
Actual:			
1978:			
Sept. 30	22.4	773	
Oct. 31	15.5	778	
Nov. 30	12.9	784	
Dec. 29	16.3	790	
1979:			
Jan. 31	15.1	792	
Estimated:			
1979:			
Feb. 28	15.0	804	807
Mar. 30	15.0	809	812
Apr. 30	15.0	807	810
May 31	15.0	822	825
June 29	15.0	810	813
July 31	15.0	819	822
Aug. 31	15.0	826	829
1979:			
Sept. 28	15.0	833	836
Oct. 31	15.0	843	846
Nov. 30	15.0	856	859
Dec. 31	15.0	857	860
1980:			
Jan. 31	15.0	858	861
Feb. 29	15.0	874	877
Mar. 31	15.0	881	884
Apr. 30	15.0	872	875
May 31	15.0	889	892
June 30	15.0	878	881
July 31	15.0	887	890
Aug. 29	15.0	897	900
Sept. 30	15.0	893	896

Senator BYRD. We will take a recess.

[A brief recess was taken.]

Senator BYRD. The committee is happy to have today the distinguished Director of Management and Budget, Mr. James T. McIntyre.

Mr. McIntyre, I think this is the first time you have been before us.

Mr. MCINTYRE. Mr. Chairman, I was here last fall and testified before this committee.

Senator BYRD. We are very glad to have you today. I might say you have not only one of the most important but one of the most difficult positions, I think, in Government, probably the most important position outside of the Presidency and certainly one of the most difficult ones.

We are glad to welcome you.

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

Mr. MCINTYRE. Thank you, Mr. Chairman. It is certainly a challenging and very responsible position.

Mr. Chairman, I have a prepared statement that I would like to submit for the record and just take a few moments of the committee's time to highlight certain portions of the statement that I think are relevant to some of the questions that I have heard the committee ask the Secretary of the Treasury.

Mr. Chairman, 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 Federal debt. I would also like to express our continued support for the suggestion that the process of setting the debt ceiling be modified to tie it more closely to the congressional budget process.

In our July review of the budget, we stated that, "The administration regards the current estimates of 1980 outlays, and the deficit that results, as unacceptably high. The President's budget for 1980 will therefore reflect a fiscal program that will lead to subsantially lower outlay levels."

The budget that the President submitted 2 weeks ago fulfills this commitment.

The fiscal year 1979 budget deficit is now estimated at $7.4 billion. This is $11.1 billion less than the estimate in our most recent previous testimony on the debt ceiling last July, which was based on our midsession budget review. Outlays of $493.4 billion are now estimated for 1979 and receipts of $456 billion. The President's budget proposals call for total 1980 outlays of $531.6 billion and receipts estimated at $502.6 billion. The resulting deficit of $29 billion is $13.1 billion less than was estimated in July.

The combined 1979 and 1980 budget deficits have dropped by $24 billion since last July. This large decline is consistent with the spending restraint sought in the 1980 budget proposals as a key element of the administration's anti-inflation program. The budget deficit has come down from $66 billion in 1976 to $49 billion in 1978 and the President proposes a further reduction to $29 billion in 1980.

The budget restraint can be demonstrated in several other ways:

First, let's look at the growth in total outlays. The growth in total outlays has been significantly reduced. This budget provides for outlays of $531.6 billion in 1980, 7.7 percent more than in 1979. This is a slower rate of growth than the 9.4 percent increase between 1978 and 1979 and significantly slower than we have experienced over the past 5 years, when growth and outlays averaged 12.1 percent per year.

The second way to measure restraint is to note the fact that the proposals in this budget reduce Federal outlays as a percentage of gross national product from 22.6 percent in 1976 to 21.2 percent in 1980. If continued restraint is exercised, we would expect this share to decline further in future years.

Another measure of the relative impact of fiscal policy is provided by the high-employment budget margin. Decreases in the high-employment deficit reflect a fiscal policy that is moving in the direction of restraint. The 1980 budget shows reductions in the high-employment deficit of $8 billion in 1979 and of $15 billion in 1980.

Finally, I would like to compare this budget with the current services budget estimate for 1980. The administration's current services estimates project programs under existing law and the changes that would occur as a result of changes in the number of eligible beneficiaries, without any changes in law.

This amounts to $536.1 billion in 1980. As we put this budget together, $11.6 billion in proposed program reductions below the current services level were partially offset by $7 billion in proposed increases. The net reduction below the current services level amounts to $4.5 billion in 1980. I would stress that these figures do not include any adjustments for inflation for discretionary programs—that is, those that are not indexed by provisions of law.

By any of these measures, the President's 1980 budget provides the restraint that is appropriate to current economic conditions.

Although restrained, the budget provides for focusing Federal assistance on the most needy, provides for essential increases in our national defense effort, and maintains balanced support for other important national priorities.

Let me take a moment to discuss this derivation. The unified budget deficit—$37 billion in 1979 and $29 billion in 1980—has to be financed, essentially, by borrowing from the public. In addition, Treasury will issue debt securities subject to limit to those trust funds that show surpluses on their books in 1979 and 1980. The trust funds as a whole are expected to run net surpluses of $18 billion in 1979 and $20 billion in 1980.

Added to that is the borrowing requirement arising from the activities of off-budget Federal entities. Most of these are credit programs, the largest being the Federal Financing Bank. Off-budget deficits, like the budget deficit, must be financed by Government borrowing. The deficits of off-budget Federal entities are estimated at $12 billion in both 1979 and 1980.

That brings us to a total amount to be financed of $67 billion in 1979 and $61 billion in 1980. To arrive at the final figures for change in the debt subject to limit, adjustments must be made for means of financing other than borrowing, and for minor changes in debt not subject to limit.

Means of financing other than borrowing include changes in cash balances and in checks outstanding; and, in 1979, profits on the sale of gold—which has been reclassified in this year's budget as a means of financing. Treasury's unusually high cash balance at the end of 1978 means that the net adjustment for 1979 is estimated at—$7 billion, compared to −$1 billion for 1980. As a result, the estimated increases in debt subject to limit are $60 billion in both 1979 and 1980—despite the fact that we started with a budget deficit of $37 billion in 1 year, dropping to $29 billion the next.

Mr. Chairman, that concludes my summary remarks of my prepared statement. I would be happy to discuss the details of the 1980 budget estimates with you and the Committee, if you so desire.

Senator BYRD. Thank you, Mr. McIntyre.

In your opening statement, you expressed support for modifying or changing the way that the Congress has been handling the increase in the debt ceiling. I think that that should be pretty close to being a moot question. President Carter has committed himself to a balanced budget for fiscal 1981 so there should not be any real need to increase the debt ceiling when that comes about.

Now, let me ask you this question. You stress that the deficit has been reduced. It is correct, is it not, that the deficit has been reduced because the tax receipts have been tremendously increased.

It is another way of saying that the American people have paid $47 billion, or will pay in this upcoming year, in additional taxes. That is correct, is it not?

Mr. MCINTYRE. There will be an increase in tax receipts, Mr. Chairman, but I will remind you that there was a tax decrease recommended by the President and approved by the Congress this past year that went into effect this January. In the budget we specifically have recognized the fact that the receipts will be increasing in future years unless there are changes in the tax laws, and we have recognized in at least six places in the budget that this is a fact and that we will examine the tax policy as we put together a 1981 budget, and provide recommendations to the Congress.

Senator BYRD. The point that I am suggesting is that the figures showed that the reduction in deficit has not come about by a decrease in spending. As a matter of fact, the spending has been increased by $44 billion compared to the second concurrent resolution passed by the Congress. The spending has been increased.

The only way the deficit has come down is that the taxes levied on the American people have gone up.

Mr. MCINTYRE. You are correct, Mr. Chairman, that the total budget is increased. I have tried to point out in my testimony, my prepared statement, however, that the rate of increase has been dramatically slowed since this administration——

Senator BYRD. That is a matter of opinion. I do not think it has been dramatically slowed. You mentioned the rate of increase was 9.4 percent, I believe you said for last year?

Mr. MCINTYRE. That is correct.

Senator BYRD. This new budget provides for an increase right at 9 percent.

Mr. MCINTYRE. 7.7 percent.

Senator BYRD. Nine percent as to the Senate concurrent resolution passed by the Congress last September.

Mr. MCINTYRE. But the Congress will submit the revised estimates in my judgment, the Congress will be required—in fact, the CBO has already testified, as I recall, that there will be a need for some revised estimates and, in fact, the Congress will be just about at the same figure that the President has recommended for 1979.

Senator BYRD. As I understand it, you plan to recommend an increase in fiscal 1979, a spending increase in fiscal 1979 of roughly $6 billion?

Mr. MCINTYRE. Not from our estimates. From our estimates, it is about $3 billion. Our estimates last year were $491 billion in outlays and Congress was about $3 billion under that in its estimates.

Senator BYRD. The Congress reduced what you asked for.

Mr. MCINTYRE. You had different estimates; as the facts are going to prove, we were both too low in our estimates and the Congress is going to have to increase its estimates by $6 billion. We are going to have to increase ours about by $3 billion.

Senator BYRD. What I am saying is—correct me if I am wrong—you are advocating an increase in spending for 1979?

Mr. MCINTYRE. The major portion of the increase in spending for 1979 is to meet the requirements of the uncontrollable programs, Mr. Chairman.

Senator BYRD. Regardless of what the reason is, you are advocating an increase in spending in 1979, correct?

Mr. MCINTYRE. That is correct. There is an increase recommended in spending.

Senator BYRD. On top of that, you are recommending an increase as delineated in your 1980 budget of an additional $39 billion?

Mr. MCINTYRE. That is correct. Our figures are $38 billion.

Senator BYRD. Do you agree or disagree that the accumulated Federal deficit, the interest required to fund it and the size of the national debt is, at the present time, the biggest single contributor to inflation?

Mr. McINTYRE. At the present time, I think there are probably a lot of contributors to inflation. I think the Federal deficit is certainly a contributor to inflation, but there are a lot of other things, Mr. Chairman, that contribute to inflation.

I do think that there are points in time at which the amount of Federal spending can place an increased demand in the economy that can have the effect of increasing inflation.

Senator BYRD. What about at the present time?

Mr. McINTYRE. At the current time, I could not say. I could not say that it is the single biggest contributor.

Senator BYRD. You could not?

Mr. McINTYRE. I could not.

Senator BYRD. You do not agree that it is the biggest single contributor?

Mr. McINTYRE. Not the single.

Senator BYRD. What do you say is the single biggest contributor?

Mr. McINTYRE. I think there are a number of factors that are contributors at this point in time. We are still experiencing some of the effects of inflation that was created from actions in prior years, particularly the late 1960's and early 1970's.

Senator BYRD. You are going back to ancient history now.

Mr. McINTYRE. Well, I think inflation, Mr. Chairman, is a long-term problem. We do not know what causes, any single cause of inflation is, but I can tell you that if the wage and price controls were taken off in the early 1970's, we saw inflation zoom up.

Senator BYRD. It is rather astonishing, I think, that the Secretary of the Treasury and the Director of the Office of Management and Budget say that they do not really understand what causes inflation.

I think that the American people have a much better idea of it than some of our Government officials seem to have.

Let me ask you this. You are here today to ask, on behalf of the administration, for an increase in the national debt ceiling limitation; correct?

Mr. McINTYRE. That is correct.

Senator BYRD. According to Secretary Blumenthal's figures, the Federal debt will increase by $98 billion during the next 19 months.

Does that indicate to you that the Government is getting spending under control?

Mr. McINTYRE. If you look at the debt alone, it is true that the debt is increasing.

I have tried to focus on Federal spending and what I have tried to indicate to the committee is that we are slowing down the rate of growth in Federal spending.

Senator BYRD. You are not slowing it down when you are talking about a 9-percent increase in spending.

Mr. McINTYRE. We have a different figure for the increase. Our figure is the 7.7 percent.

Senator BYRD. That is after you increase spending for 1979. That is after you increase spending for 1979.

Mr. McINTYRE. That is correct.

Senator BYRD. My time has expired. Senator Chafee?

Senator CHAFEE. If you have some more questions, why don't you carry on, Mr. Chairman, and I will pick up.

Senator BYRD. Any time you want to interrupt, feel free to do so.

Senator CHAFEE. Fine.

Senator BYRD. There is a question of the administration's economic assumptions. Your projections for calendar year 1979 and 1980 are remarkably more optimistic than those of the Wharton Econometric Forecast and Data Resources, Inc., and the Congressional Budget Office.

How much confidence can we have in the administration's forecasting?

Mr. MCINTYRE. Mr. Chairman, any forecast is just that—it is a forecast. We think that the administration's forecast is a realistic and reasonable forecast and we have a great deal of confidence in this forecast. Obviously, none of us can actually foretell what is going to happen, but we think that there is a lot of underlying strength in the economy. It is basically a strong economy and this forecast indicates a slowing down of this economy which we think is desirable, yet it also forecasts an economy in which there is some growth.

Senator BYRD. The budget authority under the new budget, the budget authority would increase from $559.7 billion in fiscal year 1979 to $615.5 billion in fiscal year 1980. This is an increase of 10 percent in Federal obligations to spend between those 2 years.

Should not spending increases be brought down sharply if we are serious about reducing Federal spending and the Government debt?

Mr. MCINTYRE. Mr. Chairman, I have been very concerned about budget authority. It has been long ignored by the administration and the Congress. We pay more attention to outlays than we do to budget authority.

Senator BYRD. I agree.

Mr. MCINTYRE. I tried to follow it fairly closely this year and I intend to give it much more attention as we put together the 1980 budget.

Senator BYRD. You are proposing a 10-percent increase?

Mr. MCINTYRE. If you look at this figure, there is one big item in this figure that appears about every 4 or 5 years. That is $15 billion being authorized for TVA borrowing authority. If you take that $15 billion out, it is a much more realistic budget authority figure and actually it brings it down by about 2.5, 3 percentage points so we are down in the neighborhood of 7 percent.

Senator BYRD. That reminds me that last year—I forget who it was—one administration official who testified before this committee. I asked him the rate of inflation and he said now, if you leave out food and you leave out fuel, then the rate of inflation is 7 percent or 6 percent, or something like that. But it seems to me you cannot leave things out. You have a budget and your proposal is to increase budget authority by 10 percent.

Mr. MCINTYRE. Mr. Chairman, a good bit of this, again, is in the uncontrollable category.

Senator BYRD. Wherever it falls, we are talking about the budget.

Mr. MCINTYRE. I understand that. You have to understand the constraints that have been imposed on us. We have a $15.4 billion increase for the social security trust funds. I do not know if anybody is going to cut that out. I am going to recommend that we cut increases out at this point for social security.

We have a $4 billion increase for medicare and you go down the list. The biggest item that there is some degree of latitude over would be the $15 billion for the Tennessee Valley Authority and if that authority is going to continue to operate, then we have to recommend that this budget authority be approved by the Congress.

Senator BYRD. You have touched on trust funds. Is it not correct that the trust funds are running in surplus?

Mr. McINTYRE. That is correct.

Senator BYRD. If it were not for the surplus in the trust funds, the deficit would be $20 billion more.

Mr. McINTYRE. That is about right; yes, sir.

Senator BYRD. So far as the general operations of Government are concerned, financed by general taxation, your new budget will provide nearly a $50 billion deficit. Is that not correct?

Mr. McINTYRE. $49 billion; that is correct.

Senator BYRD. A $49 billion to $50 billion deficit. What you are doing to make the $29 billion deficit look good—or look better; to me, it does not look good, but it is better—you are taking the surpluses from the trust fund to reduce the deficit from the general fund. Where do those trust funds come from? Not from general revenues; they come from the working people that they pay in, in social security. They and their employers pay in for their own retirement.

The largest item—I am taking it from memory—is the unemployment fund paid entirely by the employers of this Nation and the civil service retirement fund, paid by the Government employees.

When you get into the general fund operations you are running terrific deficits, but you do have a surplus in the trust funds which do not come from the general taxation.

Mr. McINTYRE. The chairman is all too familiar with the fact that the unified budget concept was put into effect in the last 1960's and we have not made any changes in the way that the budget has been accounted for, at least in the past decade, so that there is nothing unusual in this fact, and the fact that the trust funds are used—or are borrowed, in effect, by the Treasury—to offset the total amount of debt that is required.

Senator BYRD. You are quite right. There is nothing unusual about it, but the point is that in the general operations—the general operating side of the Government—is where the huge increases in spending are, the huge increase in the deficit.

The trust funds, as you indicated, are running surplus.

Mr. McINTYRE. But your statement, Mr. Chairman—let me see if I can make a few points on that statement. Let us take social security, for example. That program—actually, the spending in that program was going up 12.5 percent. It is going up to about $115 billion.

It is a rapidly growing program. It is true that there is a surplus in the trust fund, but the program itself, the expenditures, are growing rapidly, as fast as about any other item in the budget.

Senator BYRD. The taxes have been increased to reflect that.

Mr. McINTYRE. To reflect that; that is correct. Future liabilities in general solvency of the social security trust fund.

But let me make this other point. Of the $38 billion increases in the 1980 budget, about $20 billion of that is in the trust accounts.

Senator BYRD. Your Federal funds outlays will increase $20 billion? You project for fiscal year 1980 Federal fund outlays of $381.8 billion; for 1979 it is $36.3 billion.

Mr. MCINTYRE. That is correct.

Senator BYRD. Incidentally, you mentioned the unified budget's going back a number of years, and you are quite right. The way that came about was when Lyndon Johnson was President and he was running these huge deficits—nothing compared to what we have now. His deficits look pretty good now, but he was running what people considered huge deficits and in order to make it look better, he went to the unified budget concept instead of the Federal funds concept, picking up the surplus from the trust funds and thus reducing the deficit.

Now, I am wondering, if we do not have a gimmick in this budget which we are looking at now, for this reason. Looking again at fiscal year 1979, we find the administration has significantly increased both budget authority and outlays over the budget resolution of last September. This has the effect of making the fiscal year 1980 budget look better.

The larger fiscal year 1979 figure, the smaller the increases are for fiscal year 1980.

Is there a cosmetic element here, intending to make the new budget look a little better than it actually should?

Mr. MCINTYRE. Absolutely not, Mr. Chairman. Those increases—and I can get you a list of those increases and explain to you the reasoning behind them—in many instances we have re-estimated some programs and have increased estimates on others.

I think that probably one of our biggest increases in 1979 is interest on the debt and a number of the other increases are in some of the other programs, like defense.

We have a $2.2-billion supplemental recommended for 1979 in the defense budget. I can get a list for the committee of the 1979 recommendations and the reasons for those.

Senator BYRD. In regard to the offgovernment agencies?

Mr. MCINTYRE. Yes.

Senator BYRD. Deficits generated by so-called offbudget agencies, notably the Federal financing bank, continue at $12 billion in 1980, the same figure as they were in 1979. This is another element of Government spending and it is not included in that deficit of $29 billion that you are speaking of, and it increases the deficit when you include that $12 billion. It increases the deficits to $41 billion.

Is that not correct?

Mr. MCINTYRE. That is the total deficit. That is correct.

Senator BYRD. What is the administration doing to control these so-called offbudget agencies?

Mr. MCINTYRE. Mr. Chairman, we have recommended a system of credit control which, we think, will give the administration and the Congress some control over Federal credit programs. The control system is based on annual limitations on gross loan activity for both direct bonding and the loan guarantee programs.

These limitations would be established through the regular appropriations process and we would monitor the spendings to see that they do not exceed the ceilings established in the appropriations bill. We have recommended spending ceilings; we hope the Appropriations Committee will accept our credit control and include that in the appropriations bill.

Senator BYRD. The Federal funds deficit for 1980 is estimated to be $49 billion. As we mentioned earlier, the reason is that the administration can project a unified budget deficit of $29 billion, is the fact that trust fund surpluses will increase to $20 billion in fiscal year 1980.

From the second concurrent resolution, how much will fiscal year 1980 spending on the Federal funds level increase?

Mr. McINTYRE. I would have to get that and supply it for the record, Mr. Chairman.

Senator BYRD. Fine. Thank you.

Mr. McINTYRE. I would be glad to do that.

[The material to be furnished follows:]

The Second Concurrent Resolution is expressed in unified budget terms only. No estimate of how it breaks down into a Federal funds and trust fund components is currently available.

The Administration's unified budget estimates for 1979 is $6 billion higher than the outlay total in the Second Resolution (which only covers 1979) as orginally passed. However, it is $0.4 billion below the Congressional Budget Office's latest estimate of the Second Concurrent Resolution policies, based on their revised economic forecast.

Senator BYRD. How can you project a Federal funds deficit of $1.5 billion in 1982 when there will be a $49 billion deficit in 1980?

Mr. McINTYRE. Mr. Chairman, the expenditures that are reflected in 1981 are fairly accurate projections of Federal expenditures. As I mentioned earlier, however, the tax or receipts figure represent basically an extrapolation of current law and we are going to have to examine our tax policy next year as a part of the 1981 budget process.

Obviously, any projected deficit under the circumstances would have to take into account the facts that tax policy will have to be reexamined as we look at the 1981 budget, and we say in at least six places in the budget document that we intend to examine the tax policy as we put together our 1981 budget. We do intend to do this and the deficit certainly could vary, and it probably will vary.

I could not, today, predict what the deficit would be, because I would have no way of knowing that until we go through the process and make our final decisions.

Senator CHAFEE. Mr. Chairman, may I interject a question?

Senator BYRD. Yes.

Senator CHAFEE. Mr. Director, it seems to me that the point the chairman is stressing in his remarks here is that despite the fact that there was a tax cut, the people are paying more and more taxes every year and if my statistics are correct, the personal income tax burden is going to grow more rapidly than personal income.

In other words, individual income tax receipts are going to rise from 10.6 percent of personal income in 1978 to 12.4 percent of personal income in 1982. That is no 2-percent increase; that is a 20-percent increase.

So what is happening here, as I see it—and I am prepared to be corrected—as I see it is that the people are having more and more of their personal income going into taxes every year, income tax. Is that correct?

Mr. McINTYRE. I do not have your figures, but they sound correct. Let me make a couple of points about the tax situation.

First of all, taxes increase for several reasons. True growth in income, people getting higher salaries.

Second, people being pushed into higher tax brackets through inflation.

I would suggest that tax receipts almost always will increase when taxable incomes increase.

Whenever the economy is undergoing healthy growth and real income is increasing, you are going to have tax receipts increase. One other point. The real growth in the tax burden, if you look at the chart in the budget, which shows total receipts which would include not only income taxes, but other types of taxes, like social security taxes, some of the real growth has been in the social security tax area.

Senator CHAFEE. That is a tax.

Mr. McINTYRE. That is a tax. A tax is a tax is a tax. That is one reason that the Budget Commission looks at the budget as a whole and why we ended up with a unified budget.

The point that I would like to stress with the committee is that we have recognized and we have shown with a chart on the budget the fact that the tax receipts are growing. We have recognized the fact that we need to examine that growth in tax receipts and we have so stated that we will examine that growth in tax receipts.

If you will look at our proposals in social security, we have recommended some very minor benefit reductions, but we have indicated that these reductions ought to be examined in the coming year in light of the possibility of future tax reductions, either in social security income or reduction of the deficit.

Throughout this budget, we have recognized the fact that we will have to deal with a rising tax burden in the coming budget year.

Senator CHAFEE. I found it astonishing that you did not agree with the chairman's postulation with which I agreed that the greatest indiivdual cause of inflation in the United States is budget deficits, and you said no, you could not agree with that, that there were a variety of causes. Name me some of these other causes.

I am sure our imports in oil, but he said the greatest single. Name me another one.

Mr. McINTYRE. Increased food prices which we have seen rising rapidly, things like the cost of beef which has grown substantially in the past several months.

Senator CHAFEE. I suspect that the cost of food as a percentage of one's budget is not greater than it was 10 years ago.

Mr. McINTYRE. I could not debate that issue.

Senator CHAFEE. Things have grown—true, the cost of everything has grown. That is inflation. I believe that inflation is a wicked thing. You do, and I think the President does. The question is, how do we control it, and we think very strongly that the greatest single way to control it is to end our deficits.

