PUBLIC DEBT LIMIT

HEARING

BEFORE THE

SUBCOMMITTEE ON TAXATION AND DEBT MANAGEMENT GENERALLY

OF THE

COMMITTEE ON FINANCE
UNITED STATES SENATE

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TUESDAY, DECEMBER 2, 1980

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

The subcommittee met, pursuant to call, at 10 a.m., in room 2221, Dirksen Senate Office Building, Hon. Harry F. Byrd, Jr., presiding.

Present: Senator Harry F. Byrd, Jr.

[The press release announcing this hearing and public debt limit status follow:]

[Press Release No. H-64, Nov. 26, 1980]

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

Senator Harry F. Byrd, Jr. (I-Va.), Chairman of the Subcommittee on Taxation and Debt Management, announced today that a hearing on extension of the temporary limit on the public debt has been scheduled. The Honorable G. William Miller, Secretary of the Treasury, will testify on the public debt at 10:00 a.m., Tuesday, December 2, in Room 2221 of the Dirksen Senate Office Building.

Written Testimony.—The Subcommittee would be pleased to receive written testimony from those persons or organizations who wish to submit statements for the record. Statements submitted for inclusion in the record should be typewritten, not more than 25 doubled-spaced pages in length and mailed with five (5) copies by December 19, 1980, to Michael Stern, Staff Director, Committee on Finance, Room 2227, Dirksen Senate Office Building, Washington, D.C. 20510.

PUBLIC DEBT LIMIT STATUS

Present law

The combined permanent and temporary debt limit is $925.0 billion through February 28, 1981.

After that date, the temporary limit expires and only the permanent limit of $400 billion will be in effect.

Present status

Current projections of the debt limit by Treasury, assuming a $15 billion cash balance is maintained, show the following end of month debt levels:

Public debt

Date:	*Billions*
November 30, 1980	$923
December 31, 1980	928
January 31, 1981	928
February 28, 1981	943
March 31, 1981	956

These estimates are consistent with the outlay and revenue figures in the second budget resolution.

The present limit can suffice through December and January but for each month the cash balance would be reduced by the amount necessary to stay within the current debt limit, i.e., $3 billion in those two months.

At the end of February, however, such adjustment would not be possible, because reducing the assumed, $15 billion cash balance to zero would leave the estimated debt outstanding above $925 billion, i.e., $943 billion minus $15 billion equals $928 billion.

Legislative alternatives

If the Committee decides to increase the public debt limit, it may act on one of two joint resolutions which the House has sent to the Senate. Under the new House procedure, when the budget resolution is agreed to, it is deemed that the House has passed a joint resolution that contains the amount specified in the budget resolution. These resolutions are sent to the Senate after a budget resolution conference agreement has been adopted in both the Senate and House.

Under this procedure, the House has sent to the Senate 2 joint resolutions to increase the public debt limit through September 30, 1981:

(1) H. Res. 570 provides for a limit of $935.1 billion. This is based on the budget totals in the first budget resolution.

(2) H. Res. 636 provides for a limit of $978.6 billion. This is based on the budget totals in the second budget resolution.

If the Senate adopts one of these resolutions, it then is transmitted to the President with no further action by the House. If the Senate amends one of the resolutions, e.g., by changing the amount of the period to which it applies, the House would have to act again on the resolution.

Senator BYRD. The committee will come to order.

The Secretary of the Treasury in a letter to me dated November 21, 1980, asserted that the public debt of $925 billion which expires on February 28, 1981, will not be adequate to meet the Treasury's needs in February.

At the end of my opening statement, I shall ask that Secretary Miller's letter be inserted at that point.

It was 9 months ago that the figure was deemed sufficient, at least until February 28, 1981. Now Secretary Miller says the debt limit should be raised to $949 billion, an increase of $24 billion. That is only a part of the Government's dismal fiscal story.

The second concurrent budget resolution, which Congress has recently enacted, sets the statutory debt ceiling through fiscal year 1981 at $978.6 billion. This is $78.6 billion more than the estimates for the statutory debt ceiling presented to the subcommittee on April 16.

The need to revise the statutory debt ceiling demonstrates the failure of Congress and the Federal Government over the past year to get Federal spending under control. Since the original budget submitted in January of this year, spending for fiscal year 1981 has been revised upward a total of nine times, counting estimates of the current administration and the three budget resolutions.

The final figures show a spending increase in fiscal year 1980 of $85.3 billion, the largest single spending increase in our Nation's history. This spending produced a budget deficit of $59 billion, the second highest in history.

And for the current year, fiscal year 1981, the Congress now has projected a further spending increase of $53.4 billion and a new deficit of $27.4 billion, with no allowance for tax reduction.

Federal spending is totally out of control. The failure of both the Congress and the President to get spending under control is clearly being felt throughout the Nation. Inflation is at double-digit levels. Massive Federal debt has been financed with printing press money, thus stimulating inflation. Interest rates are approaching the 20-percent record high.

Today's hearings on the proposed change in the debt limit dramatizes the failure of both the Carter administration and Congress in getting Federal spending under control. It does not speak well of earlier projections by the Department of the Treasury.

At this point I will insert into the record Secretary Miller's letter to me dated November 21. And following that, Mr. Secretary, you may proceed as you wish.

[Information follows:]

THE SECRETARY OF THE TREASURY,
Washington, D.C., November 21, 1980.

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

DEAR MR. CHAIRMAN: The public debt limit of $925 billion, which expires on February 28, 1981, will not be adequate to meet the Treasury's estimated needs in February. Also to stay within the debt limit in December and January we will need to reduce our cash balances below optimum levels and postpone borrowings until Congress acts on new debt limit legislation. Such postponements of borrowings could be very costly, since our cash balances are generally invested at interest rates equal to or higher than the rates paid on our borrowings and since postponed borrowings will result in later congestion in financial markets and possible higher financing costs to the government. Moreover, in view of the current highly volatile conditions in financial markets, we should make every effort to conduct the Government's financing activities in an orderly manner and with minimum market impact.

Our current estimates of the debt subject to limit, with our usual assumption of a constant $15 billion cash balance, are as follows:

Public debt

Date:	*Billions*
November 30, 1980	$923
December 31, 1980	928
January 31, 1981	928
February 28, 1981	943

If our current budget estimates prove optimistic, for example, because of lower than expected economic growth and thus lower tax receipts, the 97th Congress is unlikely to be in a position to act in time in January to increase the debt limit and avoid a default on obligations of the United States.

Because of delayed Congressional action on debt limit legislation in recent years the Treasury has been forced to resort to undesirable and costly measures to avoid exceeding the debt limit, including suspension of savings bonds sales and disinvestment of Treasury securities held by the Exchange Stabilization Fund. As you know, the savings bonds program is just now beginning to recover from unprecedented losses in 1979-80, which resulted from the artificially low statutory ceiling on savings bond interest rates. We should be particularly careful at this time not to disrupt this program further by delayed action on debt limit legislation. As to the Exchange Stabilization Fund, disinvestment of the Fund, which is undesirable in itself, would clearly not provide sufficient debt reduction to deal with the debt limit problem in February.

Accordingly, I urge you to seek Senate passage of legislation to increase the debt limit during the current session. The Budget Resolution approved by the Congress on November 20 contains a recommended debt limit increase to $978.6 billion through September 30, 1981. Senate approval of this measure, in the required from of a separate debt limit bill, would help assure orderly Treasury borrowing activities over the next few months and would avoid the need for emergency action by Congress on debt limit legislation early next year.

In view of the current rapid growth in Federal debt and the difficulties in estimating debt levels, I would also suggest that future debt limit legislation provide larger allowances for contingencies. As you know, our debt limit requests to your Subcommittee have for many years included a standard allowance for contingencies of only $3 billion (the recent Penn Central settlement, alone, was $2.1 billion), so our current estimate of a $943 billion debt subject to limit on February 28, 1981, would normally be presented to your Subcommittee as a debt limit request of $946 billion. I believe the contingency allowance should be at least $6 billion under current circumstances, so a reasonable estimate of our February debt limit need would be $949 billion.

Please let me know if I can be of any assistance in helping to secure prompt enactment of a debt limit bill.

Sincerely,

G. WILLIAM MILLER.

Senator BYRD. We are delighted to have you before the committee today. We are always glad to have you, Mr. Secretary, and you proceed in any way you think best.

STATEMENT OF HON. G. WILLIAM MILLER, SECRETARY OF THE TREASURY

Secretary MILLER. I request that my statement be inserted in the record. I will make a few remarks that will cover the subject matter of my statement and elaborate a little on the points that I think would be most pertinent.

Senator BYRD. That would be fine.

[The complete statement follows:]

STATEMENT OF THE HONORABLE G. WILLIAM MILLER, SECRETARY OF THE TREASURY

Mr. Chairman and Members of the Committee, my purpose here today is to advise you of the need for legislation, before Congress adjourns, to increase the public debt limit.

The present temporary debt limit of $925 billion will expire on February 28, 1981, and the debt limit will then revert to the permanent ceiling of $400 billion. Enactment of debt limit legislation prior to February 28 will thus be necessary to permit the Treasury to borrow to refund maturing securities and to pay the Government's other legal obligations.

Moreover, based on our present estimates, the existing limit of $925 billion will clearly not be enough to meet the Treasury's financing needs in February.

Our current estimates of the debt subject to limit, with our usual assumption of a constant $15 billion cash balance, but without any provision for contingencies, are as follows:

	Billions
December 31, 1980	$928
January 31, 1981	928
February 28, 1981	943

Based on these estimates, the present $925 billion limit would need to be increased by $18 billion, to $943 billion through February. Also, to stay within the present debt limit in December and January the Treasury will need to reduce its cash balances below optimum levels and postpone borrowings until Congress acts on new debt limit legislation. Such postponements of borrowings could be very costly, since our cash balances are generally invested at interest rates equal to or higher than the rates paid on our borrowings and since postponed borrowings will result in later congestion in financial markets and possibly higher financing costs to the government. In view of the current highly volatile conditions in financial markets, we should make every effort to avoid adding to market uncertainties and to conduct the Government's financing activities in an orderly manner and with minimum market impact.

In addition, the Treasury, and the market, will need to begin planning in the middle of January for the Treasury's scheduled announcement on January 28 of the new Administration's first major quarterly refunding operation. The note and bond issues announced on January 28 would normally be auctioned in the first week of February so the securities may be issued by the refunding date of February 15. Consequently, even if the Treasury manages to stay with the present debt limit in January, the debt limit must be increased in January to permit the Treasury to conduct an efficient refunding operation at the lowest possible cost to the taxpayer.

The present $925 billion limit through February 28, 1981, was enacted by Congress on June 28, 1980, based on estimates provided by the Congressional Budget Office which were consistent with the First Budget Resolution for fiscal year 1981, adopted by Congress on June 12, 1980. That resolution contained a recommended debt limit of $935.1 billion through September 30, 1981. However, the Second Budget Resolution, adopted by Congress on November 20, 1980, contained a recommended debt limit through September 30, 1981, of $978.6 billion, an increase of $43.5 billion from the debt estimate in the First Budget Resolution. While we have serious doubts as to whether the $978.6 billion limit will be adequate to accommodate proposed tax cuts, spending increases, and changes in economic conditions through September, we believe that our estimated $18 billion increase in the debt subject to limit for the first five months of the fiscal year is reasonably consistent with the $43.5 billion increase recommended by Congress in the Budget Resolution for the entire fiscal year.

In view of the current rapid growth in Federal debt and the difficulties in estimating debt levels, I would suggest that future debt limit legislation provide larger allowances for contingencies. As you know, the Treasury's debt limit requests to your Subcommittee have for many years included a standard allowance for contingencies of only $3 billion, so our current estimate of a $943 billion debt subject to limit on February 28, 1981, would normally be presented to your subcommittee as a debt limit request of $946 billion. Yet, for example, the recent court settlement of the Penn Central payment, which was not anticipated in the fiscal year 1981 budget, was $2.1 billion. I believe the contingency allowance should be at least $6 billion under current circumstances, so a reasonable estimate of our February debt limit need would be $949 billion.

While the President's revised budget and debt limit recommendations for the fiscal year 1981 will not be available until January, it is recommended that the Senate agree to House Joint Resolution 636, which passed the House on November 21, 1980. This Resolution provides for an increase in the debt limit to $978.6 billion through September 30, 1981. Senate approval of this measure will avoid the need for further Congressional action during this session of Congress and will avoid the need for emergency action by Congress on debt limit legislation early next year.

A principal objective of this Administration is to help assure an orderly transition in January as the new Administration takes office. An essential part of that orderly transition is to assure that the finances of the government are in order as the new Administration assumes its responsibilities. It would be inappropriate, in my view, to expect the incoming Administration to appear before Congress in late January or early February to request emergency debt limit legislation based on the budget estimates submitted in January by the outgoing Administration. The new Administration should be permitted sufficient time to prepare its own budget and debt recommendations and to appear before congress on that basis.

Also, if our current debt estimates through February turn out to be too low, for example, because of lower than expected economic growth and thus lower tax receipts, the new Congress might be required to act in January on emergency debt limit legislation to avoid a default on obligations of the United States.

In the circumstances, I urge your subcommittee's support for House Joint Resolution 636.

Secretary MILLER. You have stated the purpose of this hearing. In June, I think it was on June 28, the Congress passed the last debt limit legislation, which established a debt limit of $925 billion through February 28, 1981. Just to refresh your memory, that figure came as a result of the first budget resolution that had been adopted by Congress, showing a recommended debt ceiling limit of $935 billion through the end of fiscal year 1981. That is through September 30, 1981.

At that time, the administration had not made a new estimate of revenues or expenditures for 1981. That task was not completed by the administration until July. Based on the Congressional Budget Office estimates and the congressional action on the first budget resolution in June, the $935 billion figure for the fiscal year seemed appropriate.

Just 2 weeks ago Congress adopted the second budget resolution, and that shows that the debt limit should be established at $978.6 billion for the period running through September 30, 1981. That is an increase of $43.5 billion from the June estimate. Our previous estimates have been based on the earlier June action, and indicated that through February 28, that the $925 billion limit would be satisfactory.

I would like to take a moment and indicate to you our current estimate of the debt limit requirements through February. The debt outstanding at the end of November, which was just last

Saturday, stood at $915 billion, with a cash balance of $7 billion. Normally, Treasury intends and endeavors to maintain a cash balance of $15 billion, so that if the cash balance had been at the normal level of $15 billion, then the outstanding debt at the end of November would have been $923 billion.

Already, at the end of November, we are showing a potential debt requirement virtually up against the ceiling that applies through February. Our current estimate is that the debt limit through February would need to be $943 billion. That is, $18 billion more than the debt limit that now exists.

Let me dissect the $18 billion for just a moment, so that we can see together why there has been a change. In the first place, the $943 billion assumes the $15 billion cash balance. Our previous estimates for February had assumed a $9 billion cash balance. So just on cash held by the Government there is a $6 billion difference, which means in terms of actual changes in the fiscal posture there is only $12 billion that needs to be identified.

On that $12 billion, I would like to outline some of the major items of change. In the first place, because of higher interest rates from October 1 through February 28, we now estimate that interest on the public debt would be $3 billion higher than had been estimated last June.

Senator BYRD. What would that make the total figure for fiscal year 1981, then?

Secretary MILLER. We now estimate interest on the debt at $80.4 billion for fiscal year 1981. That is a $5.5 billion increase over fiscal year 1980.

Senator BYRD. You mentioned $3 billion. Is that in addition to the $80 billion?

Secretary MILLER. The $3 billion is included in the $80.4 billion. But it is an increase over what we expected last June.

Senator BYRD. Increase of $3 billion in interest charges on the debt?

Secretary MILLER. Yes, because of interest rates now being higher than we expected.

Second, the defense expenditures appear to be running at $2.8 billion higher from October 1, 1980, through February 28, 1981, than we had estimated last June. So defense spending for that 5-month period would be $2.8 billion higher than we estimated.

Third, the Justice Department has recently negotiated a settlement in the Penn Central matter. That is the settlement of the Government taking of the Penn Central properties and transferring them to Conrail, a very complicated litigation that has been settled for a total cost of $2.1 billion. That is made up of $1.460 billion of settlement plus the accrued interest since the time of the taking, which would make the total $2.1 billion. The court will meet in January to consider the settlement. We assume, since so far no objections have been filed, that the court will approve it. If so, in the middle of February the Government would need to pay the $2.1 billion. So that is an increase.

The Housing and Urban Development Department has estimated spending increases of $1.2 billion higher for this 5-month period than we estimated last June. Independent agencies have also estimated spending of $1.2 billion higher.

There are a whole series of increases in energy assistance payments, Agriculture, Department of Energy, Postal Service, Education, which are smaller amounts, but aggregate several billion dollars.

Running the other way, it appears we will have higher income of about $1.9 billion from the sale of offshore oil leases than we estimated. So that will be higher revenue. We also expect unemployment benefits, because of the lower rates of unemployment to be $1.4 billion less than we had estimated. That would save us money.

That nets out to about $11 billion out of the $12 billion. The additional $1 billion is miscellaneous. That is a capsule look at why we need to increase the debt limit in February.

For the fiscal year 1981, as distinguished from the interim period, it now appears that, based on the Congressional Budget Resolution No. 2, that the debt subject to limit will be increased for fiscal year 1981 over fiscal year 1980 by $70 billion. And I would like to just give you three or four figures that make that out.

In the first place, the congressional resolution has established a unified budget deficit of $27.4 billion. To that must be added $13 billion, which represents surplus in trust funds which were added because the trust fund investments in Government securities must be counted against the debt limit. And that brings the total amount up to $40.4 billion or the deficit in Federal funds.

Senator BYRD. That's the key, the deficit in Federal funds.

Secretary MILLER. That is the key. And to that we must add the off-budget borrowing. And that is estimated to be $22 billion for the year.

Senator BYRD. What was it in 1980?

Secretary MILLER. It was $14 billion.

Senator BYRD. It has gone up 50 percent in the 1 year.

Secretary MILLER. That's correct.

Senator BYRD. The off-budget has gone up 50 percent in 1 year?

Secretary MILLER. Yes. And this is based on the budget resolution that has been adopted. That means that the total to be financed would be $62.4 billion.

But because of many other adjustments that we make in our cash balances against what they were at the end of the last year and so forth, our estimate is the actual requirement would be $70 billion rather than the $62.4 billion. So that's how we built it up.

Now, just to refresh your memory, in fiscal year 1980 the change in the debt subject to limit was $81 billion, and we are estimating about $70 billion in fiscal year 1981, based on the congressional budget resolution that has just been passed.

Senator BYRD. May I ask you one of these figures—so this would give, under your projections it would give a budget deficit of $70 billion in fiscal 1981. What was it comparable for fiscal 1980?

Secretary MILLER. In 1980, the change in debt was $81 billion. And we estimate, based on these numbers, that fiscal year 1981 would be $70 billion.

Senator BYRD. To put it another way, the Federal funds deficit, the operating deficit of the Federal Government for operating purposes would be $150 billion deficit over the 2-year period.

Secretary MILLER. That's correct. That is an operating deficit. The unified budget was a deficit of $59 billion in fiscal year 1980.

Senator BYRD. That takes into account the surplus from the trust funds, and those trust funds can be used only for specific purposes, not for general operation of Government.

Secretary MILLER. That's correct.

Mr. Chairman, I have a couple of points I would like to just call to your attention. One is that we do not now want to give you the impression that the figures we are talking about today are reliable in terms of the actual results that may be expected for fiscal year 1981. There are several reasons for that.

One is that this is based on the congressional budget resolution just adopted, and that budget resolution contemplates some spending savings which have not been identified. And if those are not achieved, then there will be a higher budget deficit and there will be needs for further financing.

Second, we are in a transition. A new administration is coming into office on January 20, and have indicated that they will be making proposals to the Congress in the fields of spending and taxing that could substantially change these numbers.

I think we should leave here today knowing that, while we may deal with the issue as best we can on the basis of the knowledge we now have, that we can expect substantial changes. Which direction, how they net out, I don't think we can estimate now.

My own personal opinion is that it may turn out that the figures I have just described are low, and if there is a tax cut enacted next year without commensurate immediate reductions in spending, that one can expect a higher deficit, a larger requirement for Federal financing, and a need to increase the budget and the ceiling on public debt to a higher level than we are talking about now.

I think we should just be aware of that. I don't think we can prejudge it. But we should not be surprised that next spring the subject may be back before your committee.

Senator BYRD. Would it be accurate to summarize your view in this way, that the Government's financial picture is even more dismal than it appears on the surface?

Secretary MILLER. I am disappointed to see that we have not made more progress in reducing Federal spending. As you know, we worked very hard this year with the Congress and undertook a series of objectives in trying to reduce spending. Not all of those have been achieved.

We also undertook to improve the cash management and revenue side of the ledger, and not all of those were achieved. And I think, therefore, the outlook for the deficit is for a larger deficit than I would like to see and than I think is appropriate in terms of our long-term objective of controlling inflation and assuring balanced growth and price stability in our economy.

And may I make two other points?

Senator BYRD. Yes.

Secretary MILLER. The other two points I would like to make are again perhaps gratuitous, but—three points I am making, or four points, perhaps:

One, we need to change the debt limit.

Second, we should not be misled to believe we know the figures for next year yet, because there are many unknowns coming down the pike.

Next, I hope, with a new administration, that the Congress would adopt either a rule or a policy that debt limit legislation will be given priority and will be immune from ancillary legislative attachments. I think we have all suffered by debt limitation resolutions being held hostage and being the subject of riders on other issues. And I think this has been detrimental and is inefficient and inappropriate as a requirement for juggling around at the time that the debt limit expires to keep the Federal Government solvent.

I think when the Congress enacts laws to spend money and when it enacts laws to raise revenues, that it makes a decision that it intends to meet its obligations and it has a moral obligation to meet them, either by raising money to pay its bills or by borrowing money to pay its bills. And to have, each time the debt limit comes up for change, that legislation held hostage to ancillary matters, I think is poor practice.

And I know it has been historically a subject of parliamentary use by both sides of the aisle. And I just hope that in a spirit of looking at the problems we face today and how big they are, that we would somehow either develop a rule or a practice where that would not be the case, and that we would handle this in a more orderly way.

Senator BYRD. This committee has attempted to help that, to some degree at least, by early hearings and early action.

Going back 15 years, it was customary for the debt ceiling increase proposal to come from the House of Representatives on June 29, with the fiscal year ending June 30. That gave the Senate, this Finance Committee and the Senate, a day to handle the entire matter.

That certainly was not at all satisfactory. We have tried, and we have in the last 3 or 4 years speeded up the process so far as the action of this committee is concerned.

But I think you make good points, Mr. Secretary. Let me ask you this: At what point in time between now and June will the debt be at its highest?

Secretary MILLER. Between now and next June?

Senator BYRD. Yes.

Secretary MILLER. I will ask one of my associates to dig that out. And while they are digging it out, let me respond to your remark, because I want to—I would certainly like the record to show that I think that you personally, as chairman of this subcommittee, have been particularly responsive and certainly helpful to the Treasury in dealing with this issue, and the problems on debt limit have not come from this committee. They have come on the floor of the various chambers.

I must say that your personal cooperation, including your willingness to hold this hearing and react when we only have a few days left in this Congress, is another demonstration of the way you have been, I think, very helpful and responsible and responsive to these problems.

I do think it is a broader issue that goes to the floor of the chambers.

My associates tell me, on the basis of the monthly estimates, that currently it is expected at the end of March that the debt limit, with a $6 billion contingency, would be $962 billion. And it might be, by the end of June, slightly higher than that. But it should drop off in April as tax receipts come in. So it peaks on March 31 with a $6 billion contingency at $962 billion.

Senator BYRD. You were saying in the one month of March the outlays will exceed the revenues by $13 billion?

Secretary MILLER. Yes. We receive major tax receipts in January, and then the next time major tax receipts come in would be in April. So that you do have a period when the debt goes up steadily and then it drops off in April as the tax receipts come in. April is usually a surplus month because it is the major tax month.

Senator BYRD. So you figure the end of February—the figure that you would recommend for the end of February be $949 billion, and for the end of March would be $962 billion?

Secretary MILLER. Yes, sir.

Senator BYRD. You mentioned the interest on the debt. I think that is one thing that Members of the Congress so frequently overlook with the deficit spending, is the huge interest charges on the American people, $80 billion in this budget that the Congress is now working with. And to put that in perspective, that is more than one-half of the entire amount that will be spent on national defense.

Or to put it another way, if my arithmetic is correct, and I think it is, it takes the entire taxes paid by 35 million families earning $20,000 to pay, just to pay the interest on the debt.

I think Congress should be more aware than it appears to me to be of the huge drain on the taxpayers of the interest charges on the debt.

Now, as I recall, you mentioned earlier that the off-budget deficit for fiscal year 1981 would be $22 billion, as I recall.

Secretary MILLER. Yes, sir.

Senator BYRD. And it was $15 billion, is that what you said, for 1980?

Secretary MILLER. It was $14.2 billion for 1980.

Senator BYRD. Now, in our last hearings you commented that we would see a restoration in the long-term bond market. Since that time interest rates have gone down, but then the course has been reversed and now they have gone upward, approaching the 20 percent record high.

What do you see are the prospects for long-term interest rates at this point?

Secretary MILLER. Early in 1980, interest rates ran up to historic high levels for a number of reasons, which we have discussed before. There was the aftermath of the oil price shock. There was the invasion of Afghanistan by the Russians, which had implications of possible increased defense spending. And there were a number of prospects in terms of inflationary expectations that led to very high interest rates.

And then, as you know, after the March 14 actions, the rates dropped very sharply, and the bond markets, which had been very much curtailed and under considerable clouds in February and March, revived. And we have seen record long-term financings in the corporate bond market this year.

But since late summer the interest rates have gone back up again, both because of inflationary expectations and continued disappointing inflation numbers as we work out of the oil price increase that has affected inflation. And we come into periods when food prices have been going up and are expected to go up, and where the demand for money and credit has expanded and where the growth of the money supply has caused inflationary expectations to rise again.

You ask me where I think they will go. I think interest rates will likely stay relatively high until there can be a change in inflationary outlook or expectations. I think that depends a good deal on the policies that are announced by the new administration, because there is the possibility that some of the proposals have not been clarified and we do not yet know the interaction between curtailment of spending and proposals for tax reductions and the impact that those interacting policies will have on the Federal Government and the marketplace.

We are in a period where it is difficult for us to predict definitely. Obviously, there is a concern over high interest rates, that they will choke off the economic recovery at a time when we have unused capacity, both capital and human capacity. We have high unemployment and we have relatively low utilization of plant capacity. And if we should choke off the recovery, particularly in housing and automobile sales at this stage, I think that would be an unfortunate direction for the economy. But the realities are that interest rates are probably going to remain quite high until there is a clarification of where the demands for money and credit are going to go.

Senator BYRD. You and I have discussed this several times, a number of times, and I think that we are in general agreement on it. If we are going to get spending under control, it has to be a joint effort by the administration, whichever administration it might be, and the Congress. One can't do it alone. Congress can't say to the President, you do it. The President can't say to the Congress, you do it, and expect that you can accomplish what needs to be accomplished acting singly or unilaterally.

Secretary MILLER. That is correct. I think it is a joint undertaking, and in my mind it should be the highest priority in fiscal policy. That is, the highest priority should be to reduce Federal spending, both in absolute terms and relative to the economy. I think Federal spending is too high in relation to the GNP.

Senator BYRD. Also, it seems to me that, while it must be a joint endeavor, that the origination must come from the administration, which presents a budget to the Congress. The outgoing administration, of course, will present the budget for 1982.

One of the imponderables and one of the factors that will influence the borrowing needs of next year will be the budget which will be presented by the outgoing administration. It can set the tone for the financial situation for the upcoming year.

Secretary MILLER. Yes. And I think we will, as an outgoing administration, present a responsible budget that does set the tone for controlling spending.

I think, Mr. Chairman, you should be aware that there are some dilemmas we face in presenting that budget. For example, so much of the budget is now in the form of either entitlements or defense spending or interest on the debt that to reduce spending will require a partnership between the Executive and the Congress and will require legislation, changed legislation.

The dilemma we face is whether the outgoing administration can realistically present a budget that shows lower spending based on legislative changes which will depend upon a new Congress with new people, and where we have not even had a chance to discuss with that new leadership what those legislative changes will be.

If we present the spending outlook under current law, it will be higher than we would like. If we try to indicate legislative changes that are not realistic, we will be accused later of having put in an unrealistic budget. So we have quite a dilemma, and we do want to do it as objectively and as fairly as we can. So we do have a problem in how to present it.

Senator BYRD. What will be the new debt that will have to be financed during this fiscal year of 1981, and what will be the rollover of the old debt?

Secretary MILLER. The old debt rolls over at roughly $200 billion a year. The new debt will be approximately $70 billion, based upon the second budget resolution. And I must again repeat my caveat that that may turn out to be inadequate. It may turn out that more financing will be needed if spending is not controlled or if tax cuts come into play in the fiscal year.

Senator BYRD. So the Government will be going into the money market for $200 billion during this fiscal year?

Secretary MILLER. Yes.

Let me, Mr. Chairman—this is a very important point—just take a moment to indicate the relative involvement of the Federal Government in the credit markets. This is the net borrowing of the Federal Government, because in the whole capital market we look at the net demand for credit as distinguished from rollovers, refinancing.

In fiscal year 1980 there was a total of funds raised in the U.S. credit markets of $423 billion, of which the Federal Government took $70.5 billion or 16.7 percent.

Senator BYRD. That doesn't include the rollover?

Secretary MILLER. That would not include the rollover. The total funds raised in U.S. credit markets are net additional funds.

So that is the level of involvement. Now, that compares with what I would consider the worst year in recent times. In fiscal year 1976, the total funds raised in the U.S. credit markets were $309 billion and the Federal Government took $83 billion or 27 percent.

So last year we were about 10 percent less of Federal borrowing, of funds raised in all the U.S. credit markets than in 1976, but still higher than I would like to see. In fiscal year 1979, the Federal Government took 6.4 percent. And so you can see, while we have gone from 27 percent in 1976 to only 6.4 percent in fiscal year 1979, in 1980 we increased once again to the 16.7 percent level.

So I think it is another demonstration of the need for a disciplined fiscal policy that reduces Federal deficits and reduces Federal borrowing in credit markets, and releases those markets to be available for the private sector, and thereby assures the flow of funds that are necessary to finance private investment and private expansion of the economy.

I would say that both years were affected by recession. That is, fiscal year 1976 was still affected by the recession of 1974-75, and fiscal year 1980 was a recession year. So those factors have to be taken into account.

Senator BYRD. How do you visualize the total credit needs in 1981 compared to 1980. You said $423 billion for 1980?

Secretary MILLER. Our present estimate for fiscal year 1981—this is an estimate—is something in the $450 to $460 billion range that will be raised in U.S. credit markets. And if the United States takes around $80 billion, it would be roughly the same percentage as the year before, lower than we have been in the past, but higher than I would like to see.

Senator BYRD. In determining the $80 billion for interest charges, what interest rate assumptions are being made?

Secretary MILLER. Those interest rate assumptions are based upon an estimate made by OMB. I am trying to find the date when they made them—June.

I want to make sure I am stating this correctly. The rates that I can give you are the rates that were in the budget in July, and I can compare them with actual rates now.

I am not sure that I am completely up to date on what interest rate assumptions are made in the congressional second budget resolution. We have not gotten details on that yet.

But what we have assumed are rates based on several maturities. For fiscal year 1981 it was assumed in our last budget submission that the 13-week rate would be 8½ percent. It is now over 14 percent. We assumed the 52-week rate, for example, is 9½ percent, and it is now 13 percent. We assumed the long-term rate over 6 years to be 10.1 percent and it is now 12.4 percent.

So unless interest rates come down, the likelihood is that we will see even greater requirements for interest than the $80 billion that I cited.

Senator BYRD. That's the way it looks to me from what you are saying.

Secretary MILLER. But I have incorporated part of the difference, Mr. Chairman. I don't want to mislead you. The figures are very confusing because we have now added to the interest for the year the estimated higher interest rates that we have seen in the first few months.

We have not changed the longer-term outlook, but we have estimated $3 billion more in interest payments from October 1 through February 28, and those are included in my $80 billion figure.

It is just that we don't know. If you continued the same rates that we now are seeing through the fiscal year, it would increase the interest on the public debt from $80 billion to $90 billion.

Senator BYRD. A $10 billion increase?

Secretary MILLER. Yes, sir.

Senator BYRD. That's for the last 7 months of the year?

Secretary MILLER. It would be $7 billion more for the last 7 months. Let me correct my statement.

I had said that the $3 billion increase through February was in the $80 billion figure. It was not. Let me state it correctly. The estimate of interest on the Federal debt of $80 billion was made in July. We now estimate $3 billion more through February; and, if interest rates continue at these levels, $7 billion more from March through September.

Senator BYRD. So you estimate an increase of $10 billion, from $80 billion to $90 billion, if current interest rates are continued?

Secretary MILLER. Yes, sir. It would be $83 billion, based upon the increase through February. And if that level of interest rate continued through the year, the number would be $90 billion.

Senator BYRD. To try to get it in focus, does anyone happen to remember what the prime rate was in June, as compared to——

Secretary MILLER. It was 12 to 13 percent.

Senator BYRD. And now it is between 17 to 18.

Secretary MILLER. Yes.

Senator BYRD. So since the original assumptions were made in June, the interest rate has gone up 60 percent or more.

Secretary MILLER. The prime rate has. Long-term rates are up 25 percent. Some of the short-term rates are up much higher.

In June we had a normal yield curve, with lower rates in the shorter maturities and higher rates in the longer. Now we have an inverse curve again, which means higher short-term rates and declining rates over the long-term, and that is the usual condition when you have a credit problem, a squeeze, or an inflationary squeeze, when short-term rates run up very rapidly and long-term rates are based more on the long-term expectations.

Senator BYRD. So the $280 billion that you will need, the larger percentage of that will be short-term money?

Secretary MILLER. We, as you know, have a policy of trying to increase the average maturity of Federal debt. But it comes very slowly because we are limited in what we can do in the markets, and we are limited by how much long-term debt we can issue under the long-term debt ceiling limitations.

We ran out of that, as you recall, in September and we had to cut back one long-term issue.

Senator BYRD. But that was taken care of.

Secretary MILLER. That was taken care of, yes, sir. But the markets will absorb only a certain amount of long-term financing, and we must slowly, work out the average maturity of the Federal debt so we will have a more even spread of maturities and we will take pressure off of the short-term markets It is important that the savings bond program be supported. The average maturity of savings bonds is longer and there is more stability, and that helps also.

I think the action of Congress to give us some leeway to raise savings bond interest rates is going to be very helpful.

Senator BYRD. That seems a wise direction to go, to increase the long-range maturities.

Secretary MILLER. