S. HRG. 99-340

DEBT LIMIT EXTENSION—1985

HEARING

BEFORE THE

SUBCOMMITTEE ON
TAXATION AND DEBT MANAGEMENT

OF THE

COMMITTEE ON FINANCE
UNITED STATES SENATE

NINETY-NINTH CONGRESS

FIRST SESSION

SEPTEMBER 10, 1985

Printed for the use of the Committee on Finance

U.S. GOVERNMENT PRINTING OFFICE

54-328 O WASHINGTON : 1986

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PUBLIC DEBT LIMIT

TUESDAY, SEPTEMBER 10, 1985

U.S. SENATE,
COMMITTEE ON FINANCE,
SUBCOMMITTEE ON TAXATION AND DEBT MANAGEMENT,
Washington, DC.

The committee met, pursuant to notice, at 9:06 a.m. in room SD-215, Dirksen Senate Office Building, the Honorable John H. Chafee (chairman) presiding.

Present: Senators Chafee, Packwood, Durenberger, Symms, and Moynihan.

[The press release announcing the hearing and prepared statement by the Joint Committee on Taxation follow:]

[Press release]

DEBT LIMIT EXTENSION HEARING SET FOR SEPTEMBER BY FINANCE PANEL

The Senate Committee on Finance has scheduled a hearing before its Taxation and Debt Management Subcommittee on September 10 to consider the extension of the Federal public debt limit, Chairman Bob Packwood (R-Oregon) announced today.

Senator Packwood said the Subcommittee hearing is to begin at 9:30 a.m., Tuesday, September 10, 1985, in Room SD-215 of the Senate Dirksen Office Building in Washington, D.C.

The Chairman of the Subcommittee, Senator John Chafee (R-Rhode Island), is to preside at the hearing.

The Joint Committee on Taxation has reported that the current Federal public debt limit of $1,824 billion will be exceeded on September 30, 1985, simultaneously with the end of the Federal Government's fiscal year.

The Subcommittee on Taxation and Debt Management panel is to receive testimony on the issue from Administration witnesses invited by the Subcommittee.

Joint Committee on Taxation
September 6, 1985
JCX-16-85

INCREASE IN THE PUBLIC DEBT LIMIT

(Scheduled for a public hearing by the Subcommittee on Taxation and Debt Management of the Committee on Finance on September 10, 1985)

A. Public Debt Limit (H.J. Res. 372)

Present law

The permanent limit on the public debt is $1,823.8 billion. It was enacted on October 13, 1984 (P.L. 98-475).

House action

H.J. Res. 372, which would increase the debt limit to $1,847.8 billion on enactment and to $2,078.7 billion on October 1, 1985, was deemed passed by the House of Representatives on August 1, 1985, after the Conference Report on the Budget Resolution (S. Con. Res. 32) was approved by the Congress.

Current situation

At the close of business on Wednesday, September 4, 1985, the outstanding public debt subject to limit was $1,824 billion. The operating cash balance at that time was $8.96 billion.

Treasury has indicated its belief that the current debt limit will meet its needs to September 30, 1985. The present operating cash balance is below the Treasury's preferred level of $25 billion. Although the level may decline below the present level between now and mid-September, the cash balance tends to increase to $35-$40 billion after September 15 because of receipt of quarterly estimated corporate and individual income tax payments.

Administration and congressional proposals

	Billions of dollars Through fiscal years	
	1985	1986
Estimated public debt limit levels		
Administration estimate[1]	1,840.6	2,073.4
H.J. Res. 372: Conforms with Conference Report on budget resolution (S. Con. Res. 32)	1,847.8	2,078.7

<u>Related unified budget deficits</u>

Administration estimate[1]	211.3	177.8
Conference Report on budget resolution (S. Con. Res. 32)	209.8	171.9

[1]OMB, Mid-Session Budget Review, August 30, 1985, p. 39.

On September 30, 1985, Treasury will credit the Civil Service Retirement trust fund with its annual lump sum appropriation--about $16 billion this year--which must be invested in public debt securities. On October 1, similar investments must be made of the federal contributions to the military retirement trust fund ($10.0 billion) and federal supplementary medical insurance trust fund ($1.8 billion). In addition, an advance of estimated social security October receipts is to be deposited in the OASDI trust fund in the form of federal securities on October 1.

The required investments and normalized tax transfer to OASDI trust funds will require $40.2 billion in borrowing authority. If the debt limit is not increased by September 30, the two retirement trust funds and the medical insurance trust fund will lose interest earnings on the amounts to be invested during the period when the investments cannot be made.

B. Other Issue

Treasury probably will call to the Committee's attention the need to increase long-term bond authority above the present limit of $200 billion. At the current rate of issuing long-term bonds for sale to the public, the $200 billion authority may be exhausted in the first quarter of 1986.

P.L. 98-302 (enacted on May 25, 1984) provided an increase of $50 billion in the long-term bond authority, raising the limit on this authority from $150 billion to $200 billion. Under this authority, the Treasury may issue the specified amount of bonds at interest rates above the statutory ceiling of 4-1/4 percent. The limitation applies only to bonds held by the public, i.e., holdings of Federal agencies and the Federal Reserve Banks are not included in the limit. A bond is defined as a debt obligation of the United States that has a maturity when issued which is longer than 10 years.

Additional Information

for Debt Limit Hearing
before the Subcommittee on Taxation
and Debt Management

September 10, 1985

TABLE ONE
ESTIMATED NET GOVERNMENT AND PRIVATE DEBT, BY MAJOR CATEGORIES

YEAR	PRIVATE(1) CORPORATE	OTHER	TOTAL	STATE AND LOCAL	(2) FEDERAL	TOTAL NET DEBT	PERCENT FEDERAL OF TOTAL
1929	88.9	72.9	161.8	13.6	16.5	191.9	8.6
1930	89.3	71.8	161.1	14.7	16.5	192.3	8.6
1931	83.5	64.9	148.4	16.0	18.5	182.9	10.1
1932	80.0	57.1	137.1	16.6	21.3	175.0	12.2
1933	76.9	51.0	127.9	16.3	24.3	168.5	14.4
1934	75.5	49.8	125.3	15.9	30.4	171.6	17.7
1935	74.8	49.7	124.5	16.1	34.4	175.0	19.7
1936	76.1	50.6	126.7	16.2	37.7	180.6	20.9
1937	75.8	51.1	126.9	16.1	39.2	182.2	21.5
1938	73.3	50.0	123.3	16.1	40.5	179.9	22.5
1939	73.5	50.8	124.3	16.4	42.6	183.3	23.2
1940	75.6	53.0	128.6	16.4	44.8	189.8	23.6
1941	83.4	55.6	139.0	16.1	56.3	211.4	26.6
1942	91.6	49.9	141.5	15.4	101.7	258.6	39.3
1943	95.5	48.8	144.3	14.5	154.4	313.2	49.3
1944	94.1	50.7	144.8	13.9	211.9	370.6	57.2
1945	85.3	54.7	140.0	13.4	252.5	405.9	62.2
1946	49.5	66.3	115.8	14.9	228.0	358.7	63.6
1947	56.7	80.4	137.1	16.3	220.8	374.2	59.0
1948	62.8	93.3	156.1	18.5	215.1	389.7	55.2
1949	64.6	104.1	168.7	21.0	217.7	407.4	53.4
1950	71.3	123.0	194.3	24.4	216.5	435.2	49.7
1951	79.6	135.7	215.3	26.6	216.1	458.0	47.2
1952	86.8	152.4	239.2	30.2	221.4	490.9	45.1
1953	91.0	168.6	259.6	34.5	228.4	522.6	43.7
1954	95.9	183.1	279.0	40.6	230.8	550.5	41.9
1955	104.2	212.4	316.7	45.9	230.0	592.6	38.8
1956	114.8	232.2	347.0	49.5	224.2	620.7	36.1
1957	124.7	250.5	375.2	53.7	222.0	650.8	34.1
1958	133.2	268.4	401.5	59.2	231.3	692.0	33.4
1959	143.5	302.3	445.9	65.5	238.3	749.7	31.8
1960	154.3	328.3	482.6	70.8	236.3	789.6	29.9
1961	165.1	355.1	520.1	75.9	243.5	839.4	29.0
1962	177.5	391.1	568.5	81.2	250.5	900.2	27.8
1963	190.2	437.7	627.9	86.9	254.4	969.3	26.3
1964	203.0	486.2	689.2	92.9	260.7	1042.8	25.0
1965	221.6	540.1	761.6	100.3	262.4	1124.4	23.3
1966	244.1	586.0	830.0	105.9	266.1	1202.0	22.1
1967	269.5	626.6	896.0	113.7	279.1	1288.8	21.7
1968	296.5	691.3	987.8	123.2	292.6	1403.7	20.8
1969	325.5	766.4	1091.8	133.1	289.0	1514.0	19.1
1970	355.0	821.7	1176.7	144.4	300.8	1621.9	18.5
1971	380.1	910.0	1290.1	161.8	325.7	1777.6	18.3
1972	412.5	1047.4	1459.9	176.5	340.8	1977.2	17.2
1973	461.3	1208.2	1669.4	191.2	349.1	2209.7	15.8
1974	527.4	1335.4	1862.8	207.7	360.8	2431.4	14.8
1975	548.5	1429.8	1978.3	223.8	446.3	2648.4	16.9
1976	591.5	1598.7	2190.1	239.5	515.8	2945.4	17.5
1977	662.6	1830.3	2492.9	263.9	572.5	3328.4	17.2
1978	741.1	2147.1	2888.3	291.3	626.2	3805.7	16.5
1979	836.5	2476.5	3313.0	321.6	663.6	4298.1	15.4
1980	912.0	2738.1	3650.1	351.9	742.8	4744.7	15.7
1981	1010.8	3021.7	4032.4	374.6	830.1	5237.2	15.9
1982	1085.4	3200.1	4285.5	428.4	991.4	5705.3	17.4
1983	1144.9	3557.8	4702.7	484.6	1177.9	6365.3	18.5
1984	1307.3	3999.6	5306.9	539.2	1376.8	7222.9	19.1

TABLE TWO
ESTIMATED PER CAPITA NET GOVERNMENT AND PRIVATE DEBT(3)

	PRIVATE(1)			STATE	(2)	TOTAL
				AND		NET
YEAR	CORPORATE	OTHER	TOTAL	LOCAL	FEDERAL	DEBT
1929	726	595	1321	111	135	1567
1930	722	581	1303	119	133	1556
1931	671	521	1192	129	149	1469
1932	639	456	1095	133	170	1397
1933	610	405	1015	129	193	1337
1934	595	393	988	125	240	1353
1935	586	389	975	126	269	1370
1936	592	394	986	126	293	1406
1937	586	395	981	124	303	1409
1938	562	383	945	123	311	1379
1939	557	384	941	124	323	1388
1940	567	398	965	123	336	1424
1941	619	413	1032	120	418	1570
1942	672	366	1038	113	746	1896
1943	691	353	1044	105	1117	2267
1944	673	363	1036	99	1516	2652
1945	604	387	991	95	1788	2874
1946	345	462	807	104	1590	2501
1947	388	551	939	112	1512	2562
1948	423	628	1051	124	1448	2623
1949	428	688	1116	139	1440	2696
1950	464	801	1265	159	1409	2833
1951	509	869	1378	170	1382	2930
1952	546	959	1505	190	1393	3088
1953	563	1043	1606	213	1413	3232
1954	583	1112	1695	247	1403	3344
1955	622	1268	1890	274	1373	3537
1956	673	1361	2034	290	1314	3639
1957	718	1444	2162	309	1279	3751
1958	755	1521	2276	336	1311	3922
1959	800	1686	2486	365	1329	4179
1960	846	1801	2647	388	1296	4332
1961	891	1917	2808	409	1314	4532
1962	944	2080	3024	432	1332	4788
1963	998	2295	3293	456	1334	5084
1964	1051	2516	3567	481	1349	5397
1965	1133	2762	3895	513	1342	5750
1966	1234	2964	4198	536	1346	6079
1967	1349	3135	4484	569	1397	6450
1968	1470	3426	4896	611	1450	6957
1969	1597	3759	5356	653	1418	7427
1970	1719	3980	5699	699	1457	7855
1971	1820	4355	6175	774	1559	8509
1972	1955	4965	6920	837	1615	9371
1973	2166	5674	7840	898	1639	10378
1974	2454	6213	8667	966	1679	11312
1975	2526	6587	9113	1031	2056	12199
1976	2699	7293	9992	1093	2353	13438
1977	2992	8264	11256	1187	2585	15028
1978	3310	9591	12901	1301	2797	16999
1979	3694	10936	14630	1420	2930	18981
1980	3985	11963	15948	1537	3245	20730
1981	4374	13078	17452	1621	3593	22666
1982	4653	13719	18372	1836	4250	24458
1983	4864	15115	19979	2059	5004	27043
1984	5511	16860	22371	2273	5804	30447

TABLE THREE
NET GOVERNMENT AND PRIVATE DEBT RELATED TO GROSS NATIONAL PRODUCT

YEAR	GROSS NATIONAL PRODUCT	PRIVATE(1) CORPORATE	PRIVATE(1) OTHER	PRIVATE(1) TOTAL	STATE AND LOCAL	(2) FEDERAL	TOTAL NET DEBT
	(BILLION $)	(DEBT AS A PERCENT OF GROSS NATIONAL PRODUCT)					
1929	103.4	86.0	70.5	156.4	13.2	16.0	185.6
1930	90.7	98.5	79.2	177.6	16.2	18.2	212.0
1931	76.1	109.8	85.3	195.1	21.0	24.3	240.4
1932	58.3	137.3	98.0	235.2	28.5	36.5	300.3
1933	55.8	137.8	91.4	229.1	29.2	43.5	301.9
1934	65.3	115.6	76.3	191.9	24.4	46.6	262.8
1935	73.5	103.2	68.6	171.7	22.2	47.5	241.4
1936	82.7	92.0	61.2	153.1	19.6	45.6	218.3
1937	90.9	83.4	56.2	139.6	17.7	43.1	200.5
1938	85.0	86.2	58.8	145.0	18.9	47.6	211.6
1939	90.9	80.8	55.9	136.7	18.0	46.9	201.6
1940	100.0	75.6	53.0	128.6	16.4	44.8	189.8
1941	125.0	66.7	44.5	111.2	12.9	45.0	169.1
1942	158.5	57.8	31.5	89.3	9.7	64.2	163.2
1943	192.1	49.7	25.4	75.1	7.5	80.4	163.0
1944	210.6	44.7	24.1	68.7	6.6	100.6	175.9
1945	212.4	40.2	25.7	65.9	6.3	118.9	191.1
1946	209.8	23.6	31.6	55.2	7.1	108.7	170.9
1947	233.1	24.3	34.5	58.8	7.0	94.7	160.6
1948	259.5	24.2	35.9	60.2	7.1	82.9	150.2
1949	258.3	25.0	40.3	65.3	8.1	84.3	157.7
1950	286.5	24.9	42.9	67.8	8.5	75.6	151.9
1951	330.8	24.1	41.0	65.1	8.0	65.3	138.5
1952	348.0	24.9	43.8	68.7	8.7	63.6	141.1
1953	366.8	24.8	46.0	70.8	9.4	62.3	142.5
1954	366.8	26.1	49.9	76.1	11.1	62.9	150.1
1955	400.0	26.1	53.1	79.2	11.5	57.5	148.1
1956	421.7	27.2	55.1	82.3	11.7	53.2	147.2
1957	444.0	28.1	56.4	84.5	12.1	50.0	146.6
1958	449.7	29.6	59.7	89.3	13.2	51.4	153.9
1959	487.9	29.4	62.0	91.4	13.4	48.8	153.7
1960	506.5	30.5	64.8	95.3	14.0	46.6	155.9
1961	524.6	31.5	67.7	99.2	14.5	46.4	160.0
1962	565.0	31.4	69.2	100.6	14.4	44.3	159.3
1963	596.7	31.9	73.3	105.2	14.6	42.6	162.4
1964	637.7	31.8	76.2	108.1	14.6	40.9	163.5
1965	691.1	32.1	78.2	110.2	14.5	38.0	162.7
1966	756.0	32.3	77.5	109.8	14.0	35.2	159.0
1967	799.6	33.7	78.4	112.1	14.2	34.9	161.2
1968	873.4	34.0	79.2	113.1	14.1	33.5	160.7
1969	944.0	34.5	81.2	115.7	14.1	30.6	160.4
1970	992.7	35.8	82.8	118.5	14.5	30.3	163.4
1971	1077.6	35.3	84.4	119.7	15.0	30.2	165.0
1972	1185.9	34.8	88.3	123.1	14.9	28.7	166.7
1973	1326.4	34.8	91.1	125.9	14.4	26.3	166.6
1974	1434.2	36.8	93.1	129.9	14.5	25.2	169.5
1975	1549.2	35.4	92.3	127.7	14.4	28.8	170.9
1976	1718.0	34.4	93.1	127.5	13.9	30.0	171.4
1977	1918.3	34.5	95.4	130.0	13.7	29.8	173.5
1978	2163.9	34.2	99.2	133.5	13.5	28.9	175.9
1979	2417.8	34.6	102.4	137.0	13.3	27.4	177.8
1980	2631.7	34.7	104.0	138.7	13.4	28.2	180.3
1981	2957.8	34.2	102.2	136.3	12.7	28.1	177.1
1982	3069.3	35.4	104.3	139.6	14.0	32.3	185.9
1983	3304.8	34.6	107.7	142.3	14.7	35.6	192.6
1984	3661.3	35.7	109.2	144.9	14.7	37.6	197.3

TABLE FOUR
ESTIMATED FEDERAL DEBT RELATED TO POPULATION AND PRICES

	OUTSTANDING FEDERAL DEBT			PER CAPITA FEDERAL DEBT(3)			REAL PER CAPITA FEDERAL DEBT(4)		
YEAR	GROSS(5)	NET(2)	PRIVATELY HELD(6)	GROSS(5)	NET(2)	PRIVATELY HELD(6)	GROSS(5)	NET(2)	PRIVATELY HELD (6)
1929	18.7	16.5	16.0	153	135	131	298	263	255
1930	18.4	16.5	15.8	150	133	128	301	267	256
1931	20.4	18.5	17.7	164	149	142	359	326	312
1932	23.2	21.3	19.4	185	170	155	453	416	379
1933	26.8	24.3	21.9	213	193	174	548	497	448
1934	38.1	30.4	28.0	300	240	221	749	598	550
1935	41.8	34.4	32.0	327	269	251	796	655	610
1936	46.2	37.7	35.3	360	293	275	866	707	662
1937	48.9	39.2	36.6	378	303	283	879	705	658
1938	51.8	40.5	37.9	397	311	291	941	736	689
1939	55.7	42.6	40.1	422	323	304	1014	775	730
1940	59.4	44.8	42.6	446	336	320	1061	800	761
1941	73.3	56.3	54.0	544	418	401	1234	948	909
1942	119.2	101.7	95.5	874	746	700	1791	1528	1435
1943	176.1	154.4	142.9	1275	1117	1034	2460	2157	1997
1944	236.6	211.9	193.1	1693	1516	1382	3212	2877	2622
1945	281.1	252.5	228.2	1990	1788	1616	3693	3317	2998
1946	261.9	228.0	206.1	1826	1590	1437	3122	2718	2457
1947	256.8	220.8	199.1	1758	1512	1363	2628	2260	2038
1948	253.6	215.1	192.0	1707	1448	1292	2367	2008	1792
1949	257.7	217.7	197.7	1705	1440	1308	2388	2017	1832
1950	257.6	216.5	196.6	1677	1409	1280	2326	1955	1775
1951	259.7	216.1	193.1	1661	1382	1235	2136	1777	1588
1952	267.8	221.4	196.8	1685	1393	1238	2119	1752	1557
1953	275.6	228.4	200.0	1706	1413	1237	2128	1764	1544
1954	278.8	230.8	204.2	1694	1403	1241	2104	1742	1541
1955	282.1	230.0	204.8	1684	1373	1223	2100	1712	1524
1956	278.9	224.2	199.4	1635	1314	1169	2009	1615	1436
1957	280.6	222.0	198.8	1617	1279	1145	1918	1517	1359
1958	286.8	231.3	204.7	1625	1311	1160	1877	1513	1340
1959	300.1	238.3	214.8	1673	1329	1197	1916	1522	1372
1960	300.5	236.3	212.4	1648	1296	1165	1859	1461	1314
1961	307.4	243.5	217.8	1659	1314	1176	1852	1467	1312
1962	315.8	250.5	222.8	1680	1332	1185	1854	1470	1308
1963	322.2	254.4	223.9	1690	1334	1174	1843	1455	1281
1964	332.5	260.7	227.0	1721	1349	1175	1852	1452	1265
1965	336.7	262.4	225.6	1722	1342	1154	1852	1420	1221
1966	353.6	266.1	227.5	1788	1346	1151	1840	1384	1184
1967	382.0	279.1	237.3	1912	1397	1188	1912	1397	1188
1968	386.4	292.6	240.7	1915	1450	1193	1838	1392	1145
1969	382.0	289.0	233.0	1874	1418	1143	1707	1291	1041
1970	401.6	300.8	239.8	1945	1457	1162	1673	1253	999
1971	435.2	325.7	256.5	2083	1559	1228	1717	1285	1012
1972	461.1	340.8	271.9	2185	1615	1289	1744	1289	1029
1973	480.7	349.1	271.2	2257	1639	1274	1696	1232	957
1974	504.0	360.8	280.1	2345	1679	1303	1588	1137	882
1975	587.6	446.3	358.1	2707	2056	1650	1679	1275	1023
1976	664.8	515.8	418.5	3033	2353	1910	1779	1380	1120
1977	729.2	572.5	469.5	3292	2585	2120	1814	1424	1168
1978	797.7	626.2	515.4	3563	2797	2302	1823	1431	1178
1979	852.2	663.6	546.0	3763	2930	2411	1731	1348	1109
1980	936.7	742.8	621.3	4093	3245	2714	1658	1315	1100
1981	1034.7	830.1	698.9	4478	3593	3025	1644	1319	1110
1982	1201.9	991.4	851.9	5152	4250	3652	1782	1470	1263
1983	1415.3	1177.9	1026.0	6013	5004	4359	2015	1677	1461
1984	1667.4	1376.8	1212.5	7029	5804	5111	2359	1865	1643

TABLE FIVE
PRIVATELY HELD FEDERAL DEBT RELATED TO GNP
(DOLLAR AMOUNTS IN BILLIONS OF DOLLARS)

YEAR	GROSS NATIONAL PRODUCT	PRIVATELY HELD DEBT(6)	RATIO OF DEBT TO GNP	YEAR TO YEAR PRICE CHANGES(7)
1929	103.4	16.0	15.5	.0
1930	90.7	15.8	17.4	-2.5
1931	76.1	17.7	23.3	-8.8
1932	58.3	19.4	33.3	-10.3
1933	55.8	21.9	39.2	-5.1
1934	65.3	28.0	42.9	3.4
1935	72.5	32.0	44.1	2.5
1936	82.7	35.3	42.7	1.0
1937	90.9	36.6	40.3	3.6
1938	85.0	37.9	44.6	-1.9
1939	90.9	40.1	44.1	-1.4
1940	100.0	42.6	42.6	1.0
1941	125.0	54.0	43.2	5.0
1942	158.5	95.5	60.3	10.7
1943	192.1	142.9	74.4	6.1
1944	210.6	193.1	91.7	1.7
1945	212.4	228.2	107.4	2.3
1946	209.8	206.1	98.2	8.5
1947	233.1	199.1	85.4	14.4
1948	259.5	192.0	74.0	7.8
1949	258.3	197.7	76.5	-1.0
1950	286.5	196.6	68.6	1.0
1951	330.8	193.1	58.4	7.9
1952	348.0	196.8	56.6	2.2
1953	366.8	200.0	54.5	.8
1954	366.8	204.2	55.7	.5
1955	400.0	204.8	51.2	-.4
1956	421.7	199.4	47.3	1.5
1957	444.0	198.8	44.8	3.6
1958	449.7	204.7	45.5	2.7
1959	487.9	214.8	44.0	.8
1960	506.5	212.4	41.9	1.6
1961	524.6	217.8	41.5	1.0
1962	565.0	222.8	39.4	1.1
1963	596.7	223.9	37.5	1.2
1964	637.7	227.0	35.6	1.3
1965	691.1	225.6	32.6	1.7
1966	756.0	227.5	30.1	[illegible].9
1967	799.6	237.3	29.7	2.9
1968	873.4	240.7	27.6	4.2
1969	944.0	233.0	24.7	5.4
1970	992.7	239.8	24.2	5.9
1971	1077.6	256.5	23.8	4.3
1972	1185.9	271.9	22.9	3.3
1973	1326.4	271.2	20.4	6.2
1974	1434.2	280.1	19.5	11.0
1975	1549.2	358.1	23.1	9.1
1976	1718.0	418.5	24.4	5.8
1977	1918.3	469.5	24.5	6.5
1978	2163.9	515.4	23.8	7.7
1979	2417.8	546.0	22.6	11.3
1980	2631.7	621.3	23.6	13.5
1981	2957.8	698.9	23.6	10.4
1982	3069.3	851.9	27.8	6.1
1983	3304.8	1026.0	31.0	3.2
1984	3661.3	1212.5	33.1	4.3

TABLE SIX
CHANGES IN PER CAPITA REAL GROSS NATIONAL PRODUCT

YEAR	GNP IN BILLIONS OF 1972 DOLLARS	GNP PER CAPITA CONSTANT 1972 DOLLARS(3)	GNP PER CAPITA, CHANGE FROM PREVIOUS YEAR: CONSTANT 1972 DOLLARS	PERCENT
1929	315.7	2577	0	0
1930	285.6	2310	-267	-10
1931	263.5	2117	-194	-8
1932	227.1	1813	-304	-14
1933	222.1	1763	-51	-3
1934	239.1	1885	122	7
1935	260.0	2036	151	8
1936	295.5	2300	264	13
1937	310.2	2398	98	4
1938	296.7	2275	-123	-5
1939	319.8	2422	147	6
1940	344.1	2582	160	7
1941	400.4	2973	392	15
1942	461.7	3386	412	14
1943	531.6	3847	463	14
1944	569.1	4072	224	6
1945	560.4	3968	-104	-3
1946	478.3	3336	-632	-16
1947	470.3	3220	-115	-3
1948	489.8	3297	76	2
1949	492.2	3257	-40	-1
1950	534.8	3481	225	7
1951	579.4	3707	225	6
1952	600.8	3779	72	2
1953	623.6	3857	78	2
1954	616.1	3743	-113	-3
1955	657.5	3925	182	5
1956	671.6	3937	12	0
1957	683.8	3940	3	0
1958	680.9	3859	-82	-2
1959	721.7	4023	164	4
1960	737.2	4044	21	1
1961	756.6	4084	40	1
1962	800.3	4257	172	4
1963	832.5	4366	110	3
1964	876.4	4536	169	4
1965	929.3	4753	217	5
1966	984.8	4980	228	5
1967	1011.4	5062	81	2
1968	1058.1	5244	182	4
1969	1087.6	5335	91	2
1970	1085.6	5258	-77	-1
1971	1122.4	5372	114	2
1972	1185.9	5621	248	5
1973	1254.3	5891	270	5
1974	1246.3	5799	-92	-2
1975	1231.6	5673	-126	-2
1976	1298.2	5923	250	4
1977	1369.7	6184	261	4
1978	1438.6	6426	241	4
1979	1479.4	6533	107	2
1980	1475.0	6444	-89	-1
1981	1512.2	6545	100	2
1982	1480.0	6345	-200	-3
1983	1534.8	6521	176	3
1984	1639.0	6909	388	6

FOOTNOTES

(1) Data for years 1929-1945 from the Bureau of Economic Analysis, Commerce Department. Data for years 1946 to the present from the Federal Reserve Board Flow of Funds.

(2) Net Federal debt equals gross Federal debt less Federal debt held in U.S. Government accounts.

(3) Per capita debt is calculated by dividing the debt figures by the population of the conterminous U.S. as of December 31 of each year. Beginning 1949, population includes armed forces overseas, Hawaii and Alaska.

(4) Derived by adjusting per capita debt figures for changes in the level of prices, as measured by the Consumer Price Index for all items.

(5) Gross Federal debt is equal to public debt issued by the Treasury plus debt issued by other Federal agencies.

(6) Federal debt held by the public less Federal Reserve holdings of Federal debt.

(7) Measured by the Consumer Price Index for all items, year to year basis.

Sources: Federal debt, Treasury Department; other data, Bureau of Economic Analysis, Commerce Department, and Federal Reserve Board (Flow of Funds).

Note: Detail may not add to totals because of rounding.

Senator CHAFEE. This is a hearing of the Subcommittee on Taxation and Debt Management, and we are having a hearing on the public debt limit. I am delighted that the chairman of the full committee is here. And, Senator Packwood, if you have a statement to make, this would be an appropriate time.

Senator PACKWOOD. Mr. Chairman, thank you. I am able to be here for only a few moments. I must attend another committee meeting this morning. This is the annual, sometimes less than annual, sometimes slightly more than annual, battle over the extension of the debt ceiling. I will make the same comments I have made from time to time in the past. The debt ceiling bill is not the place to battle out our philosophical differences about whether we are spending too much or too little on Medicaid or defense or Social Security or highways, or whatever else we may choose to spend it on. Congress has adopted a budget. The President apparently is going to go along with it, resulting in a deficit next year in the neighborhood of $175 billion. By that, I simply mean that we are going to spend $175 billion more than we are going to tax. The only way to make up the difference is to borrow, and in order for the Government to borrow, they must be authorized by Congress to do so. The Government has now borrowed as much as Congress has previously authorized. If we are going to fulfill the commitments that we have made, wisely or unwisely, for next year, then the Federal Government must borrow. I emphasize again that I am not here to argue whether or not I agree with the level of Federal spending next year—as a matter of fact, I don't I much prefer the budget that we passed in the Senate initially. However, we agreed to spend a certain amount of money and we need to borrow a certain amount to fulfill those commitments. I would therefore hope that we would approve this debt ceiling increase, and send it out of this committee without amendments. As a matter of fact, very few amendments could be offered in this committee that are not subject to a point of order. You could change the amount of the debt ceiling, and that would be in order. To attempt to offer alternate budget proposals or amendments that are not germane to this committee's jurisdiction would be subject to a point of order on the floor. Such amendments can be offered on the floor. They will be offered on the floor. I am not so naive as to think that this is going to come to the floor and whisk on through, with no dissenting votes and no amendments. It is not, however, the appropriate place to add them in this committee. I hope the committee, upon conclusion of this hearing, will send a clean bill out at our next markup.

Senator CHAFEE. Thank you. Now, I am delighted to welcome those that are here this morning and to listen to the Treasury Department's request for a record increase in the debt limit. The debt limit is now $1.8 trillion. In a few minutes, we are going to hear the Treasury Department request an increase ~~to go over~~ $2 trillion. I saw a cartoon in the newspaper last week which said the Congress was going to have to get serious about reducing the deficit pretty soon because no one knows what the number is after a trillion. I am not sure that I know either. I don't think this is really a joking matter because, if we don't do something about the deficits quickly, this Nation, I think, is going to be in very, very deep trouble. Now, the hearing this morning will probably take less than 30 minutes. As a matter of fact, that is all we have scheduled for it. I don't suspect it is going to make the front page of the newspapers, but this mammouth debt is extremely significant to our citizens and more so than most of the items that are reported on the front page of the paper. Many of us in Congress, and particularly the Senate, and particularly the Republican Senators, want to do something about this deficit, and we did. We passed the budget—a tie vote with the Vice President breaking it—that made significant reductions in the deficit. And unfortunately, that was not adopted by the Democratic House of Representatives, and the President showed less than thorough enthusiasm about it. Now, while I was at home over the August recess, I had a series of listen-ins with my constituents, and the principal point that was raised there was the disappointment of those constituents in the lack of progress we are making in reducing the deficit. For every $1 we spend, we are borrowing about 20 cents. In other words, one-fifth of what the expenditures of the Federal Government are are borrowed, and they are not being paid back. And therefore, it goes onto the deficit. Now, a lot of people seriously are going to attempt to use this deficit measure to accomplish other things, as the chairman of the full committee mentioned. Nevertheless, we have got to pay our bills. We have run up these obligations, and people voted for them all. They voted for Social Security; they voted for social programs and educational programs, health programs, defense programs. You name it. People voted for it. That is why the measures are on the books. It seems to me now, to get tough and say, well, we are not going to raise the debt ceiling because we don't want to pay those bills which we have incurred, doesn't make an awful lot of sense. I know that the people who are doing it are doing it in a serious fashion, but, I think the real answer isn't to wrestle with the debt ceiling and abuse that and have all kinds of arguments and amendments on the floor. The real solution is to tackle the deficit and the spending bills that come along. Senator Symms, I am delighted you are here.

Senator SYMMS. Thank you very much, Mr. Chairman and Chairman Packwood. I guess I will take a slightly different approach than what the two of you have taken. I certainly have the highest respect for the point of view that you state, but I remember very well when I was over in the House and the deficit was somewhere around $500 billion when the budget process passed the Congress. And we have made a lot of headway since they passed the budget process 10 years ago. We are now up to, as you say, $2 trillion. I had a constant series of meetings with constituents in Idaho this past month. The timber industry is in a depression. The mining industry is in a depression. Agriculture is in a depression. And the big question that everyone asks is, as they did in Rhode Island: When are we going to do something about the deficit? Now, there is a procedure here that is available to the President if he is really serious about the deficit, and that would be to have the Attorney General rule that he can't spend any money that he doesn't have and put this country on a diet immediately; and he could make the decisions, and Congress could adjourn and go home until the spring of 1987. And we could crack this thing by putting the Government on a cash basis. What we have seen—now, that is probably more dramatic than what the President will do, I am certain. That is what I would wish that he would do, and then extract something back from Congress in terms of some spending reductions. So, as a compromise to that position, what I intend to do at the proper time, and I do know it is not in order here in the committee, but I think we should take the low number from every function of the budget that passed the House and the Senate—and this is what I tried to get the conferees to do when they met, is to just bury the hatchet and take what it basically amounts to: You take the House defense number and you take the rest of the Senate budget and reconcile it, and put it on the debt ceiling, and pass it. And then, we would be saving about $71 billion or $72 billion. It would put us in a position where the deficit next year projected would be more in the neighborhood of $156 billion, as opposed to $175 to $200 billion, that is projected now. Now, I don't think that we can put this off, and we continue to always say, well, next year we will do something about it. But we are talking about now. This fight would slip into March and April. Pretty soon, we will be up to another $200 billion. And right today, the average American—or the per capita—each American has to pay $650 to pay their share to service the debt. By the year 1990, at the rate we are going, it will cost $1,000. So, this means that the——

Senator CHAFEE. Just to service the debt.

Senator SYMMS. Just to service the debt. Don't pay for any defense. It doesn't pay for anything else.

Senator CHAFEE. It doesn't pay any principal.

Senator SYMMS. It doesn't pay any principal. It doesn't pay for anything else, any operational costs of the Government, or anything else. It just simply pays their share of the interest. Now, I don't know what the Congress thinks they are going to do when they get it up to $3 trillion and then $4 trillion, but I think we are definitely headed for a disaster, and right now is the time to fix it. And I am not going to vote for this debt increase unless there is some spending restraint coupled with it. As far as I am concerned, the mechanism is there. Senator Long, Senator Armstrong, and myself amended this bill 2 years ago so that there is no longer a temporary debt. The old argument that everybody uses that they can't mail the Social Security checks; that is a lot of nonsense. All the Treasury would have to do is establish priorities and decide who they are going to pay. Of course, they would have to keep the fudiciary notes and the credits of the United States good. They would have to pay the less privileged people who are relying on those checks for their basic sustenance of life, but there isn't any private business that would operate the way we are doing it down here. What you do in the private sector is you cut the wages of people; you get rid of people. There is no part of the Federal Government that doesn't have too many people working for it, except in a few isolated areas which deal with security, customs, and some of those things at the border. There isn't an agency in the Federal Government that isn't burdened down with too many people. We are burdened down with too many work rules. All over the State of Idaho, people are getting pay cuts. Just last week, in Clearwater County, the county commissioners cut everybody's pay that works for the county by 7 percent. We could do some things like that in the Federal Government and straighten this thing out, and there would be no-reason to have it be the end-all thing. But at the rate we are going, we will surely destroy the viability of the economy of the United States. It is happening now in the resource-producing part of the economy; and if we don't take dramatic action, I think we are just inviting disaster for the country. And it would be so painless now to do it, as compared to waiting until we end up with a $3 trillion debt and then decide that we have a problem. I think we have a problem now. And I think even as crude as this method is, we should use this debt ceiling as a mechanism to force Congress to bite the bullet and at least chop out $70 billion of proposed spending cuts next year as a minimum. I would like to see them add line item veto to that, but I am not going to get that tangled up. If someone else wants to offer that amendment, they can do it; but my intention will be to offer the low number from the House budget and the low number from the Senate budget on the debt ceiling. They can fish or cut bait. If they really are serious about cutting spending, we can do it right now. We don't have to go through all this falderol of waiting. That is just an excuse that people use, that we have already spent the money, and now we can't do anything more about it. I am talking about starting on spending cuts the 1st of October of 1985. Thank you, Mr. Chairman. I am sorry to take so long.

Senator CHAFEE. No, that is all right. That was extremely interesting. I just want to say that I would have gone along with a low figure from the House and the Senate. The trouble lies not here in the Senate, certainly not with the Republican Senate, but with the House of Representatives who refuse to make serious cuts in any programs. That is one of the reasons that we are in this jam that we are in.

Senator SYMMS. I think that is a good reason to put it on the bill and send it over to them. Then, they can decide what they want to do, and let the American people see where the problem is.

Senator CHAFEE. Now, the Honorable John Neihenke, who is the Acting Assistant Secretary of the Treasury for Domestic Finance. We welcome you here. You follow a long list of distinguished assistant secretaries who have come up here asking for increases in this debt ceiling. It is a thankless job. What is the figure that comes after a trillion?

Secretary NIEHENKE. Is that real? I am not sure. I am told the numbers like quadrillion—words like quadrillion really don't exist, and you really ought to continue to explain things in terms of billions and thousands of billions and billions of billions of dollars. So, I will have to check the technical point for you.

Senator CHAFEE. At the rate we are going, we are all going to have to learn that term pretty quickly.

Secretary NIEHENKE. I hope I don't have to come up with it.

Senator CHAFEE. All right. Why don't you proceed, Mr. Secretary?

STATEMENT OF THE HONORABLE JOHN J. NIEHENKE, ACTING ASSISTANT SECRETARY OF THE TREASURY FOR DOMESTIC FINANCE

Secretary NIEHENKE. Thank you, Mr. Chairman. Mr. Chairman and members of the committee, with your permission I would like to submit a written statement for the record and give a brief oral summary of my statement.

Our immediate need is for legislation to increase the debt limit. Our current cash and debt projections indicate that the present debt limit of $1,823.8 billion should be adequate to meet the Treasury's needs until September 30. Without an increase in the debt limit by that date, investment of the civil service retirement and disability fund in Treasury securities will have to be delayed to avoid exceeding the debt limit. Also, on October 1, investment of the military retirement fund and on October 3, investment of the Federal supplementary medical insurance trust fund will have to be delayed. Without action on the debt limit, the combined interest losses to these three funds will be about $8 million a day. Also, a delay in debt limit legislation beyond September 30 will require the Treasury to disrupt its scheduled market borrowings, which could add significantly to the cost of financing the debt.

Our current estimates show the debt subject to limit at $1,840.6 billion on September 30, 1985 and at $2,073.4 billion on September 30, 1986, assuming a $20 billion cash balance on those dates. Given these projected debt levels and allowing a $5 billion margin for contingencies, we request that the debt limit be increased to $1,845.6 billion through September 30, 1985 and $2,078.4 billion through September 30, 1986.

The budget resolution adopted by Congress on August 1 contains debt limit fiqures of $1,847.8 billion for the fiscal year 1985, which is $2.2 billion above our request; and $2,078.7 billion for the fiscal year 1986, which is three-tenths of a billion above our request. Thus, the debt figures in the congressional budget resolution are adequate to meet our estimated needs. These figures are incorporated in House Joint Resolution 372, as passed by the House.

My written statement also explains the need for additional authority to issue marketable Treasury bonds. However, in the interest of expediting action on the debt limit, we would urge the Senate to adopt House Joint Resolution 372 without amendment.

I would be happy to respond to any of your questions.

[The prepared written statement of Secretary Niehenke follows:]

FOR RELEASE ON DELIVERY
EXPECTED AT 9:00 A.M.
September 10, 1985

STATEMENT OF JOHN J. NIEHENKE
ACTING ASSISTANT SECRETARY OF THE TREASURY
(DOMESTIC FINANCE)
BEFORE THE SUBCOMMITTEE ON TAXATION AND DEBT MANAGEMENT
OF THE SENATE FINANCE COMMITTEE

Mr. Chairman and Members of the Committee:

My purpose here today is to advise you of the need for Congressional action to increase the public debt limit and to provide additional authority to issue long-term marketable Treasury bonds.

Debt Limit

Our immediate need is for legislation to increase the debt limit.

Our current cash and debt projections indicate that the present debt limit of $1,823.8 billion should be adequate to meet the Treasury's needs until September 30. Without an increase in the debt limit by that date, investment of the Civil Service Retirement and Disability Fund in Treasury securities will have to be delayed to avoid exceeding the debt limit. Then, on October 1, investment of the Military Retirement Fund and, on October 3, the Federal Supplementary Medical Insurance Trust Fund will have to be delayed. Without action on the debt limit, the combined interest losses to these three funds will be about $8 million a day. Also, a delay in debt limit legislation beyond September 30 will require the Treasury to disrupt its scheduled market borrowings, which could add significantly to the cost of financing the debt.

Our current estimates show the debt subject to limit at $1,840.6 billion on September 30, 1985 and $2,073.4 billion on September 30, 1986, assuming a $20 billion cash balance on those dates. Given these projected debt levels, and allowing a $5 billion margin for contingencies, we request that the debt limit be increased to $1,845.6 billion through September 30, 1985 and $2,078.4 billion through September 30, 1986.

The budget resolution adopted by Congress on August 1 contains debt limit figures of $1,847.8 billion for fiscal year 1985, which is $2.2 billion above our request, and $2,078.7 billion for fiscal year 1986, which is $.3 billion above our request. Thus, the debt figures in the Congressional budget resolution are adequate to meet our estimated needs. These figures are incorporated in H.J. Res. 372, as passed by the House.

Timely action on the debt ceiling is essential to avoid a repetition of past dislocations which have hampered Treasury financing operations. In recent years, delays in action on the debt limit have generated market uncertainty about Treasury financing schedules and on several occasions costly emergency measures have been undertaken, including suspension of savings bond sales, cancellation of scheduled security auctions and failure to invest trust funds.

Finally, prompt action on the debt limit bill is absolutely essential to permit the Government to pay its bills. If the debt limit is not increased, the Government will be unable to meet all of its essential obligations when they fall due -- social security checks, payroll checks, unemployment checks, defense contracts, and principal and interest on its securities.

Long-Term Bonds

Now, I would like to advise you of our need for additional authority to issue marketable Treasury bonds.

The maximum interest rate that the Treasury may pay on marketable bonds (securities with maturities in excess of 10 years) has long been limited by law to 4-1/4 percent. This limit did not become a serious obstacle to Treasury issues of new bonds until the mid-1960's. At that time market rates of interest rose above 4-1/4 percent and the Treasury was precluded from issuing new bonds. The average length of the privately-held marketable debt of the Treasury declined steadily from 5-3/4 years in mid-1965 to about 2-1/2 years in 1975, because of the heavy reliance by the Treasury on short-term bill financing of the budget deficits during this period.

In 1971, Congress authorized the Treasury to issue a limited amount of bonds without regard to the 4-1/4 percent ceiling. The dollar limit since has been increased from time to time, most recently on May 25, 1984, when the limit was raised by $50 billion (from $150 billion to $200 billion) to accommodate additional long-term financing. Assuming continuation of our recent pattern of long bond issuance, the existing $200 billion authority will be exhausted early in calendar 1986.

Since 1975 the Treasury's debt extension policies have moved the average length of the marketable debt from 2 years, 5 months in January 1976 to 4 years, 10 months in July, 1985, thus broadening the market for Treasury securities and reducing the administrative burden and market-disrupting effects of frequent Treasury operations to refund maturing issues. Yet while the Treasury has significantly improved the maturity structure of the debt in recent years, more than half of outstanding marketable debt matures within two years. This refunding requirement must be added to Treasury's new cash borrowing requirement to meet Treasury's total needs in the market. Because of the short average maturity of outstanding Treasury debt, long bond issuance must remain an integral part of Treasury's debt management policy.

We believe the 4-1/4 percent ceiling should be repealed. This Administration abhors interest rate ceilings as ineffective attempts to control prices and incompatible with our commitment to a free market pricing system. We view the interest rate ceiling on marketable bonds as an anachronism which serves only to frustrate the efficient management of the public debt. Removal of the 4-1/4 percent ceiling on Treasury marketable bonds will help the Treasury meet its financing needs in an efficient, cost-effective manner.

If the interest rate ceiling on long bonds is not abolished, as we believe it should be, we would request an increase in long bond authority of $50 billion, from $200 billion to $250 billion, which would be suffient to carry us through 1986.

While legislative action on the long bond authority will be necessary to enable us to continue our recent pattern of long bond issuance through 1986, in the interest of expediting action on the debt limit, we would urge the Senate to adopt H.J. Res. 372 without amendment.

That concludes my prepared statement, Mr. Chairman. I will be happy to respond to your questions.

Senator CHAFEE. Before we get into the questions, I see that the distinguished senior Senator from the State of New York is here, Senator Moynihan. We welcome you. If you have a statement, this would be an appropriate time.

Senator MOYNIHAN. No, Mr. Chairman. I have no statement, but thank you.

Senator CHAFEE. All right. Now, let's go through this slowly, Mr. Niehenke. What is the current limit? It is currently $1.823. Right?

Secretary NIEHENKE. Currently, $1 trillion $823.8 billion.

Senator CHAFEE. All right. I am talking in trillions. You are talking in millions.

Secretary NIEHENKE. Oh, I am sorry.

Senator CHAFEE. And you are proposing that it go up to $2 trillion $078.7——

Secretary NIEHENKE. $078.7.

Senator CHAFEE. $078.7. Now, how long is that going to carry us for under your estimates?

Secretary NIEHENKE. Until the end of the fiscal year. September 30, 1986.

Senator CHAFEE. And have you asked for anything after that?

Secretary NIEHENKE. No, Mr. Chairman.

Senator CHAFEE. Just the 1 year?

Secretary NIEHENKE. Just the fiscal year.

Senator CHAFEE. All right. Senator Symms.

Senator SYMMS. Mr. Niehenke, as you came forward here, you heard my opening remarks. And when this suggestion has been made to the President and the former Secretary of the Treasury, where they were less than enthusiastic about the idea of having the President exert his leadership on spending restraint in establishing priorities, why is there so much resistance at Treasury to having the executive branch of the Government exert itself and bring about some political pressure on this spending issue so that Congress, if they want to exercise their constitutional authority, can do so? Otherwise, the President can take the matter into his own hands. Why is there so much resistance to this?

Secretary NIEHENKE. What do you mean by taking the matter into his own hands?

Senator SYMMS. What I am stating is that, in my opinion, if the Attorney General would make a ruling for the President that he is not allowed to spend any money that he doesn't have and he must establish priorities, we could start on a gradual basis and go for 3 or 4 months at a time because you don't have to have the whole $200 billion all at once. You are talking about what: $20 billion a month that the red ink is pouring in?

Secretary NIEHENKE. Approximately. Some number like that.

Senator SYMMS. So, there is certainly room there to make some adjustments. Why is there so much resistance from the Treasury Department to do that? Does the Treasury Department just feel like the borrowing of all this money has no negative impact on the economy?

Secretary NIEHENKE. No, I think the administration would prefer to use the budget processes as much as possible to get at the spending cuts. Using something like the debt limit and putting the debt limit on a short string could have very disruptive effects on Treasury financing operations. The Treasury Department is in the market two or three times every week, and we rely upon a fairly regular schedule of borrowings in order to meet our cash needs. That is a very aggressive financing schedule and one that we need to be able to communicate to the market in a rather deliberate fashion to make sure we aren't too disruptive. The Treasury attempts, in its borrowing activities, to lay out a very formal schedule of financing so that the market can understand what the cash needs are going to be; so that it can anticipate what types of securities we are going to be issuing; so that they can position themselves to underwrite those securities on our behalf. Therefore, to the extent that we can have an increase in the debt limit that gives us the ability to communicate effectively with the markets over what our borrowing needs are going to be, we think that is an effective way for us to raise these funds at the lowest possible cost. If we were to take an approach, for example, to increase the debt limit for a month at a time or 2 months at a time, the market would constantly be off guard as to what the Treasury——

Senator SYMMS. I guess my question is: Why would the Treasury Department not want to extract something back from the Congress in exchange for raising the debt ceiling in order to get line-item veto, for example? Or in order to get a freeze on all Government wages, salaries, cost-of-living adjustments, and so forth, except for those below the poverty level? Why is the Treasury and the administration so reluctant to do what common sense tells us? All you have to do is get outside the beltway, and people tell you why in the hell does the Government keep raising wages for everybody? Why do you keep raising cost-of-living adjustments? Why do we keep hiring people? Instead of doing what everybody in the private sector has had to do, and that is tighten their belts?

Secretary NIEHENKE. We just feel that the budget process is the way that budget cuts ought to be conducted. The debt limit is just a recognition of what people have agreed to do in the budget process.

Senator SYMMS. What do we have to do? Get to a $10 trillion debt before the people begin to realize it is a problem?

Secretary NIEHENKE. This administration certainly hopes not. We think the budget process should be used for that purpose.

Senator SYMMS. I would just say again that I agree with everybody that says we ought to use the budget process, but we don't seem to have the political will to do it. Some of us do, but as a group, the Congress certainly hasn't done it. The President has been a little less than enthusiastic on some parts of reducing spending, I would have to say myself; and I just think that we ought to use every tool we can. And I think personally that we are in a crisis and that when you start talking about projecting that a family of four, 4 years from right now, will be paying $4,000 just to service the debt, if that is not a crisis, I guess I don't know what one is. And I can't think of anything that could be worse than to have us just sink the good ship United States just because of our own inability to discipline the insatiable apetite of the vote-buying schemes that everybody can dream up around here. Thank you, Mr. Chairman.

Senator CHAFEE. Thank you, Senator. Senator Moynihan?

Senator MOYNIHAN. Mr. Niehenke, forgive me for having been elsewhere and consequently late. I had read your statement, and I find little to disagree. I hope that you might have addressed that interest ceiling matter, but I take it that you think it is something for another time.

Secretary NIEHENKE. The increase in the bond authority?

Senator MOYNIHAN. Yes.

Secretary NIEHENKE. Yes; in the spirit of expediting this matter, we are prepared to come back at another time and revisit that request.

Senator MOYNIHAN. Could you tell me, sir, by what date you feel this legislation has to pass, else the Government runs out of borrowing authority and I suppose, effectively, is in default? The United States goes bankrupt.

Secretary NIEHENKE. We reach the debt limit on September 30. So, if——

Senator MOYNIHAN. So, at the rate you are borrowing, that is the date you go out?

Secretary NIEHENKE. We are financing ourself on the basis that there will be action on September 30, and therefore we will be at the debt limit at September 30. If action is taken by that time, we will have no problems. We will be able to invest the trust funds that are cited in the testimony. We will be able to continue our financing although some of those offerings have had to be delayed in anticipation of this. Beyond that, I would indicate to you that we have a projected negative cash balance without additional borrowing on October 15, but of more concern to me personally——

Senator MOYNIHAN. Is a negative cash balance like my wife reports to me about every 8 weeks? I mean, we are overdrawn?

Secretary NIEHENKE. It is a similar kind of thing. We do project a negative cash balance on October 15, without additional borrowing.

Senator MOYNIHAN. And that is 2 weeks?

Secretary NIEHENKE. I am sorry?

Senator MOYNIHAN. You usually have about 2 weeks after you have technically extended your authority before actually you are broke and you can't pay notes. Is that it?

Secretary NIEHENKE. Yes; let me be more specific. We currently project a cash balance on September 30 of just a little over $20 billion. The cash flow of the Government is such that expenditures are generally made in the early part of the month. We expect that cash balance to be almost depleted by the second week of October. As a matter of fact, during the second week of October we have projected the cash balance to be so low that we are frankly very nervous about it it. We expect the balance to be as low as $1 to $2 billion. That is against the typical target minimum balance in our cash management operations of $5 to $6 billion.

Senator MOYNIHAN. Right.

Secretary NIEHENKE. So, we are very nervous about the cash situation in the second week of October, but then looking beyond that, we show an actual negative cash balance on October 15.

Senator MOYNIHAN. And just so—not that the chairman needs to hear this—but just so the Senators will have a matter of record, if you don't have this by the second week of October, or October 15—I am not asking you to accept that date of October 1 as your date, I understand—but at some point between October 1 and October 15, the U.S. Government would default on its obligations?

Secretary NIEHENKE. We would have to stop paying on our obligations. Yes.

Senator MOYNIHAN. Yes; and a word for that would be bankrupt.

Secretary NIEHENKE. All right.

Senator MOYNIHAN. You don't think so, but I mean, in other parts of the world it would be so regarded.

Secretary NIEHENKE. We would clearly not meet our financial obligations.

Senator MOYNIHAN. That is all I asked. Two things, I would like to ask, if I may. When the administration took office, what was the level of the national debt?

Secretary NIEHENKE. Slightly under $1 trillion.

Senator MOYNIHAN. Slightly under $1 trillion? So, in somewhat more than—in slightly more than 5 years, you have doubled the national debt.

Secretary NIEHENKE. It has had that effect. Yes.

Senator MOYNIHAN. Has there ever been 5 years in the history of the United States in which $1 trillion has been added to the debt?

Secretary NIEHENKE. No.

Senator MOYNIHAN. I don't envy you your position, sir, but would you speak up? [Laughter.]

Secretary NIEHENKE. No.

Senator MOYNIHAN. Has there ever been a 5-year period in the history of the American Government in which $1 trillion has been added to the national debt?

Secretary NIEHENKE. No, there has not, sir.

Senator MOYNIHAN. All right.

Senator CHAFEE. It took 189 years and five major wars and one catastrophic depression to reach $1 trillion. Now, we have doubled it in 5 years.

Senator MOYNIHAN. That shows that our productivity is going up, sir.

Senator CHAFEE. It is the only thing that has increased in the country I think.

Senator MOYNIHAN. It is astonishing, and it is almost contraintuitive to the expectations of the people who came here that I don't think they can deal with. Mr. Chairman, may I ask one other question?

Senator CHAFEE. Yes; oh, you can ask lots of questions.

Senator MOYNIHAN. I will yield to you, of course.

Senator CHAFEE. But in all of this has not resulted not solely from the administration. It has resulted from a profligate Congress, and so we want to bear that in mind, should there be a tinge of politics in this discussion. [Laughter.]

Senator MOYNIHAN. A tinge of politics? I would grant that.

Senator CHAFEE. A scintilla of politics.

Senator MOYNIHAN. I would grant that. [Laughter.]

Senator MOYNIHAN. I don't deny that in the least, but it is the case that in 5 years we have doubled the national debt in what previously took 183 years of——

Senator CHAFEE. Absolutely, and it is shocking.

Senator MOYNIHAN. And I would like to press just one point which I don't think, it seems to me—it is a difficulty I have had with the Treasury, sir, and it is not your doing, but for about 3 years I have been pressing to get from the Treasury some statement as to their assessment of where the debt is owned. I get promises from you, and every so often I get a printed pamphlet from the American enterprises, due to something like that. But I have found very little interest in the Treasury as to who owns the debt. Do you have anything more on that?

Secretary NIEHENKE. I think I recall corresponding with you about a year ago on this, Senator. I think you asked us for an ownership profile.

Senator MOYNIHAN. Yes, sir.

Secretary NIEHENKE. And I believe we forwarded that, did we not?

ESTIMATED OWNERSHIP OF THE PUBLIC DEBT, JUNE 30, 1985

Public debt securities held by—	Securities held (billion)	Percent of total
U.S. Government accounts and the Federal Reserve banks	$482.6	27
Private investors	1,292.0	73
Commercial banks	[1] 196 3	11
Individuals (including partnerships and personal trust accounts)	[1] 158.6	9
Money market funds	24 8	2
Corporations, excluding banks and insurance companies	[1] 52.3	3
Foreign and international	[1] 200.7	11
Other investors mutual savings banks, savings and loan associations, nonprofit institutions, corporate pensioin funds, dealers and brokers. State and local governemnts et al.)	[1] 659.3	37
Total, public debt	1,774.6	100

[1] Preliminary

Source: Office of the Secretary of the Treasury, Office of Government Finance and Market Analysis, Aug 23, 1985

Senator MOYNIHAN. I guess I am saying I never found it much more than the institutional organizations we think and the individuals we think. It was a very brief report at nothing like the level of interest that would arouse me if I owed $2 trillion. I would want to know who I owed it to.

Secretary NIEHENKE. We have a table here which I will submit to you, which is a breakdown by some seven or eight categories of types of investors. These are based upon ownership surveys that we conduct.

Senator MOYNIHAN. Oh, that is right, sir. You gave me seven or eight categories. How much money does South Africa owe—own? How much of our debt does South Africa own?

Secretary NIEHENKE. I don't know that I have that breakdown, sir.

Senator MOYNIHAN. It was a subject in the papers today.

Secretary NIEHENKE. We don't have South Africa broken out.

Senator MOYNIHAN. All right.

Secretary NIEHENKE. It is not a significant amount of debt.

Senator MOYNIHAN. Switzerland?

Secretary NIEHENKE. We don't have Switzerland broken down.

Senator MOYNIHAN. Japan? Saudi Arabia?

Secretary NIEHENKE. Excuse me. Switzerland holds approximately $18 billion worth of debt. Japan owns approximately $34 billion worth of debt.

Senator MOYNIHAN. How much of the debt is owned overseas?

Secretary NIEHENKE. The foreign ownership of the debt is only about 11 percent of the outstanding debt.

Senator MOYNIHAN. That is about $200 billion?

Secretary NIEHENKE. Yes.

Senator MOYNIHAN. About $200 billion. I think you know more than you have told me—not that you are withholding.

Secretary NIEHENKE. No.

Senator MOYNIHAN. But would you tell us as much as you know?

Secretary NIEHENKE. I will provide you with tables of——

Senator MOYNIHAN. May I say, sir? I think you really have to get more interested in this. It has not been an important question previously, but we previously haven't doubled the national debt in 5 years. I mean, are foreign owners and foreign states beginning significantly to own our debt?

Secretary NIEHENKE. I would report to you, Senator, that the percentage of the total debt owned by foreigners has actually gone down in the past 2 to 3 years, percentagewise.

Senator MOYNIHAN. In terms, $200 billion is a large amount of money.

Secretary NIEHENKE. It is a large amount of money.

Senator MOYNIHAN. The other thing to make my point, and not to press it on political terms: In about 2 years now, we will require one-half the income from the personal income tax to pay the service on the debt. Isn't that about right? I would like to think that you all kept those numbers in your head.

Secretary NIEHENKE. Yes, that is about right.

Senator MOYNIHAN. About right. The debt service——

Senator CHAFEE. All right. Let's repeat that now. You are saying in about 2 years, the amount that the American public pays in their personal income tax, you say one-half of that will go toward the service of the debt?

Senator MOYNIHAN. Yes.

Senator CHAFEE. In other words, the service of the debt will approach $200 billion a year.

Senator MOYNIHAN. Yes.

Senator CHAFEE. What is it now? $120 billion?

Senator MOYNIHAN. Oh, higher. About $135 billion.

Senator CHAFEE. All right; $135 billion. Mr. Secretary are we right on these figures now?

Secretary NIEHENKE. The interest on the public debt for the 1985 fiscal year would be $179 billion.

Senator MOYNIHAN. All right. I think it is $135 billion now. In the coming fiscal year, we had estimated $175 billion and then that quickly flips up to about $200 billion in about 18 months.

Senator CHAFEE. All right. What you are saying is the service on the debt—that is just paying the interest, not a penny toward principal—will be $175 billion in fiscal year 1986?

Secretary NIEHENKE. 1985.

Senator CHAFEE. 1985, which we are just about through.

Senator MOYNIHAN. Yes.

Senator CHAFEE. Now——

Secretary NIEHENKE. Individual income taxes for the same period are $331 billion. These are individual income taxes, which I think—that was your mark, wasn't it, Senator, individual income taxes?

Senator MOYNIHAN. Yes.

Senator CHAFEE. Yes, that is right. So, we are above the 50 percent.

Secretary NIEHENKE. That is right. Over 50 percent of the individual income taxes.

Senator CHAFEE. That is right—the individual income taxes.

Senator MOYNIHAN. Mr. Chairman, what I have been arguing is that, if we knew more about who owned the debt, I think we faced this fact when we introduced this language at the turn of the century, but as a transfer of wealth from labor to capital, I don't know a more dramatic proposition than that half the personal income tax goes to pay the interest to people who own Treasury bonds. Notes, bonds. I mean, and then not to extend it——

Senator CHAFEE. No, I don't draw from that that the people who are receiving the payments are all the elite.

Senator MOYNIHAN. That is my question about who owns the debt.

Senator CHAFEE. A war bond or an E bond, or whatever it is——

Senator MOYNIHAN. A person that has it come out of a pension account.

Secretary NIEHENKE. Senator, my recollection is in the letter we sent to you last year when you asked this very specific question, I think we responded that we found that the ownership of the public debt was about as broadly held as the taxpayer profile. And we couldn't see any demonstrated evidence that there was an income exchange or an income transfer going on. It seemed to be a pretty broad-based phenomenon.

Senator MOYNIHAN. As I say, I think I have had a pretty good response from Treasury, but I don't think I have had the kind of effort from you that I think might be in order. You have now—you are taking half the personal income tax to pay interest payments to people who own bonds. Now, they may be widely distributed. I think mostly through pension funds. And that may be the answer, but it may not be.

Secretary NIEHENKE. That is a big piece of it.

Senator MOYNIHAN. That is a big piece of it. Could you give me two things? Could you give us a projection of personal income tax and interest service—interest debt—for the proportion for the next 10 years? I would really like to have that when we go to the floor. Just a projection.

Secretary NIEHENKE. Five years at the most.

Senator MOYNIHAN. All right. An experienced career officer says 5-years; beyond that I will not warrant the validity. Five years will do.

Secretary NIEHENKE. Five years is just the budget projection that we do with in the administration. That is the only reason for the 5 years. We don't project——

Senator MOYNIHAN. You are not in the business to take risks. Five years will be acceptable. Would you take my message back, though? I think you need to know more about who owns our debt. It is so large; it is so consequential.

Secretary NIEHENKE. Certainly, Senator.

Senator MOYNIHAN. Thank you, Mr. Secretary, and thank you, Mr. Chairman.

Senator CHAFEE. Thank you. Senator Durenberger?

Senator DURENBERGER. Mr. Chairman, I will be very brief. In essence, the Senator from New York has raised the issue I wanted to raise. I am much more interested in who has the obligation to pay it off than who owns it, although that clearly is of great significance. We are facing a situation where the young people in this country are for the first time a generation of downwardly mobile folks rather than upwardly mobile. I mean, for the first time, we are bringing our generation of children online with less than we had when this country was handed to us by our parents. And their ability to take home an adequate income is declining by so thus far an imperceptible percentage each year, but it is getting larger. And I guess all I want to say is I am bothered not only by the fact that we are now required to raise the debt, but by the fact that, as the Senator from New York has pointed out, a figure approximating one-half of all the personal income tax in this country is being used to service that debt, and no attention is being paid to the obligation of income-earners in this country to satisfy that obligation out of income. No attention is being paid to the payroll tax in this country, which is really an incredible part of this national tax system, on which we require State and local governments to respond on top of—and somehow or other, this city and this country just doesn't seem to think there is anything wrong other than that income tax is unfair. I think the issues, Mr. Chairman, you have to deal with here are very unfair. I think the payroll tax in this country is unconscionable, and I don't see anybody else expressing a great deal of concern, except the members of this committee who have been doing it now for 2 or 3 years, as I recall. We usually end up, as we did 2 years ago, Mr. Chairman, in this back room with the then-Secretary of the Treasury saying to us: It is better to borrow than it is to tax. If that is the philosophy, I don't know why we are having a hearing here.

Senator CHAFEE. Let's not get too far astray from what the hearing is on. The hearing is on the debt ceiling. There is nothing I enjoy more than a philosophic discussion on the income tax versus the payroll tax; who owes the debt; who owes it to who; how much it is. That is fine. That is one of the joys of this committee. However, at my back, I always hear time's winged chariot drawing hear. It is approaching 10:45, and we have another hearing after this.

Senator SYMMS. Mr. Chairman, I would like to just make one 30-second comment, and I will be as brief as possible, if I might.

Senator CHAFEE. You can be as brief as 30 seconds allows you.

Senator SYMMS. Mr. Chairman, here is the situation. I think that the questions that Senator Moynihan asked were very pointed, very effective, but we have $175 billion bill to pay each year just to service this debt. And for those people who say the deficit doesn't matter, then I suppose we could say since we are already borrowing 20 to 25 percent of what we spend, maybe we just ought to do away with the rest of the tax bill and borrow it all. We all know that wouldn't work. And in Sunny Slope, where I come from, we have a saying and that is that every debt is going to be paid off. Either the guy who lends the money is going to pay it off or the one who borrows it, but it does not go unpaid. And in our society this all has to come to a day of reckoning, and I think that the debate here this morning and the discussion and the testimony makes the argument that to go on a cash basis starting the 1st of October might just be the most responsible thing we could do. Now, I don't expect to have that happen all overnight, but I certainly wish this administration would at least make a feeble effort to put us on a cash basis until Congress would give back some kind of restraint in spending. I don't think that is an unreasonable position in any way. I think it is a very reasonable position. I have seen the lumberers, the miners, the farmers are broke in my State, and for us to make some sacrifice here in Washington, I think, is the minimum that could be made. And then all the people in the country would have to help make it, but once we got through that crisis of a 6-week to 2-month period, everybody would look back and say: Thank God. They finally did the right thing in Washington. But if we go ahead and extend this debt ceiling and don't ask anything in exchange for it, we are going right down the path of sure destruction at some point when it gets up so that the interest is the biggest single ticket in the Federal budget, and we are headed that way a lot faster than a lot of us realize, I think.

Senator CHAFEE. Senator Durenberger. Any further comments?

Senator DURENBERGER. No, thank you, Mr. Chairman.

Senator CHAFEE. Senator Moynihan.

Senator MOYNIHAN. No, Mr. Chairman.

Senator CHAFEE. I think this has been a useful discussion. I think particularly that I must say what I got out of this was the surprising disclosure that I had not fully realized that now, in this fiscal year, over half of the personal income taxes that the American public are paying goes for the service of the debt. And that is an astonishing figure.

Senator MOYNIHAN. Mr. Chairman, one thing. Could we ask Mr. Niehenke if we could get that proportion for the last 5 years as well as the next 5? The historic 5 as well as the projected 5?

Secretary NIEHENKE. Certainly, Senator.

Senator MOYNIHAN. We would appreciate that, and we will need that pretty soon, sir.

Secretary NIEHENKE. Right away.

[The information follows:]

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

ASSISTANT SECRETARY

September 10, 1985

Dear Senator Moynihan:

At this morning's hearing on the debt limit, you requested information on the ratio of interest on the public debt to individual income tax receipts. Enclosed you will find a table which provides figures on the interest on the public debt, individual income tax receipts, and the ratio of the two figures for fiscal years 1980 through 1990.

I hope this information is helpful. Please let me know if I can be of further assistance.

Sincerely,

John J. Niehenke
Acting Assistant Secretary
(Domestic Finance)

The Honorable
Daniel Patrick Moynihan
United States Senate
Washington, D.C. 20510

Enclosure

cc: Chairman Chafee

Interest on the Public Debt Related to Individual Income Taxes

Fiscal Years 1980 - 1990

Fiscal Year	Interest on the Public Debt	Individual Income Tax Receipts	Ratio of Interest to Individual Income Tax Receipts
	(in billions of dollars)		(percent)
1980	$74.8	$244.1	31%
1981	95.5	285.9	33
1982	117.2	297.7	39
1983	128.6	288.9	45
1984	153.8	296.2	52
1985e	179.3	333.4	54
1986e	194.0	356.2	54
1987e	208.8	389.8	54
1988e	216.7	429.8	50
1989e	208.6	470.9	44
1990e	202.2	507.6	40

Office of the Secretary of the Treasury
Office of Government Finance and
Market Analysis

September 10, 1985

e = estimate

Source: OMB Mid-Session Review of the 1986 Budget, released August 30, 1985

Senator MOYNIHAN. Thank you.

Senator CHAFEE. Thank you very much, Secretary Niehenke. You have brought bad news, but we don't hold it against you. [Laughter.]

Secretary NIEHENKE. Thank you.

[Whereupon, at 9:51 a.m., the hearing was adjourned.]

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