S. HRG. 101-571

PUBLIC DEBT LIMIT

HEARING

BEFORE THE

SUBCOMMITTEE ON
TAXATION AND DEBT MANAGEMENT

OF THE

COMMITTEE ON FINANCE
UNITED STATES SENATE

ONE HUNDRED FIRST CONGRESS

FIRST SESSION

ON

H.J. Res. 280

JULY 19, 1989

Printed for the use of the Committee on Finance

U.S. GOVERNMENT PRINTING OFFICE

27-977

WASHINGTON : 1990

For sale by the Superintendent of Documents, Congressional Sales Office
U.S. Government Printing Office, Washington, DC 20402

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PUBLIC DEBT LIMIT

WEDNESDAY, JULY 19, 1989

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

The hearing was convened, pursuant to notice, at 2:38 p.m., in room SD-215, Dirksen Senate Office Building, Hon. Max Baucus presiding.

Also present: Senator Symms.

[The press release announcing the hearing follows:]

[Press Release No. H-43, July 14, 1989]

FINANCE SUBCOMMITTEE TO HOLD HEARING ON A BILL TO INCREASE THE PUBLIC DEBT LIMIT

WASHINGTON, D.C.—Senator Spark M. Matsunaga (D., Hawaii), Chairman, Subcommittee on Taxation and Debt Management, announced Friday that the Subcommittee will hold a hearing on House-passed legislation to increase the public debt limit.

The hearing is scheduled for *Wednesday, July 19, 1989 at 2:30 p.m.* in Room SD-215 of the Dirksen Senate Office Building.

The hearing will focus on H.J. Res. 280, a joint resolution passed by the House of Representatives to increase the statutory limit on the public debt from its current level of $2.8 trillion to a new level of $3.1227 trillion.

"The Finance Committee has received a letter from the Secretary of the Treasury urging prompt action on debt limit legislation. I am holding this hearing for the purpose of determining how much of a debt limit increase is warranted at this time and to inquire as to the date by which the public debt limit needs to be raised," Senator Matsunaga said.

The only witness for this hearing will be The Honorable Robert R. Glauber, Under Secretary for Finance, Department of the Treasury.

OPENING STATEMENT OF HON. MAX BAUCUS, A U.S. SENATOR FROM MONTANA

Senator BAUCUS. The hearing will come to order. Today's Subcommittee hearings will consider three issues. First, the Taxation and Debt Management Subcommittee will consider an extension of the public debt limit from $2.8 trillion to just over $3.1 trillion.

After the debt limit hearing we will hold a joint hearing of the Subcommittee on Taxation and Debt Management and the Subcommittee on Private Retirement Plans. The first item at the joint hearing is proposals to revise the rules for employee stock ownership plans. The specific ESOP provisions we will look at are the 50 percent exclusion for interest paid on ESOP loans and the Section 404(k) deduction for dividends paid on ESOP stock.

I see that Senator Russell Long is our lead witness on ESOPs. I see also that one of the members of our Committee, Senator Heinz, wishes to testify this morning. I look forward to hearing from both of them.

The second item on the agenda is the proposal to permit employers to use assets from overfunded retirement plans to pay for health care for retirees. Retiree health care is an important issue for the Finance Committee and I am anxious to look more closely at the proposal, which I understand would raise revenue and at the same time fund retiree health benefits.

Senator, proceed.

OPENING STATEMENT OF HON. JOHN HEINZ, A U.S. SENATOR FROM PENNSYLVANIA

Senator HEINZ. Mr. Chairman, thank you very much. Mr. Chairman, I am here today to testify for a proposal that has a very direct effect on the amount of the public debt. It is a proposal I have made in legislative form S. 240 and S. Con. Res. 30 the substance of which is to limit for next fiscal year through fiscal 1993, which is the end date for Gramm-Rudman and coincidently the plan date for bringing the deficit down to zero.

Our current practice of treating the Social Security trust fund surpluses that we are fortunately building each and every year. These surpluses, which are currently at about $60 billion in this fiscal year and will be about $68 billion for fiscal 1990—are being treated as if they were revenues to the general fund of the Treasury and thereby are serving to reduce the operating deficit of the Federal Government.

Conceptually, it needs to be clear to everybody that when the Finance Committee and the Ways and Means Committee determined back in 1983 to make a series of very tough decisions to make the Social Security trust funds whole, that the solvency package we adopted was comprised of two elements.

First was a short-term package totalling about $185 billion over the period 1983 through 1989 to make sure we didn't run out of money during that period. Second was a series of long-term changes and reforms. The most notable, I suppose, was the decision to incrementally raise the retirement age after the year 2000 in order to put the Social Security trust funds on a long-term solvency basis. We recognized that this solvency was utterly dependent upon building up a surplus in the trust fund—a very substantial surplus in the trust fund—between now and roughly the year 2020 or so to pay for the increased benefit retirements of the baby boom generation, who will be retiring in large numbers in and around that time.

And so the idea is that we build up our surplus, our cash receipts, in the Social Security fund in order to pay for those benefits which are going to vastly exceed any politically supportable stream of income that we might to choose to raise then. That's the background.

What we're doing now, of course, is undermining and undercutting that whole strategy by treating the surpluses as if they were part of the general fund of the budget; and, in effect, they are financing current spending. Or if you want to put it another way, if we were accumulating the amounts that we should be accumulating in the Social Security trust fund, we would be very much in violation of the Gramm-Rudman-Hollings deficit reduction targets, or we would have had to make more aggressive efforts on reducing spending or on revenue enhancement as we like to call it.

But whatever you do call it, the net result is that whatever it is that we report as the deficit, we are borrowing far more than that amount. And this chart that I brought along shows, I think, quite clearly what is happening. In 1990 the projected deficit—this is without any Gramm-Rudman-Hollings action—would be $141 billion. Now we are going to try and bring it down less than that. The Social Security addition to reserves would be $68 billion. We, in effect, if we reported a deficit of $141 billion would actually be increasing, or would have to increase the Treasury borrowing by $209 billion.

In other words, we would have to borrow $68 billion more than one would logically suppose we ought to do because we are taking those Social Security excess receipts or reserves and treating them as if we are making a profit, and spending them.

What I would like to say to the Committee is very simply this: This is a critical issue. It is an issue that not only is troublesome because it is clear that we are misleading the public when we say that our deficit is $100 billion when we are actually having to borrow $68 billion more than that, but we are giving up possibly the only opportunity that we have to increase the aggregate savings of this country.

There was, as you may recall, a Commission established last year—the National Economic Commission—on which a number of our members served. Pete Domenici served on it; Bob Strauss served on it; Drew Lewis served on it; Senator Moynihan was a member of it. Their job was to come up with a solution to get rid of the Federal deficit. As we also all know, they did not succeed. They ended up with a very divided point of view.

But there was one recommendation that they were unanimous about. That is, to end the Social Security game we are playing. They suggested basically putting the Social Security OASDI trust fund off budget and out of the annual Gramm-Rudman-Hollings deficit reduction counting game that we are engaged in. It was the only recommendation that they made in which there was any unanimity at all. Many other similarly thoughtful groups have made the same observation.

This is an issue that I bring to the attention of your Subcommittee, Mr. Chairman, and my own Finance Committee because I think in the very near future it is going to be impossible to pass a debt ceiling bill that does not recognize and cure the problem.

What that really means is, that I do not see how we can continue to justify asking the Congress to vote yes on a debt ceiling bill that is going up faster than the combined operating deficits of the Federal Government. Of course, the reason it is going up faster is because we are having to borrow to replace the Social Security reserves that, in effect, we are spending.

That, it seems to me, would not be a political popular thing to do if the American public focused on the issue. It is my belief that we will be facing this issue either on this debt ceiling bill—and certainly on subsequent ones—if not in Committee or on the floor. So

I urge the Finance Committee not to be a bystander, but to be a problem solver in that regard.

Obviously, I have a proposal to do something about it. There are other people—Senator Moynihan has a proposal. But the main thing that we should not do is ignore it. And that is the purpose of my testimony here today, Mr. Chairman.

Senator BAUCUS. Thank you very much, Senator. It is obviously an issue that is fairly current. It is the topic of many conversations when the debt limit bill is before us, either in the Committee or most certainly on the floor. That bill, of course, will attract other measures as well and is another matter we will have to deal with in one way or another.

But I thank you for bringing the issue before us. It is one that should be resolved fairly quickly. I appreciate your taking the time to raise it again, to help educate not only this Committee but the American public as to what the facts are. I think that that contribution will help resolve this fairly quickly.

But I again must say that there may be a lot of amendments on the debt limit ceiling bill. I hope that those amendments do not bog down the debt limit bill because we have to pass the debt limit bill fairly expeditiously.

Senator HEINZ. Mr. Chairman, may I comment on that?

Senator BAUCUS. Sure.

Senator HEINZ. I understand the position that you are in. But just as in 1985, after the failure of the Congress—the Senate did not fail, but the Congress did—to achieve a meaningful reduction in the Federal budget deficit, which failure brought about a crisis on the debt ceiling, that was only resolved when Senators Gramm, Rudman and Hollings said, all right, we will only support an increase in the debt ceiling if it is linked to institutional reform, and which reform became Gramm-Rudman-Hollings.

I would suggest to you that we are facing exactly the same situation on this debt ceiling bill. That you are going to find fewer and fewer people, and you may already be past the number that Congress would need to pass a debt ceiling bill without the equivalent of a Gramm-Rudman-Hollings approach to get out of this box that we are in. That is why passing a debt ceiling may not be easy.

Senator BAUCUS. Thank you.

Senator Symms, any questions?

Senator SYMMS. I'll just be very brief, Mr. Chairman. Thank you very much.

Senator Heinz, if your proposal goes off budget would you advocate a reduction in the payroll tax so that the government doesn't have a huge buildup of capital? Isn't this really a way to return some money to private savings plans?

Senator HEINZ. I thank the Senator for his question because that is an excellent question.

First, what I would hope we would do because I think it is reasonable and practical and causes the least problems for the Treasury Department, for OMB and our colleagues, is, simply to freeze the amount we are now counting and taking the $68-odd billion and carry that through 1993, and saying that you cannot count any more than this $68 billion as deficit reduction, and then work our way out from under that $68 billion over the next 2 or 3 years in 1994, 1995, 1996.

Now if we did that, you are quite right, what would happen is that the Social Security trust funds would accumulate ultimately as much as $3 trillion or even $4 trillion in surplus. And your question is, well, how can we either avoid that or make sure that this benefits the country, that it does not make the government just a bigger, more costly government.

The answer is that the Social Security trust fund will be able to buy in all of the $2.8 trillion of what would otherwise be publicly held debt. This is the same debt which the Committee seeks to authorize the Treasury to finance. The result of that would be that there would be no publicly held debt of the national government. You would have a situation where on every Monday when the Treasury Department normally goes to the market to rollover its T-bills, its 5-year, it's 30-year securities, there would not be any Treasury Department borrowing competing with the private sector.

My guess is that that would bring interest rates down; that would bring the cost of capital down; and you would see an economic explosion in this country fueled by the private sector, the likes of which we have never seen before.

Senator SYMMS. I think this is a very important point, Senator Heinz, the fact that the massive amount of accumulated savings in the Social Security trust fund could end up being a command to the U.S. economy. We'd end up with a situation where everyone would have to go to the Social Security trust fund to get a loan.

Senator HEINZ. Oh, not at all. If I might say to my friend——

Senator SYMMS. This would be the case if there was an excess of $2.8 trillion though.

Senator HEINZ. Well, there are some very good ways to make sure that that does not happen. Because right behind that $2.8 trillion of Federal Government debt is a nearly equal amount of municipal and State debt, which would be, frankly, my next preferred target for retirement.

Senator SYMMS. Would you apply the same principal to the other surplus trust funds?

Senator HEINZ. The other surplus trust funds, I think, have a very different purpose. They are supposed to finance current operations, but instead the money has been fenced through a trust fund. I am thinking of the highway trust fund; I am thinking of the airport and airway trust fund. As you know, surpluses have been accumulated in those trust funds but not for the same purpose as they are being accumulated in Social Security.

Senator SYMMS. Right.

Senator HEINZ. In Social Security they have been accumulated to meet a future obligation. Frankly, it is my judgment—and I think maybe the Senator shares this—that what is happening with the highway trust fund and the airport trust fund is a budget maneuver where we are spending less than we are taking in. That is not the intent of Congress is and we have expressed our intent on several occasions in this Committee, for example, in the airport trust fund.

I think that is a totally different situation and I do not advocate——

Senator SYMMS. In other words, what you are saying is we ought to budget the money there that we are taxing people so we can get on with building and repairing roads, bridges, and airports?

Senator HEINZ. That is something I would personally support but for different reasons than I am advocating here today.

Senator SYMMS. I understand and agree with you.

One other question. Do we want to have the interest that is paid by one part of the government to another part of the government—which is what happens now in many of these trust funds—be accounted as net interest or shown as a gross outlay in the budget?

Senator HEINZ. You know, I said to myself as I was walking up here, I am going to get asked that question and I better remember how that works. I just did not have time. I will be happy to answer that in writing. But it does make a very big difference.

[The answer appears in the appendix.]

Senator SYMMS. As you know, I am very interested in the highway program. As far as I'm concerned we have a continual problem in that the highway program is so out of balance now in terms of the amount of money spent on the highways in comparison to the amount people are taxed that we actually have in some years nearly a billion dollars of income that goes into the highway trust fund. And, of course, OMB never wants this money to be credited to the Highway Department. This would not happen anywhere except in the Federal Government.

Senator HEINZ. I have not given it as much thought as you have on highways, Senator Symms. But in Social Security I think it is very misleading for us to report net interest where the interest that is earned by the Social Security surplus is not handled as if it is owed to the Social Security Administration. It is handled in a way that reduces what we report as the total interest cost of the government.

Thereby, it obscures the true cost of financing our overall national debt. I think that is fundamentally dishonest. So I think we should—if we are going to take the Social Security trust fund off budget—truly off budget—it is now off budget, except for deficit reduction target and reporting purposes—we should make sure that the interest is treated appropriately as if the interest was being paid to someone other than the Federal Government.

And, of course, if we do this right we may want to do the other trust funds the same way.

Senator SYMMS. Thank you very much.

The Chairman has got to get this moving. I will just say in closing, Mr. Chairman, I think that is a very critical point. If we do not do that, sometime in about the year 2020 when they go to open the cigar box to pay off all the baby boomers, they will find out there is no money in it.

Senator BAUCUS. Thank you both very much. Thank you, Senator.

Senator HEINZ. Senator Baucus, thank you very much.

Senator BAUCUS. Our next witness is Hon. Robert Glauber, Under Secretary for Finance, the U.S. Department of the Treasury.

Mr. Glauber, we our honored to have you here. Why don't you proceed.

STATEMENT OF HON. ROBERT R. GLAUBER, UNDER SECRETARY FOR FINANCE, U.S. DEPARTMENT OF THE TREASURY

Mr. GLAUBER. Thank you, Mr. Chairman.

Mr. Chairman, Senator Symms, I appreciate the opportunity to appear before you today to advise you of the need for Congressional action to increase the public debt limit by August 1st and to propose a change in the way the debt is counted for the purposes of the limit.

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

Treasury's current estimates, which are affected by a variety of unpredictable variables, show that the permanent debt ceiling of $2.8 trillion will be sufficient only into early August. The limited flexibility provided by the $15 billion of Federal Financing Bank authority to borrow, which is not subject to the debt limit, has already been used. Without an increase in the debt limit by August 1st, full investment of the Social Security trust funds may not be possible.

It is virtually certain, absent such action, that Treasury will run out of cash and default on its obligations on August 15th, when interest payment sin excess of $17 billion are due on outstanding Treasury notes and bonds.

And if Congress were to leave for its recess—scheduled for August 5th through September 5th—without increasing the debt limit, in addition to defaulting on other obligations, the United States could not honor, on September 1st, $3 billion of military retirement and salary payments or payments totaling over $20 billion to Social Security and supplemental security income recipients, railroad and civil service retirees and veterans.

Defaulting on obligations already incurred is very different from halting operations of the Government when spending authority is allowed to lapse, such as occurs when appropriations are delayed. Once an obligation is incurred, it must be paid.

What would be the broader ramifications of failure to act? We would repeat past dislocations which have hampered the normal investment activities of the trust funds and have generally hampered Treasury financing operations. Past delays in action on the debt limit have generated market uncertainty about Treasury financing schedules and have tended to raise the cost of financing the debt. On several occasions, costly emergency measures have been undertaken, including suspension of sales of savings bonds, and the State and local government series Treasury securities, as well as an inability to invest the trust funds fully.

Finally, default would have adverse consequences on domestic and international confidence and trust in the United States.

Next, I would like to turn to the proposed new debt limit and just point out first, that the debt limit is deemed to have been passed by the House since both the House and the Senate have approved in joint resolution the Fiscal 1990 budget.

Treasury recommends adoption of the Congressional May budget resolution debt limit amount of $3.122 trillion dollars for Fiscal Year 1990, which assumes a $30 billion cash balance on September 30, 1990. Based on our latest estimates, this debt limit figure appears to be adequate. It also fairly reflects the July mid-session review of the fiscal year 1990 budget just completed. That estimate of debt subject to limit is $3.0967 trillion on September 30, 1990, which also assumes a $30 billion cash balance as of that date.

Both the Congressional budget resolution and the mid-session review include an allowance of $35 billion for Treasury issues of zero-coupon securities to the Resolution Funding Corporation that are expected in Fiscal Years 1989 to 1990 under the thrift legislation that is currently in conference. In addition, the Treasury may be asked to issue zero-coupon securities to foreign governments in connection with Secretary Brady's initiative to reduce the debt burden of highly indebted countries. Those zero-coupon issues would be counted at face value under the current statutory definition of debt subject to limit, whereas the amount of money actually raised, of course, is only a fraction of the face amount.

I urge you to see the cooperation of your colleagues and to act quickly on the debt limit in order to prevent unnecessary problems in Treasury financing operations and default ultimately on the Government's obligations.

Next, I would like to turn to the subject of scoring the debt subject to limit. I would like now to turn to our proposal to change the scoring of debt for the purposes of the debt limit.

As you know, the debt limit applies to the "face amount" of securities issued by the Treasury. This definitional restriction, when applied to Treasury securities issued at a discount, like Treasury bills or zero-coupon securities, requires larger increase sin the debt limit than reflected in cash raised. Accordingly, we would propose that the debt subject to limit be scored on the basis of funds raised on original issue, plus interest that has accrued but will not yet be paid until maturity.

"Face amount" scoring was enacted at a time when zero-coupon and other innovative accrual-type securities were not in common usage, as they are today. That scoring was not intended as a restriction on the Treasury's flexibility to manage the debt.

In 1946, the Congress amended the public debt statute to provide the securities that are "issued at a discount and redeemable before maturity at the option of the holder" are to be scored at the current accrual value for purposes of the debt limit. This provision was intended to change the debt limit accounting treatment for savings bonds. It is limited to securities that are redeemable at the option of the holder. This restriction is not appropriate for accrual-type securities that the Treasury might issue in the market or nonmarketable special purpose securities, such as the zero-coupon bond that the Treasury issued to the Government of Mexico in 1988.

There are several reason to score the debt at accrual value, including:

First, Treasury would have greater flexibility to issue innovative types of obligations, such as zero-coupon securities, whose principal amount changes over time. Thorough analyses would have to be done to assure that such issuance would reduce the cost of financing the debt and, by extension, reduce future deficits.

Second, Treasury could tailor special security issues to facilitate achieving other policy goals without increasing budget outlays.

Third, it would make uniform the debt limit accounting treatment for all Treasury securities. It would expand the provision in current law that restricts debt limit scoring at accrual value only to securities that are issued at a discount and redeemable before maturity at the option of the holder.

And fourth, it would be consistent with the accrual accounting approach of the unified budget for interest on public debt held by the public. Currently, over $15 billion of debt limit authority is used to account for the unamortized discount of Treasury securities held by the public, including that on Treasury bills had on the zero-coupon bond issued to the Government of Mexico.

For these reasons, Treasury seeks your support for legislation to score the public debt at accrual value.

Mr. Chairman, this concludes my prepared statement. I would be happy to respond to your questions.

Senator BAUCUS. Thank you, Mr. Glauber. You make a fairly interesting point with respect to scoring, particularly of zero-coupon securities. I hope we can work out a way to accommodate the interest of the Treasury.

Second, it is my understanding that Treasury has made available to this Committee a series of tables which display the Federal and other debt in historical context. Is that right?

Mr. GLAUBER. That is correct, Mr. Chairman.

Senator BAUCUS. We will make those tables a part of the record.

Mr. GLAUBER. Thank you.

Senator BAUCUS. Thank you very much, Mr. Glauber, for your testimony.

Mr. GLAUBER. Thank you.

[The tables and Mr. Glauber's prepared statement appear in the appendix.]

[Whereupon, the hearing was recessed at 3:12 p.m.]

APPENDIX

Alphabetical Listing and Material Submitted

Submitted by Senator Max Baucus

(Joint Committee on Taxation, July 19, 1989, JCX-33-89)

PUBLIC HEARING ON INCREASE IN THE PUBLIC DEBT LIMIT

(Before the Committee on Finance on July 19, 1989)

Present Law

The present permanent public debt limit is $2,800 billion.

Current Situation of the Public Debt

At the close of business on Thursday, July 13, 1989, the outstanding public debt subject to limitation was $2,784.8 billion, and the operating cash balance was $23.3 billion.

The Secretary of the Treasury has requested that the public debt limit be increased to the level specified in H.J. Res. 280, as passed by the House of Representatives, which is $3,122.7 billion. The Secretary, in a letter to the Senate Majority Leader, stated that the limit provided in H.J. Res. 280, which is based on the concurrent budget resolution covering fiscal year 1990, would suffice through fiscal year 1990.

The present debt limit may not allow Treasury to make the required cash advance to the Social Security Administration on August I because the margin between the limit and the amount outstanding—$15 billion—is less than the $18 billion estimate of the amount of the August 1 advance.

Also, on August 15, the Treasury must meet semi-annual interest obligations in excess of $17 billion on outstanding Treasury notes and bonds.

The combination of these two requirements for issuance of additional debt indicate the estimated need for a debt limit increase by August 1. In addition, an increase in the debt limit before Congress leaves for its August recess is necessary because Treasury has estimated that it must borrow about $20 billion on September 1 in order to fund regular salary payments for civilian and military employees and for retirement payments under social security, supplemental security income, railroad, military, civil service, and veterans programs.

Prepared Statement of Robert R. Glauber

I appreciate the opportunity to appear before you today to advise you of the need for Congressional action to increase the public debt limit by August 1 and to propose a-change in the way debt is counted for purposes of the limit.

I. DEBT LIMIT

A. Current Limit Insufficient

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

Treasury's current estimates, which are affected by a variety of unpredictable variables, show that the permanent debt ceiling of $2,800 billion will be sufficient only into early August. The limited flexibility provided by the $15 billion of Federal Financing Bank authority to borrow, which is not subject to the debt limit, has already been used. Without an increase in the debt limit by August 1, full investment of the social security trust funds may not be possible.

It is virtually certain, absent such action, that Treasury will run out of cash and default on its obligations on August when interest payments in excess of $17 billion are due on outstanding Treasury notes and bonds.

And if Congress were to leave for its recess—scheduled for August 5 through September 5—without increasing the debt limit, in addition to defaulting on other obligations, the United States could not honor, on September 1, $3.0 billion of military retirement and salary payments or payments totaling over $20 billion to social security and supplemental security income recipients, railroad and civil service retirees and veterans.

Defaulting on obligations already incurred is very different from halting operations of the Government when spending authority is allowed to lapse, such as occurs when appropriations are delayed. Once an obligation is incurred, it must be paid.

What would be the broader ramifications of failure to act? We would repeat past dislocations which have hampered the normal investment activities of the trust funds and have generally hampered Treasury financing operations. Past delays in action on the debt limit have generated market uncertainty about Treasury financing schedules and have tended to raise the cost of financing the debt. On several occasions, costly emergency measures have been undertaken, including suspensions of sales of saving bonds, and the state and local government series Treasury securities, as well as an inability to invest the trust funds fully.

Finally, default would have adverse consequences on domestic and international confidence and trust in the United States.

B. Proposed New Debt Limit [1]

Treasury recommends adoption of the Congressional May budget resolution debt limit amount of $3,122.7 billion for Fiscal Year 1990, which assumes a $30 billion cash balance on September 30, 1990. Based on our latest estimates, this debt limit figure appears to be adequate. It also fairly reflects the July Mid-Session Review of the FY 1990 budget estimate of debt subject to limit of $3,096.7 billion on September 30, 1990, which also assumes a $30 billion cash balance on that date.

Both the Congressional budget resolution and the Mid-Session Review include an allowance of $35 billion for Treasury issues of zero-coupon securities to the Resolution Funding Corporation that are expected in Fiscal Years 1989 and 1990 under the thrift legislation that is currently in conference. In addition, the Treasury may be asked to issue zero-coupon securities to foreign governments in connection with Secretary Brady's initiative to reduce the debt burden of highly indebted countries. Those zero-coupon issues would be counted at face value ~~under the~~ current statutory definition of debt subject to limit, whereas the amount of money actually raised is only a fraction of the face amount.

I urge you to seek the cooperation of your colleagues and to act quickly on the debt limit in order to prevent unnecessary problems in Treasury financing operations and default on the Government's obligations.

II. SCORING OF DEBT SUBJECT TO LIMIT

I would now like to turn to our proposal to change the scoring of debt for the purposes of the limit.

As you know, the debt limit applies to the "face amount" of securities issued by the Treasury. This definitional restriction, when applied to Treasury securities issued at a discount, like Treasury bills or zero-coupon securities, requires larger increases in the debt limit than reflected in cash raised. Accordingly, we propose that the debt subject to limit be scored on the basis of funds raised on original issue, plus interest that has accrued but will not be paid until maturity.

"Face amount" scoring was enacted at a time when zero-coupon and other innovative accrual-type securities were not in common usage, as they are today. That scoring was not intended as a restriction on the Treasury's flexibility to manage the debt.

In 1946, the Congress amended the public debt statute to provide that securities that are "issued at a discount and redeemable before maturity at the option of the holder" are to be scored at the current accrual value for purposes of the debt limit. This provision was intended to change the debt limit accounting treatment for savings bonds. It is limited to securities that ~~are redeemable~~ at the option of the holder. This restriction is not appropriate for accrual-type securities that the Treasury

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[1] The debt limit is deemed to have been passed by the House (H.J. Res. 280), since both the House and Senate have approved the FY 1990 budget.

might issue in the market or nonmarketable special purpose securities, such as the zero-coupon bond that the Treasury issued to the Government of Mexico in 1988.

There are several reasons to score debt at the accrual value including:

1. Treasury would have greater flexibility to issue innovative types of obligations such as zero-coupon securities, whose principal amount changes over time. Thorough analyses would have to be done to assure that such issuance would reduce the cost of financing the debt and, by extension, reduce future deficits.

2. Treasury could tailor special securities issues to facilitate achieving other policy goals without increasing budget outlays.

3. It would make uniform the debt limit accounting treatment for all Treasury securities. It would expand the provision in current law that restricts debt limit scoring at accrual value only to securities that are issued at a discount and redeemable before maturity at the option of the holder.

4. It would be consistent with the accrual accounting approach of the unified budget for interest on public debt held by the public. Currently, over $15 billion of debt limit authority is used to account for the unamortized discount on Treasury securities held by the public, including that on Treasury bills and on the zero-coupon bond issued to the Government of Mexico.

For these reasons Treasury seeks your support for legislation to score the public debt at accrual value.

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

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

YEAR	PRIVATE(1) CORPORATE	PRIVATE(1) OTHER	PRIVATE(1) TOTAL	STATE AND LOCAL	(2) FEDERAL	TOTAL NET DEBT	PERCENT FEDERAL OF TOTAL
	(BILLION $)						
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	49.8	66.6	116.4	14.9	228.0	359.3	63.5
1947	57.1	80.8	137.8	16.3	220.8	374.9	58.9
1948	63.3	93.6	156.9	18.5	215.1	390.5	55.1
1949	65.2	104.4	169.6	21.0	217.7	408.3	53.3
1950	72.0	123.4	195.4	24.4	216.5	436.3	49.6
1951	80.4	136.2	216.7	26.6	216.1	459.3	47.0
1952	87.6	152.9	240.5	30.2	221.4	492.2	45.0
1953	91.8	167.8	259.6	34.5	228.4	522.5	43.7
1954	96.6	182.7	279.3	40.6	230.8	550.7	41.9
1955	105.0	211.7	316.7	45.9	230.0	592.6	38.6
1956	115.4	231.6	347.0	49.5	224.2	620.7	36.1
1957	125.0	250.0	375.0	53.7	222.0	650.7	34.1
1958	133.4	267.6	401.0	59.2	231.3	691.4	33.4
1959	143.7	301.4	445.1	65.5	238.3	749.0	31.8
1960	153.7	328.7	482.4	70.8	236.3	789.4	29.9
1961	163.6	356.5	520.0	75.9	243.5	839.4	29.0
1962	176.0	391.0	567.1	81.2	250.5	898.8	27.9
1963	188.3	438.1	626.4	86.9	254.4	967.7	26.3
1964	200.9	487.1	688.0	92.9	260.7	1041.6	25.0
1965	219.8	539.8	759.6	100.3	262.4	1122.3	23.4
1966	243.0	585.2	828.3	105.9	266.1	1200.3	22.2
1967	268.1	626.4	894.6	113.7	279.1	1287.3	21.7
1968	295.0	690.6	985.7	123.2	292.6	1401.5	20.9
1969	324.0	765.9	1090.0	133.1	289.0	1512.1	19.1
1970	352.4	822.9	1175.4	144.4	300.8	1620.6	18.6
1971	377.7	911.4	1289.1	161.8	325.7	1776.6	18.3
1972	409.2	1043.6	1452.7	176.5	340.8	1970.0	17.3
1973	467.4	1191.7	1659.0	191.2	349.1	2199.3	15.9
1974	517.8	1340.8	1858.6	207.7	360.8	2427.1	14.9
1975	532.8	1438.4	1971.2	223.8	446.3	2641.3	16.9
1976	570.2	1609.5	2179.7	239.5	515.8	2934.9	17.6
1977	638.6	1848.7	2487.4	261.4	572.5	3321.3	17.2
1978	706.1	2168.4	2874.5	289.7	626.2	3790.4	16.5
1979	773.5	2524.1	3297.7	320.1	663.6	4281.3	15.5
1980	828.4	2805.9	3634.3	350.3	742.8	4727.4	15.7
1981	925.4	3096.1	4021.5	373.7	830.1	5225.3	15.9
1982	965.6	3317.9	4283.5	417.9	991.4	5692.8	17.4
1983	1022.9	3700.4	4723.3	471.7	1177.9	6372.9	18.5
1984	1196.8	4187.3	5384.0	522.1	1376.8	7282.9	18.9
1985	1333.5	4776.8	6110.3	658.4	1600.4	8369.1	19.1
1986	1530.1	5525.7	7055.8	689.2	1815.4	9560.4	19.0
1987	1696.3	6169.1	7865.4	723.7	1960.3	10549.4	18.6
1988	1874.5	6785.1	8659.6	756.8	2117.8	11534.2	18.4

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

YEAR	PRIVATE(1) CORPORATE	PRIVATE(1) OTHER	PRIVATE(1) TOTAL	STATE AND LOCAL	(2) FEDERAL	TOTAL NET DEBT
	(IN DOLLARS)					
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	347	465	812	104	1590	2506
1947	391	553	944	112	1512	2567
1948	426	630	1056	124	1448	2628
1949	432	690	1122	139	1440	2702
1950	469	803	1272	159	1409	2840
1951	515	871	1386	170	1382	2938
1952	551	962	1513	190	1393	3096
1953	568	1037	1605	213	1413	3232
1954	587	1110	1697	247	1403	3346
1955	627	1264	1891	274	1373	3538
1956	677	1357	2034	290	1314	3639
1957	720	1441	2161	309	1279	3750
1958	756	1517	2273	336	1311	3919
1959	801	1680	2481	365	1329	4175
1960	843	1803	2646	388	1296	4331
1961	883	1924	2807	409	1314	4531
1962	936	2080	3016	432	1332	4780
1963	988	2297	3285	456	1334	5076
1964	1040	2521	3561	481	1349	5391
1965	1124	2761	3885	513	1342	5740
1966	1229	2960	4189	536	1346	6070
1967	1342	3135	4477	569	1397	6443
1968	1462	3423	4885	611	1450	6946
1969	1589	3758	5347	653	1418	7418
1970	1707	3986	5693	699	1457	7849
1971	1808	4362	6170	774	1559	8504
1972	1939	4947	6886	837	1615	9337
1973	2195	5596	7791	898	1639	10329
1974	2409	6238	8647	966	1679	11293
1975	2454	6626	9080	1031	2056	12166
1976	2601	7344	9945	1093	2353	13391
1977	2884	8347	11231	1180	2585	14996
1978	3154	9685	12839	1294	2797	16931
1979	3416	11147	14563	1413	2930	18907
1980	3625	12277	15902	1533	3250	20685
1981	4008	13409	17417	1619	3595	22631
1982	4140	14227	18367	1792	4251	24410
1983	4338	15693	20031	2000	4996	27027
1984	5028	17590	22618	2193	5784	30595
1985	5548	19876	25424	2740	6659	34823
1986	6305	22771	29076	2840	7481	39397
1987	6922	25176	32098	2954	8000	43052
1988	7576	27420	34996	3059	8559	46614

TABLE THREE

NET GOVERNMENT AND PRIVATE DEBT RELATED TO GROSS NATIONAL PRODUCT

YEAR	GROSS NATIONAL PRODUCT	PRIVATE(1) CORPORATE	OTHER	TOTAL	STATE AND LOCAL	(2) FEDERAL	TOTAL NET DEBT
	(BILLION $)	(DEBT AS A PERCENT OF GROSS NATIONAL PRODUCT)					
1929	103.9	85.6	70.2	155.7	13.1	15.9	184.7
1930	91.2	97.9	78.7	176.6	16.1	18.1	210.9
1931	76.4	109.3	84.9	194.2	20.9	24.2	239.4
1932	58.5	136.8	97.6	234.4	28.4	36.4	299.1
1933	56.0	137.3	91.1	228.4	29.1	43.4	300.9
1934	65.6	115.1	75.9	191.0	24.2	46.3	261.6
1935	72.8	102.7	68.3	171.0	22.1	47.3	240.4
1936	83.1	91.6	60.9	152.5	19.5	45.4	217.3
1937	91.3	83.0	56.0	139.0	17.6	42.9	199.6
1938	85.4	85.8	58.5	144.4	18.9	47.4	210.7
1939	91.3	80.5	55.6	136.1	18.0	46.7	200.8
1940	100.4	75.3	52.8	128.1	16.3	44.6	189.0
1941	125.5	66.5	44.3	110.8	12.8	44.9	168.4
1942	159.0	57.6	31.4	89.0	9.7	64.0	162.6
1943	192.7	49.6	25.3	74.9	7.5	80.1	162.5
1944	211.4	44.5	24.0	68.5	6.6	100.2	175.3
1945	213.4	40.0	25.6	65.6	6.3	118.3	190.2
1946	212.4	23.5	31.4	54.8	7.0	107.4	169.2
1947	235.2	24.3	34.3	58.6	6.9	93.9	159.1
1948	261.6	24.2	35.8	60.0	7.1	82.2	149.3
1949	260.4	25.1	40.1	65.1	8.1	83.6	156.8
1950	288.3	25.0	42.8	67.8	8.5	75.1	151.3
1951	333.4	24.1	40.9	65.0	8.0	64.8	137.8
1952	351.6	24.9	43.5	68.4	8.6	63.0	140.0
1953	371.6	24.7	45.1	69.9	9.3	61.5	140.6
1954	372.5	25.9	49.0	75.0	10.9	62.0	147.8
1955	405.9	25.9	52.2	78.0	11.3	56.7	146.0
1956	428.2	26.9	54.1	81.0	11.6	52.4	144.9
1957	451.0	27.7	55.4	83.1	11.9	49.2	144.3
1958	456.8	29.2	58.6	87.8	13.0	50.6	151.4
1959	495.8	29.0	60.8	89.8	13.2	48.1	151.1
1960	515.3	29.8	63.8	93.6	13.7	45.9	153.2
1961	533.8	30.6	66.8	97.4	14.2	45.6	157.2
1962	574.6	30.6	68.1	98.7	14.1	43.6	156.4
1963	606.9	31.0	72.2	103.2	14.3	41.9	159.5
1964	649.8	30.9	75.0	105.9	14.3	40.1	160.3
1965	705.1	31.2	76.6	107.7	14.2	37.2	159.2
1966	772.0	31.5	75.8	107.3	13.7	34.5	155.5
1967	816.4	32.8	76.7	109.6	13.9	34.2	157.7
1968	892.7	33.1	77.4	110.4	13.8	32.8	157.0
1969	963.9	33.6	79.5	113.1	13.8	30.0	156.9
1970	1015.5	34.7	81.0	115.7	14.2	29.6	159.6
1971	1102.7	34.3	82.7	116.9	14.7	29.5	161.1
1972	1212.8	33.7	86.0	119.8	14.6	28.1	162.4
1973	1359.3	34.4	87.7	122.1	14.1	25.7	161.8
1974	1472.8	35.2	91.0	126.2	14.1	24.5	164.8
1975	1598.4	33.3	90.0	123.3	14.0	27.9	165.2
1976	1782.8	32.0	90.3	122.3	13.4	28.9	164.6
1977	1990.5	32.1	92.9	125.0	13.1	28.8	166.9
1978	2249.7	31.4	96.4	127.8	12.9	27.8	168.5
1979	2508.2	30.8	100.6	131.5	12.8	26.5	170.7
1980	2732.0	30.3	102.7	133.0	12.8	27.2	173.0
1981	3052.6	30.3	101.4	131.7	12.2	27.2	171.2
1982	3166.0	30.5	104.8	135.3	13.2	31.3	179.8
1983	3405.7	30.0	108.7	138.7	13.8	34.6	187.1
1984	3772.2	31.7	111.0	142.7	13.8	36.5	193.1
1985	4014.9	33.2	119.0	152.2	16.4	39.9	208.5
1986	4240.3	36.1	130.3	166.4	16.3	42.8	225.5
1987	4526.7	37.5	136.3	173.8	16.0	43.3	233.0
1988	4864.3	38.5	139.5	178.0	15.6	43.5	237.1

TABLE FOUR
ESTIMATED FEDERAL DEBT RELATED TO POPULATION AND PRICES

YEAR	OUTSTANDING FEDERAL DEBT (IN BILLIONS OF DOLLARS)			PER CAPITA FEDERAL DEBT(3) (IN DOLLARS)			REAL PER CAPITA FEDERAL DEBT(1 (IN 1982 DOLLARS)		
	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	893	788	764
1930	18.6	16.5	15.8	150	133	128	901	799	765
1931	20.4	18.5	17.7	164	149	142	1078	978	935
1932	23.2	21.3	19.4	185	170	155	1352	1241	1130
1933	26.8	24.3	21.9	213	193	174	1636	1481	1337
1934	38.1	30.4	28.0	300	240	221	2241	1788	1647
1935	41.8	34.4	32.0	327	269	251	2389	1966	1829
1936	46.2	37.7	35.3	360	293	275	2587	2111	1977
1937	48.9	39.2	36.6	378	303	283	2625	2105	1965
1938	51.8	40.5	37.9	397	311	291	2817	2203	2061
1939	55.7	42.6	40.1	422	323	304	3035	2321	2185
1940	59.4	44.8	42.6	446	336	320	3184	2401	2283
1941	73.3	56.3	54.0	544	418	401	3703	2844	2728
1942	119.2	101.7	95.5	874	746	700	5362	4575	4296
1943	176.1	154.4	142.9	1275	1117	1034	7367	6459	5978
1944	236.6	211.9	193.1	1693	1516	1382	9618	8614	7850
1945	281.1	252.5	228.2	1990	1788	1616	11058	9933	8977
1946	261.9	228.0	206.1	1826	1590	1437	9366	8155	7371
1947	256.8	220.8	199.1	1758	1512	1363	7885	6780	6113
1948	253.6	215.1	192.0	1707	1448	1292	7082	6007	5362
1949	257.7	217.7	197.7	1705	1440	1308	7164	6051	5196
1950	257.6	216.5	196.6	1677	1409	1280	6958	5847	5310
1951	259.7	216.1	193.1	1661	1382	1235	6390	5316	4751
1952	267.8	221.4	196.8	1685	1393	1238	6357	5256	4671
1953	275.6	228.4	200.0	1704	1413	1237	6384	5291	4633
1954	278.8	230.8	204.2	1694	1403	1241	6297	5214	4612
1955	282.1	230.0	204.8	1684	1373	1223	6284	5124	4562
1956	278.9	224.2	199.4	1635	1314	1169	6011	4833	4298
1957	280.6	222.0	198.8	1617	1279	1146	5754	4552	4077
1958	286.8	231.3	204.7	1625	1311	1160	5624	4535	4014
1959	300.1	238.3	214.8	1673	1329	1197	5749	4566	4115
1960	300.5	236.3	212.4	1648	1296	1165	5569	4379	3936
1961	307.4	243.5	217.8	1659	1314	1176	5550	4396	3932
1962	315.8	250.5	222.8	1680	1332	1185	5562	4411	3924
1963	322.2	254.4	223.9	1690	1334	1174	5522	4361	3838
1964	332.5	260.7	227.0	1721	1349	1175	5551	4352	3790
1965	336.7	262.4	225.6	1722	1342	1154	5466	4261	3663
1966	353.6	266.1	227.5	1788	1346	1151	5519	4153	3551
1967	382.0	279.1	237.3	1912	1397	1188	5724	4182	3556
1968	386.4	292.6	240.7	1915	1450	1193	5503	4168	3429
1969	382.0	289.0	233.0	1874	1418	1143	5107	3863	3114
1970	401.6	300.8	239.8	1945	1457	1162	5014	3755	2994
1971	435.2	325.7	256.5	2083	1559	1228	5143	3850	3031
1972	461.1	340.8	271.9	2185	1615	1289	5228	3864	3084
1973	480.7	349.1	271.2	2257	1639	1274	5084	3692	2869
1974	504.0	360.8	280.1	2345	1679	1303	4756	3405	2644
1975	587.6	446.3	358.1	2707	2056	1650	5031	3821	3066
1976	664.8	515.8	418.5	3033	2353	1910	5331	4136	3356
1977	729.2	572.5	469.5	3292	2585	2120	5433	4266	3498
1978	797.7	626.2	515.4	3563	2797	2302	5465	4290	3531
1979	852.2	663.6	546.0	3763	2930	2411	5184	4036	3321
1980	936.7	742.8	621.3	4099	3250	2718	4974	3944	3299
1981	1034.7	830.1	698.9	4481	3595	3027	4930	3955	3330
1982	1201.9	991.4	851.9	5154	4251	3653	5340	4405	3785
1983	1415.3	1177.9	1026.0	6002	4996	4351	6027	5016	4369
1984	1667.4	1376.8	1215.8	7005	5784	5108	6742	5567	4916
1985	1950.3	1600.4	1418.9	8115	6659	5904	7542	6189	5487
1986	2218.9	1815.4	1603.3	9144	7481	6607	8343	6826	6028
1987	2435.2	1960.3	1734.1	9938	8000	7077	8748	7012	6210
1988	2707.3	2117.8	1879.3	10941	8559	7595	9249	7235	6420

TABLE FIVE
PRIVATELY HELD FEDERAL DEBT RELATED TO GNP

YEAR	GROSS NATIONAL PRODUCT	PRIVATELY HELD DEBT(6)	RATIO OF DEBT TO GNP	YEAR TO YEAR PRICE CHANGES(7)
	(BILLION $)		(PERCENT)	
1929	103.9	16.0	15.4	.0
1930	91.2	15.8	17.3	-2.3
1931	76.4	17.7	23.2	-9.0
1932	58 5	19.4	33.2	-9.9
1933	56.0	21.9	39.1	-5.1
1934	65.6	28.0	42.7	3.1
1935	72.8	32.0	44.0	2.2
1936	83.1	35.3	42.5	1.5
1937	91.3	36.6	40.1	3.6
1938	85.4	37.9	44.4	-2.1
1939	91.3	40.1	43.9	-1.4
1940	100.4	42.6	42.4	.7
1941	125.5	54.0	43.0	5.0
1942	159.0	95.5	60.1	10.9
1943	192.7	142.9	74.2	6.1
1944	211.4	193.1	91.3	1.7
1945	213.4	228.2	106.9	2.3
1946	212.4	206.1	97.0	8.3
1947	235.2	199.1	84.7	14.4
1948	261.6	192.0	73.4	8.1
1949	260.4	197.7	75.9	-1.2
1950	288.3	196.6	68.2	1.3
1951	333.4	193.1	57.9	7.9
1952	351.6	196.8	56.0	1.9
1953	371.6	200.0	53.8	.8
1954	372.5	204.2	54.8	.7
1955	405.9	204.8	50.5	-.4
1956	428.2	199.4	46.6	1.5
1957	451.0	198.8	44.1	3.3
1958	456.8	204.7	44.8	2.8
1959	495.8	214.8	43.3	.7
1960	515.3	212.4	41.2	1.7
1961	533.8	217.8	40.8	1.0
1962	574.6	222.8	38.8	1.0
1963	606.9	223.9	36.9	1.3
1964	649.8	227.0	34.9	1.3
1965	705.1	225.6	32.0	1.6
1966	772.0	227.5	29.5	2.9
1967	816.4	237.3	29.1	3.1
1968	892.7	240.7	27.0	4.2
1969	963.9	233.0	24.2	5.5
1970	1015.5	239.8	23.6	5.7
1971	1102.7	256.5	23.3	4.4
1972	1212.8	271.9	22.4	3.2
1973	1359.3	271.2	20.0	6.2
1974	1472.8	280.1	19.0	11.0
1975	1598.4	358.1	22.4	9.1
1976	1782.8	418.5	23.5	5.8
1977	1990.5	469.5	23.6	6.6
1978	2249.7	515.4	22.9	7.6
1979	2508.2	546.0	21.8	11.3
1980	2732.0	621.3	22.7	13.5
1981	3052.6	698.9	22.9	10.3
1982	3166.0	851.9	26.9	6.2
1983	3405.7	1026.0	30.1	3.2
1984	3772.2	1215.8	32.2	4.3
1985	4014.9	1418.9	35.3	3.6
1986	4240.3	1603.3	37.8	1.9
1987	4526.7	1734.1	38.3	3.6
1988	4864.3	1879.3	38.6	4.1

TABLE SIX
CHANGES IN PER CAPITA REAL GROSS NATIONAL PRODUCT

YEAR	GNP IN BILLIONS OF 1982 DOLLARS	GNP PER CAPITA CONSTANT 1982 DOLLARS(3)	GNP PER CAPITA, CHANGE FROM PREVIOUS YEAR	
			CONSTANT 1982 DOLLARS	PERCENT
1929	709.6	5793	0	0
1930	642.8	5200	-593	-10
1931	588.1	4724	-476	-9
1932	509.2	4065	-659	14
1933	498.5	3956	-109	-3
1934	536.7	4230	274	7
1935	580.2	4543	312	7
1936	662.2	5154	612	13
1937	695.3	5376	221	4
1938	664.2	5093	-282	-5
1939	716.6	5427	333	7
1940	772.9	5799	373	7
1941	909.4	6753	954	16
1942	1080.3	7922	1168	17
1943	1276.2	9236	1315	17
1944	1380.6	9878	641	7
1945	1354.8	9593	-285	-3
1946	1096.9	7650	-1943	-20
1947	1066.7	7304	-346	-5
1948	1108.7	7462	158	2
1949	1109.0	7338	-124	-2
1950	1203.7	7835	498	7
1951	1328.2	8497	662	8
1952	1380.0	8681	183	2
1953	1435.3	8877	196	2
1954	1416.2	8605	-272	-3
1955	1494.9	8924	320	4
1956	1525.6	8944	20	0
1957	1551.1	8938	-6	0
1958	1539.2	8723	-215	-2
1959	1629.1	9082	358	4
1960	1665.3	9136	54	1
1961	1708.7	9224	89	1
1962	1799.4	9571	346	4
1963	1873.3	9825	254	3
1964	1973.3	10213	388	4
1965	2087.6	10676	464	5
1966	2208.3	11168	492	5
1967	2271.4	11368	200	2
1968	2365.6	11725	357	3
1969	2423.3	11888	163	1
1970	2416.2	11703	-185	-2
1971	2484.8	11894	191	2
1972	2608.6	12363	470	4
1973	2744.1	12887	524	4
1974	2729.3	12698	-189	-1
1975	2695.0	12414	-285	-2
1976	2826.7	12897	483	4
1977	2958.6	13358	462	4
1978	3115.2	13915	556	4
1979	3192.4	14098	183	1
1980	3187.1	13945	-153	-1
1981	3248.8	14071	125	1
1982	3166.0	13575	-495	-4
1983	3279.1	13907	331	2
1984	3501.4	14709	803	6
1985	3618.7	15057	348	2
1986	3721.7	15337	280	2
1987	3847.0	15699	363	2
1988	3996.1	16150	450	3

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.

Response of Senator Heinz to Senator Symms' Question on Budgetary Treatment of Net and Gross Interest

Budget documents usually emphasize net interest, which does not reflect the cost of what the Treasury borrows from Social Security and other government trust funds. As a result, interest payments to government trust funds are recorded as revenues to the Treasury, not as costs, which they clearly are. Gross interest, which equals net interest, plus the interest received by trust funds, plus interest on loans extended by the Federal government, is the accurate measure of what Treasury is obligated to pay.

Looking at net interest alone, we will be paying an alarming $180 billion this year (FY 1990), or fully 23% of all general or non-trust fund revenues received by the Treasury. This means that nearly $1 out of every $4 that is received in non-Social Security revenues is already spoken for. This is bad enough, but in fact the amount of interest that we really have to pay out isn't $180 billion, it's much more than that. Gross interest will total $260 billion in FY 1990.

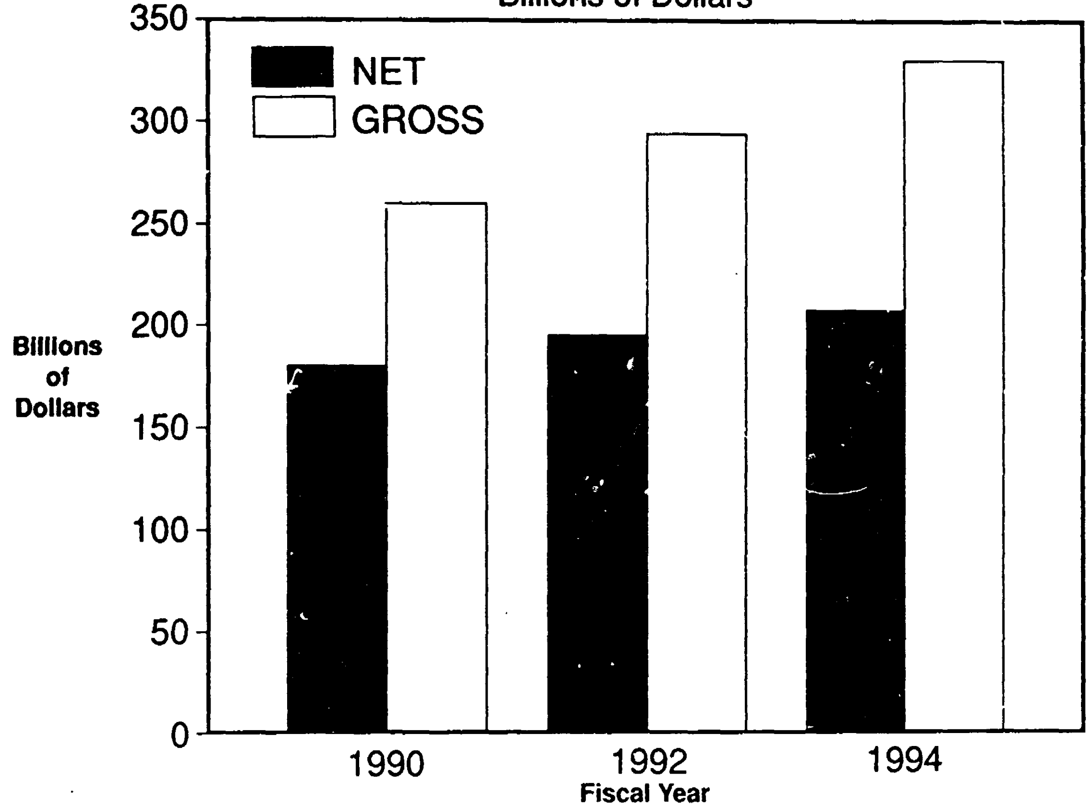
The chart below illustrates the impact of gross interest payments made to the Federal Government. While net interest is large, it appears to grow relatively slowly. But gross interest will grow at a pace that best can be described as astronomical. By 1994, gross interest payments will increase to the staggering sum of $331 billion.

Interest that is paid by Treasury to the OASDI trust funds is recorded as revenue and substantially boosts the trust fund surplus. In FY 1990, interest paid to the OASDI trust funds will be $16 billion, and will rise to $42 billion in 1994. Since interest payments to the trust funds are not recorded as outlays, they do not show up in our calculation of the yearly deficit. This is clearly an unbalanced equation.

Reporting interest in terms of net, not gross figures is just another form of deceptive budgeting. We should be showing our total interest payments, including those made because of borrowing from government accounts.

Federal Net and Gross Interest

Fiscal Years 1990, 1992, 1994
Billions of Dollars



Source: CBO

Prepared Statement of Senator David Pryor

Mr. Chairman, I commend you for holding this hearing today on the duplication of benefits and the advisability of making the Medicare Catastrophic Coverage Act a more optional benefit. It is my hope and expectation that the testimony given today will help us develop approaches that will address these and other important concerns that have been raised about the Act.

One concern of interest to all of us on the Finance Committee is the cost of the new program and the question of whether we can reduce the premiums of Medicare beneficiaries. Mr. Chairman, it is my understanding that the Congressional Budget Office has recently re-estimated the cost of the new outpatient drug benefit and it is significantly greater than they had originally projected. Moreover, I have been informed that the primary reasons for the dramatic change in these estimates is the ever-increasing prices of prescription drugs and the proliferation of new prescription drugs in the marketplace.

These new estimates are a bitter pill to swallow for Medicare beneficiaries who had hoped that there would be sufficient revenue to reduce the premiums for the catastrophic coverage. It is also bad news for those of us that had hoped to find ways to lessen the burden of the supplemental premiums for our elderly and disabled constituents.

I am deeply concerned about prescription drug prices and am committed to finding ways to control inflation in this area. Next Tuesday, I will chair an Aging Committee hearing that will scrutinize both the value and the market prices paid for prescription drugs. It is my intention to use this and subsequent Aging Committee hearings on this issue to begin to develop cost-savings proposals for consideration by the Finance Committee.

We face and must address many critical issues related to the Medicare Catastrophic Coverage Act. I am pleased to join you, Mr. Chairman, in this important effort. I believe that the testimony from our witnesses today will help us to strengthen this legislation.