EXTENSION OF THE TEMPORARY LIMIT ON PUBLIC DEBT

HEARINGS

BEFORE THE

SUBCOMMITTEE ON TAXATION AND DEBT MANAGEMENT GENERALLY

OF THE

COMMITTEE ON FINANCE UNITED STATES SENATE

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APRIL 2 AND 16, 1980

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EXTENSION OF THE TEMPORARY LIMIT ON THE PUBLIC DEBT

WEDNESDAY, APRIL 2, 1980

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

The subcommittee met, pursuant to notice, at 9 a.m., in room S-207, the Capitol, Hon. Harry F. Byrd, Jr. (chairman of the subcommittee) presiding.

Present: Senators Byrd, Chafee, and Dole.

[The press release announcing these hearings follows:]

Press Release #H-19

PRESS RELEASE

FOR IMMEDIATE RELEASE
March 21, 1980

COMMITTEE ON FINANCE
UNITED STATES SENATE
Subcommittee on Taxation and Debt Management
2227 Dirksen Senate Office Bldg.

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 G. William Miller, Secretary of the Treasury; Mr. James T. McIntyre, Director of the Office of Management and Budget; and Alice M. Rivlin, Director of the Congressional Budget Office, will testify on the public debt at 9:30 A.M., Monday, March 31, in Room 2221 Dirksen Senate Office Building.

Paul Volcker, Chairman of the Federal Reserve Board; Dr.Raymond J. Saulnier; and Albert Sindlinger, consumer research and economic forecasting pollster, will testify in a second day of hearings, at 9:00 A.M., Wednesday, April 2 in Room S-207 of the Capitol.

Senator Byrd noted that the temporary debt limit of $879 billion which the Congress enacted in September of 1979 is due to expire on May 31.

Senator Byrd said, "The Federal debt is the result of the cumulative decisions which Congress and the Administration make about Federal spending and the Federal deficit. Each year the Federal debt has grown as deficit has been piled on top of deficit. No doubt, Congress will be asked to increase the statutory ceiling.

"The greatest problem our nation faces is inflation. Unless we get Federal spending under control and reduce the creation of money to finance our debts, record high levels of inflation will continue.

"Runaway, double-digit, inflation is a disastrous consequence of year-after-year Federal government deficits. The value of the dollar has declined so that as of January 1980 it was worth only .43 compared to a full dollar in 1967. The purchasing power of the dollar will continue to decline unless we get inflation under control.

"The gross interest on the Federal debt for fiscal year 1981 is estimated in President Carter's January fiscal year 1981 budget to be $79.4 billion.

"By law, the budget is required to be in balance by fiscal year 1981.

"Recently, the Administration and the Congress have spoken loudly about a balanced budget. The real test on Washington's resolve to achieve a balanced budget will be in the months ahead.

"The Subcommittee will examine carefully the budget revisions which the Administration has proposed."

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, nor more than 25 double-spaced pages in length and mailed with five (5) copies by April 11, 1980, to Michael Stern, Staff Director, Committee on Finance, Room 2227 Dirksen Senate Office Building, Washington, D. C. 20510

P.R. #H-19

Press Release #H-21

PRESS RELEASE

FOR IMMEDIATE RELEASE
March 28, 1980

COMMITTEE ON FINANCE
UNITED STATES SENATE
Subcommittee on Taxation and
Debt Management
2227 Dirksen Senate Office Bldg.

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

Senator Harry F. Byrd, Jr., (I-Va.), Chairman of the Subcommittee on Taxation and Debt Management, announced today that the hearing on extension of the temporary limit on the public debt originally scheduled for March 31, 1980, has been postponed.

The hearing announced for April 2 will be held as scheduled at 9:00 A.M., Wednesday, April 2 in Room S-207 of the Capitol. Paul Volcker, Chairman of the Federal Reserve Board; Dr. Raymond J. Saulnier; and Albert Sindlinger, consumer research and economic pollster will testify at the hearing.

Senator Byrd also announced that a second day of hearings on the public debt has been rescheduled for 9:00 A.M., Wednesday, April 16 in Room 2221, Dirksen Senate Office Building. The Honorable G. William Miller, Secretary of the Treasury; Mr. James T. McIntyre, Director of the Office of Management and Budget; and Alice M. Rivlin, Director of the Congressional Budget Office, will testify at that time.

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 (5) copies by April 21, 1980, to Michael Stern, Staff Director, Committee on Finance, Room 2227 Dirksen Senate Office Building, Washington, D. C. 20510.

Senator BYRD. The hour of 9 having arrived, the subcommittee will come to order.

The current statutory debt ceiling of $879 billion will expire on May 31, 1980. It is estimated that the debt at that time will be substantially higher than the $879 billion figure.

The administration has not yet submitted a revised figure as to the request that it will make of the Congress in regard to the debt ceiling. It did on March 3 submit some figures to the Ways and Means Committee. Since then, there have been two changes in the President's budget recommendations.

I might say that in the period of a little more than two months, the President has sent to the Congress three budget messages. On January 28, he recommended total spending of $616 billion. On March 14, in a television address to the American people, he recommended total spending of $613 billion and on Monday of this week, he recommended total spending of $612 billion.

The $612 billion figure for fiscal year 1981 is $64 billion more than the Congress established for fiscal year 1980 only months ago, November 1979.

The committee requested Chairman Paul Volcker of the Federal Reserve Board to meet with the committee today. The committee feels that the Nation's economic situation and the Government's financial situation both are extremely grave.

The committee recognizes that the Federal Reserve Board has taken bold steps, and the chairman of this subcommittee, for one, wants to commend the courage of Chairman Volcker and his fellow Board members for the fight that is being made on the monetary side in regard to attempting to curb the 18 percent annual inflation rate.

It is the view of this Senator that the Federal Reserve Board alone cannot solve the problem and the Congress must get into the act in setting fiscal policy. However, I feel that the Congress should get the viewpoint and the recommendations of the able Chairman of the Federal Reserve Board.

We assume, Mr. Volcker, that you need some help in this anti-inflation fight from the Congress, and if this assumption is reasonably correct, this committee would welcome your views and recommendations and any comments that you would care to make in regard to the Nation's rather severe economic problems.

Welcome.

STATEMENT OF HON. PAUL VOLCKER, CHAIRMAN, FEDERAL RESERVE BOARD

Chairman VOLCKER. Thank you, Mr. Chairman.

I think that you received my statement yesterday, and perhaps we can expedite things if I do not read it.

Senator BYRD. That will be made a part of the record.

Chairman VOLCKER. I can affirm that your assumption is fully correct: We can use all the help we can get in asserting an appropriate degree of restraint on this inflationary process. If we have to press monetary policy without help from the fiscal side, the danger will increase.

I have been gratified that this point has been appreciated somewhat now due to the severity of the inflation problem; the need to attack inflation on all sides is better appreciated now.

The alarming recent price index figure to which you referred—around an 18-percent annual rate—sure has gotten people's attention. While that particular index may exaggerate the problem, the problem is very real and very severe, and I look forward to fiscal policy pulling its oar harder in the direction of restraint.

We are certainly in one of those periods when the need for large amounts of Federal financing brings pressure on markets very directly. Those pressures are strong enough so that it is clear that other potential borrowers, most notably home builders at this point, but also farmers and even larger businesses, are feeling a strong squeeze. The more credit is absorbed by the Federal Government at this point in time, the less there is for others.

We have felt it necessary and continue to feel it necessary to restrain the growth of money and credit, because ultimately we cannot deal with this inflationary problem if we do not have restraint in money and credit growth.

Unfortunately, the deficit has gotten bigger this year and that cannot be reversed immediately, although the bulk of that deficit is now behind us. But, as we set our course for the next fiscal year—and, indeed, as we look at the rest of this fiscal year and, equally as important, as we look beyond the next fiscal year and to the years ahead—I think we can now see the crucial importance of getting this trend in spending reduced, not only because of its impact in terms of the deficit, but also because that is the only way that we can really prepare the ground for the kind of tax reduction that many people are talking about. I do not think that is possible or responsible at this point in time, when the budget is not in shape, a factor which is urgently desirable in terms of the longer run growth of the economy. All I would say in that connection is that the priority at this point has to be getting the expenditure trend down, into a shape that makes it possible, eventually, to achieve the kind of tax reduction that we would like to see.

The only other point in my statement that is worth alluding to is that when one looks at Federal Government financing, one has to look beyond the budget to the somewhat arbitrary decisions about what is included in the budget and what is not. There is a certain amount of off-budget financing that has tended to increase in recent years.

The administration itself has made some proposals for scrutinizing those off-budget credit programs more carefully and bringing those more directly under congressional control in the aggregate, and I think that I would commend those proposals to you; it is important that that part of the Federal financing picture be looked at as well.

Senator BYRD. Thank you, Chairman Volcker.

In your statement, you say Federal borrowing absorbs scarce private savings and intensifies pressures on financial markets.

How much borrowing do you foresee by the Federal Government during this current year of 1980?

Chairman VOLCKER. I have not calculated a borrowing figure. I do not have a better estimate of the deficit than the estimates the

administration put out—in the neighborhood of $36 billion to $37 billion for programs in the budget and off-budget financing which amounts to another $15 billion, for a combined financing of $51 billion to $52 billion for this fiscal year.

As I suggested, even on a seasonally adjusted basis, I think that more than half of that is behind us. On an unseasonally adjusted basis, we can look forward to some reduction in financing needs.

We normally have a big surplus during the current quarter; if we take that into account, the major financing for this year is behind us. But that surplus for this quarter is a normal, seasonal phenomenon, and I do not want to suggest that that means the problem is anything less than urgent.

Senator BYRD. Another thought occurs to me as to the accuracy of the figures with which we are dealing and the reliability that can be placed on those—and I say that for this reason.

It was only 4½ months ago that the Congress in the second concurrent budget resolution adopted on November 16, put Federal spending for the current fiscal year at $548 billion. Yesterday or the day before, the Senate Budget Committee increased that figure by $18 billion. That is for the current fiscal year, bringing the total spending to the current fiscal year up to $566 billion.

What I am suggesting is in a period of 4½ months, $18 billion has been added to the expenditure side of Government.

Chairman VOLCKER. That is true.

Senator BYRD. That brings to my mind as to how much confidence we can have in the new figures which are being submitted. I do not know whether you have any comment.

Chairman VOLCKER. As the figures that you recite indicate, there is great pressure to exceed budgetary estimates, growing from the inflationary process.

I think the impact of rising prices was underestimated and the impact on the budget was underestimated. We are in a period of apparently rising defense spending, and the inflationary impact from some sectors of defense spending, in particular, were underestimated in the recent figures you recite. Another factor has been rising interest costs, because the money markets have been so tight and rates have gone up. In the fullness of time, that could move in the other direction as well.

I would accept your point that the risk of recent events is that expenditures might increase beyond the estimates. The reductions that the President has proposed and that some congressional committees have proposed in a sense offset these reestimates of higher expenditures and therefore do not show much net progress. There are some real cuts there, but they have been necessary to offset this momentum of increased outlays.

The lesson that I would derive from that is that the Congress and the administration need to be as forceful in confining expenditures within the budgeted amounts as they are making cuts; programs of the sort that have been proposed.

It is going to take continued efforts, I think, to confine actual spending within the new estimates, but I have no reason to believe that those new estimates are neither fair nor accurate appraisals of where things stand at the moment.

Senator BYRD. You indicated earlier that you thought that the top priority is getting expenditures down?

Chairman VOLCKER. Right.

Senator BYRD. I certainly agree with you. That is why I constrain my enthusiasm for the proposals of both the President and the two budget committees.

The impression has gotten abroad that recent activity in Washington is directed toward reducing Government spending. This is just not the case.

When President Carter submitted his budget on January 28, it called for a total spending of $616 billion. Now this week he called for a total spending of $612 billion.

This is a $4 billion reduction, but that is a reduction from an increase in spending. Even with a $4 billion reduction, which is virtually nothing compared to a $616 billion budget, the administration program still calls for a total increase in spending over the current fiscal year, as enunciated by Congress last November, of $64 billion.

That is not getting spending under control that I can see.

Chairman VOLCKER. If I may interject, Senator Byrd?

Senator BYRD. Yes.

Chairman VOLCKER. It looks to be less than $64 billion; the total goes from more like $569 billion up to $612 billion, as you say.

Senator BYRD. I think where we differ, Mr. Chairman is this. I am going to the budget resolution, what the Congress has approved to date in spending for fiscal year 1980—$548 billion. This was in the budget resolution which the Congress adopted.

Chairman VOLCKER. Right.

Senator BYRD. Congress has taken no further steps in regard to the fiscal year 1980 budget. That is what the Congress said could be spent for fiscal 1980.

Chairman VOLCKER. Right.

Senator BYRD. Take $612 billion and subtract $548 billion from it; you get a $64 billion increase in spending.

Chairman VOLCKER. I am looking at the new administration estimates which show an increase of $43 billion. The 1980 figure is much higher than the figure that you suggest; that was the point we were discussing before. But the point that I would make, I think, about either of these figures, is that while spending is going up by a large amount, if the present goal for 1981 set forth by the administration or by the congressional committees that have been discussing this were to be achieved, it would represent a very substantial slowdown in the rate of growth; indeed, the rate of growth would be below the rate of inflation.

So, I think there is a real change in trend here. If it can be achieved, if it can be sustained in later years, it is not insignificant. It would be highly significant if this goal could be achieved.

I would like to see even more, if that is possible, but I would not want to dismiss what would be achieved if this goal could be reached.

Senator BYRD. I am not convinced that the goal can be reached. No. 2, the rate of growth, a $64 billion increase over the $548 billion figure is about 12 percent.

I would say that is a very substantial rate of growth.

Let me ask you this, if I may. How do we get interest rates down?

Chairman VOLCKER. Ultimately, I think we will get interest rates down by reducing the rate of inflation. I think over any period of time you could not reasonably expect the level of interest rates to be wildly out of line with the inflation rate. Indeed, you would expect—if any period could be called normal—that in more normal periods the rate of interest will be somewhat above the expected rate of inflation; that has been the typical pattern in the past.

You would expect the return on investment to be adequate to permit some reward to lenders, so that the normal expectation in, I think, any market economy would be that interest rates would be related to the rate of inflation over a period of time and, by and large, they would tend to offer some positive return.

Senator BYRD. The way to achieve this——

Chairman VOLCKER. The way to get interest rates down is to get inflation down.

Senator BYRD. To get inflation under control first?

Chairman VOLCKER. Right.

Senator BYRD. One tool that can be used in that regard is monetary tool, and the other tool must be fiscal policy?

Chairman VOLCKER. Yes, sir.

Senator BYRD. The Congress and the administration together must do their part on the fiscal side if the efforts of the monetary side are to be successful. Is that right?

Chairman VOLCKER. Yes.

There is no question, given from the general relationship of interest rates to inflation in the short-run situation we are in—and could be again in the future—that the more pressure is taken off the markets by reduction in Federal borrowing the more easily you would expect credit to flow to other sectors of the economy and, to that extent, the lower the interest rates would be.

Senator BYRD. As I go around Virginia to meet with and talk with people, so many put this question to me—perhaps you can help me give a satisfactory answer.

Why does not Congress do something about interest rates?

Now, what can Congress do about interest rates?

Chairman VOLCKER. Congress can reduce the budgetary deficit; that would be the most fundamental and constructive thing you can do about interest rates.

Interest rates are influenced, certainly in the short run, by the creation of money; that is a job that the Congress has delegated to the Federal Reserve.

We used to think that the more money we had, the lower the interest rates. I think that we have learned that the more money we have the more inflation we have and, in the end, you may get higher interest rates out of that process than lower.

Broadly, that is what has happened in recent decades or for even longer. I think that the effort to reduce interest rates by pumping up the money supply, so to speak, may or may not have some transitory effect in lowering interest rates, but the net result is to increase the inflation rate. It would be counterproductive and we would be back here complaining next year that interest rates were

still higher if we just went ahead and opened up the monetary taps.

On the other hand, if we do begin to make some progress on the inflation front—as we expect to; certainly our policy is aimed in that direction—then, indeed, we can see interest rates come down in a context of restraint on the money supply. Restraining the money supply does not mean, over a long period of time, high interest rates; it should mean ultimately lower interest rates.

I see the inflationary situation responding to restraint. I do not know of any way to short circuit that process. The effort to short circuit that process is what would get us in trouble again.

We can use all the help we can get in relieving the pressures on interest rates and tensions in the market through the budgetary process. I know that you have unquestionably been visited by a lot of home builders and realtors and small businessmen and farmers who say they are having difficulty raising credit, and indeed, they are.

I think the most constructive response that they can receive is the assurance that you will do all you can to get the Federal Government out of the way in terms of the demands that it puts on the credit market.

Senator BYRD. Your reply to that question basically is the reply that I gave to the 700 or 800 Virginia homebuilders here in Washington last week. I do not know of any way that the Congress can legislate interest rates down.

Chairman VOLCKER. I do not either.

Senator BYRD. The Congress role is to curb this uncontrolled, and maybe some disagree, but I say uncontrolled Federal spending. Until we are able to control this Federal spending, I do not see too much hope of getting interest rates down.

Chairman VOLCKER. If I might just elaborate on that slightly, if Federal spending is not under better control you either end up with a deficit and the situation we have now, or you end up with the kind of tax structure that I think stifles growth in the economy, which is not helpful to the long run picture either. So, I do think the key to this process is restraint on spending.

Senator BYRD. The Federal Government overall gains by inflation, does it not?

Chairman VOLCKER. I do not know where the net balance lies. It certainly gains tax receipts, not just from the straightforward transformation of inflation into higher receipts, but because of the progressivity of the tax structure; inflation puts people in higher brackets, so that, in effect, you get a higher tax burden.

I think that the nature of our tax system is such that it taxes profits—in this kind of a situation, profits that are not real, and that is another way that it gets higher revenues and at the same time inhibits the investment process.

On the other hand, of course, the interest rates reflect the inflationary process, too.

On balance, perhaps, the budget gains from inflation, but I would think that on a close analysis of the particular impacts at a particular time, there is no question that the process is not a constructive one in the sense that there is without doubt an increased tax burden as inflation continues.

Senator BYRD. I think the figures submitted by the administration on January 28 and again this week are immensely interesting. On January 28 the outlay figure for 1981 was $616 billion and the revenues were estimated to be $600 billion with a deficit of $16 billion.

Now they come along this week, 60 days later, and they reduce expenditures slightly to $614 billion, but they estimate the revenues will be $628 billion. That is how they get what they claim to be a surplus, by increasing the tax take from the American public.

I think it is vitally important to have a balanced budget, but my conception of balancing the budget is not to increase taxes but to reduce spending. Spending is the problem. As you indicated a moment ago, the priority should be given to getting spending under control.

Chairman VOLCKER. In fairness, Senator Byrd, we did adopt the approach on the basis that the reduction of expenditures itself—admittedly from a higher level than presented in February would be enough to balance the budget without any explicit new taxes.

There is that implicit new tax from the progressivity of the tax structure, but the new revenues from the oil import proposal were not necessarily arrived at to achieve a balance in the budget.

Senator BYRD. In any case, the budget is being balanced by taking more from the people.

Chairman VOLCKER. There is no question that the budget receipts relative to economic activity are projected to rise rather decidedly in 1981, to over 22 percent of the Gross National Product. This tax burden, as projected in 1981, if I recall correctly, is as high in percentage as it has ever been, including in wartime.

Senator BYRD. I think that is correct. I thought the facts were that it is higher than in any period of our history, than the last year of World War II. There is just a fraction difference.

You might say it is the highest tax take percentagewise in relation to GNP than has ever been in the history of our country.

Let me ask you this in regard to interest rates. Is it correct that while the Federal Reserve can determine to some degree short-term interest rates, that it has little or no control over long-term rates?

Chairman VOLCKER. I think that is essentially correct in the short run. We can, with a certain range, have a strong influence on short-term rates, but the long-term market is very heavily affected by expectations of what an appropriate level of interest rates will be in the future, which is in turn related to expectations about inflation. Without engaging in massive operations—you would practically have to buy up the Federal debt—you could not control that rate very closely.

Indeed, I do not think we can control the short-term rate except in limited time periods and within limited ranges with an inflationary situation and an economic situation of the sort we have right now. Our ability to control even the short-term rate structure is circumscribed by the economic situation that exists; it is not unlimited by any means.

Senator BYRD. I realized the delicate nature of your work, so to speak. If it is not inappropriate, may I ask what rate do you see the money supply expanding in this current fiscal year and in 1981?

Chairman VOLCKER. We have set our specific objectives for growth in the money supply for this calendar year. We do not divide by fiscal years, but rather we look for a pretty steady pattern in terms of the calendar year. We have several definitions of the money supply, the so-called narrow definition which is basically currency outstanding, and transaction balances.

We set forward a target of 3.5 percent to 6 percent for M-1A for this year. We are somewhere close to the midpoint of that target, I think, over the first 3 months, and we will make every reasonable effort to be within that targeted range. As a first approximation, I think one could think of the midpoint of that range as a reasonable starting point.

That would be a reduced rate of growth from last year. We have not specifically set forward any targets for 1981, but the general philosophy has been to reduce growth of the money supply over a period of time. I think that is the operative objective, although we have not set down a particular number for 1981 as yet. We will have to make a preliminary judgment on that in July.

Senator BYRD. In reading the March 21 Federal Reserve statistics, and I do not know that I am an expert on reading these statistics, but as I understand it, currency plus demand deposits for March for the 4 weeks ending March 14, 1979, 52 weeks previous in parens, the increase is 7.1 percent.

Chairman VOLCKER. I do not have a calculation precisely on that basis, but it may well be true. If I recall the figure correctly it is about 4.5 percent for M-1A from the September average—before our October announcement—to the March estimate.

There was a bulge in February that probably affects the figures that you are looking at. From September 1979, to December 1979, the last quarter of last year, M-1A was at 4.4 percent rate of growth. January growth was 3.6 percent. February had the bulge, 11.9 percent. There is no question, knowing what we know so far of March, that the March figure will be very low.

Senator BYRD. Why is there the 11.9? That is a huge number.

Chairman VOLCKER. That is right. It took a big bulge in February.

Senator BYRD. Why was that?

Chairman VOLCKER. I wish I knew why these figures move around from month to month. They do but we do not have the precision and control that permits us to keep absolutely steady on a month-to-month basis. February had a big bulge, but you will find that was largely reversed in March.

Senator BYRD. This statistical report shows, take December 12, 1979, and compare it with the 13 weeks previous, 6.8 percent.

Chairman VOLCKER. That period sounds to me like it includes February.

Senator BYRD. December 12 until March 12.

Chairman VOLCKER. It says mid-March.

Senator BYRD. I see. You think that includes February?

Chairman VOLCKER. I assume that 13 week average would include February, and that is why that is higher than we like to see it. That is somewhat above our target, but that particular calculation reflects that February bulge. It is real; we had a big increase in the money supply in February.

All of these figures are annual rates. We had a 1-percent increase in February; if you multiply that by 12, you get the annual rate.

There is no question that we had a bulge in February, but for the first quarter of the year we certainly had an increase in the money supply of reasonable proportions.

Senator BYRD. I have figures here beginning with 1960, expansion of the money supply from 1960 through 1979. It shows that for calendar year 1977 and 1978, the two together, an increase of 15.1 percent which is the highest it has ever been——

Chairman VOLCKER. Adding together the 2 years?

Senator BYRD. Yes.

Chairman VOLCKER. M-1?

Senator BYRD. That is right.

Chairman VOLCKER. That is about right.

Senator BYRD. The next highest period was 1971 and 1972 where it was 15 percent. Then it drops down. During 1973, 1974, and 1975, it goes up a little in 1976 or well up in 1977 and 1978 and then in 1979 it drops down to 5.5.

Chairman VOLCKER. That 5.5 figure is misleading. For better or for worse that particular figure dropped down in 1979 because of transfer out of demand deposit accounts to NOW accounts and so-called automatic transfer accounts, which technically were not included in the M-1 figure.

If you adjusted the figure for estimate of those transferred, the 1979 figure would have been 6.8 percent. That is still down a bit from the 1978 figures that you cited, but not down as much as to 5.5.

Senator BYRD. So that 5.5 figure is low?

Chairman VOLCKER. Is artificially low in a sense.

Senator BYRD. Should be adjusted upward?

Chairman VOLCKER. Should be adjusted upward to be comparable.

Senator BYRD. Thank you.

Senator Chafee?

Senator CHAFEE. Thank you, Mr. Chairman.

Mr. Chairman, I would like to follow through on this interest problem. As you mentioned, we have had home builders and road builders, real estate agents, everyone in Washington deeply concerned about the interest rates.

You said the best thing we can do to lower the interest rates is to end the Federal deficit on the theory that interest rates and inflation march along together pretty much.

Chairman VOLCKER. On that theory and also on the theory—it is clearly more than a theory—that by removing the Government borrowing demand from the market you have a direct impact on interest rates.

Senator CHAFEE. No question, but on the other hand, we have respected economists who say if we balance the budget we are only going to reduce inflation by 0.3 of 1 percent so that if we followed that along, then interest rates would only go down 0.3 of 1 percent, and how much better off are we.

Chairman VOLCKER. Not much if that analysis is correct, but I do not accept that analysis.

I think that kind of statement is based upon econometric equations that really do not reflect and cannot pick up the dynamics of the process. I think if you ran those equations backward in history, so to speak, there is no way you could use those equations to explain how we have an inflation rate of the sort that we have now.

I think those equations neglect the role of expectations, and they neglect many changing and shifting relationships that cannot be caught up in this kind of analysis.

Another aspect of the shortcomings of this sort of analysis: everyone has been projecting a recession for more than 1 year, as you know, and the recession, at least so far, has not developed.

The recession should have been here long ago because on the basis of all historical precedent and all past economic relationships, people should not be spending so much; they should be saving more. We should be in a recession. But what we see is they are spending a lot more than any of those equations forecast.

Why are they spending more? Well, it appears that at least part of the explanation must be that the inflationary process as it has proceeded has induced people to spend more money.

Senator CHAFEE. Not much incentive to save?

Chairman VOLCKER. Not much incentive to save, but that is not captured in those equations. When you look ahead in terms of balancing the budget, I think what we are doing—what we would hope to do—is to begin to change the psychology of inflation a bit, which is itself effectively keeping inflation going.

We would take pressures off the financial markets, which have moved in the same direction if for no other reason than the interest rate effect. It is not just balancing the budget that counts—or that there is a difference of $10 billion or $15 billion in numerical terms—but rather that there is an appreciation of the fact that the Government is consistently moving to deal with inflation, moving to deal with this expediture trend, increasing the prospects of tax reduction in that connection, increasing the prospect of lower interest rates, and increasing the prospects of a reduced rate of inflation.

People's behavior will change if this is done in a consistent way and supported by monetary policy, through the changed expectations that that generates. I think that we will find the inflation rate moving by much more than 0.3 of 1 percent.

Senator CHAFEE. You pointed out that there were two tools, at least, in the discussions here so far: the monetary tool, which is in your balliwick and the fiscal tool, which is in our balliwick.

But is there not another tool that has to be used to address these problems that you mentioned in your statement on page 4 where you are deploying the decline in productivity and the slowing of productivity growth in the seventies. When productivity lags and the economy grows more slowly, the aspirations for higher living standards are frustrated.

Is there not a tax tool that we have to use here at some point? Of course, that seems to me, is the key question—at what point. But we have a situation in the country where, balanced budget or no balanced budget, we cannot compete in the international markets in steel. Well, maybe in automobiles, but in a host of areas.

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So that we have the peculiar situation that this great industrial nation is trying to balance its payments overseas by its agricultural exports.

At what point do we bring in that tool?

Chairman VOLCKER. I think it is urgent that that third tool be brought in. I think our productivity performance has been nothing short of disastrous. It is declining, not during a period of economic decline, but even when the economy is growing.

I hope the decline in the past year exaggerates the severity of the problem, but I am not sure it exaggerates it by all that much. You have put your finger on a terribly important problem that is at least partly amenable to revisions in the tax structure that help give more investment incentive and investment return.

As you said, the critical question is one of timing. I think, unfortunately, we do not have the budget in the kind of shape that permits us to give up revenues at this point; the net result of tax reductions at this point would be more pressure on financial markets and more inflation, which itself would be destructive of the kind of investment and, ultimately, the kind of productivity increase we want to see.

So, unfortunately, in the short run, in some sense, we have to work at cross-purposes because we have got to get this budget in shape as a prerequisite for the kind of action that you are suggesting. I look forward to the day, I welcome the day—the sooner it comes the better—when we can responsibly take that kind of tax measure. Alongside dealing with the inflationary problem in general, I think, ought to be put, the achievement of strength on the spending side of the budget so that that day when we can begin moving concretely in that direction is not intolerably far off; but that day of tax reduction is not now.

Senator CHAFEE. But are there not little things that we can do? For example, I noticed the other day—and this does not deal with productivity but it deals with the interest problem that you are concerned with, that we are all concerned with.

An attempt was made in the House of Representatives to eliminate the withholding on interest on bonds both governmental and industrial held by farms. Now, some people got off splendid speeches against the wickedness of eliminating that interest withholding, particularly as the administration is now suggesting that we are going into the withholding.

It seems to me that the objective is to have lower interest rates, your lower interest rates by having more money available from lenders.

If foreigners would come in and lend more, then the result could not help but be lowered interest rates.

Chairman VOLCKER. I think, in general, that is constructive for a variety of reasons. I would not expect that particular measure to have any pronounced effect on the level of interest rates, but it will tend to attract more foreign investment in this country.

Senator CHAFEE. It is not equity investment.

Chairman VOLCKER. There are various farms.

Senator CHAFEE. Not foreigners owning our farms.

Chairman VOLCKER. The proposal that I saw most recently excludes dividends and equity investments. Some people would argue

that that investment sometimes is the most constructive—not necessarily in farms, where we are very efficient—and that this country can benefit from foreign equity investment. It brings with it—as we used to argue from the other direction—technology and management techniques that sometimes are very helpful.

Volkswagen, for instance, seems to be doing reasonably well with its investment. Volkswagen cars in the United States are produced in the United States, which is more beneficial to our economy than importing them, I would think.

Senator CHAFEE. In these little things such as that, do you make your views known? Do you say there is something that will help increase availability of money for lending even though you did not say necessarily at lower interest rates, but it helps. It is a plus.

Do you make your views known, or are you not asked?

Chairman VOLCKER. I suppose sometimes I am and sometimes I am not. On that particular question, I have had some discussion with Treasury.

Senator CHAFEE. I think the Treasury people support it.

Chairman VOLCKER. Yes, they did. I have not been following it closely, but that is my understanding.

Senator CHAFEE. Many of us were raised in an era when people were not concerned about Federal deficits over the years, starting way back. Our parents would rant and rave about deficit spending but we got pretty well adjusted to it and I guess in the past 40 years we probably had surpluses in the budget six times.

Chairman VOLCKER. I do not know what the figure is over 40 years; I know we had a surplus only once in the past ten years.

Senator CHAFEE. Eleven years.

Do you think that the inflation that we have today is due to those continuous deficits?

Chairman VOLCKER. In part. I think that it is due to what might be called a laxity of policy in a number of directions and that is one symptom of it. In general, probably because we were so heavily conditioned by experience during the Great Depression, we have been very cautious about the possibility that the economy might occasionally be in a recession and we have been less concerned about inflation historically, until now. So policy has been biased.

Senator CHAFEE. We have not made the choice now yet.

Chairman VOLCKER. Well, I am not sure.

Senator CHAFEE. I am not sure the decisions have been made.

Chairman VOLCKER. We will see, but I think the mood has changed in any event.

We will see how far it has changed, but I think there is evidence that it has changed. Historically, during the postwar period, when there was ever any concern about a downturn or sluggishness in the economy, as there often was, the temptation was to let the budget drift, let monetary policy drift; if, in the end, that resulted in a little more inflation, that was considered not too heavy a cost to bear.

That worked all right when there was no great expectation of inflation and the inflation rate was relatively low, but I do think we live in a new world now where the expectations of inflation and the expectations of an increasing rate of inflation mean that that

kind of approach no longer works, even in its primary objective of supporting the economy.

We have reached the stage where stimulative policies are, in a sense, feared by the markets, and they tend to tighten the markets rather than to ease them, creating distortions which are counterproductive even to the nominal purpose of the stimulating policy.

They do not work any more, and I think that is the lesson of the 1970's; we end up with the higher inflation rate and the higher unemployment rate at the same time. That kind of approach comes to a dead end; we have to learn how to do this differently.

Senator CHAFEE. It seems to me that, in addition to balancing the budget, that there has to be a consistency to this, that if we balance the budget in 1981 we would be making a terrible mistake if, at the same time, we embarked on new programs that had a balloon effect in the outyears which would throw this budget way out of balance in 1982, 1983.

Chairman VOLCKER. I agree.

If I just might interject, Senator Chafee, the significance of moving toward expenditure restraint now does not rest entirely upon what is done in 1981 or the magnitude that we are talking about, as Senator Byrd suggested; this is not enormous, in terms of the whole budget. But it does indicate a change in trend, which is much more significant and which is necessary to support the tax measures that you referred to.

Senator CHAFEE. If you had your druthers on the various tax measures, which would you take first: Eliminating double taxation on dividends; capital cost recovery, the so-called 10-5-3; increasing the investment tax credit; increase the exemptions or deductions on the individual? Which would you choose?

Chairman VOLCKER. Let me express a general philosophy without taking a particular position.

I do think the emphasis ought to be on this investment problem, given the productivity problems that we have. We ought to provide a better climate for business investment, a better climate for business profitability. My inclination is to approach that problem, to the extent possible, directly through the way that we tax business and investment.

Now, there are several alternative ways of going about it: You you can do it through depreciation, liberalization, new investment tax credits; you could reduce the corporate tax rate; You could deal with this double taxation of dividends.

Each approaches the problem from a somewhat different direction. I would be reluctant to be too firm in choosing any one of those approaches because, although they are all aimed at the same problem—they are all possibly constructive approaches—each hits particular businesses differently and therefore becomes controversial within the business community as well as more broadly.

The emphasis ought to be on moving in that direction rather than at least at this stage, on debating the differences between the approaches. I think that there seems to be a consensus developing that perhaps the depreciation route is a more promising one; if there is a consensus in that direction, which seems to me one of the effective routes that could be taken because it has some partic-

ular advantages during an inflationary period, then, in some sense, that may be the most promising path.

But I would not want to overemphasize the distinction between that particular path and some of these alternative ones. The emphasis, in general, should properly lie in that direction.

Senator CHAFEE. What do you think of the administration proposal on the withholding, on the interest?

Chairman VOLCKER. That is an old issue on which philosophies differ, as you know, Senator. It can be approached simply as a means of assuring that taxes would be paid. There are great complications in enforcing and adopting that approach across the board because, it is virtually impossible to do so for marketable securities and, therefore, you are especially burdening, our savings institutions.

Whether this is just the right time for the particular reform is perhaps a debatable matter.

Senator CHAFEE. If, on a savings account, and there are zillions of tiny savings accounts in this country, that many banks, savings banks, do not even bother adding up the interest until a person comes in for their withdrawal. At least in the book, I suppose, in some way they are compounding it.

Chairman VOLCKER. Of course, they do have to report the interest to the taxpayer at the end of the year, so they already have to go through that process of mailing out these notices.

Senator CHAFEE. There is a lot of difference between doing it quarterly—this proposal of the administration would do it quarterly, would it not?

Chairman VOLCKER. I am not sure about the details of the proposal in terms of when withheld taxes would actually be sent to the Treasury. I would assume it would be at least quarterly, so it advances the time——

Senator CHAFEE. That the administration gets the money?

Chairman VOLCKER [continuing]. When the administration gets the money.

I suppose, in theory, they should be getting it anyway, through the estimated tax. Their concern, of course, is that they do not get it, so in a sense I do not think it is fair to call this a tax increase, but rather a tax enforcement device.

It creates some additional burden of recordkeeping for the institutions and for the taxpayer.

Senator CHAFEE. It seems to me, if we are going to lick this inflation in addition to the balanced budget, there has to be a consistency in our policy. We were discussing recently, the administration comes in, supports a measure to tax exempt the foreign bonds. The foreign bondholders, in order to help the credit situation in the country, then immediately right on the heels of that they come in with this withholding provision which is contrary to the very provision they are supporting.

Chairman VOLCKER. Contrary in what sense? I am sure if they were here they would argue——

Senator CHAFEE. That the other part is de minimis?

Chairman VOLCKER. People are paying taxes that they should be paying anyway; there is no tax increase involved in better enforce-

ment. I suppose, they would say that you should not conduct tax policy by permitting ease of evasion.

Senator CHAFEE. Thank you, Mr. Chairman.

Senator BYRD. Senator Dole?

Senator DOLE. I apologize for being late, and I will just ask that my statement be made a part of the record.

Senator BYRD. It will be made a part of the record.

[The statement of Hon. Bob Dole follows:]

STATEMENT OF SENATOR BOB DOLE

WHY HAVE A DEBT LIMIT?

Mr. Chairman, I want to congratulate you for scheduling this hearing to focus our attention on the expiration of the temporary debt limit at the end of May. This is the first year in this Senator's recollection when Congress and the public have shown such concern over increases in the Federal deficit, and the level of outstanding public debt. The persistent efforts of the senior Senator from Virginia have contributed greatly to public awareness and understanding of these issues, and for that reason he deserves out thanks.

The Chairman of the Federal Reserve will share his thoughts with us today, and I welcome his appearance. Chairman Volcker has been spending a great deal of time with congressional committees lately, but I am glad he has found time to comment on the public debt limit. While the Treasury is responsible for managing the Nation's finances, the Federal Reserve bears the burden of maintaining a system of money and credit that can accommodate both the demands of government and the demands of the private sector. These days the public is aware as never before of the crucial role of the Fed in facilitating our Nation's economic growth, of how its polices on money and credit affect employment and housing. Chairman Volcker recently told the Banking Committee that deficits at the Federal level may be needed in some years, but that a deficit should be the exception, whereas Congress has made it a rule. I would hope that Mr. Volcker would expand upon that comment in the context of the upcoming expiration of the debt limit.

Mr. Chairman, we do have a debt limit. It has not been effective, because it is not fixed, it is not binding. Each year Congress makes cumulative spending decisions, including long-term spending, that result in the need to raise the temporary limit yet again. Perhaps this time around we will find a way to put some teeth in the process. I hope some efforts will be made in that direction.

In the long run, however, we may do better by controlling the budget before we reach the point where the debt limit must be raised. In this connection I would like to point out that the Judiciary Committee recently passed up an opportunity to make major progress in that direction. By a vote of 9 to 8, the Committee rejected a bipartisan proposal to amend the Constitution so as to require a three-fifths vote to adopt a deficit buget. The Amendment, S.J. Res. 126, would also require a record vote in order to increase the level of taxation. The distiguished Chairman of this Subcommittee is cosponsor of this resolution and I think he will agree with me that the Senate should have an opportunity to vote on the measure. Thirty states have demanded such action, and with petitions from four more states, a constitutional convention would have to be called to deal with this issue. It would be preferable for Congress to take the lead here, and retain the ability to control the outcome.

Mr. Chairman, I thank my colleagues for their attention to these matters, and I look forward to the testimony of our distiguished witnesses.

"TALKING POINTS" REGARDING DEBT LIMIT/BALANCED BUDGET

1. Deficit spending

Debt limit action merely ratifies the deficit run by the government. Persistent deficits cause inflation by: (A) Putting more money in circulation without productivity gain (more goods and services). Dollar cost of existing goods and services inevitably rises; (B) Federal Government borrows to finance deficit, and Federal Reserve allows money supply to grow to avoid credit crunch. Increase in money supply bids up goods and services, devalues dollar. Alternatively, Fed raises interest rates to reduce credit demand; (C) Large Government borrowing draws capital away from private sector. Thus, potential for *real* economic growth reduced; (D) International money markets perceive decline in dollar value and value of dollar in trading declines—international confidence in our economy is undermined.

Senator DOLE. If you have covered this you can just say so and I will not keep the Chairman, but we have heard Dr. Burns before the Joint Economic Committee last week urge the repeal of the Credit Control Act. Dr. Burns said the act was stupid and dictatorial and that Congress, in effect, had abdicated its responsibility in passing the act.

Do you have any views on that?

Chairman VOLCKER. I can make a general comment, Senator Dole. Let me draw some distinction between the Credit Control Act, in general, and the very limited opening in it that the President made. He did not invoke the whole act, only portions for consumer credit, and for money market funds.

That act, if one reads it, grants an enormously sweeping authority, and I would question whether it is appropriate to have so sweeping a grant of authority. Therefore, I would be not at all reluctant, at the very least, to have Congress review that act, because it is such a sweeping grant of authority—overly sweeping, it seems to me.

Senator DOLE. This may already have been discussed but there has been a feeling, I think, in the Congress, probably also in the administration, that most of the burden of trying to restrain inflation has been heaped on your shoulders, that the Fed must carry most of the load.

Does that cause any concern, or do you accept that responsibility?

Chairman VOLCKER. We do not have any alternative but to accept it and we do accept it, but it is not right. We would be better off if that burden were more distributed. The result would be less pressure on the financial markets, less distortions in the economy.

We were talking before you came in, Senator Dole, about the extremely heavy pressure on the home building industry, for instance, as one symptom of so heavy a reliance on monetary policy, and the need for more balance in the approach; that is one reason why it is more important to get fiscal policy carrying a bigger part of this load as soon as it can.

Senator DOLE. It has been suggested by some that steps are needed to offset high interest rates, which are having a great impact on States like Kansas, on cattle producers and others who have to refinance.

Chairman VOLCKER. That is another area where the squeeze is tight.

Senator DOLE. It has been suggested that one way to offset that is to get some sort of a tax credit for everything—certain percentage—over 12 percent; anything you pay above that in interest you would get a credit against your income tax.

I am not certain that would be really addressing the problem.

Chairman VOLCKER. I do not think it would. Of course, you already get a deduction for interest. I think the general treatment in the tax code—the saver and the lender on the one side and the borrower on the other side—has generally facilitated borrowing and restrained savings, which is part of our difficulty.

I have not heard the proposal that you just cited, but it seems to me that that is a further extension of a part of the philosophy that got us in trouble in the first place.

Senator DOLE. That is my view. It is just a bill that has been introduced, or will be introduced, by a number of Senators. I thought it might be good to have your comments on the record, but it seems to me that that would not do anything to restrain borrowing.

Chairman VOLCKER. Certainly if you did this in the economy generally it would be disastrous. It just means that nobody would pay the higher interest rates.

Senator DOLE. This is probably outside the scope of your responsibilities, but as you know, the administration is talking not about the imposition of an import fee.

Do you see that as a help in your efforts to slow down inflation?

Chairman VOLCKER. The oil import fees?

Senator DOLE. Yes.

Chairman VOLCKER. I do, frankly. Again, this is an area where you have a conflict between the short run and the long run, but I think, looking at our economic problems broadly, and at the inflationary problem in particular, the oil problem just sticks out. If we try to duck away from that problem and always try to moderate the initial impact of the higher imported oil prices on the American economy, we will not achieve the conservation, we will not achieve the foundation for stability in the future; we are going to be chasing our tails year after year.

What we ultimately have to do is get some conservation. We are getting some now, but we need more. We have to reduce our dependence on foreign oil as a part of the process of getting out of this inflationary spiral.

If you put on something like an oil import fee that is reflected in a higher gasoline price, in the short run, that will be reflected in the Consumer Price Index. In the not so distant future, it is part of the process of getting this thing leveled off.

In the short run, to the extent that this can be recognized and should be recognized as a particular action to help deal with the oil import situation, the oil conservation situation, I would hope that the initial impact on the Consumer Price Index is not viewed alone but as a predictable result of a whole policy approach that does seem to me to be sound in its longer range implications.

Senator DOLE. I imagine that there would be some controversy about that import fee and I would think maybe there will be some effort to deprive the President of that authority, particularly when there is some question of whether he can make it stick only on people who use gasoline, but not on all petroleum products. That is another matter that we will be discussing, I assume, and some appropriate resolution, disapproving the President's efforts, or some way to change his authority may be introduced.

Chairman VOLCKER. I do not think, and I suspect the President does not think, that the oil import fee is the most desirable way of going about this. That is why he has asked for the explicit gasoline tax substitute, and I think this would be a constructive way of dealing with part of the problem that you cite.

Senator DOLE. I think there are some of us willing to do that if we can be persuaded that we are finally going to bring about conservation, some change in the inflation rate, and we are all discussing a balanced budget for 1981. It seems to some of us and, I

am certain, to nearly everyone, that we cannot just focus on 1981, we have to take a longer view.

We tried that in the Judiciary Committee—the chairman of this subcommittee is a cosponsor of the balanced budget amendment Senate Joint Resolution 126. That may not be the best approach according to some, but there are some of us who feel that we ought to be mandated to balance the budget, with certain exception. Some members of the Judiciary Committee believe we might do it by statute.

Chairman VOLCKER. We had quite a lot of discussion before you came in, Senator, about the very point that you make: the budget exercise in 1981 will be important to the extent that it betokens, a longer run change of attitude and performance.

I would repeat what we were discussing earlier, the particular importance on the expenditure side of the budget. We do want to make room for some tax reduction, and it is the expenditure side that is particularly crucial here, not just in 1981 but beyond that in how we follow through.

I have not personally been convinced that a constitutional amendment is the best way of going about this, but I certainly fully agree with the point that it is this long-term trend and the need for long-term restraint that is critical, along with perhaps some change in congressional procedures.

The effect of producing stronger restraint on the spending side would be welcome.

Senator DOLE. Thank you, Mr. Chairman.

Senator BYRD. Thank you, Senator Dole.

Just a couple of brief questions, Mr. Volcker.

The dollar has noticeably improved recently. Am I correct in assuming that the major reason for the strengthening of the dollar—not the only reason, but the major reason—is the high interest rates that now prevail?

Chairman VOLCKER. That is right. The combination of high interest rates and restricted credit availability. The challenge, of course, is to make progress on the more fundamental problem of inflation that will, in the end, permit us to sustain that strength.

Senator BYRD. Is foreign investment today in very-short-term bank accounts, and if interest rates go down, is there a potential that these deposits will quickly leave the United States?

Chairman VOLCKER. What we know from the performance of the market suggests there must have been an enormous inflow of short-term capital in the form of bank deposits or other instruments.

Again, I think that the prospects for retaining that money are ultimately very much wound up with the success of our anti-inflationary effort. What has been going on most recently, in terms of the size of the inflows and the day-to-day strength of the dollar, is abnormal—I suppose that's the word that I would use. You cannot have that go on continuously; it will not go on continuously. It does reflect the particular market conditions that exist today.

Senator BYRD. If the interest rates were to drop sharply, would it not be logical to expect a great deal of this money, then, to leave this country?

Chairman VOLCKER. You have to answer two other questions to answer that. If interest rates drop sharply, and everything else remains the same, you would expect a reversal. But you have to ask what is happening to interest rates in other countries at the same time, because it is the relative position that really is important here.

Again, most crucially for any lengthy period of time, is whether those interest rates drop in the context of the inflation rate dropping, not only in fact, but in prospect.

If there is confidence that the United States has its inflation under control, then the expectation would be that the dollar would remain relatively strong and there would not be the same strong incentive to pull that money out even with lower rates of interest. But the present situation is certainly abnormal in the intensity of pressures on our market and the level of our interest rates.

Senator BYRD. So that a confidence on the part of the American people and on the part of foreign bankers is very important as to what will happen in that regard?

Chairman VOLCKER. That is true.

Senator BYRD. We mentioned earlier the $52 billion of new money that the Government will need this year, but we did not mention the rollover.

As I understand it, the rollover plus the new borrowing that will amount to somewhere around $260 billion to $270 billion. To what extent is the Federal Reserve prepared to accommodate Treasury borrowing in the public marketplace?

Chairman VOLCKER. I suppose that the developments in the marketplace do not suggest that we are terribly tolerant of accommodating Treasury borrowing. It has had to come in and borrow in the same market that everybody else has borrowed in and, of course, it is the pressure of those borrowings that help account for the level of interest rates.

Our aim is to keep that money supply in control and keep credit expansion under control, and I think the Treasury would agree with me that we have not been particularly accommodating of the Treasury's needs.

Senator BYRD. If the Federal Reserve exceeds its money supply figures, does this translate into the CPI inflation rate? How does this work?

Chairman VOLCKER. There is a relationship. It is not, unfortunately, so direct a relationship that we can trace a week's, or a month's, or a quarter's, or even a year's money supply figure directly into the CPI. But, if one looks at the relationship over long periods of time—in this case you can literally go back hundreds of years—the relationship broadly between growth in money and the inflation rate is unmistakable. Inflation cannot continue without money to feed the process. What we are seeing now is that there is not enough money to feed that process. That creates tensions in the market before the inflation rate heals, but eventually it will have to heal.

Senator BYRD. One final question. There has been a massive outflow of savings from banks and savings and loans.

Do you feel that these two groups, the financial institutions, particularly the savings and loans, can withstand this outflow?

Do you see this as a serious problem?

Chairman VOLCKER. Those industries certainly are under pressure. It is not so much that there has been an outflow of funds in the aggregate but that there has been a great shifting of funds from what is to savings institutions a cheap source of money—savings deposits—into money market certificates and other high cost forms of deposit, so that there is great pressure on their costs relative to their revenues as long as this period of exceptionally high interest rates lasts. There is no question that the pressures are strong in that connection, but they are not so much reflected in the natural outflow of funds; it is rather that the funds have become much more costly to them and since most savings institutions have a high proportion of fixed rate assets, they are under very heavy earnings pressure.

Senator BYRD. Does it represent a serious danger to anybody?

Chairman VOLCKER. I think that it is a serious problem. I do not think that it is a serious danger in the sense of a collapse.

These deposits are insured. And now, after the passage of the Financial Institutions Act the other day, we have even stronger powers for dealing with any liquidity problems that could arise. I am confident that, while there are earnings pressures, our power is sufficient to take care of any particular acute liquidity problems that could develop.

The industry has earnings problems, no question of that.

Senator BYRD. One final question which I think I should ask for the record and that is your view as to the wisdom or lack of wisdom in regard to wage and price controls.

One Presidential candidate advocates them; another Presidential candidate opposes them.

Chairman VOLCKER. Putting the question that way, I should retire from the road as a nonpolitical figure.

Senator BYRD. Let's strike that part of the question.

Chairman VOLCKER. I have not been persuaded that price and wage controls answer the inflationary problem. I have often said that apart from all of the other problems of those controls, their arbitrary nature, the administrative problems, the distortions that they create in markets, perhaps the greatest difficulty is that turning to wage and price controls ultimately creates the illusion that they can handle the inflationary problem. The danger is that people think it is an answer to the inflationary problem and therefore will not do the other things that are necessary.

I would fear—and almost predict—if you had price and wage controls the Congress would not deal with the budget because these budgetary decisions are hard. If you think you have an answer to inflation with price and wage controls, why cut the budget?

There would be great pressure for relieving any restraint on the money supply and credit because such controls are seen as a substitute way of getting at inflation. If there is one thing that I feel absolutely confident about, it is that if we had price and wage controls and went ahead then with an expansionary budget, and an expansionary monetary policy, you would ultimately end up with more inflation than you started with and I think that is the great danger.

Senator BYRD. Do you anticipate that the country will have wage and price controls between now and November?

Chairman VOLCKER. No, I definitely do not.

Senator BYRD. Thank you very much, Chairman Volcker. The committee appreciates your being here today.

Chairman VOLCKER. Thank you.

Senator BYRD. It has been very helpful.

[The prepared statement of Mr. Volcker follows:]

STATEMENT BY PAUL A. VOLCKER, CHAIRMAN, BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

Mr. Chairman, I am pleased to appear before this Subcommittee to discuss the proposed increase in the limit on the public debt. I should like to focus my opening remarks on the broader issues of federal finance highlighted by the need to raise the debt ceiling. It is important that we understand the implications of deficit finance in the current economic environment. It is also important that we recognize that the conventional measures of the budget and the national debt significantly understate the scope of the government's presence in the credit markets. I want to emphasize the need for effective control of federal financing activities as we attempt to solve the nation's serious economic problems.

Fighting inflation stands clearly as the most urgent task of economic policy today. The ominous acceleration of price increases over the past year has given rise to a sense of real crisis. There is now, I believe, the resolve to resist the inflationary momentum that has been building for so long. The Federal Reserve, for its part, has moved decisively to reduce progressively the growth of money and credit. That effort seems to me an essential component of any effort to restore price stability. To that end, we have taken a series of actions to improve our control over the growth of the monetary and credit aggregates.

Last October 6, in addition to raising reserve requirements and the discount rate, we made a change in our operating procedures. We believe that these measures contributed importantly to our success in bringing about a moderation of monetary expansion in subsequent months. A second major set of actions was announced March 14. I refer to the program of special credit restraints that was established in conjunction with the Administration's anti-inflation effort. While it is too early to evaluate the effects of our latest actions—which are supplementary to our basic effort and temporary—I fully expect that they will reinforce the measures taken last October, while tempering the degree of pressure that might otherwise be placed on some sectors of the economy dependent on bank credit.

Monetary policy cannot—without peril—be relied on alone to halt inflation. The other major tools of public policy must also be brought to bear on the problem, with fiscal policy playing a central role. Thus, I am greatly encouraged by the efforts of the Administration and the Congress to achieve a balanced budget in the 1981 fiscal year. I frankly would urge an even earlier start—doing what we can right now—and I would personally encourage the Congress to work with the Administration to implement even deeper cuts in spending than are currently in prospect. But what is essential is that there be a clear commitment to the consistent application of budgetary discipline in the years to come, and a reduced rate of expenditure increase should be the centerpiece of that discipline. Such a policy, complementing consistent control of the money supply, would provide a credible basis for anticipating sustained progress against inflation.

That we are faced again with an imminent need to raise the debt ceiling is a sobering reminder of how difficult it has been in practice to achieve a reasonable balance between federal outlays and receipts. It would be unreasonable and unwise to insist that the government budget be in balance or surplus every year in all economic circumstances. But deviations should be the exception; and it would be naive to ignore the obvious bias toward deficit that has been apparent in the conduct of fiscal policy. The record speaks for itself: the federal budget has been in deficit in every one of the past 10 years, and has been in surplus only once during the past 20 years. Most recently, the Federal Government has continued to run huge deficits even in the late stages of one of the longest expansions in the postwar era.

In retrospect, it is apparent that there has been a tendency in the development of fiscal policy to focus more on the possibility of weakness in economic activity than on the danger of greater inflation. In my judgment, the resulting pattern of budgetary decisions has played a major role in both accommodating and intensifying inflationary pressures. It also should serve as a warning in the present circum-

stances. The current resolve to cut expenditures and balance the budget in the next fiscal year is to be applauded. But history strongly suggests that it will be difficult to sustain budgetary discipline. This lesson must be kept firmly in mind if the sacrifices made in the short run are to produce lasting benefits.

The financial counterpart of persistent budget deficits has been, of course, a mushrooming of the federal debt. The federal debt subject to statutory limits reached $845 billion at the end of February, almost three times its level in 1960. This enormous expansion of debt has serious consequences for economic performance. Federal borrowing absorbs scarce private savings and intensifies pressures in financial markets. When productive resources are being pressed by strong demands for goods and services and overall credit supplies are tight, the government preempts the loanable funds that would otherwise be available to finance private capital formation.

The adverse consequences of reduced private capital formation are difficult to exaggerate, given the fundamental importance of investment in determining the pace of productivity growth. While the economic profession has yet to arrive at a fully satisfactory explanation of the substantial slowing in productivity growth in the 1970s, there is no doubt that one important element was the falloff in the expansion of capital stock at a time when labor force growth was accelerating. Increases in output per hour worked are the basis of a rising standard of living. When productivity lags and the economy grows more slowly, aspirations for higher living standards are frustrated.

Competition for shares of real income and inflationary pressures are aggravated. In short, persistent deficits and increases in government debt tend to inhibit capital formation and productivity growth, further contributing to the wage-price spiral.

The potential for federal financial activity to displace other borrowers extends well beyond the growth of debt associated with persistent budget deficits. Outlays of off-budget agencies have grown to be very sizable in recent years. Such outlays were just under $12½ billion in 1979 and are expected to be $15 billion in 1980. Off-budget outlays largely take the form of direct government loans and are financed by the Federal Financing Bank (FFB). Ultimately, however, the FFB obtains its funds from the Treasury, and thus the deficits incurred by off-budget agencies directly increase federal borrowing needs. In addition to its direct loan programs, the Federal Government also provides financing assistance through loan guarantee programs. Outstanding loans guaranteed by the Federal Government totaled $228 billion at the end of last year.

As intended, the direct government loans and loan guarantee programs allow certain targeted activities to be financed under more favorable terms than would otherwise be possible. The provision of such credit assistance to achieve particular social and economic objectives certainly is a legitimate activity of the Federal Government. It must be kept in mind, however, that the supply of credit is limited, and that government assistance to particular sectors may make it more difficult for other groups to obtain credit to finance worthwhile and productive investment.

I an increasingly concerned that such government financing activity is not under effective control. Over the past 10 years, federally guaranteed loans have somewhat more than doubled. Yet, at present, there is no comprehensive framework for evaluating these activities. Only a small portion of this credit activity is ever considered in the Congressional deliberations on the budget. Loan guarantees do not involve the expenditure of funds, and consequently are not reflected in the unified budget, except to the extent that appropriations are required to cover the cost of defaulted loans.

In sum, there are serious shortcomings in the current process of reviewing federal financing activity. I would wish, therefore, to reiterate the position of the Board, expressed in recent testimony by my colleague, Governor Teters, that a federal credit control budget should be established along the lines suggested by the Administration, or preferably, more comprehensively.

It also seems to me that the issue of the debt ceiling should be more closely linked to the budgetary review process. The statutory limit on federal debt is not reasonably a separate device for controlling the budget. The determination of the budget and the debt ceiling are more logically a simultaneous process. The present system carries with it the potential for contradictory actions on the part of the Congress. Indeed, twice in the last two years, the authority of the government to borrow expired briefly, causing the postponement of Treasury security auctions, delays in the mailing of federal checks, and the threat of default on federal checks already in the mail. Lengthier delays in extending the debt limit could have produced much more serious consequences, including ultimately a default on maturing government securities.

To minimize the possibility of such problems, I strongly recommend that the Congress consider setting the debt ceiling in the process of approving the budget. At present the Congress already must pass resolutions setting recommended levels for the debt when it votes on the budget. Essentially, I am seconding the Treasury's recommendation that such resolutions be given the force of law.

I am, indeed, somewhat encouraged by the strides that have already been made in gaining better control over the budgetary process. There seems to be a genuine opportunity to balance the budget in the coming fiscal year. We can do better. For one thing, we should bring federal financing activities under better control. More generally, we must demonstrate a commitment to reduce inflation by consistently striving for budgetary discipline in the years ahead.

Senator BYRD. The next witness will be Dr. Raymond J. Saulnier, professor emeritus, economics, Barnard College, Columbia University, former Chairman, Council of Economic Advisers.

I am delighted to have you, Doctor. I have had the opportunity to be with you many times and I have been very much impressed with your analysis of economic matters and appreciate your coming to Washington today.

STATEMENT OF DR. RAYMOND J. SAULNIER, PROFESSOR EMERITUS, BARNARD COLLEGE, COLUMBIA UNIVERSITY, AND FORMER CHAIRMAN, COUNCIL OF ECONOMIC ADVISERS

Mr. SAULNIER. Thank you, Mr. Chairman. I appreciate your invitation and I am pleased to be here.

I have prepared a short statement, copies of which I have turned over to the staff; and I believe copies have been presented to you and Senator Dole.

I will proceed, with your permission, not by reading the statement, which is not a long one, but by summarizing briefly it major points.

Senator BYRD. I think that is a good way to handle it, and the text of your statement will be published in full in the record.

Mr. SAULNIER. First, there is a simple statistical chart to which I will be referring, drawn on semilogarithmic scale so that it is possible to see easily how the rate of increase of Federal spending has changed over recent fiscal periods.

With that introduction, going to the substance of the statement, the first point I would make, Mr. Chairman and Senator Dole, concerns what was in the January budget what came out when the budget was discussed in the March 14 announcements of the President and what came out when the March 14 figures were revised slightly in a recent announcement.

When you look at all those numbers, the point that leaps out at you is that the big problem is the fiscal 1980 budget.

I do not want to say that the fiscal 1981 budget is not a problem; it is a problem in part because it starts from a very high platform, which was created by a very rapid increase of spending in fiscal 1980.

It is hard to believe that, as it stands, Federal spending will be rising in this fiscal period by over 15 percent.

Actually, it turns out to be 15.2 percent, but if you were to look at the numbers through February the percentage is 15.4 percent. In other words, we have been spending a bit faster even than the 15.2-percent regular rate.

Senator BYRD. Could I ask you for a clarification?

Mr. SAULNIER. Yes.

Senator BYRD. That 15 percent is over what period of time?

Mr. SAULNIER. Compared to last year, compared to fiscal 1979.

Senator BYRD. That is for 1980, 15 percent over 1979?

Mr. SAULNIER. Correct, sir.

Senator BYRD. All right.

Mr. SAULNIER. Incidentally, in absolute amount the increase is $75 billion, so that we have a major Federal spending problem right now, and one of the things that I am saying, Mr. Chairman, is that there ought to be an emergency program going on in the White House, it must be today, to slow down the increase of spending.

As you know, Mr. Chairman, I have had a little experience with this business myself. I served for 4 years as Chairman of the Council of Economic Advisers in the 1950's, during the second of the two Eisenhower terms, and I think I know a little something of what is involved in doing something with the budget, I know from that experience that you cannot perform miracles, certainly not on a budget that is already half finished, as this fiscal 1980 budget is, but I do know that you can do something about an increase in spending if there is a will to do it.

Senator BYRD. The key is to reduce the rate of increase.

Mr. SAULNIER. That is correct, sir.

Now, that is the first point that I want to make.

The second point has to do with the fiscal 1981 budget.

Now, the fiscal 1981 budget contemplates a considerably slower rate of increase of spending than in fiscal 1980. That is good, for sure, but it is a slower rate of increase from a very high platform, and now a question. Does the President's proposals for cutbacks do as much as should be done? Let me try to answer this way.

If we were to say, which I think there is a basis for saying, that in the present circumstances an annual increase of Federal spending of 9.5 percent per year would be reasonable—it be nowhere near as much as that if we had a lower inflation rate, but given the inflation rate which we have, which affects Government's cost of operations, 9.5 percent would seem to be a reasonable goal, so to speak, for the time—spending in fiscal 1981 would be about $20 billion less than what the President is proposing.

So I have to say, quite respectfully, that while the President must be commended for being willing to take the budget apart, only 6 weeks after it was set before the Congress—indeed, to take it apart twice, and I commend him for it—after all the work is done the expenditures are still far above what they should be if the Federal Government were doing all that it should be doing to help overcome inflation.

So much, Mr. Chairman, for that point.

Next, turning to the credit control side of the anti-inflation program, what I would say first of all is that it is regrettable that it was thought necessary to invoke the Credit Control Act of 1969.

I agree with what was said here this morning by Chairman Volcker; namely, that the legislation ought to be reexamined. Indeed, it would be a national benefit to rescind it.

Now, was it necessary to use it in the present situation? My answer to that question is that it was apparently necessary to use

it to apply marginal reserve requirements against managed liabilities of nonmembers of the Federal Reserve System.

That need has since been eliminated, however, with the signing by the President the other day of a new banking statute.

Second, it might be said that the act was needed in order to put a marginal reserve requirement on the assets of money market funds. I believe that was a very constructive action, and a much needed action. If money market funds are going to offer what they call check-writing privileges, they must be dealt with like a checking account institution, and that means they must be subject to reserve requirements.

But it would seem to me that if a real effort had been made, some way could have been found to do that without invoking the Credit Control Act and maybe before too long we will have banking and financial legislation that will cover money market funds on a new—emergency basis.

I served, Mr. Chairman, as a member of the Hunt Commission, and we worked over all these problems in preparing the report, back 6 or 7 years ago, but in view of some of the things that have happened since then in the financial area it would be a good thing to reactivate a commission of that type to reexamine banking legislation.

But I do not believe, Mr. Chairman, that it was necessary to invoke the 1969 act in order to put reserve requirements on consumer credit. Consumer credit and mortgage credit are already being reduced. New extensions of those two types of credit are already dropping substantially. Indeed, the volume of new extensions of consumer installment loans was down—my recollection is 34 percent—in the fourth quarter of 1979 over what it was in the third quarter. In short, the restraint on consumer installment credit, in the circumstances, is not really necessary.

Where is the credit problem? The credit problem is in an area that the Credit Control Act of 1969 does not touch, and that is the Federal deficit. The credit problem is the vast amount of Treasury financing that must be done currently as a result of the deficit on the budget, plus the deficit of off-budget entities and Federally sponsored agencies. The latter two add something like $30 billion, maybe even $35 billion, to the on-budget deficit.

So much for the nature of the anti-inflation program.

However, will it have an effect? Let me put it this way, as I did in my paper: Will it have a bite?

My answer to that, Mr. Chairman, is that it will have a real bite. True, there is not going to be much bite from the fiscal side. I am sure my friends at the Council of Economic Advisors would say that when the budget swings, as it is projected to swing, from a substantial deficit in fiscal 1980 to a substantial surplus in fiscal 1981—granted that the latter is due in large part to a gasoline tax and to the proposed withholding of taxes on interest and dividends.

This will be highly restrictive on the economy, and as it occurs jointly with the credit control program, it will have a significant anti-inflationary effect.

Whether these will be any bite from the fiscal side of the program is a question. A big swing from deficit to surplus could have a beneficial disinflationary effect, but mainly the bite will come from

the credit side. This will partly be because the program is not very clear. People do not understand it all that well, and lending institutions do not understand it all that well. In the circumstances, their reaction is likely to be to close the loan window altogether.

Naturally, there may be in the consumer credit area, more impact than the authorities are interested in having. All in all, I think there will be a significant bite.

What will this do to the economy? Briefly Mr. Chairman, I had the view for quite a long while, going back well into 1978, that we would have no recession in 1979, and I held to that view steadily over many months— no recession forecast.

Moreover, I thought we could go through 1980 without recession. But I abandoned that view around July or August of last year. I abandoned it because I saw a money supply explosion beginning. The money supply, which had been rising from about September of 1978 until March of 1979 at a very low rate, suddenly begin to increase very rapidly. I inferred from that that sooner or later the Federal Reserve would have to step on the credit brakes, and they were going to have to step on them real hard, because the monetary explosion was telling us that we were going to get faster and faster inflation late in 1979 and early in 1980.

So, expecting the Federal Reserve to step on the brakes, I gave up the notion that we would operate without recession, and began forecasting recession for 1980.

I must say that the economy resisted recession even then more than I had expected, but I think that a downturn is now beginning. I think it is now underway. I believe, furthermore, Mr. Chairman, that it will not be a mild downturn, not a downturn smaller than we had in 1973–75, but could be deep. I am not talking about a catastrophic decline, because I do not contemplate that at all. But it could be a very sharp decline.

Finally, I am not one of those who believes that after the economy has declined a bit it would start recovering very soon. On the contrary, I expect to see the economy drop off 5, 6, 7 percent, and then—as I have put it many times—bump along for a fairly extended period at that reduced level. And if that is the case, the revenues that are counted on in the budget numbers are very unlikely to be forthcoming.

Mr. Chairman, I will close there; if you wish to pose questions on any part of my statement, I will be glad to try to answer them.

Senator BYRD. Thank you very much. You are a little bit more optimistic, I believe, than I am. I think that we have a very rubbery budget and to indicate that, it was only 4½ months ago that Congress decreed that outlays would not exceed $548 billion for fiscal 1980 which is the year that you feel that we are in serious problems.

Just this week, the day before yesterday, the Budget Committee has now approved an $18 billion increase in spending in that short period of time.

The word has gone out through the country that the President and the Congress are reducing spending, but the figures do not show that and your chart is a very illuminating one. It shows that spending is continuing to rise at a very substantial rate. The Government will spend, if the President's proposal is approved, $64

billion more in 1981 than the Congress contemplated just 4½ months ago, that it would spend in 1980, this is a $64 billion increase in spending.

As you so well put it—and I might say I have been frequently using the term you have been using for several years—we must moderate the rate of increase in spending.

I do not know of anyone who proposes to reduce spending below what we are spending today. That cannot very well be done.

But what we can do is to sharply reduce the rate of increase. In my judgment, the President has not done that. This new figure brought in $612 billion against the original figure. This is a net $4 billion reduction. Therefore program cuts of $16 billion are almost de minimis.

It amounts to virtually nothing in the overall total.

When you get to the recessionary aspects, I was with some people, a number of bankers recently, and all of them said that their banks are no longer making 5-year loans on automobiles but they have tightened it up to 3 years.

Is that not going to have quite an impact?

Mr. SAULNIER. It will indeed.

You know, in 1956, at President Eisenhower's request, we asked the Federal Reserve Board to make a study of consumer installment credit to determine whether there ought to be a re-enactment of standby selective credit controls. At that time, we were concerned because the average length of automobile contracts had increased from about 22 to 23 months, which was a big change for the moment from something like 18 to 23.

When we get to the point where people are buying automobiles on something like 5-year terms, we must be at the end of the road. As a matter of fact, we may be off the road, and should reverse substantially, no question about it. And the credit controls are going to do something of that kind, partly because they put pressure on the lending institutions to ration credit. Under the controls they are allowed to expand credit by lesser amounts.

So there will be a certain amount of rationing, which will come through in a shortening of maturities.

Senator BYRD. You mentioned the recession of 1973, 1975?

Mr. SAULNIER. Yes.

Senator BYRD. I cannot remember how that recession ended. Taking construction, which is so much in the news today, and Senator Dole and I and practically every Member of the Senate, I guess, had large delegations come to see us in the homebuilding industry.

How long did the severe problem with homebuilding last during that recession and how did it end?

Mr. SAULNIER. I can answer that quite explicitly.

Housing, regrettably, is always hit hard in such situations. It is hit hard because it uses long-term financing, because homebuilding is heavier financing. Ninety percent borrowing against 10 percent equity is not unusual; it is a highly leveraged type of financing. So when we get into trouble, even though the troubles may be due to pressures on the credit markets caused by the Federal Government's borrowing, the housing industry gets hit hard.

Housing starts were at about 2.4 million in 1972 and early 1973. Annual rate, 2.4 million. Very high. Exceptionally high. They dropped and it was precipitous. They dropped to a level of about 900,000, annual rate, which was hit early in 1975, so that you had approximately 2 years of sharply declining housing activity.

A very big drop, and a protracted one.

Now, what is going to happen this time? Well, housing starts are already down from something like 2.2 million, where they were in 1978, to around 1.4 million now.

It seems to me, Mr. Chairman, that it is inevitable, a virtual certainty, that they are going to drop much more.

I feel sure you are going to see the housing starts number well under 1 million before it reaches its trough.

New commitments for the financing of home construction by the major home financing agencies—S. & L.'s, mutual savings banks—are down very substantially, and that is going to come through in lower starts in June and July.

The outflow of funds from thrift institutions has made it impossible for most of them to do anything but finance commitments that were made a substantial time ago, and which they must meet.

Where is the money going? The money is going out of the thrift institutions into such institutions as money market funds. And what are the money market funds doing with it? They are buying Government debt, so that in the end the money is going to finance Federal deficits. And so I find myself saying as I have said in congressional hearings many times, that the most constructive thing we can do to run our country the way it ought to be run is to keep Federal spending and Federal receipts in some reasonable alinement year after year.

Senator BYRD. I certainly agree, and while I strongly favor and have been a long advocate of a balanced budget, of course, there are two ways to balance it. One by an increase in taxes, and the other by a decrease or a control of the increase in spending and it seems to me that the key to it is to control the increase in spending.

Mr. SAULNIER. There is no question about that in my mind, Senator Byrd. I have never been the least bit impressed by the proposition that you can do anything to stop the increase of spending except by acting directly on spending.

I have heard it said many times that if you cut taxes, then there will not be that much money to spend, and the spending will not go up. I have seen nothing in the history of the country that supports such a proposition.

Spending has to be worked on directly.

I have said here, Mr. Chairman, that in present circumstances we could increase Federal spending 9.5 percent a year, but if you had stable prices you could not have Federal spending rising by more than 3 percent per annum without increasing the ratio of that spending to the total economy, which is something that I would not want to see done.

Senator BYRD. I will make one observation and then yield to Senator Dole.

It seems to me that there is no easy or painless way out of the dilemma and the problem in which our country finds itself. I do not see an easy way out.

I will quarrel a bit with that 9.5 percent figure. I think that is a pretty high increase.

I really think that this country needs to be shocked a little bit in the fiscal way and that to do that is going to require some substantial reductions in the $64 billion increase in spending.

No one is going to like it. I did not like to propose it. I proposed a $26 billion reduction and I specified it function by function for example. I started with $9.6 billion in the budget for foreign aid, and left with $8.5 billion.

I did not want to put that in the congressional budget, have it open to every pressure group in the country this year, next year and every other year, but I think we are in a hell of a fix and I am willing to do what little I can do to specify where, in my judgment, the budget can and must be reduced.

Mr. SAULNIER. Mr. Chairman, we are in a critical situation. I wish that I could command a word that would convey the seriousness of the situation beyond merely saying that it is critical.

You get to 17 percent inflation but, believe me, that is not necessarily the end of the road. People begin to talk about 20 percent inflation. You get to 20, and you are going to go to 27, and so it goes. At some point something will have to be done to turn this around.

And the longer we wait to turn it around, the more painful the process is going to be. It is going to be very painful as it stands, and that is because we waited so long.

Look at the fiscal 1980 budget. How could a rational government, with the kind of inflation prospect we have had, undertake to increase its total spending by 15 percent. Actually they did it when the inflation rate was a lot less than 15 percent but that it was rising.

So what happened? We got 17 percent. I think the situation is just as critical as it can be, and I agree with you entirely that as far as the executive branch and the legislative branch of the Government is concerned the focus of all efforts should be on expenditure control. And they should not stop with on-budget spending because these are all kinds of things off the budget, and there is a vast collection of credit agencies out here, so-called federally sponsored agencies, that are dispersing billions.

Senator BYRD. What you indicated earlier about getting used to inflation, one of my colleagues whom I will not identify, but he is a very able Member of the Senate, mentioned to me yesterday, and I do not say that he is not concerned about the problem, but he said this—the Israelis have learned to live with an inflation rate of more than 100 percent. His implication was we ought not to be—he did not say it this way, but we ought not to be too upset with the inflation that we have got now.

I cannot subscribe to that.

Mr. SAULNIER. I do not think there would be very many Israelis who would agree with it.

Senator BYRD. Senator Dole?

Senator DOLE. I do not have any questions except to say that we are all trying to get out of the mess. Could you give me about a 2-minute response on how we got into the mess?

Mr. SAULNIER. Yes. We got into it, first, by excessively rapid increases in Federal spending, and excessively rapid increases in the use of credit. This caused our money supply to increase very much faster than it should have increased, and this has given us inflation.

Senator DOLE. It is not all the increases in energy costs?

Mr. SAULNIER. I think that one of the disasters of recent times, intellectually, has been the notion that the inflation was due to gasoline costs. Of course, when a foreign monopoly is in effect in control of an urgently needed commodity and raises the price, there is a danger of general inflation. But the only way that price increase can be transmitted through the whole economy, and become not just a one-time jacking up of prices but a continuing increase of prices, the only way that can happen, is if the process is accommodated by a big enough expansion of money and credit.

That did it. And so I do not subscribe at all to the view that inflation is due to oil prices, or to high interest rates, or to grain shipments, or some other such thing. As a matter of fact, they are all explanations that tend to obscure the real causes.

Senator DOLE. I think that I share that view. I think that there has been an effort by some to indicate that that is the cause of the problem and while I do not want to be partisan about it, I think the President is engaged in that to some extent: claiming that the only reason we have inflation is because of increased energy costs.

And our answer to that is to pass a $227 billion tax bill called the windfall profits tax that was designed to tax the oil companies.

But I think the result is going to be to tax the American people. They are going to wind up paying the tax. The oil companies are probably going to pass it on to the man driving up and down the street.

And I do not think that these two Senators voted for that windfall profits tax, but that tax is not the answer as I look at it. It is going to add to inflation, increase the price of gasoline and energy, and destroy the incentive that we have got to provide for people to go out and solve the problem.

We did not tax anything but domestically produced oil, that is all we are going to tax. We are not going to tax anything else, and it seems to some of us that we have taken one step backward.

In fact, that bill is being signed this morning, I guess, by the President.

Senator BYRD. You were not invited to attend?

Senator DOLE. I was not invited since I did not vote for it, but I will go down there next year when Reagan is there.

Mr. SAULNIER. I agree with you. There is very little one can say, in a complimentary vein, I am sorry to say, about the whole energy program.

It is one thing to put a tax on the so-called excess profits of the oil companies—and I would have a hard time defending that—but the big question is, what are you going to do with the money?

Senator DOLE. You are going to balance the budget with it.

Mr. SAULNIER. It ought to be put back into the business, trying to find more oil. But rather than that, the money will be utilized in a whole long series of things that are not going to help solve the energy problem or, to my way of thinking solve, anything else.

Senator BYRD. It would tend to stimulate additional spending programs, as I see it.

Mr. SAULNIER. I believe so.

Senator BYRD. The spending programs will be entirely aside from energy—not spending programs to create more energy—but in more and more social type programs, which has helped to get the Government into the problem that it is in now.

Senator DOLE. Thank you very much.

Senator BYRD. Just one final question, Dr. Saulnier.

You gave some interesting figures on housing.

Mr. SAULNIER. Yes.

Senator BYRD. Construction starts. 1972, 1973, 2.4 million.

Mr. SAULNIER. Yes.

Senator BYRD. That dropped in early 1975 to 900,000?

Mr. SAULNIER. Right.

Senator BYRD. At what point, and for what reason, did the uptrend begin which culminated in 2.2 million in 1978?

Mr. SAULNIER. We had a big drop in interest rates.

Senator BYRD. A big drop in interest rates?

Mr. SAULNIER. Yes, a big drop in interest rates.

Senator BYRD. That was brought about in what way?

Mr. SAULNIER. By the recession, by a deep recession.

By the time we got to the trough in 1975 we were down nearly 6 percent, 5.6 percent, something like that. It was the recession that did it. It is unfortunate that it gets done that way, but that is the way it was done.

Senator BYRD. Thank you very much indeed.

Mr. SAULNIER. You are very welcome, sir.

[The prepared statement of Mr. Saulnier follows:]

TESTIMONY BY DR. RAYMOND J. SAULNIER

Mr. Chairman: My purpose this morning is not to comment on the Treasury's request for an increase in the public debt ceiling, which is always a kind of command performance for Congress, but to give you my reactions to President Carter's March 14 anti-inflation program and this week's minor amendments to it. If it works, the program would reduce needs in the future for periodic increases in the public debt. One hopes it will, though that remains to be seen.

First, the budget aspects. For the moment I will limit my remarks to budget outlays, putting aside consideration of deficits. To facilitate the presentation, a simple statistical chart is appended which shows budget outlays separately and, in an adjacent series, budget outlays combined with net outlays of off-budget entities and federally-sponsored enterprises. The latter two are often overlooked in budget analyses but they have the same effect on surplus or deficit as on-budget transactions. The chart is drawn on semi-logarithmic scale to bring out differences in the rate (year-by-year) at which federal spending is increasing.

The first thing that stands out in the chart is that the big spending problem is in fiscal 1980. Spending would have to be many billions less in every year shown in my chart if the federal government were doing what it should be doing to retard inflation and bring interest rates down, but the game is being given away in a particularly damaging fashion in fiscal 1980. Even after you take account of the cuts proposed by the president, this year's spending increase is 15.2 percent and the amount spent will be larger by $5.3 billion than was proposed in last January's budget message. Not only is this too rapid an increase for any single fiscal year, it sets a very high platform from which fiscal 1981 spending increases will take off. Accordingly, although we are nearly halfway through fiscal 1980 I must emphasize

the urgency of doing everything possible to reduce the rate at which spending will go up in the remaining six months. I have had some experience in these matters, and I know you cannot perform miracles on a budget, least of all on a budget halfway over the dam, but I also know that the White House is not emptyhanded when it comes to having ways to stem increases in federal spending, even on short notice. It should have an emergency program in operation right now to slow fiscal 1980 spending, and cutbacks should be far greater than those proposed by the president. My first comment, then, is that the president's proposals are inadequate to meet the critical spending surge of fiscal 1980.

Turning now to the more distant fiscal 1981 budget, every citizen should commend President Carter for his willingness to take his original budget proposals apart so soon after they were set before Congress. But, as you will see from my chart, even if the cuts he is currently suggesting are achieved, spending in fiscal 1981 would be $118 billion more than it was in fiscal 1979, only two years earlier.

Understandably, judgments differ on what the increase of federal spending should be, but if we were to settle on 9.5 percent as a reasonable average in present circumstances, and if increases were held to 9.5 percent through fiscal 1980 and 1981, spending in fiscal 1981 would be nearly $20 billion less than the president's modified budget calls for. This is a measure of how far off the track the budget has managed to get, and how much more should be cut from federal spending if there is to be an effective federal effort to overcome inflation.

Let me turn for a moment to the net outlays of off-budget entities and government-sponsored agencies. As my chart shows, these do not alter the upward trend of federal spending, but they lift aggregate spending by large amounts. In fiscal 1981, federal outlays which include spending under these two categories will be $36.4 billion higher than on the basis of on-budget spending alone. This means that Treasury borrowing needs, and thus the upward pressure on interest rates, will be that much greater. The president is right in asking Congress to take steps to bring federal credit-extending activities under control. I would have thought this might have been done when the Federal Financing Bank was established, but clearly it was not.

One additional point on the budget. You will see from my chart that spending is expected to increase much less in fiscal 1981 than in fiscal 1980. The annual rate of increase drops from 15.2 to 7.5 percent. Clearly, a drop is needed, but it would be obviously much better from a cycle-stabilization viewpoint, and much more timely in the fight against inflation if the adjustment were to begin now rather than be deferred until October 1. This is another reason why the executive branch should have a crash program in operation now designed to retard the upward momentum of fiscal 1980 spending.

So much for the budget. Let us look now at the credit side of the program, which remains substantially as announced on March 14.

First, it is essential to recognize that the big credit problem today is not consumer instalment credit and not home mortgage credit: the big credit problem is presented by the federal government's budget deficit. Consumer instalment credit and home mortgage credit rose significantly in 1978 and most of 1979, but that phase is over. Instalment credit was down 34 percent in the fourth quarter of 1979 over the preceding quarter, and mortgage borrowing by households was significantly lower in the second half of 1979 than in the first. Moreover, you can be sure both will be down sharply during the rest of this year. Conversely, the amount of credit extended to the federal government has increased enormously. Funds raised in credit markets by the U.S. government, including those raised by federally-sponsored agencies, were 54 percent larger in the fourth quarter of 1979 than in the previous quarter, and substantially larger than in the first half of last year. Thus, the credit problem we face today cannot be laid at the door of the American household; today's credit problem is being generated in Washington. Of course, credit must always be available to the federal government, and interest rates do not deter the federal government from borrowing money. Accordingly, while we may not be fighting the right credit war in doing this, the brunt of Federal Reserve credit restraint will necessarily fall on householders, on business, on state and local governments, and on what we call "the rest of the world."

As to the specifics of the Federal Reserve program. First, I wish the Credit Control Act of 1969 had not been invoked. I don't like this act anymore than I would like a wage and price control act in 1980, which I think would be a disaster. In my view, it would be infinitely better if the Federal Reserve were using only the established tools of indirect credit control. The need to bring nonmember banks under the marginal reserve requirement against managed liabilities may have necessitated this exercise in direct control but I hope the financial legislation enacted this week will obviate any such need in the future.

Similarly, I assume the credit control act was needed to put a marginal reserve requirement on money market funds. this was clearly a constructive and much needed step. If money market funds are to provide checkwriting privileges, and act as an investment medium in competition with conventional thrift institutions they must expect to be subject to appropriate reserve requirements. But it seems to me some way could have been found to accomplish this without opening the Pandora's box of direct credit control. There should be appropriate permanent legislation to this end.

Apparently it was necessary also to use the 1969 act to apply a reserve requirement to consumer credit outstandings; but, since new extensions of consumer credit are already being sharply reduced, this move strikes me as an overreaction. Finally, the 1969 act was surely not needed to permit the Federal Reserve authorities to urge large commercial banks voluntarily to limit the increase of their loan assets. All in all, therefore, the case for having invoked the Credit Control Act of 1969 is marginal at best.

However, for better or worse, the deed is done: the question now is whether the anti-inflation program taken as whole—federal spending restraints; indirect Federal Reserve controls; and selective credit restraints—will have bite. It is my guess they will bite real hard. The bite will come, however, from the credit control side of the program, not from budget restraints. Indeed, I don't see any significant overall effect from the latter, certainly not in the near term. Specific spending programs may be significantly affected, but in an economy that is $2.5 trillion in size you cannot expect much overall impact by cutting back planned increases in fiscal 1980 outlays by $2.4 billion, and certainly not when the amount to be spent, even after the cuts, is $5.3 billion more than was contemplated last January, and 15.2 percent more than was spent in fiscal 1979.

Nor can a great deal be expected from the reductions now proposed for fiscal 1981: spending will be $4.3 billion less than was proposed last January, but $42.6 billion more than in fiscal 1980.

A species of restraint will result from a decline in the rate of increase of federal spending between fiscal 1980 and fiscal 1981; but, overall, the federal spending side of the anti-inflation program will have little economic effect.

The impact of the budget outcome on the economy—that is, whether there is a surplus or a deficit—is more difficult to evaluate. A $36.5 billion deficit is projected for fiscal 1980, only $3.3 billion less than was projected last January, and $8.8 billion larger than the fiscal 1979 deficit. There is obviously no help here in combating inflation. The fiscal 1981 budget is expected by the president to swing sharply to surplus, partly from the gasoline fee and the expected withholding tax on interest and dividends, but partly also because the administration is counting on higher tax receipts from a recovering economy subject to rapid inflation. A swing to surplus would be highly beneficial, but it goes without saying that achieving it is still problematical.

Clearly, therefore, the significant bite will come from skyhigh interest rates and a lessened availability of credit. Moreover, the credit controls can be made tighter if the Fed wishes and it is my impression that the Fed would not hesitate to make them tighter if circumstances require. That may not be necessary, but the monetary aggregates have not yet been adequately retarded if inflation is to be significantly reduced. In any case, it will be necessary to hold present restraints in place for an extended additional time.

In view of all these possibilities, what can we expect of the economy over the next year or so? It looked for a long time as if we would move through 1979 and 1980 without recession, but I abandoned that forecast last fall when the money supply exploded upward in a way that made it evident the Federal Reserve would have to apply severe restraints to credit markets. That was the outlook prior to March 14; the new credit restraints make a downturn all the more likely.

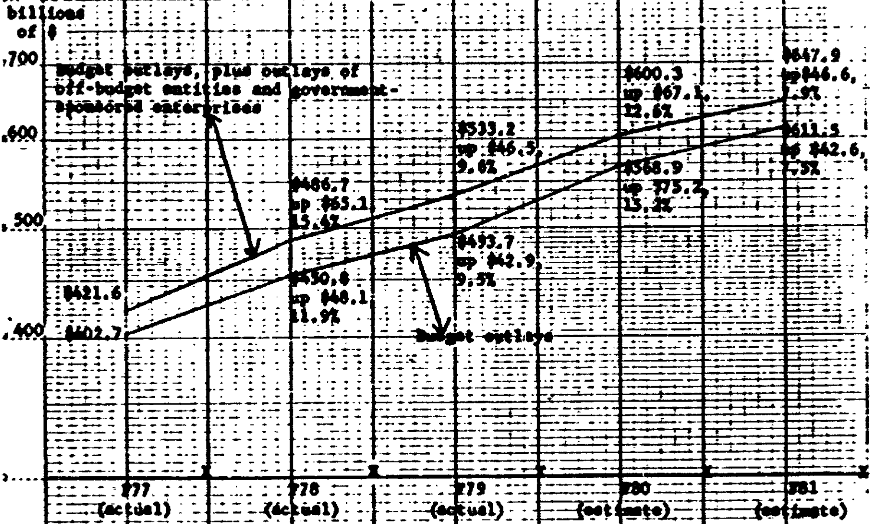
True, there are not yet many signs of recession, but a change is underway. The composite index of four coincident indicators, which is our best comprehensive monthly index of economic activity, was down in February and I expect it will be down again in March. At the moment, however, pressures are greatest in financial markets, especially where there has been heavily-leveraged speculation in commodities. This is contrary to administration thinking, but having these credit market pressures in mind I believe the economic outlook has deteriorated markedly from what it was at the beginning of the year. Earlier, it seemed to me that the drop in real output would be smaller than in 1973-75, but I am now less sure of that. A further substantial drop in construction is in prospect, and large cutbacks in investment spending are a virtual certainty. There was a small drop in retail sales in February, and I expect another small one in March, but it would surprise me

greatly if the April drop were not fairly large. All in all, signs point to a major decline in activity around midyear 1980, perhaps sooner.

The recovery outlook is also unfavorable. One of the negative effects of inflation on the business cycle is that it tends to rule out vigorous recoveries. In my opinion, the economy is unlikely to do more than bump along well into 1981, at or not much above this cycle's trough.

In the process, inflation should moderate by a few percentage points within a year's time, and interest rates should trend down beginning soon. It will be a long time, however, before anti-inflation policies can be safely relaxed. Indeed, premature relaxation would lead to a renewed failure of confidence and to a quick acceleration of inflation, which would create conditions worse than we now have.

I wish the prognosis were more favorable but in the circumstances it cannot be.



SOURCES: FISCAL 1981 BUDGET, page 528, and WHITE HOUSE FACT SHEET reproduced in THE NEW YORK TIMES, March 15 1980

Senator BYRD. The next witness is one who has made some very accurate predictions in the past. I know from firsthand knowledge, in regard to what would take place in the economy and the stock market and other economic areas of our country.

I particularly remember June of 1973—was it 1973 or 1974?

Mr. SINDLINGER. 1973-74.

Senator BYRD. At a meeting of a group of Senators here in Washington which I got together—

Mr. SINDLINGER. That was in July of 1974.

Senator BYRD. July of 1974.

He predicted with great accuracy just what the stockmarket would do over the upcoming months.

The committee is pleased to have Mr. Albert Sindlinger, chairman of the board, Sindlinger & Co.

Welcome.

STATEMENT OF ALBERT SINDLINGER, CHAIRMAN OF THE BOARD, SINDLINGER & CO.

Mr. SINDLINGER. Thank you.

I think, in view of the prior testimony that I will change my presentation slightly to amplify some of the points that were previously made. I am not going to be quite as optimistic as the witnesses you have just listened to, because I think that we are in a crisis now, a real serious crisis. And I think that Congress is going to have a special session, which it has never had in its history, to deal with the problem. The timing that I originally had for this crisis session of Congress was about October, just before the elections.

But I think that the events, particularly the President's adoption of the new credit control act, turning the responsibility over to the Federal Reserve Board, has accelerated the timetable and I think that we will probably have this collapse of the economy more likely in June or July.

The collapse of the economy, I am talking about is something that you gentlemen are already sensing and hearing from your constituents.

If you recall, Mr. Chairman, 2 years ago I was forecasting an 18-percent prime rate interest rate for 1980 and I was completely laughed at. Chase Manhattan raised it to 19¾. My forecast now is that we will have a 22 percent prime in June or July which will go to 24 percent in August.

You are going to have the discount rate about 20 percent. You are going to have T-bills and all Treasury bonds at least up 300 or 400 basis points which is an additional 3 points higher than the interest rates are now.

Senator BYRD. If I could interrupt you at that point, the rates dropped the other day.

Mr. SINDLINGER. They dropped for a very good reason. They dropped because whenever there is a demand for something the interest rate drops. What is happening here is that all our money that was formerly in savings and loans and in the banking system is now going into these money market funds and they are buying Treasury bills.

The T-bill rate by this summer will be up at least 400 basis points higher than it is now.

I calculate that a 1 point rise in the cost of interest for the Federal Government increases the deficit by $10 billion. If we have a 3 or 4 point rise, then you have $20 billion, $30 billion, $40 billion of interest that is not even thought about.

I would like to start by reading this addendum that I have put on the table because I think that this is very, very important. With our exhibit C—if you will just turn to the exhibits that I have—and if you will turn to exhibit C——

Senator BYRD. Is that in the main part?

Mr. SINDLINGER. You have some exhibits attached to my prepared statement.

Do you have them?

Senator BYRD. I want to get the right one.

Mr. SINDLINGER. Exhibit C-1 we are looking at first.

Senator BYRD. All right.

Mr. SINDLINGER. The first column is the public debt. Starting in January 1972 it was $422.9 billion, and if you will look over on the far right you will see public debt interest in the 12-month cum, January 1972, when the debt was $422.9 billion—the annual interest payments totaled $21.3 billion or roughly about 5 percent of the debt.

Since then, the magnitude of interest payments as a percent of the total debt increased or declined as interest rates fell. In the recession of 1975, as interest rates fell, the percentage dropped to about 5 percent. By June of 1979, interest rates on Treasury borrowing started to rise and, the share of interest payments exceeded 7 percent of the total debt.

In February 1980, the share of interest payments—and you will see that on the bottom of C-2—in February 1980, the share of the interest payments exceeded 7.7 percent.

Senator BYRD. I do not see that.

Mr. SINDLINGER. To get to 7.7 percent, let me skip over to another exhibit, and that is F.

Look at F-2.

At the bottom of the page, F-2. Do you see it?

Senator BYRD. Yes.

Mr. SINDLINGER. On the bottom of exhibit F-2, in February, the debt was $854.6 billion and the interest was $65.7 billion, or 7.688 percent of the total debt.

Now, the Carter administration has projected in the budget that interest costs on the Federal debt should be 8.2 percent for the 1980 fiscal year and that the rate should fall to 8.1 percent for 1981.

This is a gross, gross miscalculation, assuming that interest rates for fiscal 1981 are going to be lower than 1980. I am saying they are going to be 3 to 4 points higher.

Since our interest rates have been rising since January, and SCP, our forecasting model, says they should go higher by 300 to 400 basis points, before the interest rates level off, the financing on the debt will have to be at least 8 to 8.5 percent.

The U.S. Treasury has $190.4 billion of marketable Federal debt, 22 percent of the total for Federal rate, where the debt is $854.6 billion.

Of this $190 billion, the new money that the Treasury has to raise, about $111 billion is financed by the regular Monday weekly auctions which are approximately $2.2 billion. Last Monday's was about $4 billion.

Another $78.7 billion is not included in the weekly financing and this is the part that the Federal Reserve Board picks up, $19 billion. If the Treasury refinances this long-term portion and the Fed will continue to hold the $19 billion, there will be a $60 billion of older long-term Government bonds that must be financed by the public and I cannot find this in the budget.

For this refinancing of the $60 billion, about $25 billion has a coupon less than 7 percent. About $20 billion carries coupons between 7 and 8 percent and another $25 billion has coupons between 8 and 9 percent, and only $11 billion are 9 percent or more.

The point I am making here is that all of this new financing will have to be at a very, very much higher interest rate so that we have additional cost in the budget not included which will be due to the rise of the interest rates. Because of the interest rates in the 1980's with no long-range fall in sight, the likelihood of an increase in the average cost of the budget financing is guaranteed.

Another situation that is compounding the financial problem is that every new issue probably will be of very short maturity. We are no longer going to have long-term bonds, and with the financial problems I see coming, a 5-year bond by anybody will be unheard of and we will have 90-day, 60-day, 30-day Treasury financing at rising interest rates, as we get into this credit problem.

The short-term rates that are forecast have to remain at a high level and I figure that the short-term interest rates at the present time should be around 25 to 28 percent in about October. The short-term rates will fall slightly to about 22 percent, after that but the long-term rates will be rising about 4 percent at the same time.

This means that the additional cost of financing the Federal debt rises but it is not accounted for.

A new fact of nonmarket debt—as for the nonmarketable part of the Federal debt, there is a new problem that is being presented by inflation. That is a U.S. savings bond.

If you and I were going to form a company to sell savings bonds and we were going to sell them as a private institution we would be put in jail for fraud.

So what is happening here is that savings bonds hit their historical peak with a growth rate of 1 percent, or $800 million new money in September 1979. By February 1980, the magnitude of savings bonds declined to $79.6 billion, with a yearly change of a negative 12 percent and the new money should be minus $1 billion.

The consumer has become more sophisticated given the presence of money-market funds and will not continue to hold these savings bonds.

I estimate that at least $10 billion of the savings bonds will be liquidated by the public over the next 12 months. This adds another $10 billion to the money that the Treasury will have to finance which is not even considered in any accounting.

Now, again, to conclude with this point, on the back page—and again, I want to repeat that my calculations, and others agree with me, that a one point rise in the interest rate for Treasury securities adds about $10 billion to the cost of financing.

What will Congress be faced with in the next year? I project for February 1981, that the Federal debt will rise to $923.8 billion and it will cost $85.4 billion to finance this. That is not in any of the official figures and this is with the most guaranteed accuracy.

With the time being short, I think that what I will ask you to do, Mr. Chairman, is to put my prepared statement in the record and I would like to go over some of the headlines. It is quite lengthy. We have spent a lot of time on this.

Senator BYRD. Your entire statement will be put into the record.

Mr. SINDLINGER. Because I want to document at the present time, we are fighting inflation with press releases. The bankruptcy of the United States is well on its way. I call this the money meltdown collapse of 1980.

We have heard comments today about recession. If you will turn to exhibit A, this is a tabulation from my interviewing of last Wednesday, a week ago today, and you will see that 45 percent of the people we interviewed for the last month report that their current income is down.

That is the highest figure that I have ever measured in 25 years. Most of the time when you get into a recession, you only have 25 percent of the people reporting their income is negative. We already have it at 45 percent.

This means that for better than 4 out of every 10 households in the United States, they are already in a recession. In some later tables, as you study this, you will see that as far as households are concerned, using the Government's gross national product, the recession started on a negative basis in October of 1979.

In other words, on a per household basis, our households are growing at 1.8 percent every year and since October 1979, real GNP has been growing at 1.5 or 1.3 percent, less than 1.8.

So on a household basis, we have households truly in a recession since last October.

Senator BYRD. To put this into perspective, let me say at this point, as I understand it, what you do each day, Sindlinger & Co., what you do each day is to have a telephonic conversation with a large number of individual citizens throughout the United States.

Mr. SINDLINGER. Throughout the 48 contiguous States.

Senator BYRD. And you have been doing that for 25 years?

Mr. SINDLINGER. Right.

Senator BYRD. And you do it day after day?

Mr. SINDLINGER. Every day.

Senator BYRD. Then you analyze the results that you get from the responses of those households?

Mr. SINDLINGER. Each Wednesday for the prior week. So that we have each Friday a current reading of the attitudes and the opinions of people throughout the Nation, both on the economy which are based on the questions that I showed you here, and we also ask political questions. Right now, we are asking a series of questions on what people plan to do with their savings bonds and that is where I get this $10 billion cash-in, which I think at the present

time is a very conservative figure because most people have not figured out that they can make a profit.

Senator BYRD. A $10 billion cash-in of savings bonds?

Mr. SINDLINGER. Right. Which has to be refinanced, which is not in anybody's budget. So when the Congress talks about balancing a budget with all of these figures that you are talking about, you have got to figure that there is $10 billion that is not in there that has to be taken care of.

The Treasury has to refinance this, so that is going to add to the debt and I am not even including the off-budget in this presentation. I am only concerned and talking about only the budgeted items.

Senator BYRD. What do you find to be the confidence factor on the part of the American public?

Mr. SINDLINGER. Confidence, at the present time, is in complete confusion. People understand, where the President said, that inflation is cruel tax. That is one thing that people very well understand and agree with the President.

But what they cannot understand with the new March 14 program is how you balance a budget by increasing taxes when taxes are a cruel tax and inflation is cruel. It is beyond comprehension.

I have transmitted this to the President through the proper authorities and I have also told him that the worst mistake that could possibly be made—and I was glad that this committee, from what was said this morning, agrees with me—that this credit control program with the Fed is about any the worst thing that could ever have been done.

I had a meeting with Mr. Volcker which I discuss in here later, but I want to get this in at this point. I had a meeting with Mr. Volcker on the 1st of February. In fact, I talked to you at that particular time.

And the reason for this meeting was that I had come to the conclusion that the economy is going to be in dire straights by that date. I am talking about October. Now I have moved it up simply because I do not see how American businessmen can operate with 20, 22, 23 percent prime rates, which means—you have talked to your building people. You were talking about housing starts. I have housing starts down to 1.2 million in December of this year and in January of 1981, I have housing starts at 750,000, compared to the figures that you got from the gentleman ahead of me.

We are going into one collapse because the American economy cannot operate and businessmen will be forced into bankruptcy with these 20, 22, 24 percent interest rates.

Senator BYRD. You mentioned earlier that Congress will be forced into an emergency session?

Mr. SINDLINGER. To stop a rash of bankruptcies.

Senator BYRD. What will the Congress do in an emergency session?

Mr. SINDLINGER. Congress is going to have to start doing all the things that you have been talking about for all these years that they ought to do. They are going to have to bite the bullet.

It is going to be forced on them because these people across the country are not very excited about any of the Presidential candidates and we have a situation where we have a very volatile public.

What will make Congress act and what Congress will listen to is when the finance people on campaigns say we have no funds. We are going to have massive bankruptcies this summer. We are going to have some very large corporations in bankruptcy. We are going to have some massive retail bankruptcies.

We are going to have a credit crunch like we have never experienced in our lifetime simply because we have a complete dislocation of money.

The irony of all this is it is not that we do not have enough money. We have our money in the wrong places.

We have $600 billion of our money in Eurodollars that should not have been there, and we have all this massive debt that I am talking about, this massive interest, this crowding out.

The Government has to get its money ahead of everyone else. You are going to have massive bankruptcies in savings and loans.

If we had the time, we could go through these figures and I could show the outflow of savings and loans. Savings and loans are in serious trouble.

You are going to have a massive farm problem. Bankruptcies in farms this summer and you are going to have some massive bankruptcies in retail trading, plus a lot of small businessmen associated with automobiles. The bankruptcies that are going to be in the news this summer and fall just before the election are going to make Congress have to act because this affects our country.

If you will turn to exhibit G——

Senator BYRD. G?

Mr. SINDLINGER. G.

Here is an explanation of why we are going broke.

On the first page, you see in the first column a list of current dollar personal income by months starting in January 1977. That is the current dollar value, and the constant dollar value is after you take out inflation.

The difference is how much inflation in millions of dollars and billions of dollars.

The next line is the percent. In other words, in 1977, inflation was eating up $392.2 billion, or roughly 37 percent of personal income. In February of 1980, you had $2,051,000,000 and just a little over $1 trillion in constant dollars. So the difference was $874 billion.

Now, note that the amount of money that is being eaten up by inflation and personal income is very close to the national debt.

Do you need any explanation of why inflation is created by the national debt?

Now, we turn to the next page and this is what I call the new money, exhibit H. Here is the bottom line.

In January 1977, we were adding year over year $128.9 billion to total personal income, total personal income in January 1977 was $128.9 billion more than in January 1976. But when you took the inflation out, the add was $46 billion. So we lost $82.9 billion, or 64 percent of the new money being created.

Skip down to February 1980. In 1980, in February, and the money we spent, $200.5 billion was added to personal income over the prior year and the figures for the prior year are on the page ahead of it.

The inflation leaves only $5.4 billion, or inflation in February destroyed $195.1 billion, or 97.3 percent of the money generated in personal income.

By July-August, that figure will be 100 percent.

In other words, what this table tells you—and this is why people across the country are uptight when I interview them—what this table tells you is that inflation is eating up money faster than people can get their hands on it.

A company with an outflow exceeding its inflow is bankrupt and the Nation at this point in July will be fiscally bankrupt so that inflation is eating up money faster than the Fed can even print it.

Senator BYRD. Do you regard the President's program as adequate to bring down inflation?

Mr. SINDLINGER. No.

The point was made by your other colleague that if we balance the budget it would only reduce inflation by a point.

There is some truth to that. My data says—and this is a shocker—that Congress is not prepared for—and this is the point that I make in my testimony—that all of this talk right now about balancing the budget is completely academic. It is an exercise and just press releases.

What Congress has to do between now and this time next year is to have a surplus of about $40 billion, a surplus. I am not talking about a balanced budget.

Somehow, between now and a year from now, Congress has got to have $40 billion in surplus to issue a tax relief to the people, not to spur the economy, but to save the Nation's banks.

The Nation's banks, I calculate, will be short about $40 billion in February and March of next year.

As you remember, Senator, we had some long conversations in 1974 where I had calculated that the banking sector was going to be short $9 billion in early 1975. You recall that.

And with Wilbur Mills and the other people working with me, and the Treasury working with me, we came to the conclusion that there would have to be a tax cut.

First of all, based on the interviewing, my data showed me that 80 percent of the tax cut would go into the banking system so that we had calculated that the banking system would be short about $9.5 billion.

Mr. Volcker cannot put money into the banking system of that size. The Treasury deposit cannot put it into the banking system of that size. There is no law that would allow either one of them to do it.

But the way that you relieve liquidity in the banking system is a very simple process. You have a tax cut, and what do people do with a tax cut? It has to be a check. It cannot be credits on the books. It has to be a physical check and what do people do when they get a tax cut check? They take it to their bank so that the people across the Nation take an even amount of money to whatever bank they are associated with and very quietly the Treasury is robbed.

In the case of 1975, it was robbed by $13.5 billion to get $9 billion into the banking system. Confidence goes up and politicians say that we have tax relief now which will spur the economy.

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That is not why you have tax cuts. You have tax cuts, and why tax cuts are necessary, is to provide liquidity for the banking system when you get into a recession.

The same method that calculated that we needed $9 billion in 1975 now tells me that in February of next year, the banking system is going to need $40 billion which is in nobody's budget.

Senator BYRD. You are much more pessimistic than I am, but in 1974 you also were much more pessimistic than I was.

Mr. SINDLINGER. I think I remember that.

Senator BYRD. You were correct and I was not. But I just cannot quite see—you use the word collapse in the economy.

Mr. SINDLINGER. You cannot run the American economy with interest rates in excess of 20 percent. Do you know of a businessman who can operate on a 20 percent interest rate?

Senator BYRD. How can you get interest rates down, other than reducing Federal spending?

Mr. SINDLINGER. I was very pleased at your questioning this morning and very pleased with Volcker's answer and I will go back to my conversation with him.

At this meeting that I had with Mr. Volcker on the 1st of February, I put it to him this way. I have been very critical of the Fed for many years.

I said I am very critical of Congress because we run our financial affairs just like Three Mile Island was run. We always read the wrong information and we always try to find something that justifies our hopes.

We say inflation is not where it is. We say inflation is around 9 or 10 percent and we are going to reduce it to 7 percent.

Those are words from the financial community and the real world does not operate with press releases. The real world operates on what the facts are and the facts are that the inflation rate at the present time is around 20 percent in the United States. Therefore, all interest rates have to be at that level.

Inflation dictates the interest rate level. The Federal Reserve Board does not do it. This is why the Federal Reserve Board in October suddenly decided we are going to stop controlling interest rates because they discovered they could not control them.

Senator BYRD. There is no way that Congress can control interest rates.

Mr. SINDLINGER. Here is what is going to create this new emergency session in Congress that I am talking about. It came out in the questioning today.

Constituents across the country are going to start demanding from Members of Congress that you bring down interest rates. You are hearing it already.

Most Members of Congress that I talk to believe that the Federal Reserve Board controls interest rates and they believe that Mr. Volcker could bring interest rates down.

Most people in Congress think that the Federal Reserve Board controls interest rates.

Senator BYRD. Right.

Mr. SINDLINGER. I have been arguing this for 20 years. I talked to Mr. Volcker on the 1st of February and I said, Mr. Volcker, I see the scenario and we have had conversations before—and I might

add that this is the first time in 40 years of visiting the Fed that I did not get an argument, because I always get arguments when I go over there.

I said the time is going to come where there is going to be an emergency session of Congress. The timetable then was October. I move it up now to midsummer—when the Congress is going to be pressured by these higher interest rates and the Congress is going to be pressured to bring interest rates down.

First of all, nobody understands why we have the interest rates where they are and the reasons that the interest rates are where they are, 19¾ yesterday and 24 percent this summer, is because interest rates have to meet the inflation rate and the true inflation rate is about 20 percent. The reason the true inflation rate is around 20 percent is because of the Federal debt, oil, and all of this. These are other problems.

But this problem started out long before the Arabs had the oil embargo in October, November 1973. This goes back 20 years so we cannot blame the Arabs or Khomeini for our problem.

So I said to Mr. Volcker, you are going to have to tell Congress in a very polite way three things. No. 1, you are going to have to tell Congress that you cannot control interest rates, that inflation does it.

No. 2, you are going to have to tell Congress that you cannot control the money supply. Inflation does that.

The Fed creates more money because people need more money for inflation.

The third point you are going to have to tell Congress is that the Federal Reserve Board should never have been in the inflation fighting business in the first place because it cannot fight inflation. Monetary policy cannot fight inflation that is created by fiscal policy.

And this emergency session of Congress brought upon by the demand of the public, businessmen, and people to lower interest rates, is going to create, in my judgment, a new appraisal as to how we got here.

Senator BYRD. If that is the case, if that is the case, No. 1, as I see it, there is no way that Congress can legislate a reduction in interest rates.

Mr. SINDLINGER. No; Congress has to have a surplus of $40 billion to solve this problem.

Senator BYRD. What you are saying is if there is an emergency session that the purpose of the emergency session would be, I assume either from what you say, either would be to sharply reduce spending or increase taxes. Would that be it?

Mr. SINDLINGER. No.

Senator BYRD. To reduce spending?

Mr. SINDLINGER. You increase taxes, you increase inflation.

Senator BYRD. What would be the purpose of the emergency session?

Mr. SINDLINGER. First of all, to learn how the economy works, No. 1, and the second result would be after you learn how the economy works would be to decide that we can only stop inflation by cutting spending.

Senator BYRD. It gets back to a sharp reduction in the increase in spending?

Mr. SINDLINGER. That is right. And we have to build a surplus.

Senator BYRD. You envision the need for a very substantial reduction in the overall spending by the Government?

Mr. SINDLINGER. I am talking about the Congress cutting spending to get a $40 billion surplus which we are going to need to protect the banks next year.

Now, the longer Congress waits, the more it is going to cost.

Senator BYRD. I think the longer the Congress and the longer the Government waits to tackle the problem facing us the worse off everybody is going to be.

Mr. SINDLINGER. I think what is going to bring this to a head—I have given this a lot of thought, but it is the only thing Congress will understand—is when it gets a cry from the people.

I am sure that Members of Congress are already beginning to get the cry from people, get interest rates down. I am sure that is happening now.

It will happen every day and it is going to amplify, as interest rates go up. Each week they go up more. There is no law. If Congress attempts to legislate a freeze on interest rates, you will raise interest rates and create a black market like people have never seen before. You will wreck the world economy.

Senator BYRD. I think, as evidence of that, Congress has even gone to the extent of eliminating usury laws in various States. With the usury laws, no one could borrow any money.

Mr. SINDLINGER. That is right.

In this presentation I have not included the out-budget financing.

Senator BYRD. I understand.

Mr. SINDLINGER. That was deliberate. I do not want to bother with it. I have just taken the on-budget financing.

Senator BYRD. I am interested in what you learned from the public on these day-to-day telephone conversations.

Incidentally, as you know I have been to your home and your place of business.

Mr. SINDLINGER. And you have listened.

Senator BYRD. I have listened in and heard the responses.

Mr. SINDLINGER. The last time you were there we had a peaceful America. That was not too peaceful that night, was it, compared to now, but it was a peaceful America. You should hear them now.

Senator BYRD. What do you find to be the dominant interest on the part of the people?

Mr. SINDLINGER. Nobody in Washington understands my problem and I do not want to hear any more promises. Nobody understands my problem. You have got to remember that people basically are very selfish and they also want somebody else to sacrifice for them.

But what is happening here is that 45 percent of the people tell us that their income is down. In other words, 45 percent of the Nation right now is in a recession and the economy, the way I see it, next year we will not be arguing about a recession next year.

At the present time you hear everyone talking about a recession and when is it coming. By next year at this time, the argument is going to be, how long will the depression last?

That is where we are heading. How long will the depression last?

In my testimony, I make the point that the economy is no longer in V's and U's, but the economy at the present time is an L. You go down, you stay there.

It was pointed out by the two prior people sitting here, we are not going to have a sharp recovery. It is going to take a long time.

I hate to say it, but I think it is going to take us 10 years to get us out of this mess. But what concerns me is we have always solved our problems in the past by going to war, and are we going to go through that procedure again rather than trying to think our way out?

We always shoot our way out rather than think our way out.

Senator BYRD. I assume you find that the people have very little confidence in government?

Mr. SINDLINGER. None.

I would say they have no confidence and it is being manifested in the primaries.

Senator BYRD. I feel that the people have been misled and are being misled now as to what the Government is doing or is preparing to do in regard to spending.

Mr. SINDLINGER. I am trying to transmit a message to the White House and I know it got through. You would be surprised that within 48 hours after the President had announced his new plan on March 14. It sounded great, as if we were going to balance the budget, and you have already gone on the mathematics of it, how we did it.

We raised it then we cut it.

The public, within 48 hours had completely figured it out, so 7 out of every 10 people said well, all he has done is raise taxes. That is how fast the public figured that out.

Senator BYRD. Seven out of the ten people?

Mr. SINDLINGER. That is correct. In 48 hours. That is how fast the public figured it out.

So you cannot pull press releases on the American public. They figured out in 48 hours what the President did, and that is exactly what he did. He raised their taxes to balance the budget.

And you will say, well, how does that solve any problems?

Senator BYRD. Most of the commentators, most of the news reporters and what not, still report that the Government, the administration, is reducing spending. This morning, however, I heard David Brinkley when I was driving to work and he diagnosed it exactly.

He said there is no, except a very minimal, decrease in the increase in spending.

Mr. SINDLINGER. That is right.

Senator BYRD. There is no reduction in spending. There is a slight reduction in the increase in spending, but a very heavy increase in the revenues which the Government is taking.

Mr. SINDLINGER. And that adds to inflation and that is adding 2 percent, 200 basis points, to the interest rate.

You see, we are kidding ourselves, Senator. We are kidding ourselves. We are running the country just like Three Mile Island was run.

We want to think there is no such bad thing as inflation, but you cannot kid yourself against the financial markets, ideal and reality.

I talk to people and the information I get from people gives me a firm foundation to project the economy and the stock market and the bond market. The bond market and the stock market are operating on the assumption that is correct, that interest rates will go higher and that the inflation rate is around 20 percent.

You do not hear anybody in Congress admitting that we have a 20-percent inflation rate and we have people saying that the recession is going to take care of inflation and interest rates.

You are never going to take care of interest rates, which are a function of inflation, until Congress understands how the economy works and understands that you cannot spend more than you make. It is that simple.

Senator BYRD. Congress does not understand that, I am convinced.

Mr. SINDLINGER. They are going to learn it this year.

Senator BYRD. They do not understand that. So many Members of the Congress, particularly some of those in key positions, have grown up over the years on the theory that you do not need to balance the budget, that deficit spending is all that one needs to do. If there are any problems, just spend more money.

Mr. SINDLINGER. The sad truth, Senator, is that Congress has to have inflation to operate.

Senator BYRD. Government gains by inflation.

Mr. SINDLINGER. That is a point.

Senator BYRD. Government gains.

Mr. SINDLINGER. When you get to the point where the people's money, the new money that we are printing is being eaten up by inflation at 100 percent, which is what we are going to have this summer, the country is broke.

Congress is broke. They do not know it yet, but they will find it out this summer. This is what I am saying.

Senator BYRD. The problem is that no one wants to bite the bullet and it is not pleasant to bite the bullet.

Mr. SINDLINGER. Do you agree with me that the pressure is on for the Congress to lower interest rates? Do you agree with me on that?

Senator BYRD. Oh, yes, but——

Mr. SINDLINGER. How many people in Congress realize?

Senator BYRD. The trouble is that most people think that all Congress has to do is pass a law and that lowers interest rates.

Mr. SINDLINGER. You pass that law and you will have interest rates on the black market at 30 percent.

Senator BYRD. It would be ridiculous to do that.

Mr. SINDLINGER. Somebody had better get some sense.

Senator BYRD. Let me ask you one final question. You predicted, with great accuracy, in July 1974, what the stock market was going to do. Looking ahead 4 or 5 months, how do you see it now?

Mr. SINDLINGER. You should have a rise in the stock market between—I do not know what it is doing today. Does anybody know what the market is doing now?

You should have a rise in the stock market in the next 2 weeks. Then you will have a sharp fall and by the end of this year the Dow Jones should be down to about 600 or 550.

Anybody who is in the stock market now has 10 or 12 days to get out, if they have not gotten it out.

The bond market has had a collapse and it is only the first stage. The bond market told Congress what the President's plan did, did it not?

Senator BYRD. That is why the President has revised slightly his original January proposal.

Mr. SINDLINGER. All it did was add 2 percentage points to the inflation rate and interest rate. When you are raising taxes, you are raising inflation and interest rates.

Now, somebody had better get some sound economics around this town.

Senator BYRD. I must say, Mr. Sindlinger, you are a great deal more—more pessimistic than I am about the future.

Mr. SINDLINGER. I am scared to death.

Senator BYRD. I think we have grave problems, but you are a lot more pessimistic.

Mr. SINDLINGER. I am scared.

Senator BYRD [continuing]. Than I am. And I would not be as worried if I had not been present in 1974 when you predicted——

Mr. SINDLINGER. Nobody wanted to believe me.

Senator BYRD. Exactly. What happened in the next years.

Mr. SINDLINGER. If you remember, nobody wanted to believe me.

Senator BYRD. We had 12 Senators present. None of us felt that you were realistic in what you were saying, but it turned out to be correct.

Mr. SINDLINGER. I think I hit it on the month.

Senator BYRD. I want to thank you for being here today and I think that this has been very helpful to the committee and it certainly has been helpful to the chairman.

Mr. SINDLINGER. I tried, in my prepared statement—which is long—I tried to go through a little bit of logic as well as my points to show how we got into this mess and the key conclusion I want to make is I could tell from my interviewing that the Congress is going to have this pressure on it, that you are going to have to have some sort of emergency meeting.

Senator BYRD. We are meeting right now. We could do it right now if we had the will to do it.

Mr. SINDLINGER. You do not have the will yet, but you will. You will get it.

Senator BYRD. Time will tell.

Thank you.

[The prepared statement of Mr. Sindlinger follows. Oral testimony continues on p. 101.]

COMMITTEE ON FINANCE
UNITED STATES SENATE

SUBCOMMITTEE ON TAXATION
AND DEBT MANAGEMENT

CAPITOL BUILDING
ROOM S-207
WASHINGTON, D. C.

FINANCE SUBCOMMITTEE ON TAXATION
AND DEBT MANAGEMENT
SETS HEARING ON PUBLIC DEBT
APRIL 2, 1980

Mr. Chairman, members of the committee:

Thank you for another opportunity to report to your committee on the true nature of the economic situation being shouldered by the American people in the Spring of 1980.

I sincerely hope this is the last time anyone will have to testify on the issue of raising the national debt ceiling and that in future appearances we can discuss far more constructive matters—like how is the most efficient way to use people's money to create a Federal budget surplus.

Based upon what I am going to discuss—Congress should be moving in the opposite direction—working on reduction of the U.S. debt—creating a surplus—rather than providing a legal escape valve for more budget deficits and unsound fiscal policies which are now at crisis proportions.

FIGHTING INFLATION BY "PRESS RELEASE"

Unfortunately, I am not persuaded that Congress and the Administration are prepared to go to the truly austere lengths necessary until they are backed to the wall by a severe financial crisis which worse than now is in the making prior to our next election day—which is not to create a recession but a depression.

Judging by recent developments, including President Carter's "press release" fourth attempt to fight inflation as of March 14th—I must conclude that Washington still hasn't grasped the true evil of having a mammoth national debt overhanging the American economy. It has reached the point where Congress has already spent more than it can finance—making the debt only a eulogy.

A BANKRUPTCY OF THE UNITED STATES

The fact is the United States is already in (not headed toward) a severe financial crisis that has been provoked by past reckless and improper fiscal policy. I call it the "Money Meltdown Collapse of 1980"—in a book now being written.

I am not here today to talk about an ordinary economic setback or so-called recession—but rather the coming bankruptcy of the United States with a long depression—if we don't act.

What we have now is a situation in which inflation is melting down the value of people's money to the point where it is becoming virtually worthless.

REAL RECESSION HITTING U.S. HOUSEHOLDS

This money meltdown is already manifested in a credit crunch stage among 4 in 10 of every American households. The crunch should subsequently spread next to industry and then to finance both domestic and foreign.

But among the nation's households, I will show that a "real recession" is already eight months old—having started last September.

All political eyes are now focused on Election Day which is only thirty weeks away. But those eyes are going to get crossed up before then—where a government-inspired credit crunch will change the focus from political promises to economic realities.

WHO WILL SAVE CONGRESS?

History records—that Congress saved Lockheed from bankruptcy—then Congress saved New York City—more recently Congress is trying to save Chrysler.

And, there are other gigantic bankruptcies lurking in the wings.

My question today is: Who is going to save Congress in the financial peril facing it—between now and Election Day?

OUR APPEARANCE TWO YEARS AGO

In my last appearance before this Committee on January 30, 1978, I demonstrated how the national debt (then at almost $722 billion) and, more specifically, the interest on the national debt (then at $43 billion) were the underlying root causes of the cost/push inflation that has been plaguing the nation since 1968.

The debt and the cost of financing it continue to produce an intense capital shortage that simply cannot allow the economy to work like it used to.

When I testified in January 1978, the national debt was $721.6 billion. Since we were then sampling 70,893,000 U.S. households—this meant that the average American household was responsible for $10,178.58 of the Federal debt—which most people don't even know they owe.

In February 1980, as we were sampling 73,489,000 households with the Federal debt at $854.6 billion—the per-household figure is $11,628.82.

HOUSEHOLD IMPACT OF INFLATION

Two years ago when I last testified before this Committee—current dollar Gross National Product (GNP) was $1,998.0 billion—getting close to two trillion dollars.

To take inflation out, the current dollar GNP figure is divided by what is called the implicit price deflator (IPD)—to convert to 1972 dollar values.

INFLATION DESTROYS OUR MONEY

Two years ago, the IPD was 146.3, representing a year-to-year inflation growth rate of 6.2 percent.

By dividing current dollar GNP by the price deflator, "real" GNP was worth $1,365.7 billion. In other words—inflation ate 31.6% of GNP by destroying $632.3 billion in money—more than the then national debt of two years ago. Current dollar GNP per-household two years ago was at $28,183.32 while "real" dollar GNP was $19,262.83.

To keep our facts in focus;

... Two years ago in January 1978—a 6.2% inflation rate to calculate "real" GNP was destroying $8,920.49 per-household.

... And on top of that, the national debt per-household—which most people did not know about was $10,178.58.

THE MOST WASTEFUL USE OF MONEY

Government borrowings to finance the debt take money away from private borrowers and the competitive scramble for money between the two sectors drives up interest rates for both. Rising money costs ultimately exert a two-way squeeze on people—through higher prices in their roles as consumers and higher taxes in their roles as taxpayers.

Moreover, the interest on the debt is the most wasteful use of money. The interest payments literally evaporate and never return to the economic mainstream.

For February 1980 interest on the debt totaled $65.7 billion—23%, or $12.4 billion more than in 1978.

Our Sindlinger Calculated Projection (SCP) model forecasts that by February 1981 the interest payments will reach $85 billion. That will mean $20 billion more that the Treasury will have to finance.

A $20 BILLION DOLLAR DRAIN

That means that another $20 billion will be driven out of the economy and denied to those sectors that need them to build plant and equipment, improve productivity and make jobs to expand the size of the labor force.

Interest rates rise still further on the diminished money stock and the inflationary spiral continues.

Wage and price controls, credit controls, voluntary restraints, imported oil cutbacks, recession, rising interest rates, tighter money —none can work until the fiscally unsound diversion of money is halted. These orthodox "solutions" can scratch the surface of the 1980 problem but they can't touch the firmly rooted base that grows bigger as fiscal policy makes less sense and accelerates the meltdown of the people's money.

PAYING FOR THE EXCESSES

We are already paying the price for these excesses. With a 20% inflation rate. With a prime rate already above 19% going to 24%. With an economy that seems to boggle the minds of textbook economists who continue to project a cure-all recession seems to always be coming next month. With an incredible illiquidity among the nation's households that is getting even worse as the money meltdown comes closer.

FORECASTS ON INFLATION, INTEREST RATES MATERIALIZE

As this committee knows, I forecast all of these developments two years ago when orthodox economists blithely projected a mild recession to break the entire inflation-interest spiral.

And what I was forecasting two years ago to this committee—is here—and now.

What great secret did I possess to buck the economic consensus?

PEOPLE FORECAST THE TRENDS

Nothing all that exotic. My Sindlinger Calculated Projection (SCP) computerized microeconometric model showed me the light because it is based purely on input from the American people—and the way they use and plan to use their money.

By taking a realistic account of the people's problems, by recognizing that the true inflation rate reported by people is quite higher than the rate reported by the government, by fully comprehending how unsound fiscal policy, the debt and its interest burn up money, SCP told me that there would be no let up in inflation and interest rates from mid-1979 throughout October of 1980.

SIGNALING THE CRUNCH AND MONEY MELTDOWN

These same factors are now signaling the credit crunch and eventual money meltdown to hit just before election time.

Surely, you might ask, hasn't President Carter helped arrest the spiral with his budget balancing moves? I must heartily demur.

BUDGET CUTS ARE FRACTION OF CLAIMS

Even if the budget cuts indeed totaled the $13 billion that was billed by the Administration, they wouldn't do more than chip the hard-core inflationary base that's imbedded in twenty years of unsound fiscal policy.

But the fact is that "real" cuts in the budget are only a fraction of the Administration's claims.

Here is what has really happened.

In January, the Administration submitted a budget for the 1981 fiscal year calling for outlays of $616 billion and income of $600 billion for a deficit of $16 billion. On Friday, March 14th, the President told the nation the FY 1981 budget was to be balanced and spending was to be cut $13-$14 billion. The domestic financial markets did not buy it.

But it wasn't the original budget that was being cut.

ILLUSION OF BIG BUDGET CUT

By March 14th, technical revisions had raised the outgo side by $10 billion putting it at around $626 billion. Revised income estimates through a tax increase lifted the revenue figure to $614 billion.

Thus by the time of the President's message we were working with a much revised budget and it was this enlarged budget that was being pared. The President cut the enlarged budget by $13 billion and bringing the FY 1981 outgo down to $613–$614 billion to about match the increased revenue estimates.

The real cut is only $3 billion and not $13 billion as the President would have us believe. The President has given us only a "press release" illusion of a budget cut, not a really substantial cut.

That's like applying a wet band aid to the rapidly spreading inflationary cancer. SCP says the Carter March 14th new program actually aggravated the outlook for interest rates and inflation for this year—and speeded up our financial money crunch crisis.

INFLATION FORECAST IS WORSE, PRIME TO 24%

Prior to the unveiling of the program, SCP forecast that inflation should peak through a percent year-over-year growth in Consumer Price Index (CPI) about 19% and that the prime rate

would peak at 20% in October.

But a new run through of data following the President's message produced forecasts of a 22% rate of inflation by August and a 24% prime by mid-Summer or shortly before the two major parties convene to nominate presidential candidates.

PEOPLE ARE CONFUSED AND FRUSTRATED

Certainly the American people don't see any panacea. Our continuous daily telephone conversation with people, which among other things generate information for SCP forecasting find people confused and frustrated. The March 14th new program has done nothing to stimulate people's confidence. People question how the President can claim he is balancing the budget through spending cuts when he is also asking for a tax hike in the form of the gasoline conservation fee.

One of our respondents recently remarked: "The President calls inflation the cruelest of taxes then he adds another cruel tax on top of it to make us think Congress is balancing the budget,"

THE "DOUBLETHINK" GROWS IN POPULARITY

I am sorry to tell you that the President's program is another example of an annoyingly growing practice of the bureaucracy and academe to talk our way out of problems by arguing that they really don't exist or aren't as bad as presumed.

George Orwell called it "doublethink." It's the game of managing to be for and against both sides of an issue at the same time.

A neat trick! But the manifestations of "doublethink" abound and the increased capacity for "doublethink" is preventing us from getting to the real roots of our economic problems.

EXCUSES AND MORE EXCUSES

Take the entire "recession" scenario written by the orthodox economic consensus and the multiplicity of excuses its membership

has employed to explain why the recession hasn't materialized.

A major problem with trying to read the future economy is that most economists, especially political economists, are human and optimistic by nature. They are first reluctant to concede a recession can occur and they then see little more than a mild recession after government data indicate a softening economy. But at all times, their criteria are straight out of the textbook and their forecasts are principally based on hopes and guesses rather than on a knowledge of how people are faring.

MINORITY CAN'T BUOY ECONOMY

These difficulties have been exacerbated today by inflation which has destroyed the classic V or U shaped cyclical functioning of the economy because it has put people behind the financial eight-ball.

In most past recessions, only 25 percent of the households were affected and the other 75 percent could spend our way into recovery. Today, because of inflation, nearly half (see Exhibit A) the households are suffering declining income and are in real recession. A minority of households can't carry on the economy on their backs.

PEOPLE STAVED OFF CLASSIC RECESSION

This is a primary example of how economists relying on macro-economic data erred because they made assumptions about people without really understanding how people live and use their money.

The recession, at least as officially defined as two separate quarters of negative growth in real GNP, didn't occur early in 1979 because of an outbreak of hedge buying to beat inflationary price hikes.

It didn't occur in late 1979 because Consumer Confidence shot up with the Iranian and Afghanistan crises as people anticipated higher defense spending and more jobs.

It hasn't occurred thus far in 1980 because people, in perhaps one last hedge buying gasp, are buying autos, appliances, home improvements and other goods and services that promise some relief from mounting energy costs.

We know this because people have been telling it to us, as we interview people daily.

BUYING IS IN, SAVINGS IS OUT

And people also have been telling us that they are buying because they consider spending a prudent exercise during the current inflationary spiral. They can buy on credit, pay back in cheaper dollars, beat price increases and perhaps reduce their fuel bills. It doesn't pay them to save because the interest rates offered them don't keep up with inflation.

But scratch a member of orthodox economic consensus and he or she will automatically ascribe continued consumer buying to people's reluctance not to downgrade their lifestyles.

PEOPLE ARE BLAMED FOR INFLATION

As one follows current press reporting on the economy—many orthodox economist go on to blame people's buying for hyping inflation and preventing the long-awaited recession from snapping the spiral of inflation and interest rates.

"If only that damn, dumb consumer wouldn't be so hoggish, we'd be in good shape." is the way it is being said. It's almost as if the economists and the Washington establishment are praying for hard times to cure our ills.

A MISIMPRESSION ON ECONOMIC CYCLES

The flaw in their whole reasoning is the failure to understand how people must live and survive under the new economic rules of today—which are totally different from the rules that were taught in the outmoded textbooks.

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The orthodox economists—be they "keynesians" or "monetarists"—believe that an officially defined recession eventually will materialize and defuse inflation and interest rates because they are under the misimpression that the economy still is operating in traditional cycles.

INFLATION WON'T LET ECONOMY FUNCTION IN CYCLES

To have an officially defined recession, we must have recovery following an economic bottom. That's the old "V" or "U" shaped economy.

But the economy, according to our calculations and projections is no longer working like it used to in "V" or "U" shaped cycles. Inflation, as it is currently indexed by Congress and the aforementioned capital shortage simply won't let the economy work like it used to.

THE L-SHAPED ECONOMY

Instead what we really have for the 1980's is an L-shaped economy. The economy dropped straight down in the 1974-75 recession and hasn't in fact really recovered since.

It's been proceeding on a straight line and each new spurt of hedge buying just prevents it from slanting downward.

THE NEED FOR NEW MONEY

But that can't last for very long.

The best sign of the economic health of the economy is how much "real" new money is produced so that it may be recycled into the economy by people to sustain growth. The new money helps finance expansion that absorbs the growth of the labor force.
(See special tables on "A" through "Z" money.)

MONEY GROWTH TO DECLINE

SCP says that on an aggregate basis (see "A" through "E" money) there should be a fairly brisk growth in the money supply

on a year-over-year basis through the first half of 1980. This should result from the latest hedge buying outburst and from the loading of people's checking accounts in April to pay inflated Federal taxes.

... The outlook is not so good for the second half. SCP projects that the money supply will be flat compared with the third quarter of 1979.

... And in the fourth quarter, SCP projects that the money supply should decline on a year-over-year basis.

SCP sees no bottom to the money supply contraction and no turn up in growth as the economy moves into 1981.

TRACKING A CRUNCH AND MONEY MELTDOWN

In effect, the money supply trends should be tracking first the credit crunch and second the fullscale meltdown of money.

We must agree that none of this appears in the "official" government figures which purport to show only "real" economic expansion since the 1974-75 recession.

FIGURES SUPPORT THE "DOUBLETHINK"

Here, we have another aspect of "doublethink."

The official figures, to be perfectly frank, are often in error, misleading and primary causes of serious mistakes in monetary and fiscal policy. Take the seasonal adjustment process for example which, through an arbitrary statistical process, converts raw, or actual data, into "official" figures.

Seasonally adjusted figures are like the meters at Three Mile Island. They are flashing false signals and prompting wrong decisions.

INJURIOUS TO FINANCIAL HEALTH

Last week, the press and TV carried numerous stories about the first anniversary of the near disaster at Three Mile Island—complete with accounts of antinuclear marches and protests, analyses of the future of nuclear power and controversies surrounding the

venting of krypton gas from the damaged reactor building. There are concerns about health and about safety.

Official accounts of the accident say it resulted because people read the wrong meters. We happen to have the very same situation in fiscal and monetary policy because the Federal Reserve and Treasury read the wrong meters—the seasonally adjusted figures —and the disasters that may befall the nation's collective pocketbook is beyond the realm of reasonable calculation.

Here we have the most bizarre instance of where the wrong meters generating bogus information a la Three Mile Island are actually used to buttress the concept of "doublethink."

FED HAS BLINDERS ON FIGURES

A classic case is on money supply. The Federal Reserve won't look at anything but the seasonally adjusted figures and the seasonally adjusted annual growth rate for the last 13 weeks in setting monetary policy. Yet, the raw data supplied to the Fed by its member banks are the figures that show how the people and the banks are really using money.

Our analyses show that the seasonal goes cockeyed at many points in the year often declining when the actual figures are increasing or vice versa.

ELIMINATING CHRISTMAS BY STATISTICAL DECREE

At Christmas, for example, the seasonal adjustment never acknowledges the huge sums put into the money supply by people's spending. And in the two months following Christmas, it inflates the money supply while people are drawing down their checking accounts to pay Christmas bills.

INCOME TAXES TOUCH OFF EXPLOSION

But the TMI syndrome really does the most damage around income tax time when people load up their checking accounts to pay Federal taxes. On a raw data basis, the money supply falls almost as quickly as expands when the Treasury cashes the checks.

But the seasonal adjustment, as a misguided averaging device flashes an "explosion" and never catches up with the decline.

It implies that the Fed has lost control of the money supply which is presumed to be growing at an inflationary rate. The Fed then hikes interest rates and actually pours gasoline on the fires of cost/push inflation.

ANOTHER EXPLOSION IS DUE SOON

This has happened every year since 1975 and SCP forecasts it should happen again later this month. Ironically, the Fed at the beginning of every year revises the back data to conform to new seasonal factors. So the revisions say the explosion really didn't occur. But it's too late. The damage already had been done.

THE TMI SNAFU ON GROSS NATIONAL PRODUCT (GNP)

Another monumental statistical TMI snafu occurs in measuring "real" GNP.

The government does it by applying its implicit price deflator (IPD) to current dollar GNP.

In recent months, IPD has been showing year-over-year growth of less than 9 percent. That's way under the rate signaled by other inflation measures and about half of what the people tell us is the true rate of inflation for the things people must buy just to live.

So the inflation rate used in deflating current dollar GNP to real terms is woefully understated—fooling all economic planners, except Sindlinger.

VICTORY BY TALK

This is another exercise in the "doublethink." The understated IPD gives the government a seemingly legitimate way of saying that inflation isn't so bad as it appears when measured by the Consumer or Producers Price Indexes. So any good "doublethinking" bureaucrat or economist can simply try to lick the problem by talking it down—with the help of the wrong meters and the wrong figures.

REVOLVING CONSTANT DOLLARS UPWARD

Moreover, through the government's calculation process, the value of the 1972 dollars, or the constant dollars which are used as the base for "real" GNP, have been increased in value by 38% over the last eight years.

Thus, we have been showing consistent economic expansion only with the help of two statistical quirks. If the proper inflation rate were utilized and the value of 1972 dollars held constant, we would have only had three to four positive quarters of "real" GNP growth since the middle of 1975.

TRILLION DOLLAR INFLATIONARY WASHDOWN

Even with the TMI-calculated inflation rate, the story on GNP is a shocker.

In the fourth quarter of 1979, the understated IPD actually chopped a full one trillion dollars off current dollar GNP for the first time in history. SCP forecasts that the amount lost to inflation should grow in coming quarters and eventually the amount burned up by inflation should exceed the total of "real" GNP. That's when the money meltdown really will be obvious.

45% OF HOUSEHOLDS IN RECESSION

But even the broad figures don't begin to catch the full impact of inflation on people.

Earlier, we noted that a real recession had begun among the nation's households last September.

How do we define this real recession?

Very simply, anyone who has suffered a decline in income has to be considered in a real recession.

For March 1980 interviewing—45% of all households in the nation are reporting to us that they have suffered declines in income during the past six months; i.e., they are in a recession.

At the same time, 46.2 percent report income is up for this period. (See Exhibit A).

SPLIT INTO TWO FINANCIAL CAMPS

In effect, the nation is split into two financial camps.

. . . A minority of households is carrying the economy.

. . . The others are in real recession and they blame inflation for reducing their incomes.

This is only one way of looking at the people's plight, although a very telling one to be sure.

To repeat—this committee will recall at my January 30, 1978, appearance I introduced the concept of dividing the national debt by the number of households in the nation to demonstrate the share that each household had in the national debt.

NATIONAL DEBT IS $11,629 PER-HOUSEHOLD

At the time, I found that the national debt equaled $10,178 per-household. Thus, every household in the nation had a $10,178 debt it knew nothing about before it could even get started. Incidentally, that $10,178 grew to $11,629 per-household during February 1980.

Today, with Exhibit E, I will offer still another concept of per-household calcualtions.

It is "real" GNP on a per-household basis. It is derived by dividing the "real" GNP, as derived through the government's IPD, by the approximate 74 million households sampled in the nation for each month.

"REAL" GNP PER-HOUSEHOLD HAS NEGATIVE GROWTH

In September 1979 "real" GNP totaled $19,684.66 per-household. This was $48.72 less than the "real" GNP per-household figure for September 1978.

In other words, on a per-household basis, "real" GNP had actually gone negative--even with the use of the understated IPD. And the table (Exhibit E) projects out to the end of 1980.

What does this mean?

The household is the basic microeconomic unit in the country.

. . . Key spending decisions are made on a household basis.

. . . Liquidity is figured on the income of all income producers in the household.

SCP is so accurate because it takes a microeconomic view of the economy as being economically comprised of households.

HOUSEHOLDS OUTRUN MONEY GROWTH

The negative trend that began in September 1979 and has accelerated since means that the number of households in the country is growing faster than the economy can produce "real" money. Perhaps a more realistic way of looking at it is that the number of households is growing faster than the money needed to finance them; i.e., going broke.

In short, the economy is serving up less money per-household and the nation's basic microeconomic units are undergoing a liquidity shortfall. It's the real impact on people from the capital burn up caused by excessive fiscal policy--political implications?

THE ESSENCE OF "REAL" RECESSION

Right now, it's "real" recession among households.

. . . Soon, prior to election it should be a credit crunch.

. . . Next year, it should be a money meltdown, leading to depression.

It is the type of situation which simply has absolutely no relationship with the classic cyclical economy and offers no relief from inflation through orthodox solutions. The money meltdown is all pervasive.

It spares no one.

Only action of Congress can correct it.

THREE-QUARTERS ESCAPED PAST RECESSION

In past, typically V-shaped recessions, only about a quarter of all households were stung by the recession. The remaining three-quarters actually improved their lot. Each prior recession brought down inflation and increased the purchasing power of the majority. They were, therefore, able to spend the nation out of recession.

The big difference in 1974-75 with the 1980's is that inflation, as it is now indexed by Congress—is the cause of the 1980 economic downturn. It is hitting everyone by melting down the value of their money, threatening to price people out of work and causing an on-going liquidity squeeze even when the macro, official data make it look like the nation still is in flat out boom.

INFLATION WIPES OUT CYCLES

As a result, it is foolhardy to expect development of the classical recession to bring down inflation and interest rates as so many are reasoning.

... Inflation is flaring because of factors unrelated to the economic cycle and the economic cycle cannot be an effective weapon.

... Interest rates have to remain high, just to mirror the inflation rate.

"DOUBLETHINK" SUPPORTED FED MYTH

A major reason that the "doublethinkers" refuse to challenge the TMI-like figures or the orthodox scenario is that they are loath to tamper with the misconception of Federal Reserve primacy on matters of money supply control and interest rates.

The seasonal adjustment, by limiting money supply changes to small amounts, supports the myth of absolute Fed control.