But you indicate that since you do not think it is a primary cause, or the greatest single cause of inflation, I am not sure where we would be in your judgment if we do end the deficits.

Mr. McINTYRE. I do not think that you should infer from my comments that I am not concerned about Federal deficits.

Senator CHAFEE. I know you are.

Mr. McINTYRE. I am concerned about them. My answer to the chairman's question was whether or not it is the single greatest cause. There are a number of other causes, increases in food prices. Monetary policy can have a tremendous effect on inflation.

One point that I think might be relevant to your question is that we had the last Federal surplus in 1969 and during that period of time, as I recall, there was increasing inflation.

I think you have to look at what is happening. I think you have to look at other circumstances in the economy.

There are times when the deficit can be a very important, and perhaps a primary factor. We have recognized that policy in this 1980 budget and we have recognized that phenomena and we have tried to reduce the rate of growth in Federal spending so as to decrease demand.

Senator CHAFEE. In following up the question I asked Secretary Blumenthal, do you personally follow legislation that increases the so-called uncontrollables in Congress? Do you make recommendations to the President?

Mr. McINTYRE. We try to follow all of the legislation in the Congress that has some effect on spending.

Senator CHAFEE. Do you make recommendations to the President regarding vetoes, or do you wait to be asked?

Mr. McINTYRE. I make recommendations.

Senator CHAFEE. Is it your intention to press him to veto bills that you think go beyond what you consider reasonable?

Mr. McINTYRE. I have no hesitancy in recommending to the President that he veto legislation that busts his budget.

Senator CHAFEE. Have you been doing that in the past?

Mr. McINTYRE. Absolutely.

Senator CHAFEE. I can only assume that your advice has not been taken.

Mr. McINTYRE. It has been taken in most of the cases we have come out OK.

Senator CHAFEE. Did you follow the black lung bill?

Mr. McINTYRE. I have not followed it in the last several years. It was passed a couple of years ago, as I recall.

Senator CHAFEE. A year and a half ago. That will affect your uncontrollables pretty substantially in the future.

Mr. McINTYRE. That is true.

Senator, I would submit to you, however, that there was a sufficient number of Members of Congress who felt that that was an important health problem that the Federal Government needed to address. The President did not do that alone. There was help in Congress, and I would also suggest to you that there is not a single nickel spent by the Federal Government that the Congress does not approve.

Senator CHAFEE. If your point is that there are a significant number of Congressmen and Senators who care about a program and it is therefore passed, it seems to mitigate ever having a veto, because every bill would pass that has a majority.

Mr. McINTYRE. Since I have been in office, I have not hesitated to recommend the veto of legislation that I felt had an adverse effect on spending. I have not hesitated, Senator. I do not intend to hesitate, as long as I am in this office, and you and I both know that many of us have relatively short tenures in Government, but while I am here, I intend to be aggressive in recommending to the President that he take action disapproving bills that busts his budget recommendations.

Senator CHAFEE. Good. I hope you will. The President has a lot of power. He has a greater chance of having his veto sustained than I think he suspects. That was proven last year, and whether you call it a public works bill or a water projects bill, he won.

Mr. McINTYRE. I might add, he won, but there was a lot of hard work that was put into that effort also.

Senator CHAFEE. But he won.

Mr. McINTYRE. It is not easy.

Senator CHAFEE. Sustaining any veto is going to take a little extra work, but it can be done.

Thank you.

Senator BYRD. Thank you, Senator Chafee.

I want to go back to my original question which Senator Chafee alluded to a moment ago. My question is this: Do you agree or disagree that the accumulated Federal deficit, the interest required to fund it and the size of the national debt is the biggest single contributor in inflation, and you said no.

Now, would you list which is a bigger? What are bigger contributors to inflation?

Mr. McINTYRE. Mr. Chairman, it depends on the circumstances.

Senator BYRD. I am talking about right now, the present day.

Mr. McINTYRE. There are a number of things that are going on right now that cumulatively—not every single one, but cumulatively——

Senator BYRD. Let me read my question again, if I may. Which is the biggest single contributor to inflation, if the accumulated Federal deficit is not the biggest, what is the biggest?

Mr. McINTYRE. Mr. Chairman, it is very difficult to single out any single cause that is the principal cause of inflation. It is a cumulative thing involving an increase in prices for goods, increased wages, the amount of spending that the Federal Government does, and the demand that is thereby placed on the economy.

There are a number of items that have a cumulative effect and result in inflation. As far as saying that one is more important than the other, maybe at times you can identify one single item that is more important than another.

One of the things that we have tried to address, and perhaps one of the greatest contributors to inflation is the inflation psychology. That policy in this country, the fact—and the deficit is symbolic in that regard, and I would concede that point, but the Federal Government spending and the resulting deficit are symbolic and we have tried to address that in trying to address expectations that are created by Government spending.

I do not think that anyone really knows what is the single and the principal cause of inflation, but I do know that we have to address inflation expectations and the inflation psychology that I see developing in this country and that is what we have tried to do in this budget.

Senator BYRD. I was mainly interested in getting the thinking of the Budget Director as to whether he does or does not agree that the accumulated Federal deficit, the interest required to fund it and the size of the national debt is the biggest single contributor to inflation. His reply is no.

To go back to the question that I asked you, prior to yielding to Senator Chafee, my question was this: How can you project a Federal funds deficit of only $1.5 billion in 1982 and there will be a $49 billion deficit in 1980? And on page 17 of the budget brief, it projects a deficit of $1.2 billion for 1981.

Mr. McINTYRE. I am trying to find that page in our regular budget. I am familiar with the figures. Let me see if I can address them.

I do not have, at my fingertips, the breakdown of the Federal funds deficit. Let me say, however, in the $49 billion figure that you are using, if you look—let me do this. In that figure, are you also addressing the off-budget items, or are you strictly talking about the Federal funds?

Senator BYRD. This is on page 17 of the budget table.

Mr. McINTYRE. You are talking about the Federal funds deficit?

Senator BYRD. On this, for 1980 it gives a Federal funds deficit of $49 billion and that Federal funds deficit for the next year drops to $30 billion. The trust fund for 1980 shows a surplus of $20 billion and that surplus goes up to $29 billion, which gives you a unified deficit of $1.2 billion.

Mr. McINTYRE. The deficit is a result of two things, Mr. Chairman: Expected expenditures and anticipated revenues. One of the principal reasons for the $1.2 billion figure is obviously the increase in receipts that is projected in that multiyear table.

Senator BYRD. That answers my question.

Mr. McINTYRE. Let me again remind the committee that we have recognized the rising receipts issue and we do intend, as we have stated in the budget to address that issue as we put together the 1981 budget.

Senator BYRD. The 1980 budget provides for an increase in defense spending of $11 billion. Of this increase, how much will be available for modernization or increased procurement?

Mr. McINTYRE. Mr. Chairman, let me get that figure and submit it for the record.

Senator BYRD. Would you do that? Thank you.

If you do not mind, if you would also, when you submit it for the record, if they could send it to my office as well.

Mr. McINTYRE. Certainly, I will address it to you and provide a copy for the record.

Senator BYRD. Thank you.

[The material to be furnished follows:]

Defense procurement outlays are estimated to rise by $3.3 billion between 1979 and 1980—from $22,476 million to $25,749 million.

Senator BYRD. In preparing the budget, what programs did you find to be the most difficult to hold down spending?

Mr. McINTYRE. Obviously the most difficult programs are the uncontrollable programs in the budget.

Senator BYRD. Where do you feel the greatest potential for spending reductions?

Mr. McINTYRE. Mr. Chairman, we have tried to recognize that potential in our changes in the budget. As I recall, we had total decreases recommended from the current services level of about $12 billion, of

$11.6 billion, and those changes are scattered throughout the budget.

Senator BYRD. On a prior hearing on the statutory debt ceiling, the Office of Management and Budget testified that it had evaluated over 10,000 programs in preparing the budget. How many programs did it evaluate for this? Roughly the same, would you say?

Mr. MCINTYRE. It is roughly the same number. Those are the zero-based budgeting packages that you are referring to, roughly the same number.

Senator BYRD. How does the President propose to balance the budget for fiscal year 1981 if he will be having a $29 billion deficit in fiscal year 1980?

Mr. MCINTYRE. Mr. Chairman, now, a lot of what we are able to do with the budget depends on the performance of the economy. As the President has always said, he intends to balance the budget as soon as economic conditions permit.

The important thing, I think, from a policy perspective is that we have the deficit on the downward slope. In 1976, the deficit was about $66 billion. In 1979, we expect it to be $37.5 billion; in 1980, we are projecting the deficit to be $29 billion. That is a significant decrease.

We intend to keep decreasing the deficit, holding expenditures tight, the rate of growth of expenditures tight, with the ultimate goal of balancing the budget as soon as the economy permits.

Obviously you would not want us to do anything that would wreck the economy of this country and the President does not want to do anything that would have an adverse effect on the economy. We think that the way to deal with this budget deficit is to continue restraining the growth in Government spending. That is the best way to get at it. That means that we have to make some very tough choices. It means the Congress has to make some very tough choices.

I think that is the approach that is essential, if we are to bring inflation out of this economy and get our economy so that in the 1980's we can experience the significant economic growth that we all desire.

Senator BYRD. I assume you are familiar with Public Law 95-435 that was signed on October 10, 1978?

Mr. MCINTYRE. I am not familiar with it by number. If you are referring to the law that created the Byrd amendment—I am familiar with that.

Senator BYRD. Yes. I assume you are familiar with section 7 of that law. Section 7 reads thusly, beginning with fiscal year 1981, the total budget outlays of the Federal Government shall not exceed its receipts. What is your view of section 7?

Mr. MCINTYRE. Mr. Chairman, section 7, in effect, requests that the budget be balanced by 1981. As I have indicated, the President remains committed to a balanced budget and we are putting all of our efforts into achieving that goal.

Next year, we will make fiscal policy plans for the 1981 budget and whether or not the President should propose a budget balance at that time will have to depend on the needs of the economy, as well as budgetary requirements.

We are going to do everything we can to achieve the goal of a balanced budget. Whether we can do it for 1981 or whether we have to defer that for 1 year, is a matter that we cannot decide until we go through the 1981 process and make the decisions about expenditures, as well as any tax cuts that I have heard this committee suggest that need to be considered.

You cannot have it both ways. Tax cuts will increase the deficit unless there is an equivalent amount of reduction in spending. With 76 percent of this budget basically fixed by law or prior contractual commitments, we are going to have to chip away at the deficit. It is a long-term problem and we have to look at it in that manner and set a goal and remain committed to the goal.

That is the important thing. We have set a goal in this administration. We are making progress toward that goal, and we are going to keep that goal in sight and not lose sight of it and rapidly accelerate Federal spending.

Senator BYRD. When the President signed Public Law 95-435, including section 7, the press quoted a White House spokesman as saying the White House did not understand just what the section 7 of the Byrd amendment meant.

In every speech that I have made in Virginia since I have drawn attention to the fact that the White House did not understand exactly what that meant. I add that I have no doubt that some who live in the rarified atmosphere of Washington, D.C., would not understand it, but it is only 18 words, and then I read it to the audience. "Beginning in fiscal year 1981, the total fiscal budget outlays shall not exceed receipts."

I find that all the Virginia audiences can understand it. I do not know if they can understand it outside of Virginia or anywhere else, but all the Virginia audiences seem to understand it.

Does the administration expect to advocate repeal of this balanced budget requirement or does it intend to comply with it?

Mr. MCINTYRE. Mr. Chairman, there are no current plans to advocate repeal of the requirement. As I indicated in my previous answer, the administration will have to look at its fiscal policy plans for the 1981 budget and make those decisions about fiscal policy in light of the situation and needs of the economy.

That is what we intend to do.

Senator BYRD. Let me ask you this. I assume that you either plan to comply with it, or plan to seek its repeal, one or the other.

Mr. MCINTYRE. Or amendment.

Senator BYRD. Or amendment.

In any case, this section 7 is a part of the statutory law, is it not?

Mr. MCINTYRE. That is correct.

Senator BYRD. Am I correct in assuming that you will comply with the law or seek its repeal or, as you indicated, another possibility would be to seek an amendment to it. Is that it?

Mr. MCINTYRE. Mr. Chairman, how we react to the law is something I think will have to be determined after we complete our analysis of the economic situation.

I would say to you, however, that there is a constitutional duty imposed upon the President to make proposals to the Congress that express his view of the needs of the Nation, and there is some question whether or not that responsibility can be adversely affected by statute. An important point is that we share a common goal, Mr. Chairman.

We may have a difference in judgment about how to arrive at that goal, yet we are both working toward a goal and I will submit that we have made progress in the administration in achieving that goal and we are going to continue to work to achieve that goal.

Senator BYRD. I note that 25 State legislatures have petitioned the Congress for a constitutional amendment to mandate a balanced budget. My impression is that the administration does not favor this proposal.

Mr. McINTYRE. The administration has not taken an official position on the proposal. First of all, we are trying to examine the calls so that we can make an informed judgment about those calls that some 25 or 26 States have adopted. I can give you a personal judgment, however, about the calls for such an amendment.

Let me preface this first by saying again, we have as a goal that of balancing the budget and we are making progress towards that goal but we are doing this through a careful and deliberate economic and budgetary planning effort. I think that there is no substitute for making those tough economic and budgetary decisions on a year-by-year basis as circumstances dictate, as we have done.

I think the Congress is going to have to submit itself to the same degree of restraint and have as a joint goal, that of balancing the budget.

Senator BYRD. I certainly agree with you on that. That is why I favor a constitutional amendment.

I know the Congress; I have served in the Congress. I do not find any fiscal restraint in the Congress. I do not find any fiscal discipline in the Congress.

Mr. McINTYRE. There is always hope, Mr. Chairman.

Senator BYRD. Yes; but the people are beginning to lose hope after a multitude of years and the people are taking this into their own hands.

If someone had told me 2 years ago that the legislatures of 25 States, actually 26 if you include Nevada where the Governor vetoed the resolution, would petition the Federal Congress to put a constitutional amendment mandating a balanced budget, I would have bet $1,000 to $1 that it would not have occurred.

Mr. McINTYRE. At the same time, Mr. Chairman, those States are receiving $82 billion in Federal aid to help them with their on budgetary problems as well as carry out some federally mandated programs.

Senator BYRD. Sure. That is not the point I am making. The point I am making is that the American people—if I can judge it accurately, and I think there are certain signs that that is correct—that the American people are tired of waiting for the Congress and the President to act. They are taking the matter into their own hands.

Just this year, just this 1979—this is only the second month, the sixth day of the second month—yet four States have joined that parade: Arkansas, Utah, North Carolina, and South Dakota. I think it is very significant.

I favor a constitutional amendment, but I prefer that the Congress do it rather than go the route of the constitutional convention, but I do think that something needs to be done.

I thought that I would help the cause and help the President, too, because he was so outspoken in this regard in 1976. I thought I would help the cause when I presented section 7 of Public Law 95-435 to require a balanced budget as of fiscal 1981.

If that law is not going to be adhered to, then—well, let me state first that amendment was approved by the Senate by a 2-to-1 vote. An identical amendment was defeated by a 2-to-1 vote 4 years earlier, but that amendment was approved by the Senate by a 2-to-1 vote and approved by the House by a 3-to-1 vote, and was signed into law by the President.

I realize that it was an amendment to another bill that the President was interested in and I am not sure that it would have been signed by Mr. Carter had it been a separate piece of legislation, but, nevertheless, it is still just as much the law and it was signed into law by the President.

So the President is committed to it, the Senate is committed to it, the House is committed to it. If that statutory law is not going to be adhered to, then I think that is additional reason why the people themselves must take this into their hands, and we must pass a constitutional amendment.

I prefer to do it by statute. I prefer to have it done by the Congress itself working in cooperation with the President, and maybe it will work out that way. But if it does not, I think the only thing we can do where two-thirds of the Congress can set it aside if emergencies develop.

I hope that you and the President and all of you associated with it will comply with that mandate of the Congress enacted into law by signature of the President on October 10, 1978.

I think that is an obligation. I have heard—maybe I have heard inaccurately but I have heard when OMB has been queried on this that OMB—first, the Los Angeles Times published when they were first queried that they did not know anything about it. This was only a few weeks ago, although it became law in October 1978. I have heard other statements that OMB downgrades it and says that is not something that has to be worried about, or something like that.

I do not know anything about that. These are just secondhand statements I get. But I do know that it is the law. It is a statutory law, and I would certainly expect that it would be complied with, realizing, of course, that if the President does not want to comply with it, or if the Congress doesn't, than it can always be repealed. But until that is done, I would certainly think that the public would have a right to expect that it would be complied with.

Mr. McIntyre. Mr. Chairman, I certainly concur with you. It is the law. All I have tried to indicate to you is that it is premature at this time to predict what the 1981 budget is going to be. We have to look at it in terms of the economic circumstances.

Let me make one other point. One of the difficulties is how to get there. We have given an opportunity to the Congress this year to reduce the Federal budget over $4.5 billion from the current services level. I might add that since the current services concept has been in existence, this is the first time the administration has submitted a budget to this Congress that is under the current services level of the increases that we are talking about in spending the $38 billion total increase.

The administration is recommending its spending in 1980 at $33.9 billion, or 88.7 percent, is in the uncontrollable programs.

Now, that is significant to me because, unless the Congress is willing to take some action to curb the growth of some of these uncontrollable programs, then we are going to be faced with this tough dilemma of having to put a substantial amount of money into these uncontrollable programs.

We have recommended some changes in these programs. Some of them have not been very well received by various groups and some Members of the Congress, but I would submit to you that if we are going to achieve a balanced budget, then we are going to have to make those tough decisions and we are going to have to take actions this year which are rather minor compared to the total spending in the program but have tremendous effects in the future on the spendings of those programs.

That is what we have recommended, and I would hope that the Congress will show that it is serious about the restraining the growth in Federal spending and will approve this budget that the President has submitted, particularly those programs where we have recommended curbs on the increase in spending, or in the growth of the rate of spending in these programs.

The way to get to the balanced budget, in our judgment, are through those tough decisions that are going to have to be made. Otherwise, there will be ways found to get around such amendments and such laws, and mine and the President's and your objectives will be thwarted. I do not want to see that, Mr. Chairman.

Senator BYRD. You will not get any defense of the Congress from me. I think Congress has been totally irresponsible over a period of time. The only way it is going to show any degree of responsibility is if the people demand it. I think there is evidence that the people are beginning to demand it, and I think that President Carter deserves credit for that, because he dramatized in 1976 the swollen bureaucracy, the swollen spending, the need to get spending under control and the need for the Government to put his financial house in order. I think he had a lot to do with stimulating the debate and the interest on the part of the public so I want to give him credit in that regard and I want to give the people of California credit.

I do not know what effect it might have in the future in California, but I do think that it has had a very desirable effect on the people of the United States as a whole and on the Congress as the whole.

To get back to your assertions about the Congress, as I say, I am not going to defend the Congress. I think it has been totally irresponsible but I do see some indication of change.

I think there has been a change in attitude on the part of many Members of the Congress and I hope that that continues and I want to thank you for being here today, and I want to say again that you have one of the toughest jobs in Government and I do not envy you one bit.

Mr. McINTYRE. Thank you, Mr. Chairman.

Senator BYRD. Thank you.

[The prepared statement of Mr. McIntyre follows:]

STATEMENT OF JAMES T. McINTYRE, JR., DIRECTOR OF THE 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 Federal debt. I would also like to express our continued support for the suggestion that the process of setting the debt ceiling be modified to tie it more closely to the congressional budget process.

My statement will discuss briefly our revised budget estimates and their effect on the debt subject to the statutory limitation. Two weeks ago the President sent to Congress the 1980 budget, containing proposals and estimates for 1979, 1980, and subsequent years. The request the Treasury is making today is consistent with the estimates in that budget.

BUDGET TOTALS

In our July review of the budget we stated that "The Administration regards the current estimates of 1980 outlays—and the deficit that results—as unacceptably high. The President's budget for 1980 will, therefore, reflect a fiscal program that will lead to substantially lower outlay levels." The budget the President submitted two weeks ago fulfills this commitment.

As shown in the following table, the fiscal year 1979 budget deficit is now estimated at $37.4 billion. This is $11.1 billion less than the estimate in our most recent previous testimony on the debt ceiling, last July, which was based on our Mid-Session Review. Outlays of $493.4 billion are now estimated for 1979, and receipts of $456.0 billion. The President's budget proposals call for total 1980 outlays of $531.6 billion, and receipts estimated at 502.6 billion. The resulting deficit of 29.0 billion is 13.1 billion less than was estimated in July.

BUDGET TOTALS

[Fiscal years; in billions of dollars]

	Actual 1978	Estimate 1979	Estimate 1980
Budget receipts	402.0	456.0	502.6
Budget outlays	450.8	493.4	531.6
Deficit (−)	−48.8	−37.4	−29.0

The combined 1979 and 1980 deficits have dropped by $24 billion since July. This large decline is consistent with the spending restraint sought in the 1980 budget proposals as a key element of the administration's anti-inflation program. The budget deficit has come down from $66 billion in 1976 to $49 billion in 1978, and the President proposes a further reduction to $29 billion in 1980. The budget restraint can also be demonstrated in several other ways:

The growth in total outlays has been significantly reduced. This budget provides for outlays of $531.6 billion in 1980. 7.7 percent more than in 1979. This is a slower rate of growth than the 9.4 percent increase between 1978 and 1979, and significantly slower than we have experienced over the past five years, when growth in outlays averaged 12.1 percent per year.

The proposals in this budget reduce Federal outlays as a percentage of gross national product from 22.6 percent in 1976 to 21.2 percent in 1980. If continued restraint is exercised, we would expect this share to decline further in future years.

Another measure of the relative impact of fiscal policy is provided by the high-employment budget margin. Decreases in the high-employment deficit reflect a fiscal policy that is moving in the direction of restraint. The 1980 budget shows reductions in the high-employment deficit of $8 billion in 1979 and of $15 billion in 1980.

Finally, I would like to compare this budget with the current services budget estimate for 1980. The administration's current services estimates project programs under existing law and the changes that would occur as a result of changes in the number of eligible beneficiaries, without any changes in law. This amounts to $536.1 billion in 1980. As we put this budget together, $11.6 billion in proposed program reductions below the current services level were partially offset by $7.0 billion in proposed increases. The net reduction below the current services level amounts to $4.5 billion in 1980. I would stress that these figures do not include any adjustments for inflation for discretionary programs—i.e., those that are not indexed by provisions of law. By any of these measures, the President's 1980 budget provides the restraint that is appropriate to current economic conditions.

Although restrained, the budget provides for focusing Federal assistance on the most needy, provides for essential increases in our national defense effort, and maintains balanced support for other important national priorities.

OUTLAYS AND RECEIPTS

Let me review the specific changes in totals since July. Estimates of outlays for 1979 have been reduced by $3.2 billion since the July Mid-Session Review, to $493.4 billion. Receipts for 1979 are now estimated at $455.6 billion, $7.4 billion more than the July estimate. For 1979, then, about 70 percent of the drop in the estimated deficit to the improved outlook for receipts.

Estimates of receipts for 1980, on the other hand, have dropped by $4.7 billion since July, from $507.3 billion to $502.6 billion. This decline reflects the effects of revisions to the administration's proposed tax changes, as those proposals stood in July. The effects on the deficit of this decline in receipts is more than offset, however, by a $17.8 billion reduction in estimated outlays.

THE BUDGET BY FUND GROUP

Table 1 shows our current estimates of the budget surplus or deficit for 1979 and 1980 by fund group. As the following table indicates, the total decline in the estimated budget deficit for 1979 since July 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—1979

[In billions of dollars]

	Fiscal year 1979		
	July estimate	Current estimate	Change
Federal funds	−62.1	−55.2	6.9
Trust funds	14.6	17.8	3.2
Off-budget Federal entities	−12.9	−12.0	.9

TABLE 1.—BUDGET TOTALS BY FUND GROUP

[Fiscal years; in billions of dollars]

	Actual 1978	Estimate 1979	Estimate 1980
Receipts:			
Federal funds	270.5	306.1	332.8
Trust funds	168.0	189.5	212.2
Interfund transactions	−36.5	−39.6	−42.5
Total, receipts	402.0	456.0	502.6
Outlays:			
Federal funds	332.0	361.3	381.8
Trust funds	155.3	171.7	192.2
Interfund transactions	−36.5	−39.6	−42.5
Total, outlays	450.8	493.4	531.6
Surplus or deficit (−):			
Federal funds	−61.5	−55.2	−49.0
Trust funds	12.7	17.8	20.0
Total, Surplus or deficit (−)	−48.8	−37.4	−29.0

Table 2 shows revised estimates of debt subject to statutory limitation, and displays numerically the derivation of the change in debt subject to limit in 1978, 1979, and 1980.

Let me take a moment to discuss this derivation. The unified budget deficit—$37 billion in 1979 and $29 billion in 1980—has to be financed, essentially, by borrowing from the public. In addition, Treasury will issue debt securities subject to limit to those trust funds that show surpluses on their books in 1979 and 1980. The trust funds as a whole are expected to run net surpluses of $18 billion in 1979 and $20 billion in 1980.

Added to that is the borrowing requirement arising from the activities of off-budget Federal entities. Most of these are credit programs, the largest being the Federal Financing Bank. Off-budget deficits, like the budget deficit, must be financed by Government borrowing. The deficits of off-budget Federal entities are estimated at $12 billion in both 1979 and 1980.

That brings us to a total amount to be financed of $67 billion in 1979 and $61 billion in 1980. To arrive at the final figures for change in the debt subject to limit, adjustments must be made for means of financing other than borrowing, and for minor changes in debt not subject to limit.

Means of financing other than borrowing include changes in cash balances and in checks outstanding; and, in 1979, profits on the sale of gold—which has been reclassified in this year's budget as a means of financing. Treasury's unusually high cash balance at the end of 1978 means that the net adjustment for 1979 is estimated at —$7 billion, compared to —$1 billion for 1980. As a result, the estimated increases in debt subject to limit are $60 billion in both 1979 and 1980—despite the fact that we started with a budget deficit of $37 billion in one year, dropping to $29 billion the next.

TABLE 2.—DEBT SUBJECT TO LIMIT

[Fiscal years; in billions of dollars]

	Actual 1978	Estimate 1979	Estimate 1980
Budget deficit	48.8	37.4	29.0
Portion of budget deficit attributable to trust funds surplus	12.7	17.8	20.0
Federal funds deficit	61.5	55.2	49.0
Deficit of off-budget Federal entities	10.3	12.0	12.0
Total to be financed	71.9	67.2	61.0
Means of financing other than borrowing, and other adjustments	.9	−6.9	−.8
Increase in debt subject to limit	72.7	60.3	60.2
Debt subject to limit, beginning of year	700.0	772.7	833.0
Debt subject to limit, end of year	772.7	833.0	893.2

That concludes my prepared statement, Mr. Chairman, but I would be happy to discuss some of the detail of the 1980 budget estimates and proposals with you if the Committee so desires.

[By direction of the chairman the following communication was made a part of the hearing record.]

U.S. LEAGUE OF SAVINGS ASSOCIATIONS,
Washington, D.C., February 6, 1979.

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

DEAR CHAIRMAN BYRD: The U.S. League of Savings Associations, on behalf of its 4,400 member savings and loan associations nationwide, asks you to defer action on today's request by the Treasury Department to raise the ceiling rate for Series E and H Savings Bonds to 6½ percent.

The Department concedes that they do not feel an increase is necessary today, and that net sales are exceeding redemptions by a substantial margin. They ask for "flexibility" to adjust to this new ceiling at their discretion in the future. We submit that, quite properly, your Committee and the Congress should continue to exercise the authority to establish the Savings Bond rates.

Your concern in the past for the effect of such increases on private sector depository institutions has been most welcome. U.S. Savings Bonds are not subject to State and local income or personal property taxes; Federal taxation of interest earned is deferred until maturity or redemption (a privilege denied savings certificates at our institutions by a 1971 IRS ruling); denominations begin with amounts as small as $50; and the familiar Payroll Savings and Bond-a-Month plans provide unparalleled convenience. Certainly we recognize the importance of a sound program to fund the public debt. But the major financing mechanisms remain the Treasurer's bills, notes and long-term bonds. And we shouldn't forget that the interest return on private sector deposits are fully taxable, and make an important contribution to Treasury revenues.

In summary we strongly urge that you and your colleagues defer action on any amendment raising the statutory rate limitations on the U.S. Savings Bond Program. Indeed, we would urge your careful attention to the competitive problems faced by private sector institutions with this program, and particularly, the deferral of interest privilege which is denied savings and loan customers through the IRS rulings. We are once again in a period of stress for home finance if present trends continue, and it would be most disruptive to encourage new competition for consumer savings from the Series E and H Bonds at this time.

Sincerely,

ARTHUR EDGEWORTH,
Director, Washington Operations.

[The following article was submitted for the hearing record by Senator Byrd:]

[From the Wall Street Journal, Jan. 23, 1979]

WHY NOT A BALANCED BUDGET?

(By James Ring Adams)

WASHINGTON.—President Jimmy Carter has announced a "lean and austere" budget which increases federal spending by $39 billion and goes $29 billion into the red. When he first took office, he promised that this year's budget would be balanced. With Jerry Brown in the wings, rebaptized in Proposition 13 and pushing a constitutional amendment requiring a balanced federal budget, the voters this year will be asking: What is the problem?

The question is especially urgent since this sizable gap will take effect in the last stage of an extended business recovery, when Keynes himself would be urging a budget surplus. If the long-awaited severe downturn does materialize in the last quarter of '79, which is the first quarter of the federal fiscal year 1980, one wonders if President Carter will ever be able to present a balanced budget.

These are urgent questions to a middle class plagued by deficit-driven inflation. But in the massive presence of the federal government, which is thrusting gleaming office buildings into every open space in downtown D.C., they seem hopelessly naive.

One hears that too rapid a cut would plunge the economy into a sharp recession. Or that most of the budget—77%, according to James T. McIntyre, director of the Office of Management and Budget—is "uncontrollable," meaning broadly that budget officials can't cut it on their own in a single year.

SPECIAL INTERESTS

But everywhere in Washington one also encounters the special interests whose livelihood depends on one or another federal program and who provide the constituency for executive departments in their struggles against OMB. The vast majority of these lobbyists and bureaucrats are able and honest individuals, yet the particular good deeds they seek—more federally subsidized housing starts, more day-care centers, more job training programs—don't necessarily add up to the general good of a balanced budget and lowered inflation.

Beyond these pressures, say Republican critics, the current budget is still reeling from the misguided economic policy of President Carter's first months in office. Persuaded that the main economic problem was unemployment and not inflation, he vastly expanded programs to stimulate the economy. For instance, the CETA program to provide job training and public service jobs was nearly doubled in 1977 on a temporary basis, but it is still slated now at the same level of nearly $10 billion. The President's current attempts at restraint remind one House Republican analyst an "arsonist who started a three-alarm fire getting a guilty conscience and tosing teacups of water on it."

Of course, Democrats who are so inclined can say the same of Republicans. Federal spending grew more than 12% a year under Presidents Nixon and Ford, and the Ford budget for fiscal year 1976 had a $66 million deficit, or 18%—a post-war peacetime record. Mr. Ford's lame-duck 1977 budget was more conservative, with a proposed $43 billion deficit and "reverse wedges" to cut future spending, but his good intentions were scuttled by Mr. Carter's early 1977 spending spree. Although Mr. Carter has lost two years on his schedule to balance the budget, he now projects near balance in FY 1981.

It's only in comparison with the immediate predecessors, however, that President Carter's proposed $532 billion outlay for FY 1980 looks "lean and austere." The $29 billion gap, some 5.5% of the budget, isn't the full story. At least another $12 billion deficit is tucked away in "off-budget" accounts, principally the Federal Financing Bank. This figure, only slightly lower than that for FY 1979, boosts the total deficit to $41 billion, compared to FY 1979's total of $49 billion. This all contributes to inflation. The administration did announce, to its credit, that it was planning a new system to control the growth of these off-budget charges, including the presently unpredictable burden of federally guaranteed loans.

The budget-makers have kept the deficit figures low by manipulating a few key assumptions. They've changed the method of projecting interest costs on the federal debt, for a paper savings of about $2 billion. As discussed elsewhere in today's paper, they've chosen the most optimistic economic forecast they could get away with, very likely understanding the impact of inflation and unemployment. But they've also figured on higher food prices, thus cutting $2.4 billion out of the agricultural price support program. These economic figures would be soft anyway, because the fiscal 1980 budget doesn't even take effect for another nine months, an unusually long lead time as budget making goes. But the budget also includes savings from bills that have not yet and may never pass Congress, notably $1.7 billion for hospital cost containment.

As the expandable deficit indicates, this budget is still a far way from controlling federal spending. Outlays are up by $39 billion, or 7.9%. This figure does show improvement over this year's expected rise of $42 billion, or 9%, and the previous 10-year average in excess of 12%. But by contrast, if this year's budget had been frozen at the FY 1979 level of $493 billion, it would be running a $10 billion surplus.

The administration has not produced overwhelming evidence that its still-touted Zero-Based Budgeting has helped it put an end to unneeded government programs. Its surprisingly short list of examples includes Labor Intensive Public Works ($1 billion), the Alaska National Petroleum Reserve Survey Program ($227 million), the U.S. Travel Service ($11 million) and the Beekeepers Indemnity Fund ($3 million).

President Carter has, however, produced a substantial shift in allocations among his departments and agencies. Agriculture, Commerce, Energy, Interior, Justice and the General Services Administration have lost money in absolute terms. Big increases have come, as promised, in Defense (up 9.7%), but also in Labor (7.2%), HEW (10.4%) and HUD, the biggest winner of all with an 18.7% gain. (Some of this shift comes from reorganization.)

Surprisingly, the administration has even tried to obscure the full extent of its cost-cutting. One standard budget analysis, the "current service estimate," projects what future budgets would look like if all programs were continued at current levels. The estimate is adjusted for inflation, automatic benefit increases and the like in a way allowing substantial manipulation of the figures, and this year they've been manipulated downward. The budget message shows a very small cut, some $5 billion, from what the budget might have been, when other ways of figuring would show cuts of $13 billion and up. One Republican observer speculates that the administration is trying to hide its trimming from the liberal pro-spending wing of the Democratic Party.

The budget message also plays down another politically explosive feature. The real reduction in the FY 1980 deficit comes from a major increase in tax collections. Estimated revenues are up $47 billion, or 10.3%. President Carter's message makes much of a $24 billion tax cut from 1978 legislation, but it devotes no narrative to the fact that personal income tax receipts are increasing anyway by $24 billion. This rise continues inexorably in future years, as "inflation creep" pushes taxpayers into higher brackets. Budgets in FY 1980 and after will also be helped by the increase in the Social Security tax rate, which is producing an additional $19.5 billion this year alone.

TAXPAYERS BEAR THE BURDEN

When asked, budget officials admit openly that they're balancing the budget on the backs of the taxpayers. In the FY 1980 budget, revenues have increased as a share of the GNP from 19.9% to 20.1%, and this ratio keeps going up. In FY 1982, it is projected to reach 21.6%, the highest level in at least two decades.

So the tax burden goes up, federal spending stubbornly resists control, and inflation grinds away at living standards. These conditions have the taxpayer asking what his money is going for at a time when the answers are much less self-confident than they used to be. CETA public service jobs, for instance, turned out to be largely a subsidy to state and local budgets. President Carter is shifting CETA's emphasis to training, but that program has been called the least efficient of all the ways to get people ready for jobs. According to one study, the main beneficiary is the job training industry which has grown up around this program, just as a welfare industry has grown up around welfare spending and an education industry has grown up around education.

Faith in government spending has been steadily eroded by such critiques from both the right and the left. As both the skepticism and the burden increases, the stage is set for a popular revulsion of the kind seen most clearly in post-Proposition 13 California and most dimly in Washingtonb, D.C. Official Washington still tends to belittle the baalnced-budget muttering in the countryside, but one must wonder whose attitude is the more naive.

[Thereupon, at 12:40 p.m., the subcommittee recessed, to reconvene at the call of the Chair.]

APPENDIX A

[JOINT COMMITTEE PRINT]

THE PUBLIC DEBT LIMIT AND DEBT MANAGEMENT

PREPARED FOR THE

SUBCOMMITTEE ON TAXATION AND DEBT MANAGEMENT GENERALLY

COMMITTEE ON FINANCE

U.S. SENATE

BY THE STAFF

OF THE

JOINT COMMITTEE ON TAXATION

FEBRUARY 2, 1979

U.S. GOVERNMENT PRINTING OFFICE

WASHINGTON : 1979

JCS-3-79

I. PUBLIC DEBT LIMIT

Present law

The debt limit is $798 billion, which is composed of a permanent limit of $400 billion and a temporary limit of $398 billion. The temporary limit expires on March 31, 1979, and in the absence of further legislation, the statutory limit will revert to $400 billion on April 1, 1979. (Table 4 shows the statutory debt limits since 1947.)

The debt on January 31, 1979, was $791.6 billion.

Background for committee consideration

It is not likely that the Administration will be able to meet its financing requirements through March 31, 1979, with the present debt limit. It probably will be able to carry on through March 6, 1979, with the present $798 billion limit.

In July 1978, the Administration presented a table to Congress which showed its estimates of debt requirements at the end of each month in fiscal year 1979. These estimates showed that $814 billion would be required at the end of March 1979.

When the Committee on Ways and Means reported a bill to the House floor, it provided a combined debt limit of $814 billion through March 31, 1979. A floor amendment reduced the debt limit to $798 billion, and the bill subsequently was enacted, as amended on the House floor.

The Treasury will present its month-by-month debt requirements, revised to be consistent with the budget recommendations for fiscal years 1979 and 1980, when it appears before the committee. The table will start from the actual debt figure for January 31, 1979. A rough estimate prepared in advance by staff indicates that a debt limit of $810 billion will be adequate through May 31, 1979, and $833 billion through the end of this fiscal year.

Issues for committee consideration

1. *Level and duration of debt limit.*—Congress will select a debt limit which will be adequate to finance the Federal Government's budget until a time when Congress decides it wants to review the matter once again. Since the debt limit must be consistent with the most recently enacted budget resolution, extensions of the limit for short periods of time must be made with the resolution in mind.

The second budget resolution for fiscal year 1979 recommended a ceiling for the public debt limit of $836 billion through September 30, 1979.

The President's budget for fiscal year 1980 which is summarized in table 1 contains information that indicates a limit of $833.0 billion will be needed through September 30, 1979, and $893.2 billion through September 30, 1980.

Alternatively, Congress could set a new permanent debt limit without specifying a termination date. The level of the new debt limit could be selected so that an increase in the debt limit would be needed at a time in the session when Congress would want to review the subject again. It would have the same effectiveness as setting a termination date, but there would not be an urgent need to change the debt limit solely because of a deadline. Congress could have more flexibility in scheduling its activity, and legislation to change the debt limit could be timed to meet the financial requirements of the Federal Government.

2. *Permanent or temporary debt limit.*—The permanent debt limit is $400 billion, and the temporary debt limit is $398 billion. An additional increase in the temporary debt limit above the present level would make the permanent debt limit less than 50 percent of the total debt limit.

A temporary increase in the debt limit was enacted initially in 1955 because Congress and the Administration believed that budget surpluses soon would make it possible to dispense with the temporary limit. At that time, the permanent debt limit was $275 billion. There have been 7 increases in that level to the present $400 billion. The last increase was enacted on March 17, 1971.

An increase in the permanent debt limit, even to the extent of eliminating the temporary debt limit, need not change the recent congressional pattern of debt limit increases because Congress simply would set a specific limit that would apply through a date certain.

The chief advantage of raising the permanent debt limit to the point of eliminating the temporary limit is one of debt management: it would permit the Treasury to maintain the existing debt level by refunding debt which matures without being able to increase the amount outstanding. Under the present procedure, when the temporary limit expires, the Treasury is not able to refund maturing debt until the total debt has declined to the level of the permanent debt limit. The difference between the permanent and temporary limits is too large for that to be realistically possible, even with a modest budget surplus. On the other hand, as long as the expected debt level continues to increase, the Treasury must engage in drastic financial management techniques when a temporary debt limit expires before a new debt limit has been enacted; if the operating cash balance were exhausted before enactment of a new debt limit, the Treasury would be unable to meet any Federal Government financial obligations.

TABLE 1.—FEDERAL FUNDS FINANCING AND CHANGE IN DEBT SUBJECT TO LIMIT

[In billions of dollars]

Description	Fiscal year 1979 estimate	Fiscal year 1980 estimate
Debt subject to limit at start of fiscal year	772.7	833.0
Federal funds surplus of deficit (−)	−55.2	−49.0
Deficit (−) of off-budget Federal entities	−12.0	−12.0
Total, amount to be financed	−67.2	−61.0
Means of financing other than borrowing:		
Decrease or increase (−) in cash and monetary assets [1]	9.9	
Increase or decrease (−) in liabilities for:		
Checks outstanding, etc	−1.3	1.3
Deposit fund balances	−.1	−.3
Seigniorage on coins	.9	1.1
Total, means of financing other than borrowing	9.4	2.1
Decrease or increase (−) in Federal funds and off-budget entity investments in Federal debt	−1.0	−.9
Increase or decrease (−) in Federal funds and off-budget entity debt not subject to limit	−1.5	−.4
Net change attributable to means of financing other than borrowing and adjustments in Federal funds and off-budget entity debt	6.9	.8
Change in debt subject to limit	60.3	60.2
Debt subject to limit at end of fiscal year	833.0	893.2

[1] Includes profits on gold sales, which have been reclassified as a means of financing rather than as an offsetting collection. The budget totals have been adjusted retroactively for the period since these sales began in 1975.

Source: Budget of U.S. Government for Fiscal Year 1980.

Statistical Information

The following tables provide some additional information for the committee which is relevant to decision-making with respect to the debt limit.

Table 2 shows the estimates of the unified budget total for fiscal years 1979 and 1980 as presented in the budget for fiscal year 1980. In addition, the table presents the budget totals that were approved in the second budget resolution for fiscal year 1979. The Administration estimates that the deficit in this fiscal year will be $37 billion, $2 billion less than the $39 billion deficit estimated in the second budget resolution.

Table 3 presents estimates of budget receipts, outlays and deficits for Federal funds and trust funds and the deficit for the unified budget. It shows that the Federal funds deficit is estimated at $55.2 billion in 1979 and $49.0 billion in 1980. In both years, the trust funds surplus offsets part of the Federal funds deficit, and so reduces the unified budget deficit. Although the trust funds surplus reduces the unified budget deficit, the surplus does not reduce the need for additional authority to borrow because trust fund surpluses are required to be invested in Federal securities.

Table 4 presents permanent and temporary debt levels that have been enacted from 1955 through July 1978.

TABLE 2.—ESTIMATES OF UNIFIED BUDGET TOTALS FOR FISCAL YEARS 1979 AND 1980

[In billions of dollars]

	Budget resolution 1979	Administration estimates 1979	Administration estimates 1980
Receipts	449	456	503
Outlays	488	493	532
Deficit	39	37	29

Source: Budget for U.S. Government for fiscal year 1980.

TABLE 3.—ADMINISTRATION ESTIMATES OF BUDGET TOTALS BY FUND GROUPS

[In billions of dollars]

	1979 estimate	1980 estimate
Budget receipts:		
Federal funds	306. 1	332. 8
Trust funds	189. 5	212. 2
Interfund transactions	−39. 6	−42. 5
Total, budget receipts	456. 0	502. 6
Budget outlays:		
Federal funds	361. 3	381. 8
Trust funds	171. 7	192. 2
Interfund transactions	−39. 6	−42. 5
Total, budget outlays	493. 4	531. 6
Budget surplus or deficit (−):		
Federal funds	−55. 2	−49. 0
Trust funds	17. 8	20. 0
Total, unified budget surplus or deficit (−)	−37. 4	−29. 0
Memorandum:		
Deficit, off-budget Federal entities [1]	−12. 0	−12. 0
Total, surplus or deficit (−) including off-budget Federal entities	−49. 4	−41. 0

[1] All off-budget Federal entities are revolving funds; income is offset against expenditure to derive net outlays. Hence, no adjustments are made to receipts when on and off-budget totals are consolidated. Virtually all off-budget outlays would be classified as Federal funds outlays if they were included in the budget.

Source: Budget for U.S. Government in Fiscal Year 1980.

TABLE 4.—STATUTORY DEBT LIMITATIONS, FISCAL YEARS 1947 TO DATE IN FISCAL YEAR 1979

[In billions of dollars]

Fiscal year	Statutory debt limitation		
	Permanent	Temporary additional	Total
1947–54	$275	----------	$275
1955 through Aug. 27	275	----------	275
1955: Aug. 28 through June 30	275	$6	281
1956	275	6	281
1957	275	3	278
1958 through Feb. 25	275	----------	275
1958: Feb. 26 through June 30	275	5	280
1959 through Sept. 1	275	5	280
1959: Sept. 2 through June 29	283	5	288
1959: June 30	288	5	290
1960	285	10	295
1961	285	8	293
1962 through Mar. 12	285	13	298
1962: Mar. 13 through June 30	285	15	300
1963 through Mar. 31	285	23	308
1963: Apr. 1 through May 28	285	20	305
1963: May 29 through June 30	285	22	307
1964 through Nov. 30	285	24	309
1964: Dec. 1 through June 28	285	30	315
1964: June 29 and 30	285	39	324
1965	285	39	324
1966	285	43	328
1967 through Mar. 1	285	45	330
1967: Mar. 2 through June 30	285	51	336
1968 [1]	358	----------	358
1969 through Apr. 6 [1]	358	7	365
1969 after Apr. 6 [1]	358	----------	358
1970 through June 30 [1]	365	12	377
1971 through June 30 [1]	380	15	395
1972 through June 30 [1]	400	50	450
1973 through Oct. 31 [1]	400	50	450
1973 through June 30 [1]	400	65	465
1974 through Nov. 30 [1]	400	65	465
1974: Dec. 3 through June 30 [1]	400	75	475
1975 through Feb. 18 [1]	400	95	495
1975: Feb. 19 through June 30 [1]	400	131	531
1976 through Nov. 15 [1]	400	177	577
1976 through Mar. 15 [1]	400	195	595
1976 through June 30 [1]	400	227	627
TQ: from enactment through Sept. 30, 1976 [1]	400	236	636
1977: from Oct. 1, 1976 through Mar. 31, 1977 [1]	400	282	682
1977: from Apr. 1 through Sept. 30, 1977 [1]	400	300	700
1978: from Oct. 1, 1977, through July 31, 1978 [1]	400	352	752
1979: through Mar. 31, 1979 [1]	400	398	798
1979: after Mar. 31, 1979 [1]	400	----------	400

[1] Includes FNMA participation certificates issued in fiscal year 1968; $1.1 billion as of Nov. 30, 1978.

II. EXCEPTION TO INTEREST RATE CEILING ON BONDS

Present law

Under the Second Liberty Bond Act, the Secretary of the Treasury has the general authority to issue bonds at a rate of interest not to exceed 4¼ percent per year. In the past several years, however, exceptions to the interest ceiling have been enacted which now permit the Secretary to issue up to $32 billion of bonds at interest rates in excess of the ceiling. As a result of the high interest rates prevailing in the long-term market in recent years, it has been possible lately to issue bonds only under the exception from the 4¼ percent interest rate ceiling.

Background

Under current statutory authority, the Treasury Department has authority to issue $32 billion long-term bonds at interest rates above the 4¼ percent ceiling in sufficient quantity to meet the demands of the first half of fiscal year 1979. The Treasury Department desires to retain the position which it has been able to develop in the past few years in the long-term market, and it also seeks to have the ability to finance long-term issues because they have helped to reverse the shortening of the average maturity of the Federal debt. (At the end of October, it was 5 months longer than it was 1 year earlier: 3 years and 2 months as compared with 2 years and 10 months.) Lengthening the average maturity of the debt has reduced the average amount of money that must be raised in each refunding.

During the past 4 years, Congress has been reluctant to encourage a too rapid shift to longer maturities in the public debt structure. While greater Federal participation in the longer maturity market tends to lengthen the average maturity of the public debt in the hands of the public, it also tends to increase the interest rate on long-term bonds. Congress has increased this authority each year by an amount that was just enough to meet Treasury Department anticipations of the needs for the new fiscal year, while weighing the appropriate monetary policy for the current phase of the business cycle.

Presently, the Administration is issuing long-term bonds worth $15 billion each year; more specifically, the amount is $3¾ billion each quarter, which is $15 billion at an annual rate. This amount breaks down to a probable requirement of an additional $8 billion—to a total of $40 billion—through September 30, 1979, and an additional $15 billion—a total of $55 billion—through September 30, 1980.

III. DISCRETIONARY AUTHORITY TO RAISE INTEREST RATES ON SAVINGS BONDS

Present law

The interest rate that may be paid on U.S. savings bonds may not exceed 6 percent annually. The statutes has established this ceiling in two steps: a maximum rate of interest of 5½ percent plus authority available to the Secretary of the Treasury to increase this maximum interest rate by one-half of one percent, with the approval of the President. This authority has been used, and the current rate of interest on savings bonds is 6 percent.

Background

The Treasury Department requests the flexibility which will give it the discretionary authority to increase the interest rates on savings bonds so that the Secretary may be able to respond to changing market conditions in the savings bond area, just as he may in other sectors of the bond market. In the past when interest rates on savings bonds were at statutory ceilings and interest rates available on competitive forms of savings rose, the holders of savings bonds were placed at a disadvantage and sought to redeem those bonds, and potential purchasers of savings bonds would avoid them because the rates of interest paid on competitive forms of savings were higher. Although Congress in the past responded to the Administration's requests for an increased ceiling, the increase could not be put into effect until the legislative process was completed, usually some months after the time when the increase would have been put into effect administratively.

APPENDIX B

TABLES, JAN. 31, 1979

UNIFIED BUDGET OUTLAYS AND PERCENT INCREASE PER YEAR

[Dollar amounts in billions]

Fiscal year	Outlay	Increase	Percent increase
1973	$247.1		
1974	269.6	$22.5	9.1
1975	326.2	56.6	21.0
1976	366.4	40.2	12.3
1977	402.7	36.3	9.9
1978	450.8	48.1	11.9
1979 [1]	487.5	36.7	8.1
1979 [2]	493.4	42.9	9.5
1980	531.6	[3] 38.2	7.7
		[4] 44.1	9.0

[1] 2d concurrent budget.
[2] Administration budget projection.
[3] Above administration fiscal year 1979 budget projection.
[4] Above 2d concurrent resolution.

Estimated ownership of public debt securities, November 30, 1978

	Billions
Held By:	
Federal Reserve System	$113.3
Government accounts	167.4
Total	280.7
Held by private investors:	
Individuals:	
Savings bonds	80.5
Other securities	29.8
Total individuals	110.2
Commercial banks	93.5
Insurance companies	15.1
Mutual savings banks	5.3
Corporations	20.9
State and local governments	69.1
Foreign and international	132.4
Other investors	55.8
Total privately-held	502.3
Total public debt securities outstanding	783.0

NOTE: Figures may not add to totals due to rounding.

MATURITY DISTRIBUTION OF FOREIGN HOLDINGS OF TREASURY PUBLIC DEBT SECURITIES, NOV. 30, 1978

[In millions of dollars]

Years to maturity	Marketable	Non-marketable	Total
Under 1	75,688	12,087	87,775
1 to 5	26,597	11,236	37,833
5 to 10	1,691	5,096	6,787
Over 10 years	8		8
Total	103,984	28,419	132,403

Source: Office of the Secretary of the Treasury, Office of Government Financing, Jan. 26, 1979.

Major foreign holders of Treasury public debt securities, November 30, 1978

	Millions
Oil producing countries	$11,738
Belgium	562
Canada	2,484
France	6,337
Germany	47,873
Italy	4,116
Japan	29,221
Netherlands	2,251
Switzerland	12,235
United Kingdom	6,794
International and regional	5,561
All Other	3,231
Total	132,403

CHANGES IN FOREIGN HOLDINGS OF PUBLIC DEBT SECURITIES

[In billions of dollars]

	Dec. 31, 1977	Nov. 30, 1978 [1]	Change [1]			
			Total	Nonmarketable	Add-ons	Other transactions (net)
Belgium	1.2	0.6	−0.6			−0.6
Canada	2.3	2.5	.2	−0.3	(2)	.5
France	3.4	6.3	2.9			2.9
Germany	26.7	47.9	21.2	3.7	1.1	16.4
Italy	4.8	4.1	−.7	(2)		.7
Japan	18.6	29.2	10.6	.3	2.0	8.3
Netherlands	2.6	2.3	−.3	(2)	.2	−.5
Switzerland	7.3	12.2	4.9	1.8		3.1
United Kingdom	12.1	6.6	−5.3			−5.3
International and regional	4.9	5.6	.7			.7
Oil producing countries	15.3	11.7	−3.6	(2)	.4	−4.0
All other	10.4	3.2	−7.2		(2)	−7.2
Total	109.6	132.4	22.8	5.4	3.8	13.6

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

Note: Totals may not add due to rounding.

Source: Office of the Secretary of the Treasury, Office of Government Financing, Jan. 26, 1979.

FOREIGN AND INTERNATIONAL HOLDINGS OF PUBLIC DEBT SECURITIES [1]

[Dollar amounts in billions]

Dec. 31—	Foreign and international holdings	Total public debt outstanding	Foreign and international as a percent of total public debt
1968	$12.4	$356.2	3.5
1969	10.4	367.4	2.8
1970	19.7	388.3	5.1
1971	46.0	423.3	10.9
1972	54.4	448.5	12.1
1973	54.7	469.1	11.7
1974	58.8	492.7	11.9
1975	66.5	576.6	11.5
1976	78.1	653.5	12.0
1977	109.6	718.9	15.2
Nov. 30, 1978	132.4	783.0	16.9

[1] To conform with the unified budget presentation, figures have been adjusted to exclude $1,825,000,000 in 1968 and $825,000,000 in years 1969–73 of noninterest bearing notes to the IMF.

Source: Office of the Secretary, Office of Government Financing, Jan. 26, 1979.

FEDERAL FINANCING REQUIREMENTS

[Dollars in billions]

Fiscal years	1978	1979 [1]	1980 [1]
Budget deficit	48.8	37.4	29.0
Off-budget deficit	10.3	12.0	12.0
Total deficit	59.2	49.4	41.0
Means of financing other than borrowing from the public [2]	−.1	−9.4	−2.0
Total borrowing from the public	59.1	40.0	39.0
Increase in debt held by Government agencies	12.2	18.8	20.8
Increase in gross Federal debt	71.3	58.8	59.8

[1] Fiscal year 1980 budget estimates.
[2] Consists largely of change in Treasury cash balance.

Source: Office of the Secretary of the Treasury, Office of Government Financing, Jan 26, 1979.

DEBT SUBJECT TO LIMIT

[Fiscal years; in billions of dollars]

	Estimate	
	1979	1980
Unified budget deficit	37.4	29.0
Portion of budget deficit attributable to trust surplus or deficit (−)	17.8	20.0
Federal funds deficit	55.2	49.0
Effect of off-budget agencies on debt subject to limit	12.0	12.0
Total to be financed	67.2	61.0
Means of financing other than borrowing, and other adjustments	−6.9	−.8
Change in debt subject to limit	60.3	60.2
Debt subject to limit, beginning of year	772.7	833.0
Anticipated debt subject to limit, end of year	833.0	893.2

Source: Office of the Secretary of the Treasury, Office of Government Financing, Jan. 26, 1979.

FEDERAL DEFICITS AND DEBT OUTSTANDING, FISCAL YEARS 1970-80

[In billions of dollars]

	1970	1971	1972	1973	1974	1975	1976	TQ	1977	1978	1979[1]	1980
Federal funds deficit	13.1	29.9	29.3	25.6	18.7	52.5	68.9	11.0	54.5	61.5	55.2	49.0
Trust fund surplus (−) or deficit	−10.3	−6.8	−5.9	−10.7	−14.0	−7.4	−2.4	2.0	−9.5	−12.7	−17.8	−20.0
Total unified budget deficit	2.8	23.0	23.4	14.8	4.7	45.2	66.4	13.0	45.0	48.8	37.4	29.0
Deficit of off-budget Federal entities[2]				.1	1.4	8.1	7.3	1.8	8.7	10.3	12.0	12.0
Total deficit	2.8	23.0	23.4	14.9	6.1	53.1	73.7	14.7	53.7	59.2	49.4	41.0
Nonborrowing means of financing[3]	2.6	−3.6	−3.9	4.4	−3.1	−2.4	9.2	3.3	−.1	−.1	−9.4	−2.0
Total borrowing from the public	5.4	19.4	19.4	19.3	3.0	50.9	82.9	18.0	53.5	59.1	40.0	39.0
Change in debt held by Government agencies[4]	10.1	7.4	8.4	11.8	14.8	7.0	4.3	−3.5	9.2	12.2	18.8	20.8
Change in gross Federal debt	15.5	26.9	27.9	31.1	17.8	57.9	87.3	14.5	62.7	71.3	58.8	59.8
Change in Federal agency debt	1.7	.3	1.3	−.2	−.9	1.1		−.2	1.4	1.4	1.5	.5
Change in gross public debt	17.2	27.2	29.1	30.9	16.9	59.0	87.2	14.3	64.1	72.7	60.3	60.2
Change in other debt subject to limit[5]	−.7	−1.2		−.4		.1	.1					
Change in debt subject to limit	16.5	26.0	29.1	30.5	16.9	59.0	87.3	14.3	64.1	72.7	60.3	60.2
Debt outstanding (end of fiscal years):												
Gross Federal debt[6]	382.6	409.5	437.3	468.4	486.2	544.1	631.9	646.4	709.1	780.4	839.2	899.0
Federal agency debt[6]	12.5	12.2	10.9	11.1	12.0	10.9	11.4	11.7	10.3	8.9	7.3	6.9
Gross public debt	370.1	397.3	426.4	457.3	474.2	533.2	620.4	634.7	698.8	771.5	831.8	892.1
Other debt subject to limit[5]	2.5	1.3	1.3	.9	.9	1.0	1.1	1.1	1.1	1.1	1.1	1.1
Debt subject to limit	372.6	398.6	427.8	458.3	475.2	534.2	621.6	635.8	700.0	772.7	833.0	893.2

[1] Estimate.
[2] Consists largely of Federal Financing Bank borrowings to finance off-budget programs.
[3] Consists largely of changes in Treasury cash balances.
[4] Consists largely of trust fund surplus or deficit.
[5] Net of certain public debt not subject to limit.
[6] Fiscal year 1976 figure includes reclassification of $471,000,000 of Export-Import Bank certificates of beneficial interest from asset sales to debt.

Source: Office of the Secretary of the Treasury, Office of Government Financing, Jan. 26, 1979, Special analysis E of the U.S. budget.

DEFICITS IN FEDERAL FUNDS AND INTEREST ON THE NATIONAL DEBT FOR FISCAL YEAR 1959-80, INCLUSIVE

(Prepared by U.S. Senator Harry F. Byrd, Jr., of Virginia, January 1979)

[Dollar amounts in billions]

Year	Receipts	Outlays	Surplus (+) or deficit (−)	Debt interest[1]
1959	$65.8	$77.0	−11.2	7.8
1960	75.7	74.9	+.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	240.1	−52.6	33.5
1976	201.1	269.9	−68.8	37.7
1977	241.3	295.9	−54.5	41.9
1978	270.5	332.0	−61.5	48.7
1979[2]	306.1	361.3	−55.2	59.8
1980[2]	332.8	381.8	−49.0	65.7

[1] Interest on gross Federal debt.
[2] Estimated figures.

Source: Office of Management and Budget.

JANUARY 1979, THE NATIONAL DEBT IN THE 20TH CENTURY,[1] TOTALS AT THE END OF FISCAL YEARS

[Rounded to the nearest billion dollars]

Year	Amount	Year	Amount	Year	Amount
1900	1	1927	19	1954	271
1901	1	1928	18	1955	274
1902	1	1929	17	1956	273
1903	1	1930	16	1957	272
1904	1	1931	17	1958	280
1905	1	1932	19	1959	288
1906	1	1933	23	1960	291
1907	1	1934	27	1961	293
1908	1	1935	29	1962	303
1909	1	1936	34	1963	311
1910	1	1937	36	1964	317
1911	1	1938	37	1965	323
1912	1	1939	48	1966	329
1913	1	1940	51	1967	341
1914	1	1941	58	1968	370
1915	1	1942	79	1969	367
1916	1	1943	143	1970	383
1917	3	1944	204	1971	409
1918	12	1945	260	1972	437
1919	25	1946	271	1973	468
1920	24	1947	257	1974	486
1921	24	1948	252	1975	544
1922	23	1949	253	1976	632
1923	22	1950	257	1977	709
1924	21	1951	255	1978	780
1925	21	1952	259	1979[2]	839
1926	20	1953	266	1980[2]	899

[1] Gross Federal debt.
[2] Estimated figures.

Source: Office of Management and Budget.

GROSS NATIONAL PRODUCT

[In billions of dollars]

(Prepared by U.S. Senator Harry F. Byrd, Jr., of Virginia, January 1979)

Year	Raw figure	Adjusted figure [1]
1972	1,171	1,171
1973	1,307	1,235
1974	1,413	1,214
1975	1,516	1,192
1976	1,706	1,275
1977	1,887	1,333
1978 [2]	2,106	1,384
1979 [2]	2,343	1,430
1980 [2]	2,565	1,466

[1] Adjusted to 1972 dollars to account for inflation.
[2] Estimated figures.

Source: Office of Management and Budget.

UNIFIED BUDGET RECEIPTS, OUTLAYS, AND SURPLUS OR DEFICIT FOR FISCAL YEARS 1958-80, INCLUSIVE

[Dollar amounts in billions]

(Prepared by Senator Harry F. Byrd, Jr., of Virginia, January 1979)

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	326.2	−45.2
1976	300.0	366.4	−66.4
1977	357.8	402.7	−45.0
1978	402.0	450.8	−48.8
1979 [1]	448.7	487.5	−38.8
1980	502.6	531.6	−29.0

[1] 2d Concurrent Congressional Budget Resolution.

Source: Office of Management and Budget.

ESTIMATED FUNDS TO BE RAISED IN U.S. CAPITAL MARKETS

[Dollar amounts in millions]

Fiscal year	Total	U.S. Treasury	Treasury as percent of total
1979	$413.2	$40.0	9.7
1980	407.6	39.0	9.6

Source: U.S. Treasury Department (February 1979).

INTEREST RATES USED TO ESTIMATE INTEREST ON THE PUBLIC DEBT FOR FISCAL YEARS 1979 AND 1980, AS PRESENTED IN THE 1980 BUDGET

Maturity	Interest rate [1] 1979	1980
13 weeks [2]	9.0	7.9
26 weeks [2]	9.3	8.7
52 weeks [2]	9.6	9.0
1 to 3 yr	9.8	9.1
3 to 6 yr	9.3	8.8
Over 6 yr	9.0	8.8

[1] Fiscal year averages.
[2] Bank discount basis.

FOREIGN HOLDINGS OF TREASURY PUBLIC DEBT SECURITIES, NOV. 30, 1978

	Amount (billions)	Percent
Foreign and international official accounts	129.5	97.8
Other	2.9	2.2
Total	132.4	100.0

Source: U.S. Treasury Department (February 1979).

OWNERSHIP OF FEDERAL AGENCY DEBT, DEC. 31, 1978
[Dollar in millions]

Agency	Outstanding	Federal reserve and Government accounts	Privately-held
Export-Import Bank	1,813	69	1,745
Federal Housing Administration	588	143	445
Government National Mortgage Association	3,141	1,335	1,806
Postal Service [1]	250	37	213
Tennessee Valley Authority	1,825		1,825
Other [2]	870	98	772
Total	8,487	1,681	6,806

[1] Postal Service is an off-budget agency.
[2] Includes Defense and Coast Guard family housing mortgages.
Note: Figures may not add to totals due to rounding.

Source: Office of the Secretary of the Treasury, Office of Government Financing, Feb. 8, 1979.

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	48.0
Dec. 31, 1973	11.7	14.4	92.6
Dec. 31, 1974	11.6	15.9	120.4
Dec. 31, 1975	11.6	16.2	127.4
Dec. 31, 1976	11.6	18.7	152.5
Dec. 31, 1977	11.7	19.3	193.8
Nov. 30, 1978	11.6	18.0	234.2

Source: U.S. Treasury Department.

BUDGET RECEIPTS, OUTLAYS, AND SURPLUS OR DEFICIT (−) BY FUND GROUP, 1970–80 ESTIMATE

[Fiscal years; in billions of dollars]

	1970	1971	1972	1973	1974	1975	1976	TQ	1977	1978	Estimate 1979	Estimate 1980
Federal funds receipts:												
Individual income taxes	90.4	86.2	94.7	103.2	119.0	112.4	131.6	38.8	157.6	181.0	203.6	227.3
Corporation income taxes	32.8	26.8	32.2	36.2	38.6	40.6	41.4	8.5	54.9	60.0	70.3	71.0
Subtotal	123.2	113.0	126.9	139.4	157.6	163.0	173.0	47.3	212.5	240.9	273.9	298.3
Excise taxes	10.4	10.5	9.5	9.8	9.7	9.4	10.6	2.5	9.6	10.1	9.4	9.1
Estate and gift taxes	3.6	3.7	5.4	4.9	5.0	4.6	5.2	1.5	7.3	5.3	5.7	6.0
Customs duties	2.4	2.6	3.3	3.2	3.3	3.7	4.1	1.2	5.2	6.6	7.5	8.4
Miscellaneous receipts	3.5	3.9	3.7	4.0	5.5	6.8	8.2	1.6	6.7	7.6	9.6	10.9
Total Federal funds receipts	143.2	133.8	148.8	161.4	181.2	187.5	201.1	54.1	241.3	270.5	306.1	332.8
Trust fund receipts	59.4	66.2	73.0	91.2	104.8	118.6	133.7	32.1	152.8	168.0	189.5	212.2
Interfund transactions	−8.8	−11.6	−13.2	−21.3	−21.1	−25.1	−34.8	−4.4	−36.3	−36.5	−39.6	−42.5
Total budget receipts	193.7	188.4	208.6	232.2	264.9	281.0	300.0	81.8	357.8	402.0	456.0	502.6
Federal funds outlays	156.3	163.7	178.1	187.0	199.9	240.1	269.9	65.1	295.8	332.0	361.3	381.8
Trust funds outlays	49.1	59.4	67.1	81.4	90.8	111.2	131.3	34.0	143.3	155.3	171.7	192.2
Interfund transactions	−8.8	−11.6	−13.2	−21.3	−21.1	−25.1	−34.8	−4.4	−36.3	−36.5	−39.6	−42.5
Total budget outlays	196.6	211.4	232.0	247.1	269.6	326.2	366.4	94.7	402.7	450.8	493.4	531.6
Federal funds surplus or deficit (−)	−13.1	−29.9	−29.3	−25.6	−18.7	−52.6	−68.3	−11.0	−54.5	−61.5	−55.2	−49.0
Trust funds surplus or deficit (−)	10.3	6.8	5.9	10.7	14.0	7.4	2.4	−2.0	9.5	12.7	17.8	20.0
Budget surplus or deficit (−)	−2.8	−23.0	−23.4	−14.8	−4.7	−45.2	−66.4	−13.0	−45.0	−48.8	−37.4	−29.0

Source: Budget Review Division, Fiscal Analysis Branch, Feb. 8, 3979.

TRUST FUND RECEIPTS, OUTLAYS, AND SURPLUSES OR DEFICITS, 1975-80

[Fiscal years; in billions of dollars]

	1975			1976			TQ		
	Receipts	Outlays	Deficit (−)	Receipts	Outlays	Deficit (−)	Receipts	Outlays	Deficit (−)
Social security (OASDI)	66.7	64.7	2.0	70.7	73.9	−3.2	18.4	19.8	−1.4
Health insurance funds	16.9	14.8	2.1	18.5	17.8	.7	4.9	4.8	.1
Revenue sharing fund	6.2	6.1	.1	6.4	6.2	.1	1.7	1.6	.1
Unemployment insurance	8.2	13.2	−5.0	16.2	17.9	−1.7	3.4	3.5	−.2
Federal employees retirement funds	11.5	7.1	4.3	13.2	8.4	4.8	1.5	2.3	−.8
Highway funds	6.8	4.8	1.9	6.0	6.5	−.5	1.7	1.8	−.1
Other funds	2.4	.4	2.0	2.7	.6	2.2	.6	.3	.3
Total trust funds	118.6	111.2	7.4	133.7	131.3	2.4	32.1	34.0	−2.0

	1977			1978			1979 estimate			1980 estimate		
	Receipts	Outlays	Surplus or deficit (−)	Receipts	Outlays	Surplus or deficit (−)	Receipts	Outlays	Surplus or deficit (−)	Receipts	Outlays	Surplus or deficit (−)
Social security (OASDI)	81.2	85.1	−3.9	89.6	93.9	−4.3	101.8	103.7	−1.9	117.2	116.7	0.5
Health insurance funds	22.8	21.5	1.2	27.6	25.2	2.4	31.8	29.1	2.6	35.8	32.1	3.7
Revenue sharing fund	6.7	6.8	−.1	6.9	6.8	(1)	6.9	6.9	(1)	6.9	6.9	(1)
Unemployment insurance	15.0	14.1	.9	15.2	11.2	4.0	16.2	11.0	5.2	16.4	13.1	3.3
Federal employees retirement funds	16.7	9.7	7.0	17.8	11.0	6.8	20.6	12.5	8.1	22.7	14.2	8.6
Highway funds	7.3	6.1	1.2	7.6	6.1	1.5	8.2	6.8	1.3	8.4	7.2	1.2
Other funds	3.2	(1)	3.2	3.4	1.2	2.3	4.1	1.6	2.4	4.8	2.1	2.8
Total trust funds	152.8	143.3	9.5	168.0	155.3	12.7	189.5	171.7	17.8	212.2	192.2	20.0

[1] + or − $50,000,000 or less.

Source: Budget Review Division, Fiscal Analysis Branch, Feb. 8, 1979.

FOOD STAMP PROGRAM, 1965-80

[In millions of dollar]

Fiscal year	Outlays	Budget authority
1965	34.4	55.6
1966	69.5	100.0
1967	114.1	139.5
1968	184.7	184.9
1969	247.8	279.9
1970	576.8	596.9
1971	1,567.8	1,666.2
1972	1,909.2	2,285.0
1973	2,207.5	2,495.7
1974	2,844.8	2,995.4
1975	4,599.0	4,869.4
1976	5,632.0	5,196.4
T.Q.	1,325.2	1,237.4
1977	5,398.8	5,506.2
1978	5,498.8	5,618.4
1979 estimate	6,320.7	6,015.3
1980 estimate	6,876.6	6,926.5
Cumulative total	45,407.7	46,168.7

Source: Budget review Division, Fiscal Analysis Branch, Feb. 8, 1979.

Department of Health, Education, and Welfare Federal Funds, Budget Authority, 1964–1980

Fiscal year:	*Billions*
1964	$5.7
1965	7.1
1966	10.0
1967	12.6
1968	14.5
1969	15.6
1970	17.3
1971	21.6
1972	26.9
1973	31.6
1974	31.7
1975	37.5
1976	44.4
T.Q.	11.8
1977	51.6
1978	54.6
1979 estimate	60.4
1980 estimate	62.2

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