Actually, the raw data show that the people have far greater control of the money supply in the way households move huge amounts around.

FED IS SADDLED WITH INFLATION FIGHTING ROLE

There is a method to their madness. Everyone, including Congress, is more than happy to have the Fed assume the mantle of number one inflation fighter so the others can get themselves off the hook.

This implies that the Fed can fight inflation in the classical way by tightening money and driving up interest rates. The "double-think" philosophy is interlocked with these TMI concepts.

SOUND FISCAL POLICY IS REQUIRED

Monetary policy cannot fight inflation alone. It needs a responsive fiscal policy. Even if monetary policy could have some impact, this would work only during demand/pull inflation which is not what we have today. The Fed's real control over money is far less powerful than the people's. And interest rates can't really be used to fight cost/push inflation.

The interest rates must rise under those circumstances to meet rates of inflation.

BANKING ON A RECESSION

But the selling of the Fed has been so persuasive that many people still are banking on the tight money induced recession to bring down inflation and interest rates.

The present record rates are still viewed as phenomena that are bound to start peaking soon. One very strange argument advanced for a near-term peakout is that nobody foresaw the current levels six months or a year ago, as Sindlinger did, with its SCP forecasting model.

A TIMELY WARNING AND A MIXED RESPONSE

Well, of course, we did thanks to SCP. We warned clients two years ago to borrow early because all interest rates were going still higher. Some did. Others ignored us. We warned our clients to get liquid as early as last July 1978, because of the coming credit crunch. Some did. Others ignored us.

The problem is that most businesses and investors especially small ones, passed up the signals to borrow at what were relatively cheap rates and to stay liquid.

EMERGENCY ACTION IS FORESEEN

These miscalculations should aggravate the credit crunch and make it necessary for Congress to take emergency action to bail out the bond market and stave off the crunch—Congress will have to act to curb a rash of bankruptcies—and this includes banking.

Originally, I predicted the emergency session should come some time in the Fall between the nominating conventions and election day. The timetable has been advanced, and I now see a possible action even before the conventions.

Unfortunately, it will be the people's plight that prods Congress. Typically, Congress gets the itch only when key contributors start letting their favorite Congressmen know they are in financial trouble. So it may take near bankruptcies or bankruptices to get action.

SHORT HORIZONS FOR DECISION MAKERS

One of the major weaknesses that pervades the entire economic system in this respect is the rather short horizons shared by all elements.

... The politician is thinking largely of the next election.

... The businessman's horizon is the next quarter.

... Nobody is looking out ahead.

... That is why the scenario of a collapse and money meltdown that we have presented is so unthinkable to most so-called authorities.

One result of the short horizon and its first cousin, the surface approach, has been the aforementioned lack of appreciation about the people's financial problems.

NO HELP FOR PEOPLE'S LIQUIDITY

Earlier we discussed that GNP per-household has been going negative. This has resulted largely from negative trends in the people's money measures such as checking and savings—and the personal income inflation meltdown.

The only thing that is keeping "real" GNP positive has been the "gimmick" monies in our economy—commercial paper, banker's acceptances, term Eurodollars... There are two problems with them. They are vulnerable and they are not the people's monies.

Thus, the growing money measures are those that are beyond people. They don't add to the people's liquidity.

DISSATISFACTION WITH THE SYSTEM

This goes right to the heart of the public's dissatisfaction with the political system.

It may come as no surprise to you that our data show that no presidential contender, including the incumbent, has really caught on with the people and established any real broad base of support.

NO CANDIDATE DEFINES PROGRAM

Why? Because none of the candidates has yet to define an economic stand acceptable to the people. Much of the support being accorded is negative in character. One candidate's position is less objectionable than another.

That, for example, is helping President Carter keep a lead over Sen. Edward Kennedy. As long as Kennedy remains in the race, he is helping Carter by acting as a political lightning rod. But this hardly represents a mandate for the President.

SUGGESTION TO THE FED CHAIRMAN

In a meeting with Fed Chairman Paul A. Volcker on February 1st, I explained how the Fed could take a giant step toward dispelling this mistrust and at the same time move toward getting the economy righted.

My advice in effect was that the time would soon come when Congress and the Administration had to know the truth on what the Fed can and cannot do.

My advice: simply withdraw from the inflation arena and throw the ball back to Congress—where it really belongs.

FED SHOULD ADMIT LIMITATIONS ON MONEY, AND INTEREST RATES

I advised Chairman Volcker to take this step at about the time Congress meets for emergency action on the "bankruptcies plight."

... I suggested he concede that in this inflationary environment the Fed cannot control interest rates.

... I suggested that he tell Congress that in this inflationary environment the Fed cannot control the money supply.

CONGRESS MUST CARRY THE BATTLE

. . . I suggested that he tell Congress it was up to the legislators to carry on the battle with fiscal policy.

. . . And I suggested that the Fed concentrate on the primary function for which it was created in 1913—to supply liquidity to the banks.

LIQUIDITY TASK IS AWESOME

Heaven knows, the Fed's liquidity supply task looks awesome in view of the credit miscalculations made over the wrong guesses on interest rates.

As a result, we predict that the emergency action that Congress should be taking soon—will only be an initial step in rescuing the nation's financial system and that far bolder action will be needed next year when plans for a budget surplus are under way for real.

More recently, I advised the Administration on why they took one giant step backwards when they handed the inflation fight to the Federal Reserve Board—in asking the Fed to do something it can't possibly do.

TAX CUTS AND BANK LIQUIDITY

Historically, during past recessions, there has been a problem of bank liquidity created by credit errors.

The Fed can help some when a few banks are in trouble but it really can't rescue any situation where a number of banks are on the verge of collapse or trouble.

Only Congress can do that and the step used is a tax cut.

Politically, the tax cut is a popular device and supposedly it helps prime the economic pump. But in reality, it is a method of utilizing the people to channel government funds into the hard pressed banking system.

As many of you know, I worked with several Congressmen in 1974 and 1975 to fashion a $13.5 billion tax cut so that 80 percent, or $9.5 billion could find its way into the banks to solve their liquidity problems of mid-1975.

$40 BILLION CUT NEEDED

Well the need for another tax cut is looming, despite the Administration's protestations. And the old cut is peanuts compared to what I am projecting will be needed in early 1981. The tab—$40 billion.

That's right. Congress will have to start thinking of cutting taxes in 1981 (not 1980) by something like $40 billion to rescue our banking system with the money meltdown now being forecast.

Not even Congress has that kind of ready cash at its disposal.

There's certainly no provision for a cut of this magnitude in the next budget.

So Congress has its work cut out for it. And its work goes far beyond a simple $17 billion spending cut—now being talked-about.

RAISE FDIC LIMIT

First, I suggest you quickly pass the bill raising the FDIC insurance limit to $100,000 from $40,000.

A FREEZE ON SPENDING

Second, I suggest you freeze spending and start looking at how to really bite the bullet and create a surplus—not a balance.

DON'T SPEND MORE THAN YOU MAKE

The Carter program should be viewed only as a minimum starting point.

The President has at least recognized for the first time that government can't be unlike its people—that it can't spend more than it makes. That's important in putting the problem in focus but it's only a halting step toward a solution.

Raising the ceiling on the national debt is academic. What's really needed is a ceiling on spending and the creation of a budget surplus—only a surplus will stop inflation and bring interest rates truly down.

		IN CURRENT DOLLARS						IN REAL DOLLARS					
		A	B	C	D	E	E% Growth	A	B	C	D	E	E% Growth
Jan	'78	$ 7.9	$16.3	$24.1	$ 1.4	$25.5	8.09%	$1.96	$ 1.26	$ 3.14	$0.84	$ 3.98	1.74%
Feb	"	8.0	13.5	21.5	1.3	22.8	7.44%	1.98	– 0.34	1.64	0.76	2.40	1.06%
Mar	"	8.2	12.8	21.0	1.3	22.3	7.20%	1.93	– 1.28	0.64	0.74	1.38	0.62%
Apr	"	8.0	15.1	23.1	1.5	24.3	7.89%	1.68	– 0.51	1.08	0.86	1.94	0.86%
May	"	8.4	16.4	24.9	1.6	26.4	8.44%	1.88	0.34	2.08	0.92	2.93	1.32%
Jun	"	8.6	17.4	26.0	1.6	27.6	8.67%	1.86	0.49	2.16	0.90	3.06	1.36%
Jul	"	8.3	17.5	25.8	1.5	27.3	8.45%	1.25	0.03	1.28	0.82	2.09	0.92%
Aug	"	8.5	17.2	25.7	1.5	27.2	8.48%	1.26	– 0.33	0.94	0.80	1.74	0.77%
Sep	"	8.7	18.7	27.3	1.4	28.7	8.84%	1.27	0.23	1.43	0.72	2.15	0.96%
Oct	"	8.7	17.0	25.7	1.4	27.0	8.20%	1.13	– 1.30	– 0.16	0.70	0.47	0.21%
Nov	"	8.9	15.5	24.4	2.7	27.0	8.12%	1.04	– 2.71	– 1.67	1.52	– 0.22	– 0.10%
Dec	"	9.1	14.5	23.7	4.2	28.0	8.20%	0.93	– 4.03	– 3.03	2.44	– 0.63	– 0.22%
Jan	'79	8.9	9.4	18.3	5.7	24.1	7.06%	0.76	– 7.62	– 6.86	3.36	– 3.44	– 1.48%
Feb	"	8.8	8.6	17.3	6.6	23.9	7.26%	0.51	– 7.86	– 7.41	3.88	– 3.53	– 1.58%
Mar	"	8.8	9.2	17.9	7.7	25.6	7.71%	0.53	– 7.30	– 6.84	4.54	– 2.30	– 1.03%
Apr	"	9.0	10.6	19.6	8.9	28.5	8.27%	0.68	– 6.79	– 6.11	5.23	– 0.88	– 0.38%
May	"	8.7	7.3	15.9	8.7	24.7	7.26%	0.47	– 8.31	– 7.90	5.06	– 2.77	– 1.23%
Jun	"	8.9	9.0	18.0	9.3	27.3	7.89%	0.50	– 7.66	– 7.09	5.39	– 1.71	– 0.79%
Jul	"	9.2	10.6	19.8	9.9	29.7	8.48%	0.53	– 7.00	– 6.47	5.70	– 0.77	– 0.34%
Aug	"	9.6	10.5	20.1	10.3	30.5	8.76%	0.71	– 7.00	– 6.29	5.89	– 0.34	– 0.15%
Sep	"	9.6	8.9	18.7	10.6	29.3	8.29%	0.67	– 8.17	– 7.37	6.03	– 1.36	– 0.59%
Oct	"	9.5	9.2	18.8	10.6	29.4	8.29%	0.56	– 8.03	– 7.40	5.98	– 1.42	– 0.62%
Nov	"	9.2	8.9	18.0	9.1	28.1	7.81%	0.33	– 7.49	– 7.23	4.99	– 2.23	– 0.97%
Dec	"	8.6	11.6	20.2	7.9	28.0	7.58%	0.12	– 6.74	– 6.90	4.17	– 2.76	– 1.18%
Jan	'80	9.0	13.7	22.7	6.6	29.2	8.01%	0.36	– 4.90	– 4.56	3.33	– 1.29	– 0.58%
Feb	"	9.2	16.5	25.8	5.7	31.5	8.92%	0.24	– 3.14	– 2.84	2.71	– 0.13	– 0.06%
Mar	"												
Apr	"												
May	"												
Jun	"												
Jul	"												
Aug	"												
Sep	"												
Oct	"												
Nov	"												
Dec	"												

TABLE A – E . . . NEW MONEY ADD MONTHLY AVERAGE FOR WEEKLY COMPONENTS
In Billions of Dollars – Not Seasonally Adjusted

"A" Money is currency, not seasonally adjusted, in billions of dollars.

"B" Money is demand deposits total, not seasonally adjusted.

"C" Money is "M1-A," currency plus demand deposits, not seasonally adjusted.

"D" Money is other checkable deposits total, not seasonally adjusted.

"E" Money is "M1-B" ("M1-A" plus other checkable deposits at banks and thrift institutions), not seasonally adjusted.

IN CURRENT DOLLARS — **IN REAL DOLLARS**

TABLE F – L . . . NEW MONEY ADD FOR MONTHLY COMPONENTS
In Billions of Dollars – Not Seasonally Adjusted

	In Current Dollars							In Real Dollars						
	F	G	H	I	J	L As M-2	L% Growth	F	G	H	I	J	L	L% Growth
Jan '78	$ 4.6	$1.1	$ 0.6	$ 36.1	$ 65.9	$122.8	10.30%	$ 2.61	$0.75	$ 0.26	$ 4.79	$21.06	$ 33.60	3.90%
Feb "	4.7	1.0	1.0	31.7	63.8	115.2	9.73%	2.06	0.88	0.52	$ 2.09	18.11	27.09	3.23%
Mar "	4.9	1.0	1.5	30.0	62.0	111.9	9.31%	2.70	0.87	0.84	– 0.14	16.79	22.49	2.61%
Apr "	4.7	1.0	2.1	27.2	60.3	110.1	9.00%	2.53	0.85	1.24	– 3.03	14.60	18.18	2.08%
May "	3.3	1.0	2.7	26.7	48.4	107.4	8.77%	1.46	0.84	1.62	– 4.83	12.32	14.18	1.63%
Jun "	2.2	1.0	3.3	22.8	60.1	106.9	8.64%	0.74	0.64	2.01	– 7.44	12.61	11.06	1.33%
Jul "	2.7	1.1	3.8	16.5	64.8	106.0	8.48%	1.03	0.70	2.32	– 12.48	14.08	8.31	0.94%
Aug "	3.1	1.1	4.4	12.9	68.0	106.7	8.44%	1.21	0.80	2.70	– 15.96	18.03	6.46	0.74%
Sep "	2.5	1.0	4.9	10.9	61.6	108.7	8.61%	0.78	0.81	2.99	– 17.78	17.58	6.45	0.73%
Oct "	3.5	1.0	5.4	5.9	66.9	109.5	8.69%	1.42	0.80	3.29	– 20.90	20.15	5.01	0.57%
Nov "	4.3	1.0	5.8	– 2.2	73.2	109.0	8.51%	1.82	0.59	3.51	– 26.66	23.26	2.36	0.27%
Dec "	3.7	1.0	6.5	– 10.4	78.5	107.0	8.26%	1.40	0.58	3.91	– 32.44	26.57	– 1.67	– 0.18%
Jan '79	3.3	1.2	7.9	– 21.0	89.3	104.6	8.02%	1.15	0.89	4.74	– 39.75	31.17	– 5.43	– 0.61%
Feb "	3.4	1.5	9.7	– 28.7	96.2	104.8	8.06%	1.14	0.87	5.79	– 46.83	34.13	– 7.42	– 0.84%
Mar "	3.5	1.6	11.5	– 34.8	101.8	108.9	8.29%	1.16	0.93	6.84	– 48.49	37.54	– 4.40	– 0.50%
Apr "	4.2	1.5	13.4	– 39.9	108.5	115.7	8.80%	1.61	0.85	7.93	– 51.00	41.61	– 0.07	– 0.01%
May "	4.5	1.4	15.5	– 44.3	112.5	113.9	8.65%	1.76	0.78	9.13	– 53.11	43.80	– 0.55	– 0.06%
Jun "	5.9	1.4	17.8	– 42.7	112.7	122.1	9.06%	2.67	0.77	10.44	– 52.05	43.03	3.09	0.36%
Jul "	4.1	1.4	20.8	– 38.3	108.5	126.1	9.30%	1.52	0.76	12.14	– 49.30	39.28	3.68	0.42%
Aug "	2.6	1.6	23.4	– 38.2	108.5	128.1	9.43%	0.52	0.87	13.58	– 48.97	38.48	4.08	0.46%
Sep "	3.6	1.8	26.3	– 43.4	110.0	126.3	9.21%	1.13	0.98	14.59	– 51.74	38.68	2.23	0.25%
Oct "	2.5	1.6	28.9	– 52.8	114.9	123.3	8.91	0.44	0.85	16.06	– 56.84	40.78	0.19	– 0.02%
Nov "	– 1.7	1.3	31.8	– 59.4	120.5	119.5	8.59	– 2.14	0.66	17.08	– 59.74	43.56	– 2.26	– 0.25%
Dec "	– 0.7	1.5	33.3	– 58.0	119.0	123.0	8.77	– 1.61	0.77	18.84	– 58.13	41.90	– 0.81	– 0.09%
Jan '80	0.4	1.9	37.8	– 54.6	113.3	127.1	9.02	– 0.78	0.90	20.82	– 54.82	38.31	3.30	0.37%
Feb "	0.8	0.7	42.3	– 64.7	113.7	134.1	9.56	– 0.82	0.27	23.46	– 54.86	36.36	4.51	0.51%
Mar "														
Apr "														
May "														
Jun "														
Jul "														
Aug "														
Sep "														
Oct "														
Nov "														
Dec "														

"F" Money is overnight RPs (net), not seasonally adjusted.

"G" Money is overnight Eurodollars, not seasonally adjusted.

"H" Money is money market mutual funds, not seasonally adjusted.

"I" Money is all savings deposits total, not seasonally adjusted.

"J" Money is small denomination time deposits total, not seasonally adjusted.

"L" Money is "M-2" ("M1-B" plus overnight RPs and Eurodollars, MMMF shares, and savings and small time deposits at commercial banks and thrift institutions).

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TABLE M – P . . . NEW MONEY ADD FOR MONTHLY COMPONENTS
In Billions of Dollars – Not Seasonally Adjusted

		IN CURRENT DOLLARS					IN REAL DOLLARS				
		M	N	O	P	P% Growth	M	N	O	P	P% Growth
Jan	'78	$31.6	$4.6	$2.0	$161.0	12.25%	$16.62	$ 2.83	$1.29	$53.94	5.66%
Feb	"	36.1	4.7	2.1	157.0	11.92%	18.81	2.87	1.36	50.44	5.30%
Mar	"	40.6	4.8	2.1	159.5	11.94%	22.14	2.65	1.32	48.80	5.08%
Apr	"	45.1	4.7	2.4	162.2	11.97%	24.82	2.56	1.50	46.98	4.86%
May	"	49.6	3.3	2.6	163.0	11.98%	27.38	1.48	1.61	44.70	4.63%
Jun	"	48.0	2.2	2.4	160.6	11.67%	26.52	0.76	1.45	40.45	4.18%
Jul	"	49.6	2.7	2.4	160.7	11.54%	26.41	1.06	1.44	37.20	3.79%
Aug	"	50.2	3.2	2.3	161.4	11.52%	26.27	1.30	1.35	36.39	3.60%
Sep	"	50.6	2.6	2.3	164.2	11.61%	26.06	0.87	1.33	34.74	3.52%
Oct	"	47.7	3.5	2.3	163.1	11.41%	23.66	1.44	1.31	31.50	3.17%
Nov	"	51.4	4.3	2.3	166.9	11.50%	25.38	1.84	1.28	30.80	3.09%
Dec	"	50.5	3.6	2.1	163.3	11.15%	24.06	1.36	1.13	25.07	2.49%
Jan	'79	49.0	3.6	2.0	159.2	10.79%	22.60	1.36	1.04	19.57	1.94%
Feb	"	47.9	3.7	1.7	158.1	10.73%	21.30	1.35	0.84	16.06	1.60%
Mar	"	41.8	3.5	1.5	155.7	10.42%	17.18	1.18	0.70	14.66	1.45%
Apr	"	34.0	4.1	1.4	156.3	10.23%	12.22	1.57	0.62	14.29	1.42%
May	"	28.0	4.6	1.2	147.6	9.69%	8.24	1.83	0.47	9.83	0.98%
Jun	"	22.5	6.1	1.5	162.2	9.90%	4.64	2.81	0.64	11.18	1.10%
Jul	"	20.7	4.4	1.9	163.1	9.86%	3.18	1.72	0.87	9.46	0.93%
Aug	"	20.6	3.0	2.3	164.0	9.86%	2.74	0.79	1.09	8.71	0.86%
Sep	"	24.4	4.3	2.7	157.8	10.00%	4.82	1.57	1.32	10.00	0.98%
Oct	"	30.2	3.5	2.7	160.7	10.03%	8.12	1.06	1.30	10.28	1.00%
Nov	"	26.6	0.0	2.4	148.6	9.23%	5.56	– 1.12	1.11	3.37	0.33%
Dec	"	24.4	1.4	2.3	151.1	9.28%	3.97	– 0.28	1.03	3.84	0.38%
Jan	'80	24.4	1.9	2.3	156.7	9.53%	4.18	0.09	1.04	8.60	0.84%
Feb	"	25.3	0.4	2.4	162.2	9.94%	4.12	– 0.84	1.08	8.87	0.87%
Mar	"										
Apr	"										
May	"										
Jun	"										
Jul	"										
Aug	"										
Sep	"										
Oct	"										
Nov	"										
Dec	"										

"M" Money is large denomination time deposits total, not seasonally adjusted.

"N" Money is term RPs—commercial banks—not seasonally adjusted.

"O" Money is term RPs at thrift institutions, not seasonally adjusted.

"P" Money is "M-3" ("M-2" plus large time deposits and term RPs at commercial banks and thrift institutions).

	IN CURRENT DOLLARS							IN REAL DOLLARS						

TABLE Q – V . . . NEW MONEY ADD FOR MONTHLY COMPONENTS

In Billions of Dollars – Not Seasonally Adjusted

	Q	R	S	T	U	V	V % GROWTH	Q	R	S	T	U	V	V % GROWTH
Jan. '78	$ 3.8	$ 4.8	$10.3	$ 3.0	$12.2	$196.1	12.08%	$2.16	$ 0.20	$ 3.60	$1.86	$6.11	$67.86	6.06%
Feb. "	4.8	4.8	9.5	3.6	12.5	192.3	12.43%	2.82	0.16	2.94	1.99	6.22	64.63	5.78%
Mar. "	5.4	4.8	9.7	4.0	12.3	196.6	12.40%	3.17	0.02	2.88	2.22	6.83	62.84	6.68%
Apr. "	5.6	4.8	10.1	4.4	12.9	200.0	12.50%	3.24	– 0.12	2.98	2.46	6.14	61.86	6.44%
May "	6.3	4.8	11.1	4.6	13.6	203.4	12.75%	3.84	– 0.26	3.53	2.63	6.40	60.55	5.36%
Jun. "	8.0	4.7	12.1	4.8	13.0	203.1	12.80%	4.74	– 0.43	4.14	2.62	5.83	57.29	5.03%
Jul. "	8.5	4.6	10.8	5.3	13.1	203.1	12.40%	4.98	– 0.64	3.08	2.82	5.73	53.36	4.65%
Aug. "	9.0	4.5	9.7	- 5.7	13.0	203.3	12.37%	5.24	– 0.81	2.11	3.14	5.58	50.82	4.30%
Sep. "	8.3	4.4	10.5	5.4	13.0	205.8	12.40%	4.73	– 0.97	2.44	2.90	5.43	49.27	4.20%
Oct. "	8.3	4.3	9.1	5.7	13.2	203.8	12.14%	4.67	– 1.12	1.37	3.06	5.34	44.88	3.85%
Nov. "	9.5	4.2	7.3	7.9	14.5	210.3	12.40%	5.36	– 1.32	0.82	4.43	5.84	46.23	3.90%
Dec. "	9.1	4.0	9.1	9.4	16.3	211.3	12.30%	5.03	– 1.66	0.99	5.34	6.96	41.88	3.58%
Jan. '79	10.3	3.6	9.7	9.1	16.7	208.7	12.03%	5.71	– 1.94	1.13	5.04	6.99	38.57	3.08%
Feb. "	11.8	3.2	10.9	8.0	17.9	209.8	12.07%	6.61	– 2.34	1.86	4.19	7.40	33.40	2.83%
Mar "	12.3	2.8	16.8	7.2	19.0	213.9	12.14%	6.74	– 2.62	5.33	3.86	8.16	36.08	3.04%
Apr. "	12.4	2.4	22.0	6.3	19.8	217.3	12.16%	6.73	– 2.70	8.56	3.06	8.07	38.06	3.16%
May "	11.8	2.0	28.7	5.8	19.3	215.1	11.90%	6.27	– 2.92	12.81	2.71	8.11	36.86	3.07%
Jun. "	10.6	1.6	36.2	5.6	20.5	226.7	12.40%	6.41	– 3.20	17.06	2.64	8.71	41.70	3.40%
Jul. "	10.8	1.3	34.9	5.9	20.8	225.9	12.32%	6.41	– 3.44	15.54	2.07	8.72	38.36	3.19%
Aug. "	12.2	1.0	27.9	8.0	21.2	224.5	12.30%	6.14	– 3.06	11.86	3.98	8.87	36.70	2.97%
Sep. "	12.6	0.8	27.3	9.5	21.9	229.7	12.32%	6.37	– 3.76	11.09	4.73	9.20	37.51	3.11%
Oct. "	12.3	0.4	28.2	9.5	21.0	231.1	12.28%	6.14	– 3.90	11.55	4.88	8.47	37.13	3.07%
Nov. "	11.0	– 0.1	29.0	8.0	19.5	216.9	11.32%	5.26	– 4.24	12.02	3.67	7.40	27.41	2.26%
Dec. "	8.8	– 0.6	30.9	6.8	17.8	211.7	10.97%	3.94	– 4.51	12.90	2.30	6.26	23.62	1.93%
Jan. '80	7.1	– 1.4	32.9	6.2	17.7	213.5	10.99%	2.89	– 4.83	14.03	2.51	6.21	26.68	2.10%
Feb. "	4.2	– 1.0	28.5	6.8	16.5	233.8	12.00%	1.01	– 4.72	11.03	2.75	4.57	33.58	2.70%
Mar. "														
Apr. "														
May "														
Jun. "														
Jul. "														
Aug. "														
Sep. "														
Oct. "														
Nov. "														
Dec. "														

"Q" Money is term Eurodollars (net), not seasonally adjusted.

"R" Money is savings bonds, not seasonally adjusted.

"S" Money is short-term Treasury securities, not seasonally adjusted.

"T" Money is bankers acceptances, not seasonally adjusted.

"U" Money is commercial paper, not seasonally adjusted.

"V" Money is "M-3" plus other liquid assets, not seasonally adjusted.

TABLE W – Z . . . NEW MONEY ADD IN CURRENT AND "REAL" DOLLARS – MONTHLY
In Billions of Dollars – Not Seasonally Adjusted

		W	W% Growth	X GNP	X% Growth	Y% Growth	Z	Z% Growth	New Dollar Loss To Inflation	Percent New Dollar Loss To Inflation
Jan	'78	$ 4.1	1.58%	$199.2	11.07%	8.25%	$59.1	4.52%	$140.1	70.3%
Feb	"	– 1.2	– 0.44%	191.1	10.50%	6.29%	52.1	3.96%	139.0	72.7%
Mar	"	7.9	2.90%	203.5	11.07%	6.54%	56.0	4.24%	147.5	72.7%
Apr	"	15.8	5.88%	215.8	11.62%	6.78%	60.1	4.53%	155.7	72.1%
May	"	24.8	8.84%	228.2	12.16%	7.03%	64.0	4.81%	164.2	71.9%
Jun	"	25.4	9.00%	228.5	12.08%	7.21%	60.4	4.51%	168.1	73.6%
Jul	"	25.7	9.11%	228.8	11.96%	7.48%	57.0	4.23%	171.8	75.1%
Aug	"	25.8	8.98%	229.1	11.87%	7.64%	53.4	3.94%	175.7	76.7%
Sep	"	34.9	12.25%	240.7	12.38%	7.82%	57.3	4.22%	183.4	76.2%
Oct	"	48.5	17.38%	252.3	12.89%	7.98%	61.4	4.52%	190.9	75.7%
Nov	"	63.6	19.51%	263.9	13.39%	8.22%	65.3	4.80%	198.6	75.3%
Dec	"	58.3	21.91%	269.6	13.58%	8.45%	64.4	4.72%	205.2	76.1%
Jan	'79	66.4	25.18%	275.1	13.77%	8.68%	63.7	4.66%	211.4	76.8%
Feb	"	71.0	26.06%	280.8	13.96%	8.98%	62.8	4.59%	218.0	77.8%
Mar	"	48.5	17.32%	262.4	12.85%	8.83%	50.9	3.70%	211.5	80.6%
Apr	"	26.7	9.38%	244.0	11.77%	8.69%	38.0	2.81%	206.0	84.0%
May	"	10.5	3.44%	225.6	10.72%	8.62%	27.1	1.94%	198.5	88.0%
Jun	"	2.6	0.84%	229.3	10.80%	8.70%	26.8	1.92%	202.5	88.3%
Jul	"	7.3	2.37%	233.2	10.89%	8.86%	26.3	1.87%	206.9	88.7%
Aug	"	12.4	3.96%	236.9	10.97%	8.93%	26.0	1.86%	210.9	89.0%
Sep	"	2.1	0.66%	231.8	10.61%	8.93%	21.9	1.56%	209.9	90.5%
Oct	"	– 4.3	– 1.31%	226.8	10.26%	8.93%	17.8	1.26%	209.0	92.1%
Nov	"	5.8	1.77%	221.7	9.92%	8.87%	13.7	0.96%	208.0	93.8%
Dec	"	– 8.4	– 4.08%	227.7	10.10%	8.87%	15.9	1.11%	211.8	93.0%
Jan	'80	13.1	3.97%	226.6	9.97%	8.62%	15.6	1.09%	211.0	93.1%
Feb	"	0.5	0.15%	234.3	10.22%	8.99%	16.0	1.12%	218.3	93.2%
Mar	"									
Apr	"									
May	"									
Jun	"									
Jul	"									
Aug	"									
Sep	"									
Oct	"									
Nov	"									
Dec	"									

"W" Money is Federal Reserve uncounted money.

"X" Money is Gross National Product (GNP), current dollars, seasonally adjusted.

"Y" Money is Implicit Price Deflator (GNP), seasonally adjusted.

"Z" Money is real Gross National Product (GNP), seasonally adjusted.

—1—

ADDENDUM TO TESTIMONY

Sindlinger Exhibit C shows that in January 1972, when the Federal debt was $422.9 billion, the annual interest payments totaled $21.3 billion, or 5 percent of the total debt.

Since then, the magnitude of interest payments, as a percentage of the total debt, increased or declined as interest rates rose or fell.

By June 1979, as interest rates on Treasury borrowings started to rise, the share of total interest payments exceeded 7 percent of the total debt.

In February 1980, the share of interest payments climbed to 7.7 percent. Our SCP computerized econometric model forecasts that the share should hit 8.7 percent by December 1980.

Because inflation is indexed by Congress to increase, this forces long-term interest rates (including those on 90-day T-bills) further upward to mirror inflation. As a result, there is an increase in the interest cost of financing the dead, nonproductive debt money that was accumulated to pay for the "fun times" of the past.

The Carter Administration has projected in the budget that interest costs on the Federal Debt should be 8.2 percent for the 1980 fiscal year—and that the rate should fall to 8.1 percent for the 1981 fiscal year.

But the fact is that in January 1980, the Treasury's estimated total cost of the interest-bearing Federal Debt already was 8.7 percent. It was estimated that the cost of the marketable portion of the debt was about 9.5 percent while the nonmarketable part cost 8.5 percent.

Since all interest rates have been rising since January and SCP forecasts they should go still higher—by 300 to 400 basis points (depending on the type of debt instruments) before they level off—there is no way for the cost of financing the current debt to slip to 8.2 percent this year and 8.1 percent in the next fiscal year.

The U.S. Treasury has $190.4 billion of marketable Federal debt (22 percent of the total February 1980 debt of $854.6 billion) maturing within the next 12 months.

Of this $190.4 billion . . .

. . . About $111.7 billion is financed by the regular Monday auction of 52-week Treasury bill issues—or approximately $2.2 billion worth of financing every week.

. . . Another $78.7 billion is not included in the weekly financing. This includes nearly $18.9 billion in long-term issues held by the Federal Reserve Banks.

If the Treasury refinances the longer-term portions of the debt held by the Fed banks and the debt held by these banks remains at around $19 billion . . .

There will be approximately $60 billion of older, long-term government issues that must be financed by the public.

For this refinancing of $60 billion—

. . . About $23—$25 billion has a coupon less than 7 percent.

. . . About $19—$20 billion carries coupons of between 7 and 8 percent.

. . . Another $23-$24 billion has coupons of between 8 and 9 percent.

. . . Only $11 billion yields 9 percent or more.

Because of this current rise in interest rates and forecasts that rates will rise still further through 1980 (with no long-range fall in sight), the likelihood of an increase in the average cost of the marketable portion of the Federal debt is guaranteed.

Another situation compounding the financing problem is that every new issue probably will be of very short maturity. Thus as short-term rates rise as forecast and remain stuck at high levels—the average cost of refinancing should rise substantially. None of these extra costs are included in the budget.

A NEW FACT ON NONMARKETABLE DEBT

As for the nonmarketable part of the Federal Debt--there is a new problem that is being presented by inflation. It is that U.S. Savings Bonds are paying interest rates well below those of competing interest-bearing instruments. Savings Bonds hit their historical peak in September 1979. The growth rate slowed to 1 percent with the new money add from the prior year being only $800 million.

By February 1980, the magnitude of U.S. Savings Bonds declined to $79.6 billion with a year-over-year growth of 1.29% and a new money add of $1 billion.

The consumer has become more sophisticated, given the presence of money market funds, and will not hold his or her wealth in Savings Bonds when much higher rates are available. This could have a strong impact on the average cost of nonmarketable debt because much of the nonmarketable debt is at such low interest.

SCP estimates that at least $10 billion of these Savings Bonds will be liquidated by the public over the next 12 months—adding $10 billion to the amount of money the Treasury will have to refinance.

On another point, Business Week Magazine has estimated that if the average cost of the debt is just one percentage point above the 8.1 percent estimate, the Carter Administration will need another $10 billion to balance the budget in fiscal year 1981. Any higher cost only compounds the problem.

We estimate that every increase of ten basis points in the interest on Treasury securities adds $1 billion to the cost of financing the debt. So even a rise of as small as one-tenth of a percentage point can throw the entire fiscal plan off target.

The prospects for balancing the budget are very dim.

What will the Congress be faced with in the next year? We project that by February 1981, the Federal debt should rise to $923.8 billion. The estimated cost of this debt? $85.4 billion. This includes the increased cost of financing the debt maturing in 1980 and the added cost of obtaining debt in the marketplace to offset the sizable reduction in the nonmarketable U.S. Savings Bonds outstanding.

The added interest cost will amount to almost $20 billion in payments the Federal Government will have to make over and above what it now plans to spend. We are not talking about a $15 billion deficit in FY 1981. We are looking at a deficit that approaches $35--$40 billion.

EXHIBIT – A

4 WEEK: 1296 (1293)

ALL CONSUMER PROJECTED TO ALL HOUSEHOLDS	TOTAL			MALE			FEMALE		
	SAMPLE	%	PROJ.(000)	SAMPLE	%	PROJ.(000)	SAMPLE	%	PROJ.(000)
HEADS - 18 YEARS & OLDER...	2729	100.0	132616	1329	100.0	63184	1400	100.0	69432
WITH HOUSEHOLD $$ SUPPLY...	1424	52.2	69199	703	52.9	33422	721	51.5	35757
A. CURRENT INCOME STATUS									
1. INCOME IS UP..........	1261	46.2	61278	608	45.7	28906	653	46.6	32385
2. INCOME IS DOWN........	1229	45.0	59723	603	45.4	28668	626	44.7	31046
3. INCOME IS SAME........	233	8.5	11323	118	8.9	5610	115	8.2	5703
4. DO NOT KNOW/REFUSED..	6	0.2	292	0	0.0	0	6	0.4	298
UP/DOWN BALANCE......	32	1.2	1555	5	0.4	238	27	1.9	1339
B. EXPECTED INCOME STATUS									
1. EXPECT UP.............	1262	46.2	61327	660	49.7	31378	602	43.0	29856
2. EXPECT DOWN...........	961	35.2	46700	453	34.1	21537	508	36.3	25194
3. EXPECT SAME...........	425	15.6	20653	181	13.6	8605	244	17.4	12101
4. DO NOT KNOW/REFUSED..	81	3.0	3936	35	2.6	1644	46	3.3	2281
UP/DOWN BALANCE......	301	11.0	14627	207	15.6	9841	94	6.7	4662
C. EXPECTED JOBS STATUS									
1. WILL BE MORE JOBS....	857	31.4	41646	411	30.9	19540	446	31.9	22119
2. WILL BE FEWER JOBS...	1016	37.2	49373	502	37.8	23866	514	36.7	25491
3. SAME JOBS AS NOW.....	750	27.8	36835	369	27.8	17543	389	27.8	19292
4. NO OPINION...........	98	3.6	4762	47	3.5	2234	51	3.6	2529
MORE/FEWER BALANCE...	-159	-5.8	-7727	-91	-6.8	-4326	-68	-4.9	-3372
D. EXPECTED BUSINESS STATUS									
1. WILL BE BETTER........	761	27.9	36981	377	28.4	17923	384	27.4	19044
2. WILL BE WORSE.........	1026	37.6	49858	539	40.6	25625	487	34.8	24152
3. SAME AS NOW...........	836	30.6	40635	360	27.1	17115	476	34.0	23607
4. NO OPINION............	106	3.9	5151	53	4.0	2520	53	3.8	2628
BETTER/WORSE BALANCE.	-265	-9.7	-12877	-162	-12.2	-7702	-103	-7.4	-5108

Index	Value
A. CURRENT INCOME INDEX........	113.9
B. EXPECTED INCOME INDEX......	51.7
C. EXPECTED EMPLOYMENT INDEX..	76.4
D. EXPECTED BUSINESS INDEX....	89.4
E. FORECAST CONFIDENCE INDEX..	72.5
F. HOUSEHOLD MONEY SUPPLY.....	52.2

Computer tabulations for latest nationwide Consumer Confidence data for week ended March 26, 1980.

EXHIBIT – B

GROWTH RATES OF GROSS NATIONAL PRODUCT AND ON A U.S. PER-HOUSEHOLD BASIS

	TOTAL			PER-HOUSEHOLD		
	GNP Growth	Implicit Price	Real GNP	GNP Growth	Deflator	Real GNP
Feb. 1977	10.01%	5.19%	4.60%	6.62%	1.95%	1.37%
May "	11.46	6.10	5.03	8.56	3.34	2.30
Aug. "	12.51	6.10	6.01	9.14	2.92	2.83
Nov. "	12.25	6.24	5.68	9.35	3.49	2.95
Feb. 1978	10.50	6.29	3.96	8.01	3.89	1.62
May "	12.16	7.03	4.81	9.62	4.60	2.43
Aug. "	11.87	7.64	3.94	9.82	5.67	2.04
Nov. "	13.39	8.22	4.80	11.31	6.24	2.88
Feb. 1979	13.96	8.98	4.59	12.04	7.16	2.83
May "	10.72	8.62	1.94	8.75	6.69	0.13
Aug. "	10.97	8.93	1.85	8.99	6.98	0.03
Nov. "	10.03	8.93	0.99	8.07	6.99	– 0.81
Feb. 1980*	10.22		1.11			
May " *	10.00		0.88			
Aug. " *	9.99		0.88			
Nov. " *	6.66		– 2.31			

* Sindlinger Calculated Projection (SCP) Forecasts

ANALYSIS OF THE MONEY MELTDOWN ON A PER-U.S. HOUSEHOLD BASIS

	"Real" GNP		Current GNP		Inflation Money Meltdown Per-U.S. Household	
	Per-U.S. Household	Yr./Yr. Change	Per-U.S. Household	Yr./Yr. Change	Dollars Meltdown	Percent Meltdown
Feb. 1977	$18,968.05	$ + 234.14	$26,241.27	$ + 1,643.99	$ 7,273.22	27.72%
May "	19,127.53	+ 430.74	26,955.57	+ 2,126.33	7,828.04	29.04%
Aug "	19,279.73	+ 531.38	27,490.60	+ 2,301.96	8,210.87	29.87%
Nov. "	19,298.27	+ 553.27	(h) 27,945.84	+ 2,390.30	8,647.57	30.94%
Feb. 1978	19,820.16	+ 545.61	31,755.77	+ 3,413.24	11,935.61	37.59%
May "	19,592.20	+ 464.67	29,548.39	+ 2,592.82	9,956.19	33.69%
Aug. "	19,673.43	+ 393.70	30,190.25	+ 2,699.66	10,516.82	34.83%
Nov. "	19,853.87	+ 555.60	31,107.09	+ 3,161.25	11,253.22	36.17%
Feb. 1979	19,820.16	+ 545.61	31,755.77	+ 3,413.24	11,935.61	37.59%
May "	19,616.84	+ 24.64	32,133.39	+ 2,595.01	12,516.55	38.95%
Aug. "	19,679.80	+ 6.37	32,904.94	+ 2,714.69	13,225.14	40.19%
Nov. "	19,692.72	– 161.14	33,617.18	+ 2,510.10	13,924.46	41.40%
Feb. 1980	19,684.58	– 135.58	34,443.60	+ 2,687.83	14,759.02	42.85%
May "	19,437.82	– 179.02	34,716.88	+ 2,583.49	15,279.06	44.01%
Aug. "	19,500.22	– 179.58	35,548.12	+ 2,643.18	16,047.90	45.14%
Nov. "	18,894.57	– 798.15	35,219.57	+ 1,602.39	16,325.00	46.35%

EXHIBIT — C-1

PUBLIC DEBT TABLE 1972–1975

MONTH #	PUBLIC DEBT (BILLIONS)	PERCENT GROWTH	NEW MONEY	PUBLIC DEBT PER HOUSEHOLD	PERCENT GROWTH	NEW MONEY	PUBLIC DEBT INT. (BILLIONS)	PERCENT GROWTH	NEW MONEY	PUBLIC DEBT INT. (12 MO.CUM)	PERCENT GROWTH	NEW MONEY
JAN 1972	422.90	9.13	35.38	6623.13	6.50	404.01	1.87	3.82	0.07	21.34	2.78	0.58
FEB 1972	424.00	8.76	34.16	6625.42	6.00	375.28	1.77	3.63	0.06	21.40	2.64	0.55
MAR 1972	427.30	9.33	36.46	6668.12	6.73	420.68	1.81	4.86	0.08	21.49	2.91	0.61
APR 1972	425.30	8.75	34.23	6628.12	6.35	395.63	1.81	6.71	0.11	21.60	3.24	0.68
MAY 1972	427.90	8.05	31.88	6659.82	5.84	367.20	1.79	5.84	0.10	21.70	3.25	0.68
JUN 1972	427.30	7.55	30.00	6633.24	5.22	329.29	1.86	8.67	0.15	21.85	4.23	0.89
JUL 1972	432.40	6.91	27.93	6694.95	4.47	286.48	1.87	4.93	0.09	21.94	4.55	0.95
AUG 1972	435.40	5.23	21.63	6724.01	2.71	177.53	1.87	3.15	0.06	21.99	4.58	0.96
SEP 1972	433.90	5.44	22.39	6693.09	2.99	194.61	1.91	4.43	0.08	22.07	4.62	0.97
OCT 1972	439.90	7.00	28.79	6777.70	4.60	297.82	1.93	4.49	0.08	22.16	4.58	0.97
NOV 1972	444.20	7.35	30.41	6836.05	5.01	326.14	1.93	7.44	0.13	22.29	4.95	1.05
DEC 1972	449.30	6.14	25.99	6895.65	3.78	251.02	1.96	5.50	0.10	22.39	5.27	1.12
JAN 1973	450.10	6.43	27.20	6889.11	4.02	265.98	2.07	10.46	0.20	22.59	5.85	1.25
FEB 1973	494.80	7.26	30.80	6942.13	4.78	316.71	2.01	13.50	0.24	22.83	6.66	1.42
MAR 1973	458.60	7.33	31.30	6999.18	4.96	331.05	2.13	17.50	0.32	23.14	7.72	1.66
APR 1973	457.10	7.48	31.80	6975.43	5.24	347.31	2.14	18.26	0.33	23.48	8.68	1.87
MAY 1973	457.30	6.87	29.40	6977.53	4.77	317.71	2.16	20.23	0.34	23.84	9.86	2.14
JUN 1973	458.10	7.21	30.80	6988.88	5.36	355.64	2.18	17.67	0.33	24.17	10.61	2.32
JUL 1973	459.00	6.15	26.60	7001.65	4.58	306.70	2.32	23.77	0.44	24.61	12.20	2.68
AUG 1973	461.80	6.06	26.40	7043.50	4.75	319.49	2.34	25.33	0.47	25.08	14.06	3.09
SEP 1973	461.40	6.34	27.50	7017.92	4.85	324.82	2.41	25.90	0.49	25.58	15.88	3.51
OCT 1973	462.50	5.14	22.60	7015.12	3.50	237.42	2.44	26.49	0.51	26.09	17.76	3.93
NOV 1973	464.00	4.46	19.80	7018.90	2.67	182.45	2.40	24.25	0.47	26.56	19.16	4.27
DEC 1973	469.90	4.58	20.60	7088.02	2.79	192.37	2.48	26.52	0.52	27.08	20.93	4.69
JAN 1974	468.20	4.02	18.10	7042.83	2.23	153.72	2.53	22.22	0.46	27.54	21.92	4.95
FEB 1974	470.70	3.50	15.90	7061.00	1.71	118.86	2.40	19.20	0.39	27.93	22.33	5.10
MAR 1974	474.50	3.47	15.90	7098.09	1.41	98.91	2.49	17.01	0.36	28.29	22.22	5.14
APR 1974	471.90	3.24	14.80	7039.71	0.92	64.28	2.46	14.97	0.32	28.61	21.86	5.13
MAY 1974	474.70	3.80	17.40	7061.89	1.21	84.36	2.51	16.55	0.36	28.97	21.51	5.13
JUN 1974	475.10	3.71	17.00	7062.[illegible]	1.05	73.50	2.54	16.16	0.35	29.32	21.32	5.15
JUL 1974	475.30	3.55	16.30	7059.78	0.83	58.13	2.69	15.97	0.37	29.69	20.63	5.08
AUG 1974	481.80	4.33	20.00	7150.80	1.52	107.31	2.66	13.55	0.32	30.01	19.62	4.92
SEP 1974	481.30	4.36	20.10	7128.90	1.58	110.98	2.71	12.84	0.31	30.31	18.51	4.73
OCT 1974	480.20	3.83	17.70	7092.43	1.10	77.30	2.71	11.00	0.27	30.58	17.22	4.49
NOV 1974	485.40	4.61	21.40	7151.80	1.90	133.30	2.66	10.78	0.26	30.84	16.12	4.28
DEC 1974	492.70	4.85	22.80	7268.25	2.54	180.23	2.79	12.84	0.32	31.16	15.07	4.08
JAN 1975	494.10	5.53	25.90	7297.84	3.62	255.01	2.81	11.07	0.28	31.44	14.16	3.90
FEB 1975	499.70	6.16	29.00	7389.61	4.65	328.61	2.62	9.39	0.22	31.67	13.39	3.74
MAR 1975	509.70	7.42	35.20	7544.07	6.28	445.98	2.74	10.00	0.25	31.91	12.82	3.63
APR 1975	516.70	9.49	44.80	7654.48	8.73	614.76	2.74	11.16	0.28	32.19	12.52	3.58
MAY 1975	528.20	11.27	53.50	7831.68	10.90	769.80	2.76	9.82	0.25	32.44	11.98	3.47
JUN 1975	533.20	12.23	58.10	7914.86	12.07	852.48	2.76	8.99	0.23	32.66	11.41	3.35
JUL 1975	538.20	13.23	62.90	7998.33	13.29	938.55	2.90	7.96	0.21	32.88	10.74	3.19
AUG 1975	547.70	13.68	65.90	8148.84	13.96	998.04	2.90	9.30	0.25	33.13	10.40	3.12
SEP 1975	553.60	14.97	72.10	8241.04	15.60	1112.14	2.97	9.50	0.26	33.38	10.12	3.07
OCT 1975	562.00	17.03	81.80	8370.57	18.02	1278.14	3.04	12.12	0.33	33.71	10.23	3.13
NOV 1975	566.80	16.77	81.40	8446.59	18.10	1294.79	3.05	14.43	0.38	34.10	10.55	3.25
DEC 1975	576.60	17.03	83.90	8587.26	18.15	1319.01	3.13	12.03	0.34	34.43	10.50	3.27

EXHIBIT — C-2

PUBLIC DEBT TABLE 1976—1980

MONTH	#	PUBLIC DEBT (BILLIONS)	PERCENT GROWTH	NEW MONEY	PUBLIC DEBT PER HOUSEHOLD	PERCENT GROWTH	NEW MONEY	PUBLIC DEBT INT. (BILLIONS)	PERCENT GROWTH	NEW MONEY	PUBLIC DEBT INT. (12 MO.CUM)	PERCENT GROWTH	NEW MONEY
JAN	1976	584.40	18.28	90.30	8697.85	19.18	1400.02	3.19	13.63	0.38	34.82	10.73	3.37
FEB	1976	593.90	18.85	94.20	8833.72	19.54	1444.11	3.09	18.01	0.47	35.29	11.44	3.62
MAR	1976	600.50	17.81	90.80	8907.39	18.07	1363.32	3.21	17.09	0.47	35.76	12.03	3.84
APR	1976	602.00	16.51	85.30	8905.06	16.34	1250.59	3.21	17.12	0.47	36.22	12.53	4.03
MAY	1976	610.70	15.62	82.50	9009.10	15.03	1177.42	3.22	16.73	0.46	36.69	13.10	4.25
JUN	1976	620.40	16.35	87.20	9137.37	15.45	1222.52	3.14	13.67	0.38	37.06	13.47	4.40
JUL	1976	624.50	16.03	86.30	9182.75	14.81	1184.42	3.75	29.40	0.85	37.92	15.33	5.04
AUG	1976	633.30	15.63	85.60	9297.10	14.09	1148.26	2.86	-1.45	-0.04	37.87	14.34	4.75
SEP	1976	634.70	14.65	81.10	9290.38	12.73	1049.35	1.49	-50.02	-1.49	36.39	9.00	3.00
OCT	1976	637.60	13.45	75.60	9305.72	11.17	935.15	2.87	-5.69	-0.17	36.21	7.42	2.50
NOV	1976	644.60	13.73	77.80	9380.51	11.06	933.92	3.06	0.62	0.02	36.23	6.27	2.14
DEC	1976	653.50	13.34	76.90	9481.87	10.42	894.61	6.42	105.14	3.29	39.52	14.79	5.09
JAN	1977	655.90	11.89	69.50	9431.84	8.44	733.99	2.88	-9.77	-0.31	39.21	12.63	4.40
FEB	1977	663.30	11.69	69.40	9562.60	8.25	728.88	2.77	-10.31	-0.32	38.89	10.22	3.61
MAR	1977	669.20	11.44	68.70	9645.98	8.29	738.60	2.75	-14.13	-0.45	38.44	7.51	2.69
APR	1977	671.00	11.46	69.00	9670.26	8.59	765.20	2.88	-10.31	-0.33	38.11	5.21	1.89
MAY	1977	672.10	10.05	61.40	9657.16	7.19	648.06	3.00	-7.01	-0.23	37.88	3.27	1.20
JUN	1977	674.40	8.70	54.00	9661.20	5.73	523.83	6.38	103.12	3.24	41.12	10.96	4.06
JUL	1977	673.90	7.91	49.40	9625.21	4.82	442.46	2.91	-22.51	-0.85	40.28	6.23	2.36
AUG	1977	685.20	8.20	51.90	9757.35	4.95	460.25	2.99	4.44	0.13	40.41	6.68	2.53
SEP	1977	698.84	10.11	64.14	9936.73	6.96	646.35	2.98	100.40	1.49	41.90	15.14	5.51
OCT	1977	697.40	9.38	59.80	9901.47	6.40	595.75	3.08	7.42	0.21	42.11	16.28	5.90
NOV	1977	707.97	9.83	63.37	10036.44	6.99	655.93	3.32	8.32	0.26	42.37	16.93	6.13
DEC	1977	718.94	10.01	65.44	10166.59	7.22	684.71	6.79	5.81	0.37	42.74	8.13	3.21
JAN	1978	721.59	10.35	67.69	10178.58	7.92	746.74	3.28	13.92	0.40	43.14	10.02	3.93
FEB	1978	729.75	10.02	66.45	10283.38	7.54	720.79	3.45	24.37	0.68	43.82	12.66	4.92
MAR	1978	737.95	10.27	68.75	10393.81	7.75	747.83	3.40	23.57	0.65	44.47	15.67	6.02
APR	1978	736.59	9.77	65.59	10359.19	7.12	688.93	3.49	21.37	0.61	45.08	18.29	6.97
MAY	1978	741.59	10.34	69.49	10413.83	7.84	756.67	3.67	22.46	0.67	45.75	20.77	7.87
JUN	1978	749.02	11.06	74.62	10502.39	8.71	841.19	7.17	12.25	0.78	46.54	13.16	5.41
JUL	1978	750.48	11.36	76.58	10507.10	9.16	881.89	3.54	21.62	0.63	47.16	17.09	6.88
AUG	1978	764.45	11.57	79.25	10686.68	9.52	929.33	3.87	29.41	0.88	48.04	18.90	7.64
SEP	1978	771.54	10.40	72.70	10769.68	8.38	832.95	3.63	21.83	0.65	48.69	16.22	6.79
OCT	1978	776.39	11.33	78.99	10821.22	9.29	919.75	3.82	23.97	0.74	49.43	17.38	7.32
NOV	1978	783.03	10.60	75.06	10897.37	8.58	860.93	4.15	24.88	0.83	50.26	18.63	7.89
DEC	1978	789.21	9.77	70.27	10966.89	7.87	800.30	8.14	19.78	1.34	51.60	20.74	8.86
JAN	1979	790.45	9.54	68.86	10967.66	7.75	789.08	4.11	25.29	0.83	52.43	21.54	9.29
FEB	1979	792.21	8.56	62.46	10975.63	6.73	692.25	4.32	25.22	0.87	53.30	21.65	9.49
MAR	1979	796.79	7.97	58.84	11022.59	6.05	628.78	4.28	25.80	0.88	54.18	21.85	9.71
APR	1979	796.38	8.12	59.79	11000.48	6.19	641.29	4.38	25.54	0.89	55.07	22.16	9.99
MAY	1979	804.79	8.52	63.20	11099.94	6.59	686.11	4.66	27.06	0.99	56.07	22.54	10.31
JUN	1979	804.91	7.46	55.89	11084.93	5.55	582.55	8.64	20.54	1.47	57.54	23.64	11.00
JUL	1979	807.47	7.59	56.99	11103.52	5.68	596.42	4.30	21.57	0.76	58.30	23.61	11.14
AUG	1979	813.14	6.37	48.69	11164.75	4.47	478.07	4.67	20.76	0.80	59.10	23.02	11.06
SEP	1979	826.52	7.13	54.98	11331.50	5.22	561.82	4.36	20.18	0.73	59.84	22.88	11.14
OCT	1979	826.79	6.49	50.40	11318.30	4.59	497.07	4.65	21.74	0.83	60.67	22.73	11.23
NOV	1979	833.83	6.49	50.80	11397.50	4.59	500.14	5.33	28.56	1.18	61.85	23.06	11.59
DEC	1979	845.12	7.08	55.91	11534.49	5.18	567.60	9.80	20.47	1.67	63.52	23.09	11.91
JAN	1980	847.70	7.24	57.25	11552.35	5.33	584.69	5.13	24.64	1.01	64.53	23.07	12.10
FEB	1980	854.59	7.87	62.38	11628.82	5.95	653.19	5.47	26.74	1.15	65.68	23.23	12.38

EXHIBIT — D-1

FEDERAL FISCAL OPERATIONS 1972—1976

MONTH	#	NET RECEIPTS (BILLIONS)	PERCENT GROWTH	NEW MONEY	NET OUTLAYS (BILLIONS)	BUDGET SURPLUS OR DEFICIT	SURPLUS/ DEFICIT (12 MO.CUM)	PERCENT GROWTH	NEW MONEY	SURPLUS/ DEFICIT PER HOUSEHOLD	PERCENT GROWTH	NEW MONEY
JAN	1972	17.605	11.65	1.84	19.610	-2.005	-25.427	102.90	-12.89	-398.216	98.00	-197.10
FEB	1972	15.241	0.75	0.11	18.747	-3.506	-27.535	97.10	-13.56	-430.259	92.10	-206.28
MAR	1972	15.224	15.36	2.03	20.441	-5.217	-27.309	70.86	-11.33	-426.161	66.81	-170.68
APR	1972	24.533	16.60	3.49	18.656	5.877	-24.680	47.60	-7.96	-384.625	44.33	-118.14
MAY	1972	17.272	31.09	4.10	19.803	-2.531	-23.233	27.12	-4.96	-361.595	24.52	-71.20
JUN	1972	25.593	13.75	3.09	23.307	2.286	-23.470	2.15	-0.49	-364.336	-0.06	0.21
JUL	1972	15.210	15.04	1.99	18.514	-3.304	-21.427	-1.13	0.25	-331.756	-3.38	11.62
AUG	1972	18.102	15.73	2.46	20.729	-2.627	-20.114	-13.63	3.18	-310.623	-15.70	57.84
SEP	1972	22.394	13.57	2.68	18.519	3.875	-17.756	-22.98	5.30	-273.891	-24.77	90.17
OCT	1972	14.633	17.53	2.18	20.090	-5.457	-16.882	-27.30	6.34	-260.104	-28.94	105.92
NOV	1972	16.746	12.14	1.81	21.306	-4.560	-17.443	-29.26	7.22	-268.438	-30.80	119.51
DEC	1972	18.976	10.22	1.76	19.617	-0.641	-17.810	-28.11	6.97	-273.337	-29.71	115.55
JAN	1973	21.132	20.03	3.33	23.673	-2.541	-18.346	-27.85	7.08	-280.796	-29.49	117.42
FEB	1973	18.172	19.23	2.93	20.302	-2.130	-16.970	-38.37	10.57	-259.030	-39.80	171.23
MAR	1973	15.878	4.30	0.65	20.882	-5.004	-16.757	-38.64	10.55	-255.743	-39.99	170.42
APR	1973	25.870	5.45	1.34	22.365	3.505	-19.129	-22.49	3.55	-291.909	-24.11	92.72
MAY	1973	16.576	-4.03	-0.70	20.118	-3.542	-20.140	-13.31	3.09	-307.295	-15.02	54.30
JUN	1973	28.537	11.50	2.94	20.702	7.835	-14.591	-37.83	8.88	-222.600	-38.90	141.74
JUL	1973	18.210	19.72	3.00	22.813	-4.603	-15.890	-25.84	5.54	-242.385	-26.74	89.37
AUG	1973	21.365	18.03	3.26	22.284	-0.919	-14.182	-29.49	5.93	-216.305	-30.36	94.32
SEP	1973	24.843	10.94	2.45	20.844	3.999	-14.058	-20.83	3.70	-213.820	-21.93	60.07
OCT	1973	17.642	20.56	3.01	23.128	-5.486	-14.087	-16.56	2.79	-213.666	-17.85	46.44
NOV	1973	20.206	20.66	3.46	22.152	-1.946	-11.473	-34.23	5.97	-173.538	-35.35	94.90
DEC	1973	21.990	15.88	3.01	19.749	2.241	-8.591	-51.76	9.22	-129.584	-52.59	143.75
JAN	1974	23.475	11.09	2.34	23.779	-0.304	-6.354	-65.37	11.99	-95.576	-65.96	185.22
FEB	1974	2[illegible].224	11.29	2.05	21.177	-0.953	-5.177	-69.49	11.79	-77.657	-70.02	181.37
MAR	1974	16.819	5.93	0.94	23.054	-6.235	-6.488	-61.76	10.35	-95.855	-62.52	159.89
APR	1974	29.659	14.65	3.79	22.240	7.419	-2.494	-86.96	16.63	-37.202	-87.26	254.71
MAY	1974	19.240	16.07	2.66	24.092	-4.852	-3.804	-81.11	16.34	-56.587	-81.59	250.71
JUN	1974	21.259	-25.50	-7.28	24.308	-3.049	-14.688	0.66	-0.10	-218.335	-1.92	4.27
JUL	1974	20.943	15.01	2.73	24.328	-3.385	-13.470	-15.23	2.42	-200.071	-17.46	42.31
AUG	1974	23.618	10.55	2.25	24.681	-1.063	-13.614	-4.01	0.57	-202.054	-6.39	14.25
SEP	1974	28.237	13.66	3.39	25.796	2.441	-15.172	7.92	-1.11	-224.627	5.05	-10.81
OCT	1974	19.601	11.10	1.96	26.576	-6.975	-16.661	18.27	-2.57	-246.075	15.17	-32.41
NOV	1974	22.265	10.19	2.06	25.020	-2.755	-17.470	52.27	-6.00	-257.396	48.32	-83.86
DEC	1974	24.944	13.43	2.95	27.414	-2.470	-22.181	158.19	-13.59	-327.208	152.51	-197.62
JAN	1975	2[illegible].992	6.46	1.52	29.254	-4.262	-26.139	311.39	-19.78	-386.068	303.94	-290.49
FEB	1975	19.973	-1.24	-0.25	25.884	-5.911	-31.097	500.70	-25.92	-459.862	492.17	-382.20
MAR	1975	2[illegible].040	19.15	3.22	28.463	-8.423	-33.285	419.44	-26.88	-492.648	413.95	-396.79
APR	1975	31.392	5.84	1.73	29.151	2.241	-38.463	1442.33	-35.97	-569.793	1431.62	-532.59
MAY	1975	13.010	-32.38	-6.23	28.884	-15.874	-49.485	1200.93	-45.68	-733.716	1196.61	-677.13
JUN	1975	31.982	50.44	10.72	30.638	1.344	-45.092	207.00	-30.40	-669.345	206.57	-451.01
JUL	1975	20.056	-4.24	-0.89	31.132	-11.076	-52.783	291.86	-39.31	-784.418	292.07	-584.35
AUG	1975	23.604	-0.06	-0.01	30.749	-7.145	-58.865	332.39	-45.25	-875.807	333.45	-673.75
SEP	1975	28.615	1.34	0.38	29.203	-0.588	-61.894	307.95	-46.72	-921.367	310.18	-696.74
OCT	1975	19.316	-1.45	-0.29	32.561	-13.245	-68.164	309.13	-51.50	-1015.248	312.58	-769.17
NOV	1975	21.867	-1.79	-0.40	29.637	-7.770	-73.179	318.89	-55.71	-1090.527	323.68	-833.13
DEC	1975	25.997	4.22	1.05	32.092	-6.095	-76.804	246.26	-54.62	-1143.833	249.57	-816.63

EXHIBIT — D-2

FEDERAL FISCAL OPERATIONS 1976-1980

MONTH #	NET RECEIPTS (BILLIONS)	PERCENT GROWTH	NEW MONEY	NET OUTLAYS (BILLIONS)	BUDGET SURPLUS OR DEFICIT	SURPLUS/ DEFICIT (12 MO.CUM)	PERCENT GROWTH	NEW MONEY	SURPLUS/ DEFICIT PER HOUSEHOLD	PERCENT GROWTH	NEW MONEY
JAN 1976	25.632	2.56	0.64	30.767	-5.135	-77.677	197.17	-51.54	-1156.094	199.45	-770.03
FEB 1976	20.845	4.37	0.87	29.773	-8.928	-80.694	159.49	-49.60	-1200.246	161.00	-740.38
MAR 1976	20.431	1.95	0.39	29.338	-8.907	-81.178	143.89	-47.89	-1204.133	144.42	-711.48
APR 1976	33.348	6.23	1.96	32.638	0.710	-82.709	115.04	-44.25	-1223.466	114.72	-653.67
MAY 1976	22.679	74.32	9.67	28.412	-5.733	-72.568	46.65	-23.08	-1070.526	45.90	-336.81
JUN 1976	37.615	17.61	5.63	30.656	6.959	-66.953	48.48	-21.86	-986.094	47.32	-316.75
JUL 1976	22.660	12.98	2.60	33.952	-11.292	-67.169	27.26	-14.39	-987.661	25.91	-203.24
AUG 1976	27.360	15.91	3.76	29.605	-2.245	-62.269	5.78	-3.40	-914.132	4.38	-38.32
SEP 1976	31.753	10.97	3.14	31.189	0.564	-61.117	-1.26	0.78	-894.594	-2.91	26.77
OCT 1976	21.018	8.81	1.70	34.000	-12.982	-60.854	-10.72	7.31	-888.157	-12.52	127.09
NOV 1976	25.698	17.52	3.83	33.083	-7.385	-60.469	-17.37	12.71	-879.969	-19.31	210.56
DEC 1976	29.472	13.37	3.47	31.891	-2.419	-56.793	-26.05	20.01	-824.028	-27.96	319.80
JAN 1977	29.977	16.95	4.35	32.640	-2.663	-54.321	-30.07	23.36	-783.522	-32.23	372.57
FEB 1977	24.327	16.70	3.48	30.880	-6.553	-51.946	-35.63	28.75	-748.887	-37.61	451.36
MAR 1977	25.171	23.20	4.74	34.646	-9.475	-52.514	-35.31	28.66	-756.945	-37.14	447.19
APR 1977	40.016	20.00	6.67	35.547	4.469	-48.755	-41.05	33.95	-702.641	-42.57	520.83
MAY 1977	27.672	22.02	4.99	33.715	-6.043	-49.065	-32.39	23.50	-704.995	-34.15	365.53
JUN 1977	43.075	14.52	5.46	32.881	10.194	-45.830	-31.55	21.12	-656.541	-33.42	329.55
JUL 1977	24.952	10.11	2.29	33.630	-8.678	-43.216	-35.66	23.95	-617.245	-37.50	370.42
AUG 1977	29.676	8.46	2.32	34.720	-5.044	-46.015	-26.10	16.25	-655.257	-28.32	258.87
SEP 1977	36.642	15.40	4.89	35.097	1.545	-45.034	-26.32	16.08	-640.330	-28.42	254.26
OCT 1977	24.127	14.79	3.11	38.790	-14.663	-46.715	-23.23	14.14	-663.242	-25.32	224.92
NOV 1977	27.596	7.39	1.90	36.864	-9.268	-48.598	-19.63	11.87	-688.939	-21.71	191.03
DEC 1977	32.794	11.27	3.32	37.646	-4.852	-51.031	-1[illegible].15	5.76	-721.630	-12.43	102.40
JAN 1978	33.201	10.75	3.22	36.918	-3.717	-52.085	-4.12	2.24	-734.695	-6.23	48.83
FEB 1978	26.795	10.15	2.47	33.787	-6.992	-52.524	1.11	-0.58	-740.147	-1.17	8.74
MAR 1978	24.879	-1.16	-0.29	40.004	-15.125	-58.174	10.78	-5.66	-819.360	8.25	-62.42
APR 1978	42.343	5.82	2.33	35.724	6.619	-56.024	14.91	-7.27	-787.902	12.13	-85.26
MAY 1978	34.961	26.34	7.29	36.670	-1.709	-51.690	5.35	-2.62	-725.857	2.96	-20.86
JUN 1978	47.657	10.64	4.58	38.602	9.055	-52.829	15.27	-7.00	-740.739	12.82	-84.20
JUL 1978	29.194	17.00	4.24	36.426	-7.232	-51.383	18.90	-8.17	-719.385	16.55	-102.14
AUG 1978	35.040	18.08	5.36	39.572	-4.532	-50.871	10.55	-4.86	-711.151	8.53	-55.89
SEP 1978	42.591	16.24	5.95	38.935	3.656	-48.760	8.27	-3.73	-680.623	6.29	-40.29
OCT 1978	28.745	19.14	4.62	42.691	-13.946	-48.043	2.84	-1.33	-669.615	0.96	-6.37
NOV 1978	33.227	20.41	5.63	39.134	-5.907	-44.682	-8.06	3.92	-621.833	-9.74	67.11
DEC 1978	37.477	14.28	4.68	41.392	-3.915	-43.745	-14.28	7.29	-607.879	-15.76	113.75
JAN 1979	38.364	15.55	5.16	41.095	-2.731	-42.759	-17.91	9.33	-593.287	-19.25	141.41
FEB 1979	32.639	21.81	5.84	37.739	-5.100	-40.867	-22.19	11.66	-566.187	-23.50	173.96
MAR 1979	31.144	25.18	6.26	43.725	-12.581	-38.323	-34.12	19.85	-538.148	-35.30	289.21
APR 1979	52.230	23.35	9.89	40.752	11.478	-33.464	-40.27	22.56	-462.239	-41.33	325.66
MAY 1979	38.287	9.51	3.33	41.618	-3.331	-35.086	-32.12	16.60	-483.915	-33.33	241.96
JUN 1979	53.910	13.12	6.25	40.687	13.223	-30.918	-41.48	21.91	-425.789	-42.52	314.95
JUL 1979	33.268	13.95	4.07	40.482	-7.214	-30.900	-39.86	20.48	-424.903	-40.94	294.48
AUG 1979	39.353	12.31	4.31	54.279	-14.926	-41.294	-18.83	9.58	-566.981	-20.27	144.17
SEP 1979	47.295	11.04	4.70	29.625	17.670	-27.280	-44.05	21.48	-374.003	-45.05	306.62
OCT 1979	33.099	15.15	4.35	47.807	-14.708	-28.042	-41.63	20.00	-383.876	-42.67	285.74
NOV 1979	38.320	15.33	5.09	46.841	-8.521	-30.656	-31.39	14.03	-419.030	-32.61	202.80
DEC 1979	42.617	13.72	5.14	44.010	-1.393	-28.134	-35.69	15.61	-383.979	-36.83	223.90
JAN 1980	43.429	13.20	5.06	47.988	-4.559	-29.962	-29.93	12.80	-408.316	-31.18	184.97
FEB 1980	37.862	16.00	5.22	47.208	-9.346	-34.208	-16.29	6.66	-465.482	-17.79	100.71

EXHIBIT — E

		"Real" GNP		Current GNP		Inflation Money Meltdown Per Household	
		Per Household	Year-Over-Year Change	Per Household	Year-Over-Year Change	Dollars Meltdown	Percent Meltdown
Actual	Jan. '77	$18,844.92	+$255.57	$25,945.84	+$1,610.02	$7,100.92	27.36%
	Feb. "	18,968.05	+ 234.14	26,241.27	+ 1,643.99	7,273.22	27.72
	Mar. "	19,039.72	+ 318.65	26,504.84	+ 1,829.69	7,466.12	28.17
	Apr. "	19,109.93	+ 400.43	26,768.31	+ 2,016.09	7,658.38	28.61
	May "	19,127.53	+ 430.74	26,955.57	+ 2,128.33	7,828.04	29.04
	June "	19,179.13	+ 465.50	27,135.59	+ 2,186.04	7,956.46	29.32
	Jul. "	19,229.00	+ 497.39	27,313.11	+ 2,244.00	8,084.11	29.60
	Aug. "	19,279.73	+ 531.38	27,490.60	+ 2,301.96	8,210.87	29.87
	Sep. "	19,286.49	+ 538.88	27,642.93	+ 2,331.89	8,356.44	30.23
	Oct. "	19,291.81	+ 546.11	27,794.81	+ 2,360.26	8,503.00	30.59
	Nov. "	19,298.27	+ 563.27	27,945.84	+ 2,390.30	8,647.57	30.94
	Dec. "	19,281.34	+ 468.36	28,064.37	+ 2,273.97	8,783.03	31.30
	Jan. '78	19,262.83	+ 417.91	28,183.32	+ 2,237.47	8,920.49	31.65
	Feb. "	19,274.56	+ 306.51	28,342.53	+ 2,101.26	9,067.98	31.99
	Mar. "	19,393.23	+ 353.50	28,765.19	+ 2,260.35	9,371.96	32.58
	Apr. "	19,493.70	+ 383.77	29,156.88	+ 2,388.56	9,663.18	33.14
	May "	19,592.20	+ 464.67	29,548.39	+ 2,592.82	9,956.19	33.69
	June "	19,618.89	+ 439.76	29,763.45	+ 2,627.87	10,144.56	34.08
	Jul. "	19,646.90	+ 417.89	29,976.47	+ 2,663.37	10,329.57	34.46
	Aug. "	19,673.43	+ 393.70	30,190.25	+ 2,699.66	10,516.82	34.83
	Sep. "	19,733.39	+ 446.89	30,496.92	+ 2,853.99	10,763.53	35.29
	Oct. "	19,794.56	+ 502.74	30,802.68	+ 3,007.87	11,008.13	35.74
	Nov. "	19,853.87	+ 555.60	31,107.09	+ 3,161.26	11,253.22	36.17
	Dec. "	19,842.13	+ 560.79	31,324.43	+ 3,260.06	11,482.30	36.66
	Jan. '79	19,831.83	+ 569.00	31,539.73	+ 3,356.41	11,707.90	37.12
	Feb. "	19,820.16	+ 545.61	31,755.77	+ 3,413.24	11,935.61	37.59
	Mar. "	19,751.81	+ 538.59	31,882.63	+ 3,117.46	12,130.82	38.06
	Apr. "	19,685.05	+ 191.36	32,007.73	+ 2,850.86	12,322.68	38.50
	May "	19,616.84	+ 24.64	32,133.39	+ 2,585.01	12,516.55	38.95
	June "	19,638.35	+ 19.46	32,390.89	+ 2,627.44	12,752.54	39.37
	Jul. "	19,658.42	+ 11.52	32,648.98	+ 2,672.51	12,989.58	39.78
	Aug. "	19,679.80	+ 6.37	32,904.94	+ 2,714.69	13,225.14	40.19
	Sep. "	19,684.66	− 48.72	33,143.68	+ 2,646.75	13,459.02	40.61
	Oct. "	19,688.15	− 106.41	33,380.33	+ 2,577.65	13,692.18	41.01
	Nov. "	19,692.72	− 161.14	33,617.18	+ 2,510.10	13,924.46	41.40
SCP Forecast	Dec. "	19,705.47	− 136.66	33,873.81	+ 2,549.38	14,168.34	41.83
	Jan. '80	19,690.92	− 140.91	34,065.60	+ 2,525.87	14,374.68	42.20
	Feb. "	19,684.58	− 135.58	34,443.60	+ 2,687.83	14,759.02	42.85
	Mar. "	19,625.27	− 126.54	34,520.89	+ 2,638.26	14,895.62	43.15
	Apr. "	19,581.05	− 104.00	34,716.25	+ 2,708.52	15,135.20	43.60
	May "	19,437.82	− 179.02	34,716.88	+ 2,583.49	15,279.06	44.01
	June "	19,514.14	− 124.21	35,107.06	+ 2,716.17	15,592.92	44.42
	Jul. "	19,483.54	− 174.88	35,305.64	+ 2,666.66	15,822.10	44.81
	Aug. "	19,500.22	− 178.58	35,548.12	+ 2,643.18	16,047.90	45.14
	Sep. "	19,380.86	− 303.80	35,583.86	+ 2,440.18	16,203.00	45.53
	Oct. "	19,058.82	− 629.33	35,316.97	+ 1,936.64	16,258.15	46.03
	Nov. "	18,894.57	− 798.15	35,219.57	+ 1,602.39	16,325.00	46.36
	Dec. "	18,783.09	− 922.38	35,200.20	+ 1,326.39	16,417.11	46.64

Household figures are derived by dividing current dollar GNP's billions of dollars by the number of U.S. households sampled by Sindlinger & Company each month.

EXHIBIT — F-

Month & Year	Interest Paid On Gross Public Debt (12-Mo. Sum)	Gross Public Debt (In Billions Of Dollars)	Percent Share Of Interest Paid On Gross Public Debt
1972			
January	$ 21.340	$ 422.9	5.046
February	21.400	424.0	5.047
March	21.490	427.3	5.029
April	21.600	425.3	5.078
May	21.700	427.9	5.071
June	21.850	427.3	5.113
July	21.940	432.4	5.074
August	21.990	435.4	5.050
September	22.070	433.9	5.086
October	22.160	439.9	5.037
November	22.290	444.2	5.018
December	22.390	449.3	4.983
1973			
January	22.590	450.1	5.018
February	22.830	454.8	5.019
March	23.140	458.6	5.045
April	23.480	457.1	5.136
May	23.840	457.3	5.213
June	24.170	458.1	5.276
July	24.610	459.0	5.361
August	25.080	461.8	5.430
September	25.580	461.4	5.543
October	26.090	462.5	5.641
November	26.560	464.0	5.724
December	27.080	469.9	5.762
1974			
January	27.540	468.2	5.882
February	27.930	470.7	5.993
March	28.290	474.5	5.962
April	28.610	471.9	6.062
May	28.970	474.7	6.102
June	29.320	475.1	6.171
July	29.690	475.3	6.246
August	30.010	481.8	6.228
September	30.310	481.5	6.294
October	30.580	480.2	6.368
November	30.840	485.4	6.353
December	31.160	492.7	6.324
1975			
January	31.440	494.1	6.363
February	31.670	499.7	6.337
March	31.910	509.7	6.260
April	32.190	516.7	6.229
May	32.440	528.2	6.141
June	32.660	533.2	6.125
July	32.880	538.2	6.109
August	33.130	547.7	6.048
September	33.380	553.6	6.029
October	33.710	562.0	5.998
November	34.100	566.8	6.016
December	34.430	576.6	5.971

EXHIBIT — F-2

Month & Year	Interest Paid On Gross Public Debt (12-Mo. Sum)	Gross Public Debt (In Billions Of Dollars)	Percent Share Of Interest Paid On Gross Public Debt
1976			
January	$ 34.820	$ 584.4	5.958
February	35.290	593.9	5.942
March	35.760	600.5	5.955
April	36.220	602.0	6.016
May	36.690	610.7	6.007
June	37.060	620.4	5.973
July	37.920	624.5	6.072
August	37.870	633.3	5.979
September	36.390	634.7	5.733
October	36.210	637.6	5.679
November	36.230	644.6	5.620
December	39.520	653.5	6.047
1977			
January	39.210	653.9	5.996
February	38.890	663.3	5.863
March	38.440	669.2	5.744
April	38.110	671.0	5.679
May	37.880	672.1	5.636
June	41.120	674.4	6.097
July	40.280	673.9	5.977
August	40.410	685.2	5.897
September	41.900	698.8	5.995
October	42.110	697.4	6.038
November	42.370	707.9	5.984
December	42.740	718.9	5.944
1978			
January	43.140	721.5	5.978
February	43.820	729.7	6.004
March	44.470	737.9	6.026
April	45.080	736.5	6.120
May	45.750	741.5	6.169
June	46.540	749.0	6.213
July	47.160	750.4	6.283
August	48.040	764.4	6.284
September	48.690	771.5	6.310
October	49.430	776.3	6.366
November	50.260	783.0	6.418
December	51.600	789.2	6.538
1979			
January	52.430	790.4	6.632
February	53.300	792.2	6.728
March	54.180	796.7	6.799
April	55.070	796.3	6.915
May	56.070	804.7	6.967
June	57.540	804.9	7.148
July	58.300	807.4	7.220
August	59.100	813.1	7.268
September	59.840	826.5	7.239
October	60.670	826.7	7.338
November	68.850	833.8	7.417
December	63.320	845.1	7.516
1980			
January	64.530	847.7	7.612
February	65.700	854.5	7.688

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EXHIBIT — G

PERSONAL INCOME BY MONTHS
(Billions Of Dollars)

Date	Current Dollars	Constant Dollars	Difference	Percent Difference Over Constant Dollars
Jan '77	$1445.2	1063.0	382.2	36.9
Feb "	1472.0	1068.2	403.8	37.8
Mar "	1490.3	1076.8	413.5	38.4
Apr "	1499.3	1078.6	420.7	39.0
May "	1509.2	1081.9	427.3	39.5
Jun "	1518.6	1083.2	435.4	40.2
Jul "	1537.0	1092.4	444.6	40.7
Aug "	1547.7	1095.3	452.4	41.3
Sep "	1560.7	1099.9	460.8	41.9
Oct "	1579.4	1109.9	469.5	42.3
Nov "	1596.9	1116.7	480.2	43.0
Dec "	1612.8	1122.3	490.5	43.7
Jan '78	1618.5	1117.0	501.5	44.9
Feb "	1631.3	1118.1	513.2	45.9
Mar "	1654.4	1127.7	526.7	46.7
Apr "	1676.5	1135.1	541.4	47.7
May "	1687.3	1133.9	553.4	48.8
Jun "	1704.2	1137.6	566.6	49.8
Jul "	1730.0	1149.5	580.5	50.5
Aug "	1741.3	1151.7	589.6	51.2
Sep "	1756.1	1154.6	601.5	52.1
Oct "	1781.0	1163.3	617.7	53.1
Nov "	1801.4	1172.0	629.4	53.7
Dec "	1826.8	1181.6	645.2	54.6
Jan '79	1834.3	1172.8	661.5	56.4
Feb "	1851.4	1172.5	678.9	57.9
Mar "	1872.1	1177.4	694.7	59.0
Apr "	1880.7	1174.0	706.7	60.2
May "	1891.6	1172.7	718.9	61.3
Jun "	1905.1	1172.4	732.7	62.5
Jul "	1933.2	1180.9	752.3	63.7
Aug "	1946.5	1179.7	766.8	65.0
Sep "	1960.1	1177.2	782.9	66.5
Oct "	1981.2	1181.4	799.8	67.7
Nov "	2005.5	1188.1	817.4	68.8
Dec "	2028.3	1191.0	837.3	70.3
Jan '80	2045.0	1188.3	856.7	72.1
Feb "	2051.9	1177.9	874.0	74.2

An important factor in the health of the United States economy is amount of real money (or dollars) the people have available for spending, saving, investment and other purposes.

The people's use of money is the strongest force in the economy, but they must have an adequate amount of money to use.

This table compares the trends in personal income on current dollar and constant dollar bases from January 1977 through February 1980 and demonstrates the increasing amounts of current dollar personal income that are being swallowed up by inflation.

In January 1977, the difference between the deflated amount of "real" personal income and the magnitude of "real" personal income equaled about 37 percent of the "real" personal income magnitude. By February, the difference equaled more than 74 percent, or nearly twice as much as three years earlier. Thus, the amount being lost to inflation is fast closing in on the actual amount of "real" money available to people.

EXHIBIT – H

NEW MONEY ADD OVER PRIOR YEAR
(In Billions Of Dollars)

Date	To Total Personal Income	–	To Constant Personal Income	= How Much New Money Went Down Inflation Sewer: Dollars	Percent
Jan '77	$128.9	–	46.0	82.9	64.3
Feb "	132.2	–	40.7	91.5	69.2
Mar "	145.7	–	48.0	97.7	67.1
Apr "	142.9	–	44.8	98.1	68.6
May "	144.4	–	47.2	97.2	67.3
Jun "	148.7	–	48.5	100.2	67.4
Jul "	153.5	–	51.4	102.1	66.5
Aug "	153.7	–	51.1	102.6	66.8
Sep "	156.6	–	53.6	103.0	65.8
Oct "	163.6	–	59.6	104.0	63.6
Nov "	163.1	–	57.0	106.1	65.1
Dec "	164.5	–	58.1	106.4	65.1
Jan '78	163.3	–	54.0	109.3	66.9
Feb "	159.3	–	49.9	109.4	68.7
Mar "	164.1	–	50.9	113.2	69.0
Apr "	177.2	–	56.5	120.7	68.1
May "	178.1	–	52.0	126.1	70.8
Jun "	185.6	–	54.4	131.2	70.7
Jul "	193.0	–	57.1	135.9	70.4
Aug "	193.6	–	56.4	137.2	70.9
Sep "	195.4	–	54.7	140.7	72.0
Oct "	201.6	–	53.4	148.2	73.5
Nov "	204.5	–	55.3	149.2	73.0
Dec "	214.0	–	59.3	154.7	72.3
Jan '79	215.8	–	55.8	160.0	74.1
Feb "	220.1	–	54.4	165.7	75.3
Mar "	217.7	–	49.7	168.0	77.2
Apr "	204.2	–	38.9	165.3	81.0
May "	204.3	–	38.8	165.5	81.0
Jun "	200.9	–	34.8	166.1	82.7
Jul "	203.2	–	31.4	171.8	84.5
Aug "	205.2	–	28.0	177.2	86.4
Sep "	204.0	–	22.6	181.4	88.9
Oct "	200.2	–	18.1	182.1	91.0
Nov "	204.1	–	9.1	195.0	95.5
Dec "	201.5	–	9.4	192.1	95.3
Jan '80	210.7	–	15.5	195.2	92.6
Feb "	200.5	–	5.4	195.1	97.3

Exhibit H

New money adds for any money measure are the amounts by which the measure expanded in magnitude on a year-over-year basis; i.e., the money added to the measure over a full 12 months. New money additions are important because they represent the amounts of additional funds generated by the economy itself so its people can finance future and sustainable expansion.

This table compares the year-over-year new money adds to current dollar and constant dollar personal income for every month from January 1977 to February 1980 and demonstrates how inflation is negating the expansion of "real" money personal income. Although current dollar personal income has managed a new money add of more than $200 billion for every month since October 1978, the adds to constant dollar personal income have been only a fraction of the current dollar additions. In February, the new money add to constant dollar personal income was only $5.4 billion and 97.3 percent of the current dollar add was wiped out by inflation.

EXHIBIT — J

In Billions Of Dollars	M-1B Money Within The United States			Eurodollars Outside The United States					
	M-1B	% Growth	New Money	Gross	% Growth	New Money	Net	% Growth	New Money
Dec. '59	$144.3								
" '60	$145.3	0.7	= $ 1.00						
" '61	$150.1	3.3	= $ 4.80						
" '62	$152.9	1.9	= $ 2.80						
" '63	$158.5	3.7	= $ 5.60						
" '64	$165.9	4.7	= $ 7.40	20.0			14.0		
" '65	$173.7	4.7	= $ 7.80	24.0	20.0%	= $ 4.0	17.0	21.4%	= $ 3.0
" '66	$178.0	2.5	= $ 4.30	29.0	20.8%	= $ 5.0	21.0	23.5%	= $ 4.0
" '67	$189.8	6.5	= $11.80	36.0	24.1%	= $ 7.0	25.0	19.0%	= $ 4.0
" '68	$204.1	7.7	= $14.50	50.0	38.9%	= $ 14.0	34.0	36.0%	= $ 9.0
" '69	$210.5	3.1	= $ 6.40	85.0	70.0%	= $ 35.0	50.0	47.1%	= $ 16.0
" '70	$221.3	5.1	= $10.80	110.0	29.4%	= $ 25.0	65.0	30.0%	= $ 15.0
" '71	$235.8	6.6	= $14.50	145.0	31.8%	= $ 35.0	85.0	30.8%	= $ 20.0
" '72	$257.6	9.3	= $21.80	200.0	37.9%	= $ 55.0	110.0	29.4%	= $ 25.0
" '73	$271.8	5.5	= $14.20	305.0	52.5%	= $105.0	160.0	45.5%	= $ 50.0
" '74	$283.4	4.3	= $11.60	375.0	23.0%	= $ 70.0	215.0	34.4%	= $ 55.0
" '75	$296.9	4.8	= $13.50	460.0	22.7%	= $ 85.0	250.0	16.3%	= $ 35.0
" '76	$316.1	6.5	= $19.20	565.0	22.8%	= $105.0	310.0	24.0%	= $ 60.0
" '77	$341.3	8.0	= $25.20	695.0	23.0%	= $130.0	380.0	22.5%	= $ 70.0
Jan. '78	$340.6	8.1	= $25.50	700.0	22.6%	= $129.4	385.0	21.9%	= $ 69.4
Feb. '78	$329.1	7.4	= $22.80	705.0	22.3%	= $128.9	390.0	21.4%	= $ 68.9
Mar. '78	$331.9	7.2	= $22.30	710.0	22.0%	= $128.3	395.0	20.9%	= $ 68.3
Apr. '78	$344.5	7.7	= $24.60	718.3	22.3%	= $131.1	401.7	20.9%	= $ 69.5
May '78	$339.2	8.4	= $26.40	726.7	22.5%	= $133.9	408.3	20.8%	= $ 70.5
Jun. '78	$346.1	8.7	= $27.60	735.0	22.8%	= $136.6	415.0	20.8%	= $ 71.6
Jul. '78	$350.2	8.5	= $27.30	755.0	25.0%	= $151.1	426.7	22.2%	= $ 77.8
Aug. '78	$348.1	8.5	= $27.20	775.0	27.1%	= $165.5	438.3	23.6%	= $ 83.8
Sep. '78	$353.4	8.8	= $28.70	795.0	29.2%	= $180.0	450.0	25.0%	= $ 90.0
Oct. '78	$356.1	8.2	= $27.00	808.3	26.0%	= $166.6	458.3	25.0%	= $ 91.6
Nov. '78	$360.7	8.1	= $27.00	821.7	22.9%	= $153.4	466.7	25.0%	= $ 93.4
Dec. '78	$360.3	8.2	= $28.00	835.0	20.1%	= $140.0	475.0	25.0%	= $ 95.0
Jan. '79	$364.7	7.1	= $24.10	855.0	22.1%	= $155.0	483.3	25.5%	= $ 98.3
Feb. '79	$353.0	7.3	= $23.90	875.0	24.1%	= $170.0	491.7	26.1%	= $101.7
Mar. '79	$357.5	7.7	= $25.60	895.0	26.1%	= $185.0	500.0	26.6%	= $105.0
Apr. '79	$373.0	8.3	= $28.50	918.3	27.8%	= $200.0	510.0	27.0%	= $108.3
May '79	$363.9	7.3	= $24.70	941.7	29.6%	= $215.0	520.0	27.4%	= $111.7
Jun. '79	$373.4	7.9	= $27.30	965.0	31.3%	= $230.0	530.0	27.7%	= $115.0
Jul. '79	$379.9	8.5	= $29.70	1000.0	32.4%	= $245.0	546.7	28.1%	= $120.0
Aug. '79	$378.6	8.8	= $30.50	1035.0	33.5%	= $260.0	563.3	28.5%	= $125.0
Sep. '79	$382.7	8.3	= $29.30	1070.0	34.5%	= $275.0	580.0	28.8%	= $130.0
Oct. '79	$385.5	8.3	= $29.40	1086.7	34.4%	= $278.4	590.0	28.7%	= $131.7
Nov. '79	$387.9	7.8	= $28.20	1103.0	34.2%	= $281.3	600.0	28.5%	= $133.3
Dec. '79	$387.3	7.6	= $28.00	1120.0	34.1%	= $285.0	610.0	28.4%	= $135.0
Jan. '80	$393.9	8.0	= $29.20						
Feb. '80	$384.5	8.9	= $31.50						

Exhibit J

A contributor to the present rampant inflation rate has been a capital shortfall in the United States caused by a diversion of funds to overseas markets where the money is beyond the control of U.S. regulators.

This table tracks the trends of the M1-B money supply aggregate, gross Eurodollars and net Eurodollars since 1959—showing the magnitude, year-over-year percentage growth and year-over-year new money add for each. Eurodollars have been growing at a far faster rate throughout this span and have far surpassed M1-B, the chief vehicle for financing consumer spending, in magnitude.

In December 1979, Gross Eurodollars were nearly three times the size of M1-B, were growing nearly five times as fast and had a new money add ten times as great. Net Eurodollars were about 60 percent greater in magnitude, grew about four times as fast and had a new money add nearly five times as great.

Sindlinger's News Release

Date Of Release— April 2, 1980 Media in Pennsylvania

WASHINGTON, April 2nd—Despite the Carter Administration's stand against reducing Federal taxes, Congress will be forced to consider a tax rebate of as much as $40 billion in early 1981 to add liquidity to American commercial banking system as a recession is turning to a depression.

The necessity of refunding taxes by this record amount was suggested today to an important Senate Fiscal Subcommittee by Albert E. Sindlinger, chairman of Sindlinger & Company, and one of the nation's foremost consumer economists.

Mr. Sindlinger said the huge proportions of the required tax cut were calculated through his forecasts of the banking system's need for liquid funds during the severe economic downturn and money crunch that should be apparent by late this year.

"Politically, a tax rebate always is portrayed as a way of pumping money into the economic system to stimulate a flagging economy," he told Sen. Harry F. Byrd Jr.'s Finance Subcommittee on Taxation and Debt Management.

"Less publicized, but equally important, is that a tax cut offers the government a vehicle for getting money to banks that are feeling a liquidity pinch during a declining economy.

"The process is very simple. Over 80 percent of tax refunds are automatically deposited in the nation's banks. So they all receive a hefty input of liquidity in a matter of weeks.

Mr. Sindlinger explained that in 1975, the banks were shy $9.5 billion in liquidity and the tax cut that year was $13 billion so the required $9.5 billion, or 80 percent, could find its way into the banking system—and this turned the economy around.

An ordinary reduction in tax rates or the granting of other tax benefits is not enough, Mr. Sindlinger said.

"To get the required liquidity to the banks," he said, "there must be a physical transfer of money through checks from the Treasury to the people so they can in turn deposit the checks in their banks."

Sindlinger & Company is a nationwide political/economic opinion research firm that takes continuous daily telephone surveys of the American people and uses the data, particularly on how people are using their money, to forecast the economic future.

Sindlinger's News Release

Date Of Release — April 2, 1980

The projection of banking system problems results from Mr. Sindlinger's forecast on the outlook for inflation, consumer spending, the pace of business and other relevant trends as the nation goes into recession later this year, which could turn to a depression.

"The liquidity shortfall will be staggering if trends continue along the lines I forecast he told the Senate Committee. "Forty billion dollars is an amount that not even Congress can command instantly. But it is a prospect that we all have to face and do something about quickly."

Mr. Sindlinger said that in view of coming problems, Congress must do more than just balance the budget and its main job in the months ahead should be to create a healthy surplus.

"Although it represents a laudable departure from past fiscal excesses, a balanced budget is only a halting step," Mr. Sindlinger said. "To carry out the mass distribution of funds that I speak of, Congress should be creating a surplus to keep the American economy from being totally wrecked."

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ADDENDUM (To Testimony Before Byrd Committee)

The testimony was presented to Senator Byrd's subcommittee on April 2, 1980. All specific forecasts and general descriptions of future economic trends were based on conditions and situations prevailing at the time of the testimony.

Since that time, there has been a dramatic change in events, resulting in significant revisions of forecasts. However, the forecasts do not change the total scenario of money meltdown and severe credit crunch that will require emergency action by Congress including massive budget cutting to create a surplus.

The key developments producing the changes in forecasts are:

. . . The proposal to impose credit controls that will be enforced by the Federal Reserve.

. . . The failure of the Iran rescue mission.

. . . The continual contraction of the money supply and its failure to "explode" in April and May.

. . . A collapse of retail sales.

. . . An increase in the number of consumers reporting declines in current income to 51 percent, or an absolute majority.

All of the foregoing factors are interrelated.

Retail sales are off sharply in April as people, already financially hard pressed, got scared over forthcoming credit controls and cut back their buying. The rescue mission mishap further depressed consumer buying plans as fears erupted among the people over the threat of war.

The drop in retail sales in turn accounted for a major portion of the decline in the money supply and the failure for the M1-B aggregate to reach levels forecast by our econometric model.

Briefly, this adds up to the start of the economic collapse with the fall in retail sales leading the way.

As a result of the faster than anticipated economic collapse, the following revised forecasts have been issued:

INTEREST RATES---Short-term rates, including those on Treasury bills, should decline through June.

BOND MARKET---A brief but shaky rally in prices because of a belief the Fed is controlling the money supply.

STOCK MARKET---A rally lasting no more than four weeks, perhaps shorter, also resulting from the belief the Fed has money supply under control.

GOLD---Prices to accelerate for the balance of the year after bottom is touched shortly.

ADDENDUM – Page 2

U.S. DOLLAR—A decline in value versus key foreign currencies.

The longer range future is dependent on how far and how fast the dollar declines and the Fed's reaction.

Fed normally must raise the discount rate to protect the dollar. But the Fed is in a no-win dilemma on this matter. The options, both unpleasant, are these:

RAISING THE DISCOUNT RATE—Lifting the discount rate would put pressure on all short-term rates, reversing the decline at a time when the economy is going downhill. This would cut short stock and bond market rallies, aggravate economic decay, intensify credit crunch and increase bankruptcies.

LEAVING THE DISCOUNT RATE ALONE—Not changing the discount rate would allow further attacks on the U.S. dollar and also aggravate the economic decay.

[Whereupon, at 12 noon the subcommittee recessed, to reconvene at the call of the Chair.]

EXTENSION OF THE TEMPORARY LIMIT ON THE PUBLIC DEBT

WEDNESDAY, APRIL 16, 1980

U.S. SENATE,
SUBCOMMITTEE ON TAXATION AND
DEBT MANAGEMENT GENERALLY,
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 and Dole.

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

For many years, the Federal Government has spent beyond its means. As recent testimony before this subcommittee has indicated, Federal spending for this fiscal year—fiscal year 1980—will increase by a rate of 15.2 percent. The amount spent will increase by $5.3 billion over the amount proposed in January's budget, January 28.

The gross national debt has doubled since 1972. Deficit spending, by adding to the debt, increases Federal interest costs, which in fiscal year 1981 will be $81 billion.

This is the single most expensive line item in the fiscal year 1981 Federal funds budget.

The consequences of past deficit spending are clear. Inflation is now at an 18-percent annual rate. Drastic measures are necessary if we are to get inflation under control.

Financial markets are now in disarray. Long-term bond prices have dropped dramatically because of expectations of high inflation.

Investors, many of whom have placed their savings in these securities and may be relying upon income securities for retirement, are suddenly confronted with dwindling savings. Future expectations of inflation have diminished the incentive to save.

The great increase in the rate of spending must be reduced, yet President Carter proposes to increase spending by $64 billion.

The tragedy of our current situation is that the American worker, the American consumer, and the American investor are paying for the mistakes that have been made in Washington, D.C.

The American worker is paying because his income is constantly being eroded by inflation. The American consumer is paying because the availability of consumer products and goods is greatly reduced through stringent credit controls, and the American inves-

tor is paying through a dramatic decline in the value of his investments.

The American public is paying through a lower standard of living and few optimistic prospects for the future. Much of this could have been avoided if Washington has exercised fiscal discipline. We have the potential for turning our economy around. However, this will not occur by suddenly deciding that we need a balanced budget and a limit on Federal spending only to reverse this decision at the slightest possibility that the balanced budget will cause political pain.

What is needed is a consistent prolonged commitment to a balanced budget and a spending ceiling.

Deficit reductions have come, not through expenditure reductions, but through revenue increases. In other words, we are balancing the budget—if, indeed, we balance the budget, and I am not convinced we will—at the expense of the American taxpayer.

This is not a real commitment to a sound future economic program.

If our economy is to prosper and the real income and well-being of all Americans is to increase, we must break the deadly cycle of Government spending, high inflation, high interest rates, economic slowdown followed by an economic recession, and more Government spending.

Indeed, we need a permanent commitment to fiscal discipline in Washington.

The committee is delighted to have this morning the distinguished Secretary of the Treasury, Mr. Miller.

Mr. Secretary, please proceed as you wish.

STATEMENT OF HON. G. WILLIAM MILLER, SECRETARY OF THE TREASURY

Secretary MILLER. Thank you very much, Mr. Chairman.

With your permission, I would like to submit for the record the prepared testimony and attached tables that have been submitted for the committee.

Senator BYRD. That would be fine.

Secretary MILLER. Then I would just like to summarize it, so we could turn to responding to your questions.

Senator BYRD. Very good.

Secretary MILLER. I am appearing here this morning to make three requests of this committee. One, to address the issue of increasing the debt limit, looking to the needs beyond the period when the present debt limit expires and into 1981.

Second, to ask for an increase in the authority to issue long-term Treasury securities.

And third, to seek approval of removal of the statutory interest rate ceiling on savings bonds.

Mr. Chairman, the temporary ceiling on the Federal debt now is at $879 billion which expires on May 31 of this year and at that time, unless there is action, the ceiling would revert to the $400 billion permanent ceiling.

The ceiling needs would contemplate an increase to $884 billion for the balance of this fiscal year running through September 30. That is an increase of $5 billion.

It would appear by the end of the 1981 fiscal year the ceiling should be at $900 billion, but because of the seasonal aspects of debt management, there would be a peaking requirement in May, 1981 at the level of $910 billion, so our request would be for fiscal year 1981 that the ceiling be at $910 billion.

The increase of $16 billion in fiscal year 1981 debt results from net off-budget outlays of some $18.7 billion, plus the trust funds surplus which is invested in Treasury securities of $14 billion minus the projected budget surplus of $16 billion which would net out to approximately $16 billion increase in debt.

This increase in the debt ceiling should be accomplished as early as possible. It would be very appropriate to see the increase legislated by the middle of May. That is because we have Treasury offerings that are planned. We need to inform the markets and keep a steady flow of Treasury financing so that we do not incur the uncertainties and the increased costs that come from interruptions in our debt financing program. The debt ceiling expires on Saturday, May 31. It would be very inconvenient to deal with the issues of debt ceiling beyond that time, and we would appreciate very much the possibility of an earlier resolution.

The second thing that we are asking, Mr. Chairman, in addition to this increase in debt limit is the increase in the authority to issue long-term, that is over 10-years, Government securities, without regard to the 4¼ percent ceiling.

The authority that we now have is for $50 billion of this type of long-term bonds. The policy of the administration has been to try to restore a better balance between short and longer term security maturities and somewhat extend the average maturity date.

In mid-1965, as I recall, the average maturity for Government securities was 5 years and 9 months. By 1976, the average maturity had dropped to 2 years and 5 months, which means we were running on practically all short-term financing.

Through the issuance of longer term bonds, we have now extended the average maturity out to 3 years and 10 months and we would like to continue this program. Treasury has already used up $45 billion of the $50 billion authority and we would recommend that the ceiling be increased to allow the continuation of our program, increased to $54 billion through this fiscal year and to $70 billion through September 30, 1981.

As to the savings bonds ceiling, the third issue to be presented today, the present statutory interest rate ceiling is 7 percent. As of June 1, 1979, the rate on savings bonds was increased to 6.5 percent. As of January 1, 1980, the rate was increased to the full 7 percent for bonds that are held to maturity. These rates, while representing increases from past practice, are substantially out of line with current market interest rates. As a result, the savings bonds program has been subject to declining sales and increasing redemptions.

In the quarter that just ended—the first quarter of this year—savings bonds sales were running at $1.4 billion for the quarter itself, which is 26 percent lower than in the same period in 1979. The savings bonds redemptions were $6.4 billion during this period, which was more than three times the redemptions in the comparable 1978 period. The resulting cash loss to the Treasury in this one

quarter was $5 billion, which we had to finance in market borrowings.

Senator BYRD. Excuse me, is that loss on the long-term bonds?

Secretary MILLER. This is on the savings bonds.

Senator BYRD. Only on savings bonds?

Secretary MILLER. Savings bonds. Just to repeat it, the sales dropped by 26 percent in the first quarter of this year over the same quarter of the prior year to a level of $1.4 billion, but redemptions were $6.4 billion so there was a net outflow of cash of $5 billion which we had to finance.

Senator BYRD. This is net outflow in that one quarter?

Secretary MILLER. That one quarter. If you did that for the whole year, that means $20 billion that would have to be replaced with other financing for savings bonds.

Traditionally, savings bonds have been a very stable and important part of our debt management. We had record sales of savings bonds in 1978, but since that time we have had the drop off. While savings bonds outstanding were running at over $80 billion, they are now back to, I think, below $75 billion and our whole program is therefore being impaired.

What we would recommend, Mr. Chairman, is that Congress remove the ceiling on savings bonds and give us the authority to set the rate from time to time more in line with market conditions, and retain this very important program both for individual savers and for the Government financing. We would set the rate from time to time with due regard for maintaining of cash flows, credit flows, to the depository institutions, but also with due regard for maintaining a sound savings bonds program. If that were done by Congress, we would still retain the requirement that any rate change be subject to approval by the President so that the Treasury would have a check by the President on our future actions.

Mr. Chairman, those are the items we are presenting today. I would be very pleased to answer your questions and respond with to any other information that you would desire.

Senator BYRD. Thank you, Mr. Secretary.

As I understand it in regard to long-term securities, you seek an increase from the present ceiling of $50 billion to $54 billion in so far as 1980 is concerned?

Secretary MILLER. That is correct, yes, sir.

Senator BYRD. Is that fiscal year 1980 or calendar year 1980?

Secretary MILLER. Fiscal 1980 through September 30, 1980.

Senator BYRD. So that is a $4 billion increase?

Secretary MILLER. Yes, sir.

Senator BYRD. I see no problem with that.

With regard to long-term financing, what is the prospect for long-term bonds?

I have been told by your former business associates and colleagues, you might say, in New York, Philadelphia, Chicago, San Francisco, and Los Angeles, that there is no long-term bond market at the present time and not likely to be in the immediate future.

Secretary MILLER. Mr. Chairman, there were several events earlier this year that did create some reduction in long-term financing, some concern, as you point out, about the operation and capac-

ity of the long-term bond market to continue to be a method of financing both government and industrial commercial needs.

Those events included the increase in inflation rates that reflected the rapid increase of oil prices toward the end of the year and early this year, reflected the higher interest rates that showed up in home financing, therefore, reflected in higher numbers for the Consumer Price Index, higher indicated rates of inflation. That was coincident with considerable concern that some sort of controls might be imposed on the economy, which led undoubtedly to some anticipatory price increases that were coincident with an inflation fever among consumers, which led to increased borrowing and spending that was coincident with the troubles involving the Middle East, concern with Afghanistan and Iran, which led to some nervousness about future prospects and all of those events caused considerable nervousness in financial markets.

As a result, there was a period of some reduction in the capacity of the long-term bond markets to function. This happened somewhat similarly, for different reasons, in 1974 and corrected itself. I believe it will correct itself now, and I think we are already seeing signs in recent demands for some long-term issues to indicate that this market is coming back into focus and that it will be able to function as in the past and continue to be a vital part of our total financing for national needs.

Senator BYRD. Well, Mr. Secretary, you are a Government official of much ability and a businessman of great ability. What is your professional judgment now in regard to long-term bonds? Are you telling the committee that you feel that the problem in regard to long-term bonds is over and that the bond market will be reestablished to its formal basis in the near future?

Secretary MILLER. I believe we are in the process of doing that, Mr. Chairman. I think that it would be premature to say that the bond market is now operating at the same scope and the same degree of vitality that it did in, let's say, the prior years. But I believe the healing process about those concerns is well underway. A few recent issues of long-term securities were well-received and sold well in the market and would indicate that we are seeing a correction of the concerns earlier this year.

My own judgment as a former business executive in my present capacity is that we will see a restoration of the bond markets. If it has not happened, it will be happening soon, as we begin to demonstrate through Federal Government actions the fiscal discipline, the continued monetary discipline and the correction of some of these items.

I might point out in this regard some rather important information that would support the restored vitality of the long-term bond market, Mr. Chairman, let me cite you a couple of numbers that I think would be very important. In fiscal year 1980, our estimate is that the total funds that will be raised in U.S. credit markets would run to about $420 billion. That is not Government. That is all funds raised.

The Federal Government would be expecting to raise about $39 billion in those credit markets.

Senator BYRD. Excuse me. That is only new funds?

Secretary MILLER. Yes. That is the increase.

Senator BYRD. Let us get the additional rollover funds. Let's take the new funds plus the rollover now. What will that be?

Secretary MILLER. The comparable figure of rollovers would be $200 billion that we would rollover, that is, just retain.

Senator BYRD. Let me see if I understand. This is for 1980, fiscal year 1980?

Secretary MILLER. Fiscal year 1980.

Senator BYRD. Total Federal borrowing would be about $240 billion?

Secretary MILLER. Mr. Chairman, I am sorry?

Senator BYRD. Including the rollovers, Treasury will go into the money markets for roughly $240 billion?

Secretary MILLER. Yes, that is correct.

To make the figures comparable, the total credit market funds, the net new funds raised, would be about $420 billion and the comparable figure of net new funds raised by the Federal Government would be about $40 billion, or 9.5 percent. That is the figure I wanted to point out.

This year, the Federal Government will be taking about 9.5 percent of net new funds raised. In fiscal year 1981, if Congress acts as I believe and hope that it will to enact a balanced budget, if our budgetary plan is followed, then in fiscal year 1981, our projection at the moment is that the total net funds raised in the credit markets would be $360 billion.

Senator BYRD. Including the rollover?

Secretary MILLER. No, this is the net new funds. That total would be $360 billion.

The Federal Government would raise in that market less than $2 billion, or less than one-half of 1 percent. So we would go from 9.5 percent of net new funds going to Federal financing to less than one-half of 1 percent.

That is the important change that obviously will give restored vitality to all the financial markets and I believe that that trend and direction will be one of the factors that will assure an effective, vital, well-working long-term market also.

Senator BYRD. I think that where we have a divergence of viewpoint is that you have predicated an improvement in the bond market and other matters based upon public perception that fiscal discipline is being exercised in Washington. Frankly, I do not see that fiscal discipline.

The proposed budget represents a huge increase in Government spending.

I think that the American people generally, and certainly the sophisticated ones, see that any improvement in the budgetary picture, if indeed there is an improvement, is coming about because of the huge increase in the Federal tax take, not in getting Federal spending under control.

It seems to me that the key to the problem which our country faces today, is to get Goverment spending under control. And I do not see that being done.

Others may feel that it is, but the Senator does not.

You are seeking an increase in the debt ceiling for fiscal year 1980 from the present $879 billion to what figure?

Secretary MILLER. To $884 billion.

Senator BYRD. You are seeking a $5 billion increase in the debt ceiling for fiscal year 1980?

Secretary MILLER. Yes, sir.

Senator BYRD. What do you put the current rate of unemployment?

Secretary MILLER. The current rate, the last figures that we have, are 6.2 percent.

Senator BYRD. 6.2 percent rate of unemployment?

Secretary MILLER. Yes, sir.

Senator BYRD. In looking ahead to the new fiscal year which begins October 1, how do you see the unemployment rate?

Secretary MILLER. The current administration projection of the economic outlook is that unemployment will rise to about 7¼ percent in the fourth quarter of this year and next year in 1981 it will go up to about 7½ percent.

Senator BYRD. That is about a 1-percent increase in unemployment?

Secretary MILLER. In this calendar year that we are in now and a further increase of another quarter percent into 1981.

Senator BYRD. So in all?

Secretary MILLER. 1¼ percent.

Senator BYRD. 1¼-percent increase?

My colleague, Senator Robert Byrd in a speech to the Senate on April 3 on page S3509 stated that whenever there is a 1-percent increase in unemployment there is something like a $20 billion impact on the Federal budget.

Senator Robert Byrd is very careful with his figures. Do you find any fault with that $20 billion figure?

Secretary MILLER. Mr. Chairman, there are different calculations, but the order of magnitude is approximately correct. So I think his figures are quite reasonable.

This, of course, brings me to a point because the budget that the administration has presented, the revised budget contemplates the budgetary impact of 1¼-percent increase in unemployment.

Senator BYRD. What figure does that?

Secretary MILLER. I said the revised budget for fiscal year 1981 submitted by the administration assumes that unemployment will be at this higher rate, and therefore we assume increased outlays from higher unemployment and also reduced receipts from weaker economic activity.

You were asking about whether the fiscal discipline is reflected in reduced spending or not. Well, in terms of the overall on a comparable basis, if we had 6.2 percent unemployment in fiscal year 1981 then we would have a very large surplus reflecting reduced spending and higher receipts which would total some $25 billion.

So I think one has to take that into account. Our view is, of course, that there is substantial discipline in reducing outlays in programs across the board and across the budget in that the increase in spending is only from two reasons: One from inflationary impacts and two from the economic assumptions that assume higher unemployment and higher payments that are mandated in connection with lower economic activity and higher unemployment.

On the other side of the ledger, obviously, higher unemployment results in lower revenues under current tax laws than would otherwise develop, without even looking at any changes in those laws. In total, you have this impact of some $25 billion that is absorbed in the budget proposals. Despite that, and also partly because of revenue changes, there is a projected surplus of some $16 billion.

So I think the rate of change of fiscal policy, going from a deficit of $36 billion to a surplus of $16 billion more than a $50 billion swing, represents considerable discipline.

If you add to that reducing the Federal borrowing in credit markets from some 9.5 percent of total new credit raised in the markets to less than one-half percent in 1 year, I would think that the change in fiscal posture and change in Federal presence in the financial markets is rather dramatic.

Senator BYRD. Let me just cite two figures, as to whether it is fiscal discipline or not. On November 16, precisely 5 months ago, the Congress in its budget resolution put Federal spending for fiscal year 1980 at $548 billion.

The President's third revised budget in the last 2 months put spending at $612 billion.

The way I calculate it, that is an increase of $64 billion in spending from fiscal year 1980 to fiscal year 1981.

I think it is misleading for people to say—and you have not said it, as far as I know—but it is misleading to tell the public that the budget is being reduced when in fact it is being very substantially increased.

Now this is what has happened with regard to reductions—on January 28 the President advocated spending $615 billion. On March 14, he revised that to $613 billion. More recently he has revised it to $612 billion.

So there has been a reduction of $4 billion from the President's figure of January 28 but that January 28 figure called for an increase in spending over the budget resolution approved by the Congress last November of $68 billion.

So the President, instead of advocating an increase in spending of $68 billion, has only advocated $64 billion in his third budget proposal. It is a tremendous increase in spending.

Now, let me ask you this. The 1981 budget puts interest costs on the national debt at $81 billion.

Secretary MILLER. Yes, sir.

Senator BYRD. My question is, To obtain that figure, what interest rate assumptions were made?

Secretary MILLER. The assumptions for interest rates are—let me just tick them off.

The fiscal year 1981 rates that we are assuming for a 26-week bill would be 10 percent. For Treasury securities of over 6 years maturity, 11 percent.

The actual rates on April 10 on the 26-week bills would be 14.1 percent. The assumption in 1981 is that they will be at 10 percent.

The maturities over 6 years are currently at 12 percent, a little less now, incidentally, and are assumed to be at 11 percent in fiscal year 1981.

Senator BYRD. Let me be sure that I understand.

Secretary MILLER. I could give you the whole table.

Senator BYRD. Thank you. I do not need the whole table.

The $81 billion interest charge figure——

Secretary Miller. Yes?

Senator BYRD. The 1981 budget was based on an interest rate assumption of between 10 and 11 percent?

Secretary MILLER. Depending on maturity, 9.9 percent to 11 percent.

Senator BYRD. Between 10 and 11 percent.

Secretary MILLER. Yes, that is correct.

Present rates are 14 to 12.

Senator BYRD. This $81 billion assumption was made in December, I assume?

Secretary MILLER. No. These are the revised estimates that were made in March so that these are the estimates from the current revised budget which have increased the rates substantially. The result of the revised budget, Mr. Chairman, is to assume that interest rate increases would add $3.8 billion to the interest charges in fiscal year 1981, offset by borrowing less money, thereby reducing interest charges by $2.2 billion.

You see, because the revised budget assumes higher interest rates but assumes less borrowing because of moving from a proposed deficit to a proposed surplus, the interest rate increases would add nearly $4 billion. The reduced borrowing would reduce interest charges by $2.2 billion. The overall effect is a $1.6 billion increase in interest payments from the budget submitted in January.

Senator BYRD. So that your January 28 figure was 79 point something?

Secretary MILLER. 79.4, yes, sir.

Senator BYRD. Your new figure is $81 billion?

Secretary MILLER. $81 billion.

Senator BYRD. Thank you.

Do you expect corporate profits, and thus, corporate income taxes, to increase or decrease during 1980 compared to 1979?

Secretary MILLER. Let me see——

Senator BYRD. My general question is, do you think that the general business conditions will be better in 1980 than 1979?

Secretary MILLER. In 1980, our expectation is that economic conditions will be less positive—Mr. Chairman, expectations are that we will have a moderate recession in fiscal year—in this year, 1980, which includes fiscal year 1980. As you know, our projection at the moment is that we will see from fourth calendar quarter 1979 to fourth quarter 1980 a decline in real GNP of about one-half of 1 percent.

We expect that recession to be moderate in duration and moderate in depth. Obviously, even though we are now projecting a one-half of 1 percent decline, that is a number that will only approximate the final results, because, as we know, economic conditions move so rapidly.

We expect recovery of the economy in 1981 so that there would be, from fourth quarter 1980 through fourth quarter 1981 an increase of 2.2 percent in real GNP.

Now, on corporate profits. Our assumptions are that, under our current forecast, that even with that effect, because of the larger

pie, even though there would be less increase in overall GNP, that corporate profits would go up moderately, go up from $237 billion to $242 billion, but that the aftereffect of the recession will be that corporate profits in 1981 will not fall at all.

So we are assuming some carryover of increase in profits, very moderate, in fiscal year 1980 and actually a levelling off, or perhaps a slight decline, in 1981.

The income taxes that we receive from corporations as a result of that would mean that we would see some increase in corporate taxes in fiscal year 1980 but no increase in fiscal year 1981 in aggregate dollars.

Senator BYRD. With the housing construction industry in, I guess you could say, disarray; with the automobile industry in very dire straits, does that not indicate that business as a whole will be very sharply off during this calendar year of 1980?

Secretary MILLER. Overall, we expect a decline. As I indicated, Mr. Chairman, there will be different effects in different sectors. There is no question that automobile production is one of the soft parts of the economy; housing construction is one of the soft parts of the economy. Other sectors, such as the energy area, are doing well. The increased oil company profits will yield increased taxes while decreased automobile company profits will undoubtedly contribute to less taxes.

I think it is a mix of all these factors, some of which are positive and going forward, even though there would be a slight down turn in the economy, some service parts of the economy will continue to do well. The areas of communications and energy will continue to do well. Areas such as automobiles, some heavy durables, housing construction will be off. It is the mixture of these that nets out to the result I indicated.

Senator BYRD. When do you see a decline in interest rates, and to what degree?

Secretary MILLER. We, of course, believe that it is extremely important, as I have said for some time, that we not rely entirely on monetary policy in dealing with inflation, that the effort to increase the fiscal discipline, reduce Government spending relative to other past years is very important.

As that takes place and as the Federal Government itself becomes less of a borrower in the market and as the slowdown in the economy results in less demands for credit, we expect the pressures to come off. We expect, therefore, interest rates at some time to begin to moderate.

Senator BYRD. At some time? When?

Secretary MILLER. It is hard to predict, exactly. In the next couple of months, I think we will see interest rates begin to reflect reduced pressures and we will see, I think, lower interest rates, both in short-term markets and in long-term markets. The prime rate will be down significantly by the end of the year.

Mr. Chairman, I should point out that near the end of February, for example, the yield on 20-year Treasury bonds was at about 13 percent, and it is now down to about 11¾ percent, so we have already seen some decline in some kinds of interest rates, as we have had this phenomenon you and I talked about a moment ago.

We had not yet seen that in the commercial rates and the activities of bank lending. But as the special credit restraints take hold and as the special credit restraint program—the voluntary program on which the Federal Reserve is working with major banks—takes hold, and as the economic conditions of moderate recession take hold, the demands for credit will abate and interest rates, I believe, will begin to move down.

We also would expect inflation rates to be moving down somewhere in the next few months and coming down lower than they are now by the end of the year.

Senator BYRD. Coming down to what degree?

Secretary MILLER. As you know, our estimate for the moment is that if you measure by the CPI, again fourth quarter 1979 to fourth quarter 1980, the CPI would be 12.8 percent.

That compares with recent numbers running about 18 percent or so. That means to get to 12.8 percent, we must have a lower rate than that at the end of the year.

My own hope is that we can achieve that, or better.

Senator BYRD. When do you expect it to be down to a rate of 12.8 percent?

Secretary MILLER. That rate would be for the fourth quarter from a year earlier, which means that our assumptions are it would be below that in the latter part of this year. Let me tick off some of the reasons that that might be possible.

In the first place, there are many causes of inflation but as distinguished from the inflation rate in 1978, a great deal of the inflation rate in 1979 and of the inflation rate in the first quarter of 1980 was because of two factors. One is the increased cost of energy, particularly oil, and inflation numbers for the first 2 months of this year included an annual rate of increase of 75 percent for energy. So, that is one current factor that is causing the inflation rate to be higher.

The other is that during this period, the runup, for whatever reason, of interest rates has been reflected in home financing charges and therefore has had a major impact on the Consumer Price Index.

If one would assume, as I do, that we will not have a nearly 100-percent increase in the price of imported oil in 1980 as we had in 1979, then we will have a major reduction in that component of the inflation number.

Assume at worst that we do not have any significant reduction in interest rates but we merely stabilize and continue the present rates of home mortgages, then in a few months you will be able to see that there is no longer any increase, no decrease, but you will not have an increase.

So there you will get some relief in these numbers.

I actually believe, as the year progresses, we would have mortgage rates lower. That means you will actually begin to get some reduction in the home financing cost compound of the CPI.

Those two factors alone could contribute to a very substantial change in the 18-percent inflation rate, because you are talking about, you know, energy factors that directly and indirectly have a very large impact on the CPI and the same thing applies for mortgage rates.

So, I think that those are reasons to believe that it would be sensible, unless there is some new impact in the world, some new event, some new disturbance, that we will begin to see these numbers begin to come down.

If that happens, I think it will be a reassuring factor, along with the fiscal disciplines that are being imposed by Congress. I believe those factors and the reduction of demand of Federal financing will contribute to the conditions that I outlined, and we will begin to see some moderation in interest rates and in prices.

We are very fortunate in this winter in that so far we have not seen these extraneous and unusual and disturbing factors that ratchet into the basic wage price structure.

We had, in 1979, no larger increases in wage rates and in compensation rates than we had in 1978, when inflation was much lower, so thus far we have the cooperation in the country and have avoided having oil prices and interest rates ratchet into all of our system.

I do not think that moderation will continue for very long unless we can see the relief that I am describing. But I do think that we will see the relief and, therefore, we will come back to more moderate levels.

We expect to be in single-digit CPI numbers in 1981 rather than double-digit ones.

Senator BYRD. When in 1981?

Secretary MILLER. I would think probably in the first half of 1981 we can be seeing single digits, or even in the latter months of this year.

Senator DOLE. Notwithstanding inflation, both interest and inflation?

Secretary MILLER. This was the CPI number I was quoting. I am not so bold as to forecast interest rates at the moment. I would not want to encourage the Members of the Senate to go out and take futures on loans at single-digit interest rates.

Senator BYRD. Let me ask two brief questions, then I want to yield to Senator Dole.

Are these high interest rates inflationary?

Secretary MILLER. Yes, interest rates are, in the first place, a reflection of the supply and demand relation of money and credit. Second, in order to get positive interest rates, lenders expect to get inflation plus interest so there is a reason why interest rates are related to the essential monetary discipline and the realities that lenders expect to get a return on their funds or they will not lend them.

On the one hand, interest rates, as I point out, go into health financing, home financing. They go into the cost of operating businesses and they end up showing up in prices and showing up in inflation calculations so that they do contribute to inflation.

On the other hand, the way to insure more inflation is to try to artificially press down interest rates because if we now, for example, artificially tried to lower interest rates, we would do so by flooding the economy with excess money to drive down interest rates and what we would do then is heighten inflationary expectations and we would undoubtedly end up having higher inflation after an adjustment period rather than lower.

So I think that the problem is a typical dilemma that in order to get lower inflation we must be alert to the realities of restraint on money and credit to keep it within bounds of growth—that is, consistent with price stability. And because of prior periods of excess growth, we are now suffering from an adjustment process which is painful but is necessary to the process of turning inflation around.

Senator BYRD. My last question for the moment is this, and I will preface it by citing experiences that I have had in Virginia, and I would guess, although I have not consulted with him, that Senator Dole has probably had similar questions put to him, as have other Members of the Senate.

As I go around the State almost everyone—well, not almost everyone, but a great many individuals I shake hands with and talk with say this: "Why don't you people in Congress do something about interest rates?"

Now, would you help me give the appropriate response to that?

Secretary MILLER. Yes, I certainly would. The best thing that can be done to help interest rates is to carry out the fiscal disciplines of reducing as rapidly as we can in an orderly way the level of Federal spending.

Senator BYRD. That is good. That is the answer I gave, and I am glad that the Secretary of the Treasury would give that same answer.

Secretary MILLER. Mr. Chairman, I think this is fundamental. To the degree that we can take the pressure off through more fiscal discipline, we will reduce the pressure on the monetary side and inevitably, this means that inflation expectations will abate, inflation rates will come down, and interest rates will come down.

Senator BYRD. Senator Dole?

Senator DOLE. I think, Senator Byrd has covered most of the ground. I think just for the record I would like to give the administration a chance to again indicate their opposition to wage and price controls. I assume that is still administration policy and that you are not going to seek any authority from Congress to impose wage and price controls.

Secretary MILLER. Senator Dole, you are absolutely correct. We are irrevocably opposed to mandatory wage and price controls. We think they do not work. We think they create distortions. We think that it is easiest to impose such controls on those in the economy who represent, perhaps, the weakest links and it is hardest to impose them on those who have more market power and can continue to impose changes.

So we do not think that they work, and we do not intend to seek authority for them.

Senator DOLE. Is there still a feeling around that, sooner or later, it is going to happen? I do not know if you have any evidence of anticipatory price increases or not. There may be some, but I would hope by now that the message is loud and clear.

Certainly the administration has indicated their opposition—many Members of Congress have—and I would hope that anybody who has any doubt about it would, again, read your statement today.

Secretary MILLER. May I say, Senator, that there was, in my opinion, some flurry of feeling that wage-price controls were on their way early this year, the early part of the year, and I think that led to some anticipatory price increases that exacerbated the inflation problem.

I believe our statements, plus the President's explicit actions on March 14 to announce his intensified anti-inflation program which rejects wage-price controls, demonstrate that we have crossed over on the policy decisions. Time has run out. The economy is slowing very soon, as we see the evidence of an economic slowdown. I think all—even the rumors about wage-price controls will evaporate because it will be obvious with a softer economy nobody is going to throw controls on top of it.

Senator DOLE. Also, I think that building opposition, bipartisan opposition to the import fee, which—one way to balance the budget, of course, is to increase taxes and that is going to raise about $12.6 billion.

And some have figures that tax increases next year would be an unprecedented $1 billion when you add up the windfall tax and taxflation and import fees and other social security tax increases and other recommendations by the administration.

I would assume, if Congress is successful in either repealing the President's authority to impose an import fee, or in passing a disapproval resolution, there would be some need for additional spending cuts.

I know the administration is counting on the import fee. The Budget Committee has included those revenues, but there are already 16 cosponsors on the disapproval resolution. I think one way to take care of the import fee would be on the debt limit, to take away the President's authority, attach it to the debt limit, and see what happens.

Secretary MILLER. Senator Dole, I might have a bit of disagreement with you on that subject.

Senator DOLE. On the procedure?

Secretary MILLER. On the substance.

One, I think that our budget proposal clearly contemplates balancing the budget without relying upon any revenues from the gasoline conservation fee.

As you know, the revised budget presented by the administration shows a surplus of $16.5 billion which is greater than the fee. It includes the revenue, without any revenue initiatives.

Our proposal involves a balanced budget, so all the revenue proposals would merely go to surplus so we have no intention, no desire, no proposal that the budget be balanced through revenue initiatives.

The second point is that it is absolutely essential that we reduce our dependence on imported oil. We are in peril and depending on fragile insecure lines of supply. The parts of the world have demonstrated how unstable parts of them may be.

The one way, and the surest, fastest, quickest, safest way to reduce our dependence on foreign oil is to conserve our use of oil and oil products. And one of the best places to do this is motor fuels because of all the motor fuels used in the United States of about 7 million barrels of oil-equivalent a day, 40 percent, or 2.8

million barrels a day is discretionary driving—not necessary to carry on the commerce of the country or necessary for commuting or necessary for jobs, but discretionary. And that is the place where we can make the biggest impact in reducing our dependence on foreign oil short-term.

Many other necessary changes that you are very familiar with require time or investment or what-not. This is the quickest, surest way.

The United States has two choices in order to deal with motor fuel conservation. One is to limit the physical quantity made available to the public and ration. Congress has rejected that solution in any way that has been presented except in a dire emergency.

The other way to do it—and the way it is done in most of the world—is to recognize that there should be a price incentive to conserving motor fuel. The price of gasoline in most European countries is $2.50, $3. Again, motor fuel in the United States now is $1.20 or $1.30 a gallon. That is a relatively very large increase but still way below what other nations have imposed through taxes as a cost of motor fuel to cause conservation.

The result is twofold—they use less per capita. The second one is an oil price increase. If you increase the price of oil on a $2.50 base by 10 percent it is 25 cents. If you increase it in our case it is an enormous factor that goes into inflation also.

And one of the reasons there is less inflation in some of these countries is because there is less relative change in these prices because they have already priced them at a level through taxation.

So I think that we feel strongly that the President is correct and that the Nation is correct to impose a modest, additional conservation charge that is not in any order of magnitude equivalent to taxes in Europe or in Japan but at least is a step in the right direction, and we believe that it would be appropriate for Congress to allow the President to exercise that authority and to support it.

As you know, in due course, we will present to the Congress a proposal for an ad valorem gas motor fuels tax to replace this fee, then Congress can consider on the merits whether that is right or not. In the meantime, the President's authority to have the fee and to use the entitlements system to place it on gasoline runs through September 30, 1981. It would seem logical to let that authority continue and let the Congress in to address the question of motor fuels taxes, on the substance and on the merits when we present our ad valorem tax.

Senator DOLE. I think the question is whether we are more concerned by the estimates that it will add three-quarters of 1 percent to inflation, not that it may conserve 100,000 barrels. That is a charitable estimate in the first year, and may invite an OPEC price increase. You know all the arguments for and against.

Secretary MILLER. Surely.

Senator DOLE. That is what troubles many of us in Congress and having been in my State, as Senator Byrd has been in his, I do not need to tell anyone in the administration or out. There is a different feeling in the countryside with not quite 20 percent, but nearly 20 percent interest and high inflation.

I just cannot agree with the proposal. It is easy to vote against the import fee, but I think we could be persuaded to conserve. It

has a title now—the conservation fee—which may or may not be accurate.

It may be a matter of some debate, but I appreciate your statement on it.

Secretary MILLER. Senator Dole, may I make one short, additional point?

In the last 14 months, OPEC has imposed some 60 cents per gallon tax on American gasoline and all that money flows abroad, and that has resulted in considerable conservation of gasoline, but we have paid it all to other folks.

It would make a lot more sense for us to keep that within our own country and get additional conservation. Rather, I do not see the same outrage at the 60 cent tax that foreigners imposed upon us, and yet I believe it takes courage, it takes leadership to say let us start doing that thing right here at home. Let us start reducing the millions of barrels of oil we import to drive in discretionary ways so that we could change, say move to more efficient automobiles and so forth.

I do not mean to belabor it, but I think there is a point there.

Senator DOLE. Right, but I think it would make more sense if we would take the money and use it to fill up our strategic petroleum reserve. There are some of us, Senator Bradley on this committee and myself, who feel that, instead of cutting funds in that area, we ought to be adding additional funds so we will have a reserve. I notice the Washington Post indicated as much this morning.

So there is support for that. Maybe there would be some way to salvage both.

I do not know if I have any other questions, Mr. Chairman. I think you have covered most of them.

It is necessary to increase the debt ceiling. I have no quarrel with that. It is a frustrating time.

Everybody talks about a balanced budget in general terms. Then when you get down to the nitty-gritty, it is more difficult to do.

Senator BYRD. Thank you, Senator Dole.

Mr. Secretary, do you agree or disagree that our Nation faces severe economic problems in the months ahead?

Secretary MILLER. We face serious problems, yes, sir.

Senator BYRD. Is there any painless way to meet these problems?

Secretary MILLER. No, sir.

Senator BYRD. In my judgment, the Federal Government for the past 15 years has been and is now a spendaholic. Do you agree or disagree?

Secretary MILLER. I would not want to use those terms for fear of taking away from the glamor that is attached to your using them.

Senator BYRD. I am glad to share it with you.

Secretary MILLER. We have, for 20 years, had a habit of running deficits in good times and in bad. We have had only one balanced budget in 20 years and it is apparent that the cumulative effect of those deficits, adding to Federal borrowing and Federal debt on a permanent basis, have been in their cumulative impact a contributor to inflation and a contributor to a psychology about sound economic policy that has, I believe, contributed to inflation.

Our purpose should be on a bipartisan basis and in a compact with the American people, to move back toward a philosophy that

when the economy is operating at optimum level of output in terms of capital and resources we should have a balanced budget.

It is appropriate, in my opinion, to have a deficit if we are in a period of slack and we can expect, therefore, the budgetary impacts of underutilization of resources.

Conversely, when we are operating at a higher rate than we should be, we should have surpluses, but we should get back to the idea that a normal procedure should be a balanced budget and we should have a more frequent experience of seeing a balanced budget rather than one in 20 years.

Senator BYRD. At what figure do you put the budget deficit for fiscal 1980?

Secretary MILLER. The figure that is presently projected is $36.5 billion, the deficit in fiscal year 1980.

Senator BYRD. For this year, the Federal Government will run a deficit of $36.5 billion?

Secretary MILLER. Yes, sir.

Senator BYRD. Correct.

Secretary MILLER. That is impacted by the recession obviously.

Senator BYRD. Regardless of the reason.

Secretary MILLER. Yes, sir.

Senator BYRD. The Government this year, the one we are in right now——

Secretary MILLER. Yes.

Senator BYRD [continuing]. Will run a deficit of $36.5 billion. Is that correct?

Secretary MILLER. That is correct.

Senator BYRD. Now, what do you project the Federal funds deficit to be for fiscal year 1980?

Secretary MILLER. Some $50 billion.

Senator BYRD. So insofar as the operations of Government are concerned, our Government this year will run a deficit of $50 billion.

Secretary MILLER. If you exclude the trust funds, the Federal funds deficit, about $50 billion.

Senator BYRD. The only way you will get it down $14 billion, $13.5 billion, is to take the surplus in the trust funds and the trust funds can be used only for specific purposes, of course. The funds do not come from general taxation.

So if you do not use those funds, then the deficit would be $50 billion for the general operation of Government.

I think that is a highly significant figure.

Now, let me ask you this. For the record, are you convinced that the President's spending proposals for fiscal 1981 without a tax increase will result in a balanced budget?

Secretary MILLER. Mr. Chairman, with one caveat, yes. The caveat is that that would be true on the economic assumptions.

If there are changes in economic prospects or performance because of other events, then that would change, but based upon the moderate recession and recovery from that, we project the levels of unemployment which mean that we would have slack in our economy. Nonetheless, the spending cuts imposed, in my opinion, will result in a balanced budget, with that caveat about economic conditions.

Senator BYRD. Without a tax increase?

Secretary MILLER. Without a tax increase, yes, sir.

That is on present tax law. That includes the present tax structure, including windfall profits.

Senator BYRD. Including what Senator Dole alluded to, the import fee?

Secretary MILLER. That, no. That is not taken into account. This is assuming no import fee.

Senator BYRD. It is correct, is it not, that for fiscal 1981 that the Government will take from the American people the highest percentage of taxes—the highest percentage—that it has ever taken in taxes in relation to the gross national product.

Secretary MILLER. It will be as high in any year. I am not sure it is the highest. It will certainly be at or near the highest level of GNP level of intake that we have seen yes, sir.

Senator BYRD. Do you feel that there should, or should not be, a substantial reduction in the total spending figure of $612 billion which has been proposed?

Secretary MILLER. I believe that our effort to introduce a new direction to fiscal policy and efforts which we should pursue diligently to reduce the relative percent of GNP represented by tax revenues should be progressive.

I do not think that we should, or can, accomplish it all in 1 year or in all economic circumstances.

So I think the level of spending that we proposed of $612 billion is reasonable. If there are other ways that cuts could be made, obviously they should be considered, but I think that is a reasonable course.

Now, we need to create conditions that encourage a balanced economic growth, encourage productivity, and thereby reduce the drag on the Federal budget from low levels of growth and output. And as we do that, I think we can bring down spending further and bring down taxing further.

In 1 year in a recession period, to accomplish much more, I think, would add more power to the brakes than is wise, that we might end up tripping the economy in more of a downturn than would contribute to the proper course of the economy.

Senator BYRD. You have some responsibility, as I recall, under earlier legislation in regard to New York City. What is the situation now in regard to New York City's financial affairs?

Secretary MILLER. As you know, the city has presented a program for its own budget that would achieve the requirements of the New York guarantee program 1 year earlier than required by the statute.

That was, of course, subject to trying to project over a period of years the transit settlement in New York. That is in the process of being considered. It may have some impact upon that because it may influence the negotiation.

The mayor has indicated that he will not consider the transit settlement a precedent and that he will look to levels of pay changes with municipal unions that will stay within his budget objectives, but we will just have to see how that develops. But his program has been to meet the statutory requirement 1 year early.

Senator BYRD. What about Chrysler? Is Chrysler meeting the statutory requirements?

Secretary MILLER. Chrysler is endeavoring to put together a financing package that would meet the statutory requirements in order to qualify for guaranteed loans and we will know, I think in the next few weeks, whether or not the parties with a financial stake in Chrysler are able to hammer out such a financial package, whether they are willing to make—and will make—the concessions in financing terms that are necessary to qualify.

Some of them have been completed. The labor union negotiations have made the concessions required by the statute. There has been some progress in disposing of surplus assets that would raise cash. There has been some offering of debentures to suppliers and dealers to raise part of the support from those. There are negotiations with the banks, both domestic and foreign. I think all those things are beginning to gell and I think we are near, within a few weeks, of knowing whether the package can fall into place.

As you know, there is a Loan Guarantee Board made up of myself and Paul Volcker and Elmer Staats who will then have to look at the plan and decide whether it is qualified and decide its qualifications, if we can issue a guarantee.

Senator BYRD. One final question.

In your professional judgment, what is the single most important thing that can be done to bring about a reduction in interest rates?

Secretary MILLER. To not only propose, but to enact, the spending cuts and reductions that are in the revised budget, to show that we are willing to exercise fiscal discipline even in the face of economic slowdown if we demonstrate the will and determination to control inflation. I think all of those things would quickly relieve the inflationary expectations and moderate the pressures on financial markets and result in lower inflation itself, and lower interest rates.

Senator BYRD. To get back to your specific testimony today in the three categories, what you are seeking is a $4 billion increase in the long-term bonds that can be issued?

Secretary MILLER. From $50 billion to $54 billion this year, and then we would request for fiscal year 1981 $70 billion.

Senator BYRD. I thought we should deal with 1980 and let 1981 take care of itself later on.

That would be a $4 billion increase in that category?

Secretary MILLER. Yes, sir.

Senator BYRD. For fiscal year 1980 in the statutory debt ceiling you would need an increase of $5 billion?

Secretary MILLER. From $879 billion to $884 billion, yes, sir. May I point out, Mr. Chairman as you know, the House has changed its procedure.

Senator BYRD. I am aware of that.

Secretary MILLER. I want to mention it because what will happen in the House may influence what you want to do here. I am not suggesting you change your procedure, but it may influence it, because what you see, what will happen when the budget resolution for fiscal year 1981 is adopted in the House, it will include a debt ceiling for fiscal year 1981.

So they will be dealing with fiscal year 1981. You mentioned whether we should deal with fiscal year 1981 now. They will be dealing with it and send over to you a proposal, so in order to match their procedure with your procedure, you may want to handle it in your way, but you may want to start considering now the fiscal year 1981 program.

Senator BYRD. Before the House adopted that proposal, the author of the proposal came to see me and I told him whatever the House did was up to the House, but the Senate would make its own decision in that regard. The House procedures have no control over what the Senate procedures may be.

Secretary MILLER. Correct. It just may be when they send over something on fiscal year 1981 you may want to take a look and see if it is appropriate to consider it now or what, because, you know, you can still handle it in your way. It is just a question of timing. That is the question.

Senator BYRD. Thank you very much.

Senator DOLE. Just one additional question.

Senator BYRD. Senator Dole?

Senator DOLE. Mr. Secretary, you indicated earlier that you would not encourage any efforts to, in effect, through the tax system offset high interest rates. There has been one proposal introduced to provide a tax credit for anything, any interest set above 12 percent, to a certain number of dollars.

Others have suggested a two-tiered system to aid small business and farmers. I guess it would be fair to say that you would not encourage such efforts?

Secretary MILLER. On the first one, Senator Dole, I think it would be counterproductive. In the first place, such a system—you know, it would allow very favorable treatment for people in higher income tax brackets and would penalize, since there would be no discipline to bring interest rates down, it would penalize people who cannot afford interest rates or are not in high brackets.

I think it would be very counterproductive.

On the second, I think not as a matter of government, but as a matter of commercial policy that a two-tiered system may well work, and let the banks decide for themselves, but many banks find it helpful in terms of a business cycle to charge lower rates to small businesses in agriculture in times when interest rates are up, charge a little more when they are down, and kind of average it and bill their customers, and supply their customers, because they are looking at it year after year, not just 1 month.

Likewise, the Federal Reserve, as you know, has now a two-tiered discount rate, for large banks who are frequently into the discount window they will charge 3 percent extra but for smaller banks will charge 3 percent less. So we can keep their liquidity and ability to serve small business and agriculture.

I think there is something to be said for those things happening, not in legislation but in a normal economic analysis. The tax change, I think, would be wrong.

Senator DOLE. Do you expect the administration to propose a tax cut later this year?

Secretary MILLER. That depends entirely on the course of progress on the budget proposal. It has been our view that it would be

inappropriate and premature to consider any tax reductions until there is a firm commitment to the spending reductions and program reductions that have been submitted, either the ones we submitted or, if Congress works its will, something on the same order of magnitude. When that is accomplished, I think that we can all look at whether the economic conditions and the need to achieve the longer term goals of balanced growth would require us to look again at tax relief and perhaps target it into areas of savings, investment, and productivity that we need to encourage.

I think we must take first things first. The best thing we can do is show discipline in the fiscal area, which will be the way to see that relief on the interest side, and the relief on the interest side will improve financial markets including long-term markets, and that will create conditions for borrowing capital for investment which then, supplemented with some other incentives in due course for investment, could help us in this whole productivity area.

But I think it is more on the order of timing.

Senator DOLE. This is not an appropriate place to discuss politics, but there may be political considerations because you could have a Reagan candidacy and Carter candidacy and Reagan is on record of advocating some Roth-Kemp or some modification of the so-called Roth-Kemp proposal and that might have an impact.

I do not suggest that you would make that judgment, but I am certain that it is crossing the minds of those who advise the President politically.

Secretary MILLER. I will keep my advice to economic and financial matters.

Senator DOLE. Right.

Senator BYRD. Thank you very much, Mr. Secretary.

[The prepared statement of Secretary Miller follows. Oral testimony continues on p. 139.]

FOR RELEASE ON DELIVERY
EXPECTED AT 9:00 a.m.
April 16, 1980

STATEMENT OF THE HONORABLE G. WILLIAM MILLER
SECRETARY OF THE TREASURY
BEFORE THE SUBCOMMITTEE ON TAXATION AND DEBT MANAGEMENT
OF THE SENATE COMMITTEE ON FINANCE

Mr. Chairman and Members of the Committee:

My purpose here today is to advise you of the Treasury's financing needs through fiscal year 1981 and to request an increase in the authority to issue long-term securities in the market and removal of the statutory interest rate ceiling on savings bonds.

Financing Requirements

The present temporary debt limit of $879 billion will expire on May 31, 1980, and the debt limit will then revert to the permanent ceiling of $400 billion. Prompt enactment of legislation is necessary to permit the Treasury to borrow to refund maturing securities and to pay the Government's other legal obligations.

Our current estimates of the amounts of debt subject to limit at the end of each month through the fiscal years 1980 and 1981 are shown in the attached table. The table indicates that the debt subject to limit will increase to $881 billion on September 30, 1980, and to $897 billion on September 30, 1981, assuming a $15 billion

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cash balance on these dates. These estimates are consistent with the Administration's March revision in the budget estimates. The usual $3 billion margin for contingencies would raise these amounts to $884 billion in September 1980, and $900 billion in September 1981. Thus, the present debt limit of $879 billion should be increased by $5 billion to meet our financing requirements through the remainder of fiscal 1980 and by an additional $16 billion to meet the requirements through fiscal 1981. However, as indicated in the table, the debt subject to limit reaches a seasonal peak in May 1981 of $914 billion and then declines to $897 billion in September, assuming a constant $15 billion cash balance. Thus, we are requesting that the debt limit for FY 1981 be increased to $910 billion, which would get us by the temporary May 29 peak with an adequate cash balance of $11 billion on that date.

For your convenience, the deficit and debt figures for each year over the past decade are shown in the final table attached to my statement.

Let me emphasize the importance of timely Congressional action on the debt limit. In mid-May the Treasury expects to announce offerings of new note issues to refund obligations which mature on May 31 and perhaps to raise new cash. Since May 31 is a Saturday the obligations maturing on May 31 cannot be paid off or refunded until Monday, June 2, at which time the present debt limit authority will have expired. Moreover, we will also need to announce and auction Treasury bill issues in the third or fourth week

of May. These do not settle until the first week of June. Thus, without an increase in the debt limit by mid-May, we will be forced to postpone offerings because delivery of the securities in early June could not be assured. Failure to offer these securities as scheduled could be disruptive of the Government securities market and costly to the Treasury.

Investors as well as dealers in Government securities base their day-to-day investment and market strategies on the expectation that the Treasury will offer and issue the new securities on schedule. Delayed action by Congress on the debt limit, therefore, would add to market uncertainties, and any such additional risk to investors is generally reflected in lower bids in the Treasury's auctions and consequently in higher costs to the taxpayer.

This Committee has made every effort in the past to assure timely action by Congress to increase the debt limit. Yet, the record of recent years has not been good. On three of the last five debt limit bills action was not taken before the expiration date, and the Treasury was unable to borrow until the Congress acted two or three days later. Significant costs were incurred by the Treasury, and extraordinary measures were required to prevent the Government from going into default. The Treasury was required to suspend the sale of United States savings bonds, and people who depend upon social security checks and other Government payments suddenly realized that the Treasury simply could not pay the Government's bills unless it was authorized to borrow the funds needed to finance the spending programs previously enacted by Congress.

It is essential that we do everything possible to maintain the confidence of the American people in their Government. Confidence in the management of the Government's finances was seriously undermined each time the debt limit was allowed to lapse, and we must all work to avoid that outcome in this instance.

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 4-1/4 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. By January 1976 it had declined to 2 years, 5 months, because large amounts of new cash were raised in the bill market and in short-term coupon securities. Since that time, despite the continuing needs for cash of the Federal Government, Treasury has succeeded in lengthening the debt to 3 years, 10 months, currently.

Debt extension has been accomplished primarily through continued offerings of long-term bonds in our mid-quarterly refundings as well as regular offerings of 15-year bonds in the first month of each quarter. By developing the long-term sector of the market we have broadened the market and increased

demand for Treasury securities. These longer-term security offerings have also contributed to a more balanced maturity structure of the debt, which will facilitate efficient debt management in the future. Moreover, these offerings have complemented anti-inflation efforts. 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 4-1/4 percent ceiling a number of times in recent years, and in the debt limit act of September 29, 1979, it was increased from $40 billion to the current level of $50 billion. To meet our requirements for the remainder of the fiscal year 1980, the limit should be increased to $54 billion; and to meet our requirements in the fiscal year 1981, the limit should be increased to $70 billion.

The Treasury to date has used over $45 billion of the $50 billion authority, which leaves the amount of unused authority at less than $5 billion. While the timing and amounts of future bond issues will depend on prevailing market conditions, a $20 billion increase in the bond authority would permit the Treasury to continue its recent pattern of bond issues throughout fiscal year 1981. We are currently issuing long-term securities at an annualized rate of approximately $14 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. In the debt limit Act of April 2, 1979, Congress increased the statutory ceiling from 6 percent to 7 percent. The Treasury increased the savings bond rate to 6-1/2 percent effective June 1, 1979. Then, in December 1979, the Treasury announced that the interest rate on the new 11-year series EE bonds, which went on sale on January 1, 1980, would be 7 percent for bonds held to maturity and that the rate on outstanding E bonds would also be increased to 7 percent for bonds held an additional 11 years. Legislation is necessary to provide for further increases beyond the present 7 percent statutory ceiling.

Mr. Chairman, we are concerned that the present requirement for legislation to cover each increase in the savings bond 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 serious inequities to savings bond purchasers and holders as 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 comparable forms of savings.

While the savings bond rate has increased relative to the 5-1/2 percent regulatory ceiling on passbook savings in Federally-insured thrift institutions, the much greater increase in market interest rates over the past year has had a substantial adverse impact on the savings bond program.

Sales of savings bonds in 1978 reached $8 billion, a peacetime record; but in 1979, as market interest rates increased, savings bonds sales fell to $7 billion. In the first three months of 1980 sales were only $1.4 billion, 26 percent below the first quarter in 1979 and 34 percent lower than sales in the first quarter of 1978.

The major problem, however, has been on the redemption side. In 1979 savings bonds redemptions were $12.3 billion, compared to $8.2 billion in 1978, an increase of 50 percent. Redemptions in the first quarter of 1980 were $6.4 billion, double the amount in the first three months of 1979 and more than three times the redemptions in the first quarter of 1978.

Consequently, the cash loss to the Treasury from the excess of redemptions over sales in the savings bond program was $5.3 billion in 1979, and was $5.0 billion in just the first three months of 1980. These cash losses to the Treasury 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 will be essential to increase the savings bond interest rate

promptly in order to avoid further substantial cash drains to the Treasury and permanent damage to the savings bond program. The amount of any necessary rate increase will depend on current market conditions and on the other terms and conditions offered to savings bonds investors. We are currently reviewing the savings bonds program to determine what changes need to be made. Thus, we are requesting that the present ceiling on the savings bond interest rate be repealed as soon as possible.

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

Debt Limit Process

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

Separate legislation for a statutory debt limit has not been an effective way for Congress to control the debt. 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.

The debt limit act of September 29, 1979, which established the current limit of $879 billion, also amended the rules of the House of Representatives to tie the establishment of the debt limit to the Congressional budget process. Under the new House rules, the Treasury still presents its debt limit requests in testimony before the House Ways and Means Committee, and that Committee makes its debt limit recommendations to the House Budget Committee. Yet, the vote by which the House adopts a budget resolution will be deemed to be a vote in favor of a joint resolution changing the statutory debt limit to the amount specified in the budget resolution. The joint resolution on the debt limit will then be transmitted to the Senate for further legislative action. No comparable procedure exists in the Senate. The Senate must still vote twice on the debt limit figure, in the budget resolution and in the separate debt limit bill. Thus, it is essential that your Committee act promptly to assure timely action by Congress on the debt limit.

Attachments

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ESTIMATED PUBLIC DEBT
SUBJECT TO LIMITATION
FISCAL YEAR 1980 -
Based on: Budget Receipts of $532 Billion,
Budget Outlays of $569 Billion,
Unified Budget Deficit of $37 Billion,
Off-Budget Outlays of $15 Billion

($ Billions)

	Operating Cash Balance	Public Debt Subject to Limit	With $3 Billion Margin for Contingencies
1979	ACTUAL		
September 28	$24.2	$828	
October 31	10.5	828	
November 30	5.6	835	
December 31	15.9	846	
1980			
January 31	16.6	849	
February 29	10.7	856	
March 31	8.2	865	
	ESTIMATED		
April 30	15.0	872	875
May 30	15.0	885	888
June 30	15.0	874	877
July 31	15.0	879	881
August 29	15.0	885	888
September 30	15.0	881	884

ESTIMATED PUBLIC DEBT
SUBJECT TO LIMITATION
FISCAL YEAR 1981
Based on: Budget Receipts of $628 Billion,
Budget Outlays of $612 Billion,
Unified Budget Surplus of $16 Billion,
Off-Budget Outlays of $19 Billion

($ Billions)

	Operating Cash Balance	Public Debt Subject to Limit	With $3 Billion Margin for Contingencies
1980			
October 31	$15	$891	$894
November 30	15	898	901
December 31	15	898	901
1981			
January 30	15	894	897
February 27	15	902	905
March 31	15	911	914
April 30	15	912	915
May 29	15	914	917
June 30	15	907	910
July 31	15	903	906
August 31	15	904	907
September 30	15	897	900

Federal Deficits and Debt, 1970-81
(in billions of dollars)

Fiscal Years	1970	1971	1972	1973	1974	1975	1976	TQ	1977	1978	1979	1980e	1981e
Federal funds deficit	13.1	29.9	29.3	25.6	18.7	52.5	68.9	11.0	54.5	61.5	46.1	50.1	-2.4
Less: 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	-18.3	-13.6	-14.1
Equals: Total unified budget deficit	2.8	23.0	23.4	14.8	4.7	45.2	66.4	13.0	45.0	48.8	27.7	36.5	-16.5
Plus: Deficit of off-budget Federal entities 1/	-	-	-	.1	1.4	8.1	7.3	1.8	8.7	10.3	12.4	15.0	18.7
Equals: Total deficit	2.8	23.0	23.4	14.9	6.1	53.1	73.7	14.7	53.7	59.2	40.2	51.5	2.2
Less: Nonborrowing means of financing 2/	2.6	-3.6	-3.9	4.4	-3.1	-2.4	9.2	3.3	-.1	-.1	-6.5	-12.2	-.7
Equals: 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	33.6	39.3	1.5
Plus: Change in debt held by Government agencies 3/	10.1	7.4	8.4	11.8	14.8	7.0	4.3	-3.5	9.2	12.2	19.7	13.6	14.1
Equals: 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	53.3	52.9	15.6
Less: Change in Federal agency debt	1.7	.3	1.3	-.2	-.9	1.1	-	-.2	1.4	1.4	1.6	.5	.6
Equals: 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	54.9	53.4	16.2
Plus: Change in other debt subject to limit 4/	-.7	-1.2	-	-.4	-	.1	.1	-	-	-	-	-	-
Equals: 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	54.9	53.4	16.1
Debt Outstanding end of FY													
Gross Federal debt 5/	382.6	409.5	437.3	468.4	486.2	544.1	631.9	646.4	709.1	780.4	833.8	886.6	902.3
Less: Federal agency debt 5/	12.5	12.2	10.9	11.1	12.0	10.9	11.4	11.7	10.3	8.9	7.2	6.7	6.1
Equals: Gross public debt	370.1	397.3	426.4	457.3	474.2	533.2	620.4	634.7	698.8	771.5	826.5	880.0	896.1
Plus: Other debt subject to limit 4/	2.5	1.3	1.3	.9	.9	1.0	1.1	1.1	1.1	1.1	1.1	1.1	1.0
Equals: Debt subject to limit	372.6	398.6	427.8	458.3	475.2	534.2	621.6	635.8	700.0	772.7	827.6	881.0	897.1

Office of the Secretary of the Treasury, Office of Government Financing — April 15, 1980

1/ Consists largely of Federal Financing Bank borrowings to finance off-budget programs.
2/ Largely reflects changes in the Treasury cash balance.
3/ Consists largely of trust fund surplus or deficit.
4/ Net of certain public debt not subject to limit.
5/ Fiscal year 1976 figure includes reclassification of $471 million of Export-Import Bank certificates of beneficial interest from asset sales to debt.

Source: Special Analysis E, U.S. Budget

e = estimate

UNIFIED BUDGET OUTLAYS AND PERCENT INCREASE PER YEAR—APR. 15, 1980

[Dollars in billions]

Fiscal year	Outlays	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	493.7	42.9	9.5
1980 (estimate)	568.9	75.2	15.2
1981 (estimate)	611.5	42.6	7.5

ESTIMATED OWNERSHIP OF PUBLIC DEBT SECURITIES—FEB. 29, 1980

[Dollars in billions]

	Amount	Percent
Held by:		
Federal Reserve System	$115.2	13.5
Government accounts	187.8	22.0
Total	303.0	35.5
Held by private investors:		
Individuals:		
Savings bonds	77.6	9.1
Other securities	36.7	4.3
Total individuals	114.4	13.4
Commercial banks	97.8	11.4
Insurance companies	14.3	1.7
Mutual savings banks	4.0	.5
Corporations	23.6	2.8
State and local governments	72.1	8.4
Foreign and international	124.8	14.6
Other investors	100.5	11.8
Total privately held	551.6	64.5
Total public debt securities outstanding	854.6	100.0

Note.—Figures may not add to totals due to rounding.

Source: Office of the Secretary of the Treasury Office of Government Financing—Apr. 15, 1980.

MATURITY DISTRIBUTION OF OFFICIAL FOREIGN HOLDINGS OF TREASURY PUBLIC DEBT SECURITIES, FEB. 29, 1980 [1]

[In millions of dollars]

Years to maturity	Marketable	Nonmarketable	Total
Under 1 year	48,966	10,085	59,051
1 to 5 years	23,024	9,595	32,619
5 to 10 years	1,001	5,001	6,002
Over 10 years	3		3
Total	72,994	24,681	97,675

[1] This table shows the maturity distribution of official foreign holdings of Treasury securities in custody and in the Treasury Deposit Funds.

Source: Office of the Secretary of the Treasury Office of Government Financing—Apr. 10, 1980.

Major foreign holders of Treasury public debt securities, Feb. 29, 1980

[In millions of dollars]

Oil exporting countries[1]	16,591
Belgium	186
Canada	2,412
France	7,510
Germany	38,861
Italy	4,338
Japan	17,065
Netherlands	2,370
Switzerland	10,359
United Kingdom	8,006
International and regional	6,762
All other	10,298
Total	[2] 124,758

[1] Bahrain, Iran, Iraq, Kuwait, Oman, Qatar, Saudi Arabia, United Arab, Emirates, Algeria, Babon, Libya, Nigeria, Indonesia, Venezuela, Ecuador.
[2] Partly estimated.

Source: Office of the Secretary of the Treasury, Office of Government Financing—Apr. 10, 1980.

CHANGES IN FOREIGN HOLDINGS OF PUBLIC DEBT SECURITIES

[In billions of dollars]

	Dec. 31, 1979	Feb. 29, 1980	Changes (preliminary)			
			Total	Nonmarketable	Marketable	
					Bills	Notes and bonds
Belgium	0.4	0.2	−0.2	0	−0.2	([1])
Canada	1.9	2.4	.5	−.1	.4	.2
France	6.7	7.5	.8	0	.8	([1])
Germany	39.9	38.9	−1.1	[2] .3	−1.0	−.3
Italy	4.6	4.3	−.3	0	−.3	([1])
Japan	16.7	17.1	.3	([1])	1.1	−.8
Netherlands	2.3	2.4	.1	([1])	.1	−.1
Switzerland	11.5	10.4	−1.1	([1])	−.8	−.3
United Kingdom	7.1	8.0	.9	0	.2	.7
International and regional	5.5	6.8	1.2	0	([1])	1.2
Oil exporting countries	15.0	16.6	1.5	.5	([1])	1.0
Other	7.2	8.1	.9	.0	.9	([1])
Total	118.9	122.5	3.6	.8	1.1	1.7
Unclassified[3]	4.8	2.2	−2.6			
Grand total	[4] 123.7	[4] 12.8	1.0			

[1] Change is less than $50 million.
[2] Change in nonmarketables includes $1.2 billion in Carter bonds issued in Germany on Jan. 25, 1980.
[3] Unclassified includes repurchase agreements not reported by country or security.
[4] Partly estimated.

Note.—Detail may not sum to totals due to rounding.

Source: Office of the Secretary of the Treasury, Office of Government Financing—Apr. 10, 1980.

FOREIGN AND INTERNATIONAL HOLDINGS OF PUBLIC DEBT SECURITIES [1]

[In billions of dollars]

December 31	Foreign and international holdings	Total public debt	Foreign and international as a percent of total public debt
1969	10.4	367.4	2.8
1970	19.7	388.3	5.1
1971	46.0	423.3	10.9

FOREIGN AND INTERNATIONAL HOLDINGS OF PUBLIC DEBT SECURITIES [1]—Continued

[In billions of dollars]

December 31	Foreign and international holdings	Total public debt	Foreign and international as a percent of total public debt
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
1978	137.8	789.2	17.5
December 1979	[2] 123.7	845.1	14.6
February 1980	[2] 124.8	854.6	14.6

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

Source: Office of the Secretary of the Treasury, Office of Government Financing—Apr. 15, 1980.

FEDERAL FINANCING REQUIREMENTS

[In billions of dollars]

Fiscal years	1979	1980 [1]	1981 [1]
Budget deficit	27.7	36.5	−16.5
Off-budget deficit	12.4	15.0	18.7
Total deficit	40.2	51.5	2.2
Means of financing other than borrowing from the public [2]	−6.5	−12.2	−.7
Total borrowing from the public	33.6	39.3	1.5
Increase in debt held by Government agencies	19.7	13.6	14.1
Increase in gross Federal debt	53.3	52.9	15.6

[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—Apr. 15, 1980.

DEBT SUBJECT TO LIMIT

[Fiscal years; in billions of dollars]

	Actual 1979	Estimate	
		1980	1981
Unified budget deficit	27.7	36.5	−16.5
Portion of budget deficit attributable to trust surplus or deficit (−)	18.3	13.6	14.1
Federal funds deficit	46.1	50.1	−2.4
Deficit of off-budget Federal entities	12.4	15.0	18.7
Total to be financed	58.5	65.1	16.3
Means of financing other than borrowing, and other adjustments	−3.6	−11.8	−0.2
Change in debt subject to limit	54.9	53.4	16.1
Debt subject to limit, beginning of year	772.7	827.6	881.0
Anticipated debt subject to limit, end of year	827.6	881.0	897.1

Source: Office of the Secretary of the Treasury, Office of Government Financing—Apr. 9, 1980.

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Federal Deficits and Debt, 1970-81
(in billions of dollars)

Fiscal Years	1970	1971	1972	1973	1974	1975	1976	TQ	1977	1978	1979	1980e	1981e
Federal funds deficit	13.1	29.9	29.3	25.6	18.7	52.5	68.9	11.0	54.5	61.5	46.1	50.1	-2.4
Less: 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	-18.3	-13.6	-14.1
Equals: Total unified budget deficit	2.8	23.0	23.4	14.8	4.7	45.2	66.4	13.0	45.0	48.8	27.7	36.5	-16.5
Plus: Deficit of off-budget Federal entities 1/	-	-	-	.1	1.4	8.1	7.3	1.8	8.7	10.3	12.4	15.0	18.7
Equals: Total deficit	2.8	23.0	23.4	14.9	6.1	53.1	73.7	14.7	53.7	59.2	40.2	51.5	2.2
Less: Nonborrowing means of financing 2/	2.6	-3.6	-3.9	4.4	-3.1	-2.4	9.2	3.3	-.1	-.1	-6.5	-12.2	-.7
Equals: 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	33.6	39.3	1.5
Plus: Change in debt held by Government agencies 3/	10.1	7.4	8.4	11.8	14.8	7.0	4.3	-3.5	9.2	12.2	19.7	13.6	14.1
Equals: 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	53.3	52.9	15.6
Less: Change in Federal agency debt	1.7	.3	1.3	-.2	-.9	1.1	-	-.2	1.4	1.4	1.6	.5	.6
Equals: 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	54.9	53.4	16.2
Plus: Change in other debt subject to limit 4/	-.7	-1.2	-	-.4	-	.1	.1	-	-	-	-	-	-
Equals: 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	54.9	53.4	16.1
Debt Outstanding end of FY													
Gross Federal debt 5/	382.6	409.5	437.3	468.4	486.2	544.1	631.9	646.4	709.1	780.4	833.8	886.6	902.3
Less: Federal agency debt 5/	12.5	12.2	10.9	11.1	12.0	10.9	11.4	11.7	10.3	8.9	7.2	6.7	6.1
Equals: Gross public debt	370.1	397.3	426.4	457.3	474.2	533.2	620.4	634.7	698.8	771.5	826.5	880.0	896.1
Plus: Other debt subject to limit 4/	2.5	1.3	1.3	.9	.9	1.0	1.1	1.1	1.1	1.1	1.1	1.1	1.0
Equals: Debt subject to limit	372.6	398.6	427.8	458.3	475.2	534.2	621.6	635.8	700.0	772.7	827.6	881.0	897.1

Office of the Secretary of the Treasury, Office of Government Financing

April 11, 1980

1/ Consists largely of Federal Financing Bank borrowings to finance off-budget programs.
2/ See attached table.
3/ Consists largely of trust fund surplus or deficit.
4/ Net of certain public debt not subject to limit.
5/ Fiscal year 1976 figure includes reclassification of $471 million of Export-Import Bank certificates of beneficial interest from asset sales to debt.

Source: Special Analysis E, U.S. Budget

e = estimate

MEANS OF FINANCING OTHER THAN BORROWING FROM THE PUBLIC

[In millions of dollars]

	1979 actual	1980 estimate	1981 estimate
Decrease or increase (−) in cash and monetary assets	2,131	10,103	
Increase or decrease (−) in liabilities for:			
Checks outstanding, etc.	735	282	−308
Deposit fund balances	2,662	898	584
Seigniorage on coins	992	953	447
Total	6,521	12,236	723

Source: Office of the Secretary of the Treasury, Office of Government Financing—Apr. 11, 1980.

FUNDS RAISED IN U.S. CREDIT MARKETS

[Dollars in billions]

Fiscal year	Total	Federal	Federal as percent of total
1976	$308.9	$82.9	26.8
1977	380.7	53.5	14.1
1978	486.8	59.1	12.1
1979	530.9	33.6	6.3
980 (estimate)	418.8	39.3	9.4
1981 (estimate)	359.1	1.5	0.4

The interest rate assumptions used by OMB in the March Budget Revisions to estimate interest on the public debt for fiscal year 1981:

[In percent]

Maturity:	*Interest rates*[1]
13 weeks[2]	9.9
26 weeks[2]	10.0
52 weeks[2]	10.4
1 to 3 years	11.6
3 to 6 years	10.8
Over 6 years	11.0

[1] Fiscal year 1981 averages.
[2] Bank discount basis.

FOREIGN HOLDINGS OF TREASURY PUBLIC DEBT SECURITIES—FEB. 29, 1980

[Dollars in billions]

	Amount	Percent
Foreign and international official accounts	$111.7	89.5
Other	13.1	10.5
Total	124.8	100.0

Source: Office of the Secretary of the Treasury, Office of Government Financing—Apr. 15, 1980.

OWNERSHIP OF FEDERAL AGENCY DEBT, MAR. 31, 1980

[In millions of dollars]

	Outstanding	Federal Reserve and Government accounts	Privately held
Export-Import Bank	778	16	762
Federal Housing Administration	551	163	388

OWNERSHIP OF FEDERAL AGENCY DEBT, MAR. 31, 1980—Continued

[In millions of dollars]

	Outstanding	Federal Reserve and Government accounts	Privately held
Government National Mortgage Association	2,979	1,327	1,652
Postal Service [1]	250	37	213
Tennessee Valley Authority	1,725		1,725
Other [2]	710	77	710
Total	6,993	1,620	5,373

[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—Apr. 30, 1980.

Senator BYRD. The next witness will be the Honorable James T. McIntyre, Director of the Office of Management and Budget.

Welcome, Mr. McIntyre. We are glad to have you.

Mr. MCINTYRE. Good morning, Mr. Chairman.

Mr. Chairman, I have a prepared statement that I would like to submit for the record and limit my comments this morning to a few introductory remarks about the budget.

I would like to submit the prepared statement for the record.

Senator BYRD. Fine. Your total statement will be published in the record.

Mr. MCINTYRE. Thank you.

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

Mr. MCINTYRE. Mr. Chairman and Senator Dole, it is a pleasure to appear before you today and support the Treasury's request for an increase in the statutory debt limit and its proposals for improving the management of the Federal debt.

At the end of March, the administration released its revision of the 1981 budget.

In contrast to previous spring revisions, this year's report reflects more than technical reestimates. The current revisions also reflect: Reestimates of receipts and outlays in light of revised economic assumptions; policy changes enacted by the Congress or proposed by the President since the January budget was issued; and, most importantly, budget reductions and tax measures proposed as part of the administration's anti-inflation program.

As a result of these changes, the debt subject to limit at the end of 1981 is now estimated to total $37.1 billion less than the January estimate.

We have shown in my formal presentation that the fiscal year 1980 budget deficit is now estimated at $36.5 billion. This is $3.2 billion less than the estimate in the January budget.

Outlays are estimated at $568.9 billion for 1980 and receipts are estimated at $532.4 billion. The current budget estimates for 1981 call for total outlays of $611.5 billion, which is $4.2 billion less than January; and receipts are estimated at $628 billion, which is $28 billion above the January estimate.

This results in a 1981 budget surplus of $16.5 billion—the first balanced budget in 12 years.

Let me review some of the specific changes in the totals since the January budget. Estimates of outlays for 1980 have increased, on net, by $5.4 billion, to $568.9 billion.

Reestimates increase outlays $8 billion compared to January, but these reestimates are partially offset by planned reductions of $2.6 billion. Estimates of 1981 outlays have decreased since the January budget from $615.8 billion to $611.5 billion. This $4.2 billion decrease is the net result of reestimates due largely to revised economic assumptions, which increase outlays $13 billion, and planned reductions in outlays of $17.2 billion.

The current estimate of 1980 receipts is $532.4 billion—$8.6 billion above the January estimate. This increase is primarily due to the higher economic estimates stemming from revised economic assumptions and the administration's tax proposals for motor fuels conservation and for withholding taxes on interest and dividend payments. It should be noted that even without these revenue-increasing tax proposals, the 1981 budget would still be balanced.

Mr. Chairman, you do not know how pleased I am to appear before you this year and say that we have complied with the Byrd amendment requiring a balanced budget.

Senator BYRD. I tell you, Mr. McIntyre, before commenting approvingly in that regard, I am going to let a little time expire. I am not totally convinced that is the case.

If it is the case, it would be because of an increase in the amount of taxes being taken from the American people. It will not come about as a result of a reduction in spending and that is what really needs to be done.

Mr. MCINTYRE. Mr. Chairman, we can get into that at the appropriate time, but I would have to say that there has also been a reduction in the level of spending.

Senator BYRD. We will get into that. That is good.

It was exactly 6 months ago that the Congress approved spending outlays for fiscal 1980 of $548 billion. Your new revised outlay proposal is for $612 billion in round figures and that is an increase of $64 billion.

That is not reducing spending, that is not getting spending under control in any way, shape or form. What your original budget proposed was a $68 billion increase over the budget resolution approved by the Congress 6 months ago. Your revised budget proposed a $64 billion increase.

I admit a $64 billion increase is better than a $68 billion increase, but it is a huge increase. The American people are being led to believe that there has been a reduction in spending. Instead, there has been a substantial increase in spending.

I think it is unfortunate that the American people, in my judgment, are being misled by statements out of Washington. I do not think that the sophisticated ones are being misled, but those who just read the headlines and get some skimps of the TV news are being misled.

What needs to be done is to get spending under control and that certainly has not been done.

You mentioned that the Byrd amendment will be complied with by a balanced budget. I hope it will be complied with, but if it is, it will be complied with only because this administration is taking from the American people the highest percentage in taxes of any year in history compared to the gross national product.

Now, let me ask you this. Do you agree or disagree that our Nation faces severe economic problems in the months ahead?

Mr. McINTYRE. Unless we take action to deal with inflation, yes, we do face severe economic problems in the months ahead.

Even if we do take action, we face some months of very discomforting news with respect to the economy.

Senator BYRD. I think that is certainly correct.

Now, in my judgment, the Federal Government for the last 15 years has been, and is now, a spendaholic. Do you agree or disagree?

Mr. McINTYRE. I plead Secretary Miller's answer to that question. I would not want to take away the credit for that terminology.

I would agree, Senator, in all seriousness that we do need to control the rapid rate of growth that we have seen in Federal spending.

Senator BYRD. You have a rate of growth of 15 percent in this fiscal year.

Mr. McINTYRE. How much?

Senator BYRD. Fifteen percent in this year's, over the last budget resolution.

Mr. McINTYRE. The real rate of growth is virtually—well, maybe a quarter of 1 percent in the 1981 budget over 1980, and that is with a real rate of growth of approximately 3 percent in defense, which I know you certainly support, and would not want to see reduced, and also with our commitments in the energy area.

Senator BYRD. We are not speaking about the reasons, Mr. McIntyre. We are speaking of what the facts are.

Mr. McINTYRE. The reasons are essential to understand what is happening to the Federal Government spending program and without understanding the reasons, we will not be able to address the causes of the problems, Mr. Chairman.

Senator BYRD. We understand the reasons. We may not agree on the exact reasons. You do not dispute these figures I am going to mention now. I already mentioned them, as a matter of fact.

The last budget resolution for fiscal 1980 provided for spending of $548 billion. This is what Congress approved 6 months ago. You proposed to spend in this upcoming year $612 billion in round figures, a $64 billion increase.

So it is all right to talk to the American public about reducing spending, but when you look at the figures, there has been a tremendous, huge, increase in spending proposed if your budget is adopted. I think your budget ought to be cut sharply.

Mr. McINTYRE. Mr. Chairman, there are reasons for this growth in expenditures.

Senator BYRD. I have heard that from witnesses before this committee going back 15 years or more. Everybody has some reason as to why. That is why we are in this fix. There is always some good reason as to why we have to have more and more deficit spending.

Mr. McINTYRE. May I throw out a few reasons?

Senator BYRD. Certainly.

Mr. MCINTYRE. First of all, the increase in real growth is very important for the national security, very important to turn around.

Senator BYRD. Let me comment on that.

Of your $64 billion increase, 25 percent or less, 25 percent in round figures goes to defense, 75 percent is elsewhere.

Mr. MCINTYRE. A large portion of that elsewhere is social security, Senator. I have not found anybody in the Congress who is willing to take that on.

Senator BYRD. A large portion is elsewhere in the budget also and probably I am the only Senator who has submitted precise proposals where I am convinced that you can cut your budget by $26 billion—I do not say without pain. I do not think there is any painless way out of our situation.

I say that the administration has not faced up to the problem, however.

Let me ask you about this. Dr. Rivlin, who will follow you—I am reading her testimony at the moment—says this.

> The deficit of off-budget entities is estimated at about $18 billion to $19 billion in 1981. CBO has recommended that the budget activities of all off-budget entities be brought into the budget so that the unified budget will fully reflect Federal Government spending.

Do you favor or oppose that proposal?

Mr. MCINTYRE. In the long run, I would hope that we could pull the off-budget Federal entities back on budget. As you know, they are statutorily off budget.

I would hope——

Senator BYRD. Would you favor a change in the statute?

Mr. MCINTYRE. Over the long haul I think it is very important to get these entities back on budget. Most of these outlays reflect loan programs, and as an interim measure, Mr. Chairman, we have, in the executive branch, proposed a budget for the credit activities as an integral part of our 1981 budget proposal. That includes most off-budget activity.

We think that it is important to look at the total impact that the Federal borrowing and spending has in the economy and therefore we have proposed to the Congress that we write into appropriations bills limitations on the amount of credit that certain of the off-budget agencies can extend so that we can limit this credit activity.

I think this is a good first step to control Federal credit, and then as we get the current budget, the unified budget in better shape, I would hope that we could move these off-budget entities back on-budget where they belong where we can look at them properly.

Senator BYRD. Let me ask you this. If the off-budget items were in the budget today, what would be the figure for fiscal year 1981, surplus or deficit?

Mr. MCINTYRE. The figure for fiscal year 1981 would be $16.3 billion, depending on whose figures you are using. Ours would be $16.3 billion.

Senator BYRD. What?

Mr. MCINTYRE. $16.3 billion.

Senator BYRD. Do you mean surplus or deficit?

Mr. MCINTYRE. Deficit.

Senator BYRD. Deficit.

So if you used the off-budget process as Dr. Rivlin recommends—and I must say I agree with her—there would be a $16 billion deficit in fiscal year 1981?

Mr. McINTYRE. That is correct.

Senator BYRD. If you use the off-budget proposal, if you take the off-budget items and put it in the budget for fiscal 1980, what would be the deficit?

Mr. McINTYRE. The total to be financed would be about $65 billion, including the trust funds surplus.

Senator BYRD. $65 billion.

So I would say that we are quite a long way from putting the Federal Government——

Mr. McINTYRE. I need to clarify that, Mr. Chairman. I have read you a figure on my chart here that includes more than the combined on-budget and off-budget deficit. Let me give you the deficit figures.

For 1981, we would be $2.2 billion in deficit. My earlier figure of $65 billion did not include the trust funds which would be used.

Senator BYRD. You were talking about Federal funds?

Mr. McINTYRE. Yes, sir.

Senator BYRD. Yes.

Mr. McINTYRE. And $51.5 billion in 1980.

Senator BYRD. Speaking of the general operations of Government, namely the Federal funds, it seems to me that that is the key to it. It would be $65 billion for 1980.

Mr. McINTYRE. That is correct, if you discount the surplus in the trust funds.

Senator BYRD. Yes.

When do you see a decline in interest rates, and to what degree?

Mr. McINTYRE. Mr. Chairman, I have never tried to predict what is going to happen to interest rates. My expectations, however, would be if we could get inflation down then we could expect to see interest rates come down.

My judgment is that if we could get a budget balance adopted by the Congress and if the other elements of the President's anti-inflation proposals are successfully executed, then I would hope that we could see interest rates begin to decline in consonance with the decline in the inflation rate.

Senator BYRD. When do you look for a significant reduction in the inflation rate?

Mr. McINTYRE. My hope is that some time during the summer or early fall we will see the inflation rate begin to drop. I say that because the mortgage interest rates that have been occurring in the last several months are continuing to work their way through the system and will show up, statistically speaking, in the CPI's of the next couple of months.

The same is true for the experience of higher prices for energy and I would hope, as the President's anti-inflation program took effect, that we would see the inflation rate beginning to drop off during the summer and fall.

Senator BYRD. Could you enlighten us as to just what the President's anti-inflation program is?

Mr. McINTYRE. Yes, sir.

A key element of it is our proposal for a balanced budget, a tighter fiscal policy. I think that while that balanced budget is not a cure-all, it is certainly an important element of the President's anti-inflation package.

In addition to that, the President has issued his new pay and price guidelines. These are voluntary guidelines.

To date, I think that the program has been successful. We have not seen, as Secretary Miller said, a spillover of the effects of higher energy prices into wages at this point.

So continued aggressive enforcement of the voluntary wage and price program, I think, is an important element, also, of the President's anti-inflation package.

In addition to that, the tightening of consumer credit is an important element as well as, in the long term, dealing with some of the structural problems in our economy, particularly with taking action to improve productivity and to increase the ability for capital formation, for business expansion.

These are very important elements of the President's overall program.

Senator BYRD. Excuse me. What has been done, or what has been recommended with regard to capital formation and productivity?

Mr. MCINTYRE. One of the things we have done for productivity is to keep up our expenditures, provide for real rates of growth for research and development in the Federal budget.

I think that this is a very important element in improving our technology in the United States and in providing for the technological breakthroughs through basic research that can lead us to greater productivity.

So that, in the budget itself, we have taken some action.

When you talk about productivity, most people think in terms of tax policy and at this point our position is that we think that the first essential element in the effort to control inflation is to balance the budget.

After we have some assurance that the Federal Government will control expenditures and that we can have a balanced budget, then we would certainly favor moving toward some changes in the tax area to improve productivity and capital formation.

Senator BYRD. It is interesting to note that you do not feel assured that fiscal discipline has been restored to the Federal Government?

Mr. MCINTYRE. The President can propose, but the Congress has to dispose, Mr. Chairman.

Senator BYRD. The President proposed a $64 billion increase in spending. Is that going to restore confidence on the part of the American people that Government spending is being got in control? Is that going to restore confidence on the part of foreign countries that this runaway spending of the Federal Government is being got under control?

I do not think it is. Maybe you think it is, but I do not think it is.

Mr. MCINTYRE. Mr. Chairman, if we had not cut the budget, the expenditures in the budget would have been closer to $80 billion, using your figures—using your figures, it would have been closer to $80 billion if we had not cut the budget.

Senator BYRD. Let's use my figures—they are not really my figures. They are what the Congress itself did. $548 billion—here is no dispute on that figure; is there?

Mr. MCINTYRE. Well, we think that the actual 1980 budget is going to be higher than that.

Senator BYRD. I am saying what the Congress itself has approved.

Mr. MCINTYRE. So far.

Senator BYRD. Six months ago today.

Mr. MCINTYRE. So far, yes, sir.

Senator BYRD. $548 billion.

And you recommend spending $612 billion—and I say again, that amounts to a $64 billion increase in spending.

Mr. MCINTYRE. Mr. Chairman, the Congress action itself last year has resulted in a higher level of spending than is in the current budget.

Senator BYRD. I am not defending the Congress. I think the Congress has been totally irresponsible through the years. I am not defending Congress. I am just saying what the figures are.

The figures are a matter of record. They are not my figures. I think that it is discouraging that such a huge increase is being proposed at a time like this and I think it is doubly discouraging when the public is being led to believe that there has been a reduction in Government spending—which, of course, there has not been, as we both know.

I do not advocate a reduction beyond or below what the spending was in a previous year, but I do think that you are going to have to moderate the great increase in spending that has taken place over the years and is taking place for this upcoming year if your budget is approved.

Do you feel that there should or should not be a substantial reduction in the total spending figure of $612 billion?

Mr. MCINTYRE. I do not think that there should be a substantial reduction in the figure of $612 billion. In fact, Mr. Chairman, I think that it is going to take all of our efforts to keep spending from going above the $612 billion figure, both the administration's efforts and the Congress effort—and I hope we can count on you to join us in that.

Senator BYRD. I think that you are correct in thinking that it is going to take effort. I would be glad if you would endorse my $26 billion reduction.

I have come in with a reduction substantially below what you came in with. I would be glad if you would endorse that.

But you do not feel there should be any reduction below $612 billion?

Well, I know you have a tough job. But I think that the record ought to be clear that the administration is proposing a tremendous increase in spending as compared to what the Congress approved for this fiscal year just 6 months ago, a big increase in spending for this fiscal year 1980 that you have proposed and you propose a big increase over and above that for the upcoming fiscal year.

Mr. MCINTYRE. That is correct, and the big increase in 1980 is attributable to a couple of factors. One is a huge increase in de-

fense spending. Two, increases in some of the entitlement programs such as social security and also a commitment to meet other important Federal responsibilities to the poor, such as food stamps.

I think that it is important that we meet the statutory needs and the entitlement requirements until the Congress has acted to change the law, Mr. Chairman.

Senator BYRD. The law has a ceiling on food stamps. You propose to take the ceiling off?

Mr. MCINTYRE. That is correct.

Senator BYRD. Is that not correct?

Mr. MCINTYRE. That is correct.

Senator BYRD. You proposed a 65-percent increase in food stamps by taking the ceiling off.

Mr. MCINTYRE. $2.6 billion.

Senator BYRD. You are seeking a change in the statute to permit an increase in spending?

Mr. MCINTYRE. Mr. Chairman, we are seeking a change in the statute in order to avoid completely cutting the food stamp benefits off in May for the month of June. If we do not take action to increase it, we are going to have to completely shut down the food stamp program.

My judgment is that that would last about 30 seconds before the Congress enacted to relieve that cap.

What we are trying to do is something that is prudent and responsible to keep us out of a crisis situation.

Senator BYRD. I think that it is ridiculous to say that it is prudent and responsible to increase the food stamp cost by 56 percent.

Mr. MCINTYRE. We did not increase the cost by 56 percent. The fact is that the people who are eligible and the number of participants in the program require us to add $2.6 billion to the program in order to keep it going for the remainder of this year.

If we do not fund that program, the additional money that the President has requested, then the food stamp program will have to be shut down.

Senator BYRD. What was the figure for the food stamp program in the concurrent resolution adopted November 16, 1979?

Mr. MCINTYRE. As you know, the resolution is not made up of exact figures; certain assumptions are made to reach a total. I will have to get the exact figure of what was assumed, but it was somewhere around $6 billion.

Senator BYRD. A little over $6 billion.

Mr. MCINTYRE. Around $6 billion.

Senator BYRD. In the new budget, what is it? A little over $9 billion?

Mr. MCINTYRE. Between $8 billion and $9 billion—$2.6 billion above the figure in the 1980 concurrent resolution.

Senator BYRD. One final question. It is correct, is it not, that if the budget is balanced that it will be balanced not by reducing spending but by increasing the revenue which is being taken from the American people?

Mr. MCINTYRE. The budget will be balanced in two ways: By cutting spending from what it otherwise would have been and by not using additional or new taxes. The withholding tax on interest

and dividends and the gasoline conservation fee will not be used as a substitute to expenditure reduction to balance this budget.

I hope that we have the opportunity to explain that we can achieve this balanced budget without these new taxes. Recognizing the difficulties that we have in the economy and the uncertainties that we have in the economy, our policies do pave the road for the economic situation over the next several months—assuming the Congress supports the President's expenditure figures, an expenditure in the neighborhood of $612 billion—that encourage the productivity changes that need to occur and the tax changes that need to occur in the future.

But I think it is very important that we balance the budget and that we preserve the surplus that is generated primarily from the gasoline conservation fee and the withholding on interest and dividends until we have some assurance that Congress will adopt the President's proposals for Government expenditures.

Senator BYRD. The January 28 budget that you submitted estimated revenues to be $600 billion and then just willy-nilly, 2 months later, you increased that figure to $628 billion and, of course, you get a much better financial picture by doing that.

No. 1, we will have to see whether the revenues do actually come to that figure and if they do, that means, of course, that the American people are paying more. The Government gains by inflation. It throws people into higher tax brackets.

The American citizens are paying more taxes and the budget, if it is balanced—and I am not convinced it will be balanced—but if it will be balanced, it will be balanced by increased revenues and not by a reduction in spending.

Insofar as supporting the President's program, his spending program, I would be frank with you—I do not expect to support it. I expect to vote to reduce it. I do not know how many votes I will get, but I will make every effort to reduce that $612 billion.

Thank you very much, Mr. McIntyre.

Mr. MCINTYRE. 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.

At the end of March, the Administration released its revision of the 1981 budget. I would like to submit for the record a copy of President Carter's message to the Congress accompanying that update.

In contrast to previous spring revisions, this year's report reflects more than technical reestimates. The current revisions also reflect: reestimates of receipts and outlays in light of revised economic assumptions; policy changes enacted by the Congress or proposed by the President since the January budget was issued; and, most importantly, budget reductions and tax measures proposed as part of the Administration's anti-inflation program. As a result of these changes, the debt subject to limit at the end of 1981 is now estimated to total $37.1 billion less than the January estimate. My statement will discuss briefly our revised budget estimates and their effect on the debt subject to the statutory limitation. The requests that the Treasury is making today are consistent with the March budget revisions.

BUDGET TOTALS

As shown in the following table, the fiscal year 1980 budget deficit is now estimated at $36.5 billion. This is $3.2 billion less than the estimate in the January

budget. Outlays are estimated at $568.9 billion for 1980, and receipts are estimated at $532.4 billion. The current budget estimates for 1981 call for total outlays of $611.5 billion, which is $4.2 billion less than January; and receipts are estimated at $628.0 billion, which is $28.0 billion above the January estimate. This results in a 1981 budget surplus of $16.5 billion—the first balanced budget in 12 years.

TABLE 1.—BUDGET TOTALS

[Fiscal years; in billions of dollars]

	Actual 1979	Estimate 1980	Estimate 1981
Budget receipts	465.9	532.4	628.0
Budget outlays	493.7	568.9	611.5
Budget surplus or deficit (−)	−27.7	−36.5	16.5

OUTLAYS AND RECEIPTS

Let me review some of the specific changes in the totals since the January budget. Estimates of outlays for 1980 have increased, on net, by $5.4 billion, to $568.9 billion. Reestimates increase outlays $8.0 billion compared to January, but these reestimates are partially offset by planned reductions of $2.6 billion. Estimates of 1981 outlays have decreased since the January budget from $615.8 billion to $611.5 billion. This $4.2 billion decrease is the net result of reestimates due largely to revised economic assumptions, which increase outlays $13.0 billion, and planned reductions in outlays of $17.2 billion.

The current estimate of 1980 receipts is $532.4 billion—$8.6 billion above the January estimate. This increase is due primarily to higher incomes and the gasoline conservation fee, partially offset by lower windfall profit tax receipts.

For 1981 the receipts estimate is $628.0 billion, $28.0 billion above the January estimate. This increase is primarily due to the higher income estimates stemming from revised economic assumptions and the Administration's tax proposals for motor fuels conservation and for withholding taxes on interest and dividend payments. It should be noted that even without these revenue-increasing tax proposals, the 1981 budget would still be balanced.

THE BUDGET BY FUND GROUP

Table 2 compares our January and current estimates of the budget surplus or deficit for 1980 by fund group, and Table 3 shows the current budget totals by fund group.

TABLE 2.—SURPLUS OR DEFICIT BY FUND GROUP, 1980

[Fiscal year; in billions of dollars]

	Estimate January	Estimate Current	Change
Federal funds	−57.8	−50.1	7.7
Trust funds	18.1	13.6	−4.5
Off-budget Federal entities	−16.8	−15.0	1.7

The $3.2 billion decline in the estimated budget deficit for 1980 since January is the result of a decline in the Federal funds deficit that is only partially offset by a decline in the trust funds surplus.

TABLE 3.—BUDGET TOTALS BY FUND GROUP

[Fiscal years; in billions of dollars]

	Actual 1979	Estimate	
		1980	1981
Receipts:			
Federal funds	316.4	361.3	430.5
Trust funds	189.6	216.0	243.6
Interfund transactions	−40.1	−44.9	−46.1
Total, receipts	465.9	532.4	628.0
Outlays:			
Federal funds	362.4	411.4	428.1
Trust funds	171.3	202.4	229.5
Interfund transactions	−40.1	−44.9	−46.1
Total, outlays	493.7	568.9	611.5
Surplus or deficit (−):			
Federal funds	−46.1	−50.1	2.4
Trust funds	18.3	13.6	14.1
Total, surplus or deficit (−)	−27.7	−36.5	16.5

Table 4 shows revised estimates of debt subject to statutory limitation, and displays numerically the derivation of the change in debt subject to limit in 1979, 1980, and 1981. The estimates are based on our current revisions.

Let me take a moment to discuss this derivation. The unified budget deficit—$36.5 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 with surpluses. The trust funds as a whole are expected to run net surpluses of $13.6 billion in 1980 and $14.1 billion in 1981.

Added to that are borrowing requirements arising from the activities of off-budget Federal entities, the largest of which is the Federal Financing Bank. Off-budget deficits, like the budget deficit, must be financed by Government borrowing. The total deficit of the off-budget Federal entities is estimated at $15.0 billion in 1980 and $18.7 billion in 1981.

This brings us to a total amount to be financed of $65.1 billion in 1980 and $16.3 billion in 1981. 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 other adjustments, such as changes in debt not subject to limit. Means of financing other than borrowing include changes in cash balances and checks outstanding, seigniorage, and miscellaneous factors.

The estimated increase in debt subject to limit is $53.4 billion in 1980. In 1981, debt subject to limit rises by $16.1 billion, notwithstanding the budget surplus, because of the borrowing requirements of off-budget Federal entities and the need to provide debt securities to trust funds that experience surpluses.

TABLE 4.—DEBT SUBJECT TO LIMIT

[Fiscal years; in billions of dollars]

	Actual 1979	Estimate	
		1980	1981
Budget deficit or surplus (−)	27.7	36.5	−16.5
Portion of budget deficit or surplus attributable to trust funds surplus	18.3	13.6	14.1
Federal funds deficit or surplus (−)	46.1	50.1	−2.4
Deficit of off-budget Federal entities	12.4	15.0	18.7
Total to be financed	58.5	65.1	16.3
Means of financing other than borrowing, and other adjustments	−3.6	−11.8	−0.2
Change in debt subject to limit	54.9	53.4	16.1
Debt subject to limit, beginning of year	772.7	827.6	881.0
Debt subject to limit, end of year	827.6	881.0	897.1

Table 5 compares the current and January derivations of the change in debt subject to limit in 1981. The budget surplus or deficit swings $32 billion in the direction of surplus, from a $16 billion deficit to a $16 billion surplus, and the change in debt subject to limit falls by nearly the same amount, $31 billion.

Another point to be noted in this table is that there are offsetting changes of $17 billion in trust fund surpluses and in "means of financing other than borrowing, and other adjustments." This results primarily from a change in the classification of the energy security program. The January estimates has assumed that this program would take the form of a trust fund, the surpluses of which would not be invested in debt and therefore were counted as "other adjustments." In fact, the program was enacted as a Federal fund. As a result, the combined trust fund surplus drops by $17 billion, and the Federal funds swing toward surplus by $17 billion more than the $32 billion swing in the budget total. An offsetting $17 billion change occurs in means of financing other than borrowing, as the adjustment for the effects of the anticipated uninvested surplus of the energy security trust fund becomes zero. Thus, there is no net effect on the change in debt subject to limit as a result of this reclassification from trust funds to Federal funds. A similar change, though of smaller magnitude ($5.7 billion), effects the composition of the 1980 estimates.

TABLE 5.—DEBT SUBJECT TO LIMIT, 1981

[Fiscal year; in billions of dollars]

	Estimate		Change
	January	Current	
Budget deficit or surplus (−)	15.8	−16.5	−32.3
Portion of budget deficit or surplus attributable to trust funds surplus	30.8	14.1	−16.7
Federal funds deficit or surplus (−)	46.5	−2.4	−48.9
Deficit of off-budget Federal entities	18.1	18.7	0.6
Total to be financed	64.6	16.3	−48.3
Means of financing other than borrowing, and other adjustments	−17.6	−0.2	17.4
Change in debt subject to limit	47.1	16.1	−31.0

This concludes my prepared statement, Mr. Chairman. I would be happy to answer any questions.

Senator BYRD. Dr. Rivlin, we are pleased to have you.

Ms. RIVLIN. Thank you, Mr. Chairman. I am pleased to be here.

Senator BYRD. You have a fine record in this field, a deep knowledge of these problems and the committee is pleased that you joined us today.

You may proceed as you wish.

Ms. RIVLIN. Thank you.

STATEMENT OF ALICE M. RIVLIN, DIRECTOR, CONGRESSIONAL BUDGET OFFICE

Ms. RIVLIN. Thank you.

Mr. Chairman, I am pleased to appear before you today to testify on the Treasury's request for an increase in the statutory debt limit. My statement will cover three principal topics:

The budget estimates for the current fiscal year;

The implications for the statutory debt limit in the next fiscal year if the 1981 budget is balanced; and

The effect of off-budget Federal lending on the public debt.

BUDGET ESTIMATES FOR FISCAL YEAR 1980

The second concurrent resolution for fiscal year 1980 approved by the Congress last November specified revenues of $517.8 billion,

outlays of $547.6 billion, and a deficit of $29.8 billion. The appropriate level of the public debt for the fiscal year was estimated to be $886.4 billion.

Since then it has become apparent—on the basis of our latest economic forecast, actual spending through February, and the administration's March budget estimates—that 1980 outlays will be significantly higher than specified in the second resolution.

On March 3, CBO informed the Chairman of the Senate Budget Committee that our current estimates of outlays from actions already completed by the Congress would exceed the second resolution outlay ceiling by $10 billion.

The effect of these new spending estimates has been essentially to halt congressional action on various supplemental appropriations requested by the administration until the second resolution spending ceilings can be revised.

The increased estimates of outlays did not result from congressional action. They stem from such causes as higher interest costs, higher rates of inflation, higher farm price supports resulting largely from the grain embargo announced in January, lower asset sales of federally held mortgages and loans, and faster spending rates for defense procurement and several Federal grant programs.

On March 5, at the request of the Budget Committees, CBO issued a revised economic forecast for 1980 and 1981 to take account of the recent acceleration in inflation and other developments. The new forecast for 1980 projected higher inflation, attributable partly to higher interest rates, and slightly lower unemployment rates than our January forecast. The details of this revised forecast are described in my testimony before the Senate Budget Committee, which is attached to my statement for your information.

On the basis of this revised economic forecast, we estimate that outlays in 1980 that would result from actions already completed by the Congress would total $560.8 billion, or $13 billion above the second resolution ceiling. The principal reason for the $3 billion further increase in estimated outlays since March 3 is higher interest costs.

Senator BYRD. Could I ask you at that point what assumptions do you make in determining the interest costs? What rate assumptions?

Ms. RIVLIN. We are roughly similar to what Secretary Miller is assuming, except that our assumptions for longer term securities are a little higher.

Senator BYRD. Thank you.

Ms. RIVLIN. The administration has proposed a number of supplemental appropriations for fiscal year 1980, the largest of which are for defense, food stamps, and energy programs. The administration's latest estimate for 1980 oulays, as of March 31, is $568.9 billion. The House Budget Committee has recommended that the second resolution outlay ceiling be raised to $567 billion.

The Senate Budget Committee has recommended a revised ceiling of $566.4 billion. Actual spending through February was $234 billion, or almost 16 percent above the level of outlays for the first 5 months of fiscal year 1979. If this rate were to continue for the remainder of this fiscal year, 1980 outlays could be as high as $571

billion. Thus, the likely level for 1980 outlays at this point appears to be in the range of $566 billion to $571 billion.

Revenues for 1980 are also expected to be higher than the second resolution estimate, largely due to the higher forecast for inflation and the new oil import fee imposed last month by the President. Our current estimate of 1980 revenues, including those from the windfall profits tax, is $529 billion. This implies a 1980 deficit of $37 billion to $42 billion, which is $7 billion to $12 billion above the second resolution level.

THE DEBT CEILING FOR 1980

The temporary limit on the public debt, scheduled to expire on May 31, 1980, is $879 billion. The House Budget Committee recommends that the temporary limit be raised to $897 billion for fiscal year 1980, an increase of $18 billion.

The Budget Committee's recommended limits for 1980 are somewhat higher than that proposed by the administration, largely because of different assumptions about end-of-year cash balances, means of financing and other adjustments.

THE BUDGET OUTLOOK FOR 1981

The Administration and the Congress are in agreement that the 1981 budget should be balanced in order to help curb inflationary pressures. The President submitted a revised budget to the Congress on March 31 that shows a surplus of $16.5 billion. The House Budget Committee has reported a first budget resolution for 1981 that shows a $2 billion surplus.

On March 25, the Senate passed Senate Resolution 380, expressing the sense of the Senate that the Committee on the Budget should report a balanced budget for the first resolution, and reserve any surplus for a tax reduction. The Senate Budget Committee has complied with this policy in its 1981 budget recommendations.

Balancing the budget in 1981 will not be easy. It will require taking a number of difficult steps to restrain the growth in Federal spending. Many of these steps will demand changes in basic law relating to benefit payments, and grants to State and local governments. The Appropriations Committees will not be able to accomplish the necessary spending reductions by themselves; other committees will have to play a major role in achieving budgetary savings.

THE DEBT CEILING FOR 1981

Even if the budget is balanced in 1981, the temporary limit on the public debt will have to be increased again by at least $30 billion. This will be necessary in order to accommodate the investment of trust fund surpluses in Federal securities and the deficit of off-budget Federal entities.

We currently estimate that the trust fund surpluses in 1981 will be on the order of $13 billion to $14 billion. The largest surpluses will be for the civil service retirement and disability trust fund, $9.3 billion; the Federal health insurance trust funds, $6.9 billion; and the Federal disability insurance trust fund, $3.1 billion. The

old age and survivors insurance trust fund is projected to have a deficit of about $10 billion in 1981.

The deficit of off-budget entities is estimated at about $18 billion to $19 billion in 1981. Most of this deficit—90 percent, in fact—is attributable to the credit activities of the Federal Financing Bank [FFB]. CBO has recommended that the budget activities of all off-budget entities be brought into the budget so that the unified budget will fully reflect Federal Government spending. We also favor changing the budgetary recording of agency transactions with the Federal Financing Bank so that those transactions are reflected in the agency budgets.

FEDERAL CREDIT ACTIVITIES

The administration has undertaken to provide an explicit program budget for Federal credit activities. Its proposed credit program control system, contained in the January budget, is an important first step toward greater control over the growth of Federal credit activities.

Federal credit programs have been controlled to some extent through the normal budget process. For example, the budget authority and outlays for most direct loans of the Federal Government are included in the unified budget, net of loan repayments. Also, limitations of various kinds have been placed on some loan guarantee programs.

But the volume of new direct loans by off-budget Federal entities such as the FFB grew by 70 percent between 1976 and 1979, or twice the rate of growth in total budget outlays. New loan guarantees grew even faster during the same period—by 108 percent.

Loan guarantees can often be used as a substitute for on-budget direct lending to escape normal budget controls. In fact many federally guaranteed loans are converted to off-budget direct loans when they are financed through the FFB. In the January budget, the administration estimated that $10.9 billion of guaranteed loans will be converted in this manner in 1981.

The Congress currently exercises no control over the timing or amount of off-budget financing by the FFB. But the Congress cannot escape the consequences of it. The ceiling on the public debt must be increased dollar-for-dollar for FFB's net lending. Even if the Congress balances the unified budget for 1981, the public debt ceiling will continue to increase if the FFB continues to act as an off-budget lender.

Moreover, congressional efforts at increased budgetary restraint, including possible spending limitations, could have the effect of encouraging more off-budget transactions, particularly loan guarantees, as a way of escaping limitations on direct spending.

The Budget Committees have made a first step toward exercising greater control over Federal credit activities by including targets for new obligations for direct loans and new commitments for loan guarantees in the first budget resolution for 1981. Further actions will probably have to be taken to tighten congressional control over both the spending budget and the credit budget; two possibilities are changing the budgetary treatment of FFB activities so that they are reflected in agency budgets, and bringing off-budget entities into the unified budget.

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By taking these steps, the Congress can begin to control in advance the increase in the public debt limitation required to cover the credit activities of off-budget entities. Otherwise, it is in the position of simply ratifying these credit activities through the debt limit process. We believe the Congress should determine explicitly through a credit budget and other means how much of the Nation's credit resources are to be allocated through Federal credit programs, and how the relative shares of Federal credit are to be distributed among competing needs.

Thank you, Mr. Chairman.

Senator BYRD. Thank you, Dr. Rivlin.

I think that this is, to me at least, the clearest and best explanation of the situation created by the off-budget items.

You say that the volume of new, direct loans by off-budget Federal activities such as FFB, increased by 70 percent between 1976 and 1979, or twice the rate of growth in total budget outlays. It seems to me that that is a very significant figure.

Ms. RIVLIN. Yes, the increase has been very rapid.

Senator BYRD. You say new loan guarantees grew even faster during the same period. Differentiate between those two, could you?

Ms. RIVLIN. That is the distinction between Federal lending and Federal guarantees for private lenders.

Senator BYRD. I see.

The 108 figure is net guarantees?

Ms. RIVLIN. Loan guarantees, that is right.

Senator BYRD. The 70-percent figure is on loans?

Ms. RIVLIN. Direct loans not on the budget, right.

Senator BYRD. Direct loans not in the budget.

Ms. RIVLIN. Right.

Senator BYRD. Then you go on to say loan guarantees can often be used as a substitute for on-budget direct lending to escape normal budget controls. That is what you are trying to do. You are seeking to stem that, to curb that loophole, so to speak, in your proposal?

Ms. RIVLIN. Yes.

I do not know if putting loan guarantees on budget would stop that substitution, but it would make it more obvious to the Congress what was happening. The Congress, of course, would decide what volume of Federal lending it wants.

Senator BYRD. The Congress currently exercises no control over the timing or amount of off-budget financing by the FFB, but the Congress cannot escape the consequences of it. I certainly think you are right.

The ceiling on the public debt must be increased dollar per dollar for FFB lending.

Then you go on to say, if the Congress balances the unified budget for 1981, the public debt ceiling will continue to increase, if the FFB continues to act as off-budget lender. Moreover, congressional efforts at increased budgetary restraint, including possible spending limitations, could have the effect of encouraging more off-budget transactions, particularly loan guarantees. It is a way of escaping limitations on direct spending.

That is an extremely important point, which I do not think is well realized by the Congress as a whole. I think it is an important point to be brought out.

What I think I will do, Dr. Rivlin, if you do not object, I think I will take your statement here and try to work it into some comments for the Senate, because I think it is important for all of us to understand just what the real effect is of these off-budget items.

Do you feel that the off-budget agencies should be put in the budget Mr. McIntyre endorsed.

Ms. RIVLIN. He endorsed it in principle in the long run.

Senator BYRD. In principle, in the long run.

Do you see any great problems created if it were to be done in the short run?

Ms. RIVLIN. The obvious problem is that, in whichever year this is done, given our current circumstances, the deficit will appear to increase. The deficit is not really increasing. It is really there already. But the deficit in the unified budget would increase if these activities were brought onto the budget.

Senator BYRD. What it would do, it would expose a deficit that is already there but is not apparent. Is that about the way to express it?

Ms. RIVLIN. That is correct.

Senator BYRD. What significant do you attach to this. Actual spending through February was up almost 16 percent above the level of outlays for the first 5 months of fiscal year 1979.

That is on page 3 of your statement.

Is there anything special as to why it should be up 16 percent, or is that a period of time where it would normally be up?

Ms. RIVLIN. No, that is a rapid rate of increase. We are pointing this out so that the Congress will be aware that, if it continues spending at this rate through the year, outlays would reach $571 billion. One principal reason for our estimate, which is higher than anybody else's is the acceleration in the rate of spending in defense.

Senator BYRD. As I gather, you feel the deficit will be, for 1980, a unified deficit would be somewhat more than the administration estimates?

Ms. RIVLIN. Yes. The administration is estimating about $36 billion. We think it would be in the range of $37 billion to $42 billion.

Senator BYRD. Could you amplify on this again. On page 3 at the bottom, the Budget Committee's recommended limits for 1980 are somewhat higher than that proposed by the administration, largely because of different assumptions about year-end cash balances, means of financing and other adjustments.

Ms. RIVLIN. Yes, Mr. Chairman.

We feel that this is an important thing for the committee to note. The administration is assuming that it can reduce the cash balances of the Government by about $10 billion by the end of 1980. That is a lot. If that does not happen, and if other things remain equal, it would require an additional increase in the debt ceiling.

Senator BYRD. Secretary Miller advocates a $5 billion increase in the debt ceiling for this fiscal year. Do you feel that is a realistic figure for this fiscal year? Let's leave out 1981 temporarily.

Ms. RIVLIN. If you use either the House Budget Committee or the Senate Budget Committee's recommended outlays and revenues and their assumptions about other means of financing, then it is not a realistic figure. Those assumptions would imply ceilings of $896.7 billion in the case of the House and $895 billion in the case of the Senate. Those figures are considerably higher than the administration is recommending.

Almost all of that results from differences in the assumptions about cash management and cash balance rundown.

Senator BYRD. To digress a moment, do you have any feeling as to the future of the long-term bond market? Secretary Miller, I thought was somewhat optimistic in his appraisal of what will happen in the long-term bond market.

Ms. RIVLIN. He did sound optimistic, but he is a much better expert on that than I am, and I would not venture an alternative view.

Senator BYRD. You say balancing the budget in 1981 will not be easy. I shall agree with you.

Ms. RIVLIN. That may be the understatement of the week.

Senator BYRD. I think that is somewhat of an understatement. It will require taking a number of difficult steps to restrain the growth in Federal spending.

As I see it, we are in a fix, all of us—Congress, the executive branch, everyone else, our country. We are in a fix with our Government finances, and there is no easy way out.

If we are going to get our financial problems in better shape it is going to cause some discomfort somewhere along the line. Is that the way you see it?

Ms. RIVLIN. Yes.

It is very difficult to bring into balance a budget that has been out of balance for so long—particularly in the face of a probable recession.

Senator BYRD. It would appear that we are either in a recession or we are pretty close to being in one. How would you analyze that?

Ms. RIVLIN. Our forecast is similar to that of the administration. We are projecting for this year a mild recession, although our projection is somewhat more severe than theirs. We are projecting about a minus 1 percent growth rate for the year. The administration is saying about minus one-half a percent.

Senator BYRD. Going into 1981, how do you figure 1981?

Ms. RIVLIN. We, like the administration, expect recovery in 1981 and a mild recovery—not a great bounce back, but around a 2-percent growth rate for 1981 as a whole.

Senator BYRD. In getting to 1981, on page 4 of your statement, even if the budget is balanced in 1981, the temporary limit on the public debt will have to be increased again by at least $30 billion.

Do I understand this correctly that that would be $30 billion on top of the $5 billion that the administration recommends or is it $30 billion over the present figure?

Ms. RIVLIN. It would be $30 billion over both Budget Committee's assumptions for 1980.

So one would be operating from a higher base in 1980.

Senator BYRD. In getting into the trust fund surpluses, the largest surpluses would be for civil service retirement and disability. Is it normal to run as high a surplus as that in that particular trust fund?

Ms. RIVLIN. In civil service retirement?

Senator BYRD. Yes.

Ms. RIVLIN. Yes, that is normal.

Senator BYRD. So in effect what we are doing is taking the surplus that accrued to the trust funds, principally the retirement of civil servants, what they pay into the Treasury, and using that to reduce the overall deficit—the overall deficit—because without utilizing the surplus figures in the trust fund, of course the Government would have a much higher deficit in the Federal funds?

Ms. RIVLIN. That is right, but they are a part of the unified budget.

Senator BYRD. They are a part of the unified budget, but if you deal with only the general operations of Government, there is a substantial deficit. There is a substantial benefit for 1980. There will be a substantial benefit for 1981 also if you deal only with Federal funds, would it not?

Ms. RIVLIN. Yes.

Senator BYRD. Thank you very much, Dr. Rivlin. It has been very interesting and I think an important contribution. I thank you for being here.

Ms. RIVLIN. Thank you, Mr. Chairman.

[The prepared statement of Ms. Rivlin follows:]

STATEMENT OF ALICE M. RIVLIN, DIRECTOR, CONGRESSIONAL BUDGET OFFICE

Mr. Chairman, I am pleased to appear before this Committee as you prepare to mark up the first concurrent budget resolution for fiscal year 1981 and revise the second resolution for this year.

Your deliberations occur at a critical time for the economy. During the past year, inflation accelerated to more than 13 percent—an extraordinarily high level—while economic activity slowed sharply. Real GNP rose just 1 percent in 1979—well below the 4.8 percent rate recorded in 1978. Interest rates jumped to record high levels; the growth in employment slowed; and real disposable personal income fell.

Most forecasters see no improvement this year. In January, inflation accelerated further and the unemployment rate rose to 6.2 percent. The consensus projection shows high inflation, weak economic activity, and a continued rise in the jobless rate in the year ahead.

Most forecasters also agree on another point: The economic outlook is particularly uncertain, for at least three reasons. First, there is a great deal about the recent behavior of the economy that is not well understood—especially the drop in both the personal saving rate and labor productivity. Second, with interest rates and inflation at record levels, past experience provides little guidance for economic forecasters. And third, recent international developments have raised widespread speculation about increases in defense spending, while the acceleration of inflation has raised prospects for cuts in nondefense spending.

THE ECONOMIC OUTLOOK

The latest CBO economic forecast, revised to take account of economic events since January, is summarized in Table 1. As the table shows: (1) Real gross national product (GNP) is expected to range from about zero growth to a 2 percent decline from the fourth quarter of 1979 to the fourth quarter of 1980. During 1981, growth in real GNP is expected to recover moderately, rising between 1.8 and 3.8 percent; (2) the surge in consumer prices is projected to moderate slightly to the range of 10.6 to 12.6 percent from the fourth quarter of 1979 to the fourth quarter of 1980,

and to remain at a high rate in 1981; (3) the unemployment rate is forecast to average between 6.3 and 7.3 percent in 1980, rising to 7.0 to 8.0 percent in 1981.

The CBO forecast is based on two assumptions about economic policy: First, federal spending and tax policies for fiscal years 1980 and 1981 is assumed to be those specified in current law. The previously legislated increases in Social Security taxes scheduled for 1981 are assumed to take place; second, the Federal Reserve is assumed to hold money growth near the midpoint of the announced target range.

Compared with CBO's January forecast (displayed in the lower panel of Table 1), the revised forecast shows higher inflation, especially as measured by the Consumer Price Index (CPI); the upward revision is attributable partly to higher interest rates both in the current quarter and for the forecast period. The projected decline in real activity has not been changed significantly. Unemployment rates are somewhat lower than in the earlier forecast.

TABLE 1.—CBO'S ECONOMIC PROJECTIONS BASED ON CURRENT LAW

Economic variable	1978:4 to 1979:4 (actual)	1979:4 to 1980:4	1980:4 to 1981:4
The revised forecast:			
Nominal GNP (percent change)	10.0	6.8 to 10.8	10.0 to 14.2
Real GNP (1972 dollars, percent change)	1.0	−2.0 to 0.0	1.3 to 3.3
Consumer Price Index (percent change)	12.7	10.6 to 12.6	8.9 to 10.9
Unemployment rate, average for the year (percent)	5.8	6.3 to 7.3	7.0 to 8.0
The January 1980 forecast:			
Nominal GNP (percent change)	10.0	5.7 to 9.8	10.2 to 14.4
Real GNP (1972 dollars, percent change)	1.0	−2.3 to −0.3	2.0 to 4.0
Consumer Price Index (percent change)	12.7	8.6 to 10.6	8.3 to 10.3
Unemployment rate, average for the year (percent)	5.8	6.5 to 7.5	7.5 to 8.5

CBO's revised current law forecast still shows a mild recession in 1980 and a weak recovery in 1981. The fundamental causes of the projected downturn in real activity are increased OPEC oil prices, generally high inflation, record high interest rates, and depleted personal savings.

Rapid inflation and tight credit conditions depressed real income growth and household spending in 1979 and continue to do so this year. The adverse impact of the tightening of credit conditions by the Federal Reserve since last October can be seen in the recent drop in housing starts and home sales. Meanwhile, rising gasoline prices and lagging real incomes have sharply weakened sales of domestic automobiles. As a result, about one-quarter of the industry's blue-collar workers are on indefinite layoff and a significant recovery in auto output is not expected until next summer or later.

The accumulating problems in the housing and automobile sectors are particularly important for the overall outlook because together they account for a significant portion of total domestic production. When the likely secondary effects on suppliers of these industries and on producers of related products are included, the overall impact on the economy is substantial. Retail sales other than autos are also projected to slow down in 1980 because of lagging real income growth, heavy debt burdens, and the already low rate of personal saving.

Nevertheless, CBO still does not expect a deep recession in 1980. The projected slowdown in household spending is offset in part by the forecast behavior of other sectors. First, most indicators of future business spending suggest that this sector will be stronger in 1980 than in most past recessions. Second, net exports are expected to be a source of growth during this year. A domestic economy in a recession will demand fewer imports, while somewhat stronger foreign economic growth likely will bolster the demand for U.S. exports. Finally, and most important, the available data indicate that inventories have remained roughly in line with sales. Consequently, a severe curtailment of production to trim unwanted stocks seems unlikely.

For 1981, CBO continues to expect a less robust recovery than the typical postwar upswing. The major reasons, aside from the shallowness of the recession, are threefold. First, high inflation will continue to constrain the purchasing power of rising money incomes. Second, high inflation and the international condition of the dollar are expected to persist in keeping short-term interest rates high. Third, a sizable braking effect on the economy will come both from the Social Security tax increases

scheduled for 1981 and from the combination of inflation and the progressive income tax structure, which pushes taxpayers into higher tax brackets.

The sharp rise in prices in the forecast period reflects continued passthrough of fuel costs and very high interest and labor costs. Attempts by workers to restore real incomes are expected to boost labor costs. CBO projects especially large increases in the CPI, to which many spending programs are indexed. Many economists believe that this measure has exaggerated changes in the cost of living in the past few years because of its treatment of housing costs. The CPI has increased more rapidly than other measures of inflation partly because of rising mortgage interest rates. Although tight credit conditions eventually reduce demands and slow the accompanying inflation, higher interest rates initially cause mortgage rates, and consequently the CPI, to rise, which in turn may trigger increased spending and larger wage adjustments.

In summary, inflation is now even more serious than just a few months ago, while the economy still appears to be precariously balanced between recession and a path of little growth. The outcome is uncertain, but most forecasters, including CBO, expect a combination of high inflation and recession in the year ahead.

THE BUDGET OUTLOOK

Fiscal Year 1980.—The second concurrent resolution for fiscal year 1980 approved by the Congress last November specified revenues of $517.8 billion, outlays of $547.6 billion, and a deficit of $29.8 billion.

On the basis of our March economic forecast, actual spending through January, and the Administration's latest budget estimates released in January, it is apparent that 1980 outlays will be significantly higher than assumed for the second resolution. CBO's estimate of outlays resulting from actions already completed by the Congress plus certain mandatory supplementals is almost $560 billion, more than $12 billion above the second resolution ceiling.

The increased estimates of outlays can be attributed to various items; for example, an additional $7 billion for higher interest costs, $2 to $3 billion for higher farm price supports resulting largely from the recent grain embargo, $2 billion for lower asset sales of federally held mortgages and loans, and $2.5 billion for faster spending rates for defense procurement and several federal grant programs.

The Administration's January budget estimate for 1980 outlays is $563.6 billion, or $16 billion above the second resolution. The Administration's higher outlay estimate for 1980 includes proposed supplementals for items such as food stamps, defense and energy programs.

Revenues for 1980 are now estimated to be about $521 billion, including the windfall profits tax. This is over $3 billion above the second resolution level. The increase is primarily due to the higher forecast for inflation. The budget deficit for 1980 is likely to be as much as $10 billion or more above the second resolution level, largely because of the expected higher spending.

Fiscal Year 1981.—Turning to fiscal year 1981, the President's budget proposes revenues of $600 billion, outlays of $615.8 billion, and a budget deficit of $15.8 billion. The proposed budget places primary emphasis on restraining inflation and moving toward budgetary balance. The 1981 budget deficit would be $24 billion lower than the $40 billion deficit estimated for 1980 by the Administration in the January budget. This reduction would be achieved by permitting little real growth in total spending and allowing tax burdens to rise to the highest levels since World War II.

The major revenue initiatives proposed in the President's budget include the windfall profits tax on oil production and cash management proposals that would accelerate certain tax collections. The absence of a tax cut in 1981, coupled with $21 billion in estimated additional revenues from the windfall profits tax and other revenue initiatives, would increase the ratio of federal revenues to GNP to almost 22 percent.

The major spending initiative in the President's budget is increased budget authority for defense programs of about 5 percent in real terms—with continued real growth in 1982 and 1983. The focus of debate on the appropriate amount of real growth in defense spending has shifted this year from outlays to budget authority. Higher spending for payments for individuals, many of which are adjusted automatically for increases in the cost of living, and for national defense account for nearly all of the projected $52 billion growth in outlays in the Administration's budget.

Increased spending in other federal programs would be offset primarily by reduced outlays for farm price supports, usually high levels of sales of federal assets, and various legislative savings proposals—that is, proposed changes to existing law to achieve reductions in otherwise mandated spending. These legislative savings

proposals, which total over $5 billion for 1981, have been proposed in previous budgets but have not yet been approved by the Congress.

CBO Reestimates of the 1981 Budget.—CBO has reestimated the Administration's budget proposals using our own economic assumptions and estimating methodology. On this basis, CBO estimates that revenues would total a little over $609 billion, outlays would total $629 billion, and the budget deficit would be about $20 billion. The major CBO reestimates of the Administration's budget are shown in Table 2.

On the revenue side, CBO estimates that current law revenues would be almost $10 billion higher than the Administration estimate, largely because of a higher forecast of inflation. On the other hand, the budget estimate for the windfall profits tax appears to be slightly overstated based on the tax conference agreement.

For outlays, the impact of the revised CBO forecast would be to increase outlays by about $6 billion for interest on the public debt and indexed benefit payment programs such as Social Security. CBO also estimates that defense spending in 1981 would be over $2 billion above the level estimated by the Administration, based on recent spending patterns. Faster spending rates for such grant programs as community development grants, federal-aid highways, and EPA construction grants add another $2 billion to 1981 outlays.

CBO's estimate of the cost savings that would result from the passage of hospital cost containment legislation is about one-half of the Administration's $780 million estimate, largely because of different assumptions concerning the response of hospitals to the incentives and controls that would be established. CBO also estimates that Medicare and Medicaid outlays in 1981 could be another $900 million higher than those included in the President's budget because of higher utilization rates, lower savings from administrative cost reduction items, and other differences in programmatic assumptions. Finally, CBO estimates that receipts derived from the sale of leases of Outer Continental Shelf lands and royalties from mineral production could be $800 million less than projected by the Administration.

TABLE 2.—*CBO estimates of the administration's fiscal year 1981 budget proposals*

[In billions of dollars]

Revenues:	
Administration's estimate	600.0
CBO reestimates:	
Current law revenues	9.6
Windfall profit tax	−0.4
CBO estimate of administration's revenue proposals	609.2
Outlays:	
Administration's estimate	615.8
CBO reestimates:	
Net interest	4.5
Social security and other indexed benefits	2.2
Defense spending	2.5
Federal grants for community development, highways, urban mass transportation, and municipal waste treatment facilities	1.7
Medicare and medicaid	1.3
OCS rents and royalties	0.8
All other, net	0.2
CBO estimate of administration's outlay proposals	629.0

In addition, the Administration's January budget does not include the impact of increased fuel costs on defense operations, which could require as much as $2.5 billion in 1980 and $4.1 billion in 1981. Enactment of the Nunn-Warner selective pay raises for military personnel could add another $500 million in 1980 and $800 million in 1981 for defense spending. Since January, there has been an increase in the tempo of defense activities in the Indian Ocean, which will also add to defense costs. In addition, spending in 1981 could be higher if the Administration's legislative savings proposals are not approved by the Congress, and if the large asset sales planned by the Administration do not occur to the extent estimated.

CONCLUSION

In view of the recent acceleration of inflation and the projected rapid growth in federal spending, there is a great deal of discussion concerning spending cuts. The recent CBO background paper, Reducing the Federal Budget: Strategies and Exam-

ples, prepared at the request of the Chairman and Members of the House Budget Committee, lists a large number of illustrative spending cuts, with estimates of the expected savings. For example, some of the larger cuts for fiscal year 1981 would be $1.6 billion for eliminating subsidies to the U.S. Postal Service and $2.4 billion for eliminating general revenue sharing for states. To achieve much greater savings from a single program would probably require a cut in defense or in one of the entitlement programs such as Social Security. Thus, to achieve a large saving may require difficult cuts in many programs. As you know, the Administration is now studying cuts for this year and fiscal year 1981.

A cut in federal spending can be expected to reduce aggregate demand temporarily and thereby help curtail inflation. With respect to their impact on the overall economy, however, such policies are not costless. They generally have an adverse effect on unemployment, at least for a few years. Moreover, one should not expect that restrictive budget policies will provide a "quick fix" of the inflation problem. Past experience suggests that such policies are not likely to have a large impact on inflation in the first year.

Although monetary and fiscal policy do have the potential for improving the economic performance of the economy through their effects on aggregate demand, they do not address directly the fundamental economic problem of the 1970s—fluctuations in prices and employment arising from changes in aggregate supply and reduced growth in productivity. These economic problems require a longer-run approach. Thus, traditional demand management policies may help to offset the real effects of a "supply shock," such as a sharp increase in the price of imported oil. But longer-run policies to encourage conservation or to increase domestic energy supplies are needed to get to the root of this problem.

The same is true of productivity growth. In order to achieve high growth rates, it may be necessary to tailor fiscal policies to promote research and development, to encourage saving rather than consumption, and to provide a sufficient return on capital investment to ensure a more rapid modernization of the nation's plant and equipment.

APPENDIX. COMPARISON OF FORECASTS

The revised CBO forecast is in general agreement with the consensus view among economic forecasters, which projects high inflation, weak productivity gains, and rising unemployment during the next year or two.

A comparison of CBO's forecast for calendar year 1981 and those of other forecasters is not meaningful because forecasts for that year are greatly influenced by differing assumptions about tax cuts and federal spending levels.

TABLE 3.—COMPARISON OF REVISED CBO AND OTHER FORECASTS FOR CALENDAR YEAR 1980

	Real GNP (percent change)	Unemployment rate (percent)	Consumer Price Index (percent change)
Commercial models:			
Chase Econometrics [1]	−0.9	7.1	13.4
Data Resources, Inc. [2]	0.2	6.6	12.9
Merrill Lynch [3]	−1.3	7.5	12.0
Wharton Associates [4]	0.0	6.9	12.0
Average of 42 business forecasts [5]	−0.3	7.0	11.6
Revised CBO (mid-point of projected range)	0.0	6.8	13.0

[1] February 23, 1980.
[2] February 22, 1980.
[3] February 4, 1980.
[4] January 28, 1980.
[5] From "Blue Chip Economic Indicators," vol. 5, No. 2, Feb. 10, 1980.

Senator BYRD. The subcommittee will stand in recess.

[Whereupon, at 11:50 a.m. the subcommittee recessed to reconvene at the call of the Chair.]

[The following tables were submitted by Senator Byrd for the hearing record:]

CONGRESSIONAL BUDGET RESOLUTIONS

[Dollars in billions]

Fiscal year	Resolution date	Receipts	Expenditures	Deficit/surplus
1976	1st Concurrent Budget, May 1975	$298.2	$367.0	−$68.8
1976	2d Concurrent Budget, December 1975	300.8	374.9	−74.6
1977	1st Concurrent Budget, May 1976	362.5	413.3	−50.8
1977	2d Concurrent Budget, September 1976	362.5	413.1	−50.6
1977 (revisions)	1st Concurrent Budget, May 1977	356.6	409.2	−52.6
1978	1st Concurrent Budget, May 1977	396.3	461.0	−64.7
1978	2d Concurrent Budget, September 1977	397.0	458.3	−61.3
1979	1st Concurrent Budget, May 1978	447.9	498.8	−50.9
1979	2d Concurrent Budget, September 1978	448.7	487.5	−38.8
1979 (revised)	2d Concurrent Budget, May 1979	461.0	494.5	−33.5
1980	1st Concurrent Budget, May 1979	509.0	532.0	−23.0
1980	2d Concurrent Budget, November 1979	517.8	547.6	−29.8
1980 (revised) [1]	2d Concurrent Budget	528.9	566.4	−37.5
1981 [1]	1st Concurrent Budget	612.9	612.9	0.0

[1] Proposed Senate figures.

UNIFIED BUDGET RECEIPTS, OUTLAYS AND SURPLUS OR DEFICIT FOR FISCAL YEARS 1958–81, INCLUSIVE

[Billions of dollars]

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	465.9	493.7	−27.7
1980 (estimate)	532.4	568.9	−36.5
1981 (estimate)	628.0	611.5	+16.5

Source: Office of Management and Budget, fiscal year 1981 budget revisions.

DEFICITS IN FEDERAL FUNDS AND INTEREST ON THE NATIONAL DEBT FOR FISCAL YEAR 1959–81, INCLUSIVE

[Billions of dollars]

Year	Receipts	Outlays	Surplus (+) or deficit (−)	Debt interest [1]
1959	65.8	77.0	−11.2	7.8
1960	75.7	74.9	+0.8	9.5
1961	75.2	79.3	−4.1	9.3
1062	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	295.8	−54.5	42.6
1978	270.5	332.0	−61.5	49.3
1979	316.4	362.4	−46.1	60.3
1980 [2]	361.3	411.4	−50.1	74.7
1981 [2]	430.5	428.1	+2.4	81.0

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

Source: Office of Management and Budget, fiscal year 1981 budget.

The national debt in the 20th century [1] *—Totals at the end of fiscal years*

[Rounded to the nearest billion dollars]

Year	Debt	Year	Debt
1900	1	1920	24
1901	1	1921	24
1902	1	1922	23
1903	1	1923	22
1904	1	1924	21
1905	1	1925	21
1906	1	1926	20
1907	1	1927	19
1908	1	1928	18
1909	1	1929	17
1910	1	1930	16
1911	1	1931	17
1912	1	1932	19
1913	1	1933	23
1914	1	1934	27
1915	1	1935	29
1916	1	1936	34
1917	3	1937	36
1918	12	1938	37
1919	25	1939	48

The national debt in the 20th century[1]*—Totals at the end of fiscal years*—Continued

[Rounded to the nearest billion dollars]

Year	Debt	Year	Debt
1940	51	1961	293
1941	58	1962	303
1942	79	1963	311
1943	143	1964	317
1944	204	1965	323
1945	260	1966	329
1946	271	1967	341
1947	257	1968	370
1948	252	1969	367
1949	253	1970	383
1950	257	1971	410
1951	255	1972	437
1952	259	1973	468
1953	266	1974	486
1954	271	1975	544
1955	274	1976	632
1956	273	1977	709
1957	272	1978	780
1958	280	1979	833
1959	288	1980[2]	887
1960	291	1981[2]	902

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

Source: Office of Management and Budget, fiscal year 1981 budget.

GROSS NATIONAL PRODUCT

[In billions of dollars]

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	2,128	1,399
1979[2]	2,369	1,432
1980[2]	2,621	1,442
1981[2]	2,885	1,449

[1] To account for inflation, adjusted to 1972 dollars
[2] Estimated figures.

Source: Office of Management and Budget, fiscal year 1981 budget review.

ANNUAL FOOD STAMP EXPENDITURES FOR FISCAL YEARS 1965 THROUGH 1980, INCLUSIVE

[In millions of dollars]

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

ANNUAL FOOD STAMP EXPENDITURES FOR FISCAL YEARS 1965 THROUGH 1980, INCLUSIVE—Continued

[In millions of dollars]

Year	Outlays	Budget authority
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
1977	5,398.8	5,506.2
1978	5,498.8	5,618.4
1979	6,821.7	6,670.3
1980 [1]	8,678.1	8,735.6
Total	46,385.0	47,395.4

[1] Estimates.

Source: Department of Agriculture, fiscal year 1981 budget, March 1980.

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

[Selected periods in billions of dollars]

	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	93.6
Dec. 31, 1974	11.6	15.9	120.3
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
Dec. 31, 1978	11.7	18.7	244.3
Dec. 31, 1979	11.2	18.9	268.1

Source: U.S. Treasury Department.

BUDGET RECEIPTS, OUTLAYS, AND SURPLUS OR DEFICIT(—) BY FUND GROUP, 1970–81 ESTIMATE

[Fiscal years; in billions of dollars]

	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	Estimate[1] 1980	1981
Federal funds receipts:												
Individual income taxes	90.4	86.2	94.7	103.2	119.0	122.4	131.6	157.6	181.0	217.8	241.5	283.3
Corporation income taxes	32.8	26.8	32.2	36.2	38.6	40.6	41.4	54.9	60.0	65.7	74.2	74.1
Subtotal	123.2	113.0	126.9	139.4	157.6	163.0	173.0	212.5	240.9	283.5	315.7	357.4
Excise taxes	10.4	10.5	9.5	9.8	9.7	9.4	10.6	9.6	10.1	9.8	16.3	42.9
Estate and gift taxes	3.6	3.7	5.4	4.9	5.0	4.6	5.2	7.3	5.3	5.4	5.8	6.0
Customs duties	2.4	2.6	3.3	3.2	3.3	3.7	4.1	5.2	6.6	7.4	7.3	7.8
Miscellaneous receipts	3.4	3.9	3.6	3.9	5.4	6.7	8.0	6.5	7.4	9.2	16.2	16.3
Total Federal funds, receipts	143.2	133.8	148.8	161.4	181.2	187.5	201.1	241.3	270.5	316.4	361.3	430.5
Trust fund receipts	59.4	66.2	73.0	91.2	104.8	118.6	133.7	152.8	168.0	189.6	216.0	243.6
Interfund transactions	−8.8	−11.6	−13.2	−21.3	−21.1	−25.1	−34.8	−36.3	−36.5	−40.1	−44.9	−46.1
Total budget receipts	193.7	188.4	208.6	232.2	264.9	281./0	300.0	357.8	402.0	465.9	532.4	628.0
Federal funds outlays	156.3	163.7	178.1	187.0	199.9	240.1	269.9	295.8	332.0	362.4	411.4	428.1
Trust funds outlays	49.1	59.4	67.1	81.4	90.8	111.2	131.3	143.3	155.3	171.3	202.4	229.5
Interfund transactions	−8.8	−11.6	−13.2	−21.3	−21.1	−25.1	−34.8	−36.3	−36.5	−40.1	−44.9	−46.1
Total budget outlays	196.6	211.4	232.0	247.1	269.6	326.2	366.4	402.7	450.8	493.7	568.9	611.5
Federal funds surplus a deficit (−)	−13.1	−29.9	−29.3	−25.6	−18.7	−52.6	−68.8	−54.5	−61.5	−46.1	−50.1	−+2.4
Trust funds surplus or deficit (−)	10.3	6.8	5.9	10.7	14.0	7.4	2.4	9.5	12.7	18.3	+13.6	+14.1
Budget surplus or deficit (−)	−2.8	−23.0	−23.4	−14.8	−4.7	−45.2	−66.4	−45.0	−48.8	−27.7	−36.5	−16.5

[1] 1980 and 1981 as estimated in the 1981 budget.
Source: Office of Management and Budget, March 1980.

RECEIPTS, OUTLAYS, AND SURPLUSES OR DEFICITS IN TRUST FUNDS,[1] FISCAL YEARS 1975–81

[In billions of dollars]

	Receipts	Outlays	Surplus or deficit
1975:			
Social security	66.7	64.7	+2.0
Health insurance	16.9	14.8	+2.1
Revenue sharing	6.2	6.1	+.1
Unemployment	8.2	13.2	−5.0
Federal employees retirement	11.5	7.1	+4.4
Highways	6.8	4.8	+1.9
Other [2]	2.4	.4	+2.0
Total	118.6	111.2	+7.4
1976:			
Social security	70.7	73.9	−3.2
Health insurance	18.5	17.8	+.7
Revenue sharing	6.4	6.2	+.1
Unemployment	16.2	17.9	−1.7
Federal employees retirement	13.2	8.4	+4.8
Highways	6.0	6.5	−.5
Other [2]	2.7	.6	+2.2
Total	133.7	131.3	+2.4
1977:			
Social security	81.2	85.1	−3.9
Health insurance	22.8	21.5	+1.2
Revenue sharing	6.7	6.8	−.1
Unemployment	15.0	14.1	+.9
Federal employees retirement	16.7	9.7	+7.0
Highways	7.3	6.1	+1.2
Other [2]	3.2	([3])	+3.2
Total	152.8	143.3	+9.5
1978:			
Social security	89.6	93.9	−4.3
Health insurance	27.6	25.2	+2.4
Revenue sharing	6.9	6.8	([3])
Unemployment	15.1	11.2	+4.0
Federal employees retirement	17.8	11.0	+6.8
Highways	7.6	6.1	+1.5
Other [2]	3.4	1.2	+2.3
Total	168.0	155.3	+12.7
1979:			
Social security	102.1	104.1	−2.0
Health insurance	31.7	29.1	+2.6
Revenue sharing	6.9	6.8	+.1
Unemployment	15.9	11.2	+4.7
Federal employees retirement	20.5	12.5	+8.0
Highways	8.0	7.2	+.9
Other [2]	4.5	.4	+4.1
Total	189.6	171.3	+18.3
1980:			
Social security	118.2	119.3	−1.1
Health insurance	36.1	33.5	+2.6
Revenue sharing	6.9	6.9	([3])
Unemployment	17.4	15.2	+2.2
Federal employees retirement	24.0	14.7	9.3
Highways	8.1	9.0	−.9
Other [2]	5.3	3.8	1.5
Total	216.0	202.4	+13.6

RECEIPTS, OUTLAYS, AND SURPLUSES OR DEFICITS IN TRUST FUNDS,[1] FISCAL YEARS 1975-81—Continued

[In billions of dollars]

	Receipts	Outlays	Surplus or deficit
1981:			
Social security	134.1	139.9	-5.8
Health insurance	45.4	37.4	+8.0
Revenue sharing	4.6	5.1	-.5
Unemployment	19.3	18.5	+.8
Federal employees retirement	25.7	16.8	+8.9
Highways	8.2	7.8	+.4
Other[1]	6.3	4.0	+2.3
Total	243.6	229.5	+14.1

[1] Includes subtractions for intrafund transactions, proprietary receipts from the public, receipts from off-budget agencies.
[2] $50 million or less.

Note.—Figures may not add because of rounding. 1980 and 1981 as estimated in the January 1981 budget. 1/(+)/(-) indicate surplus/deficit.

Source: Office of Management and Budget, April, 1980.

Senator BYRD. The subcommittee will stand in recess.

[Thereupon, at 11:50 a.m. the subcommittee recessed to reconvene at the call of the Chair.]

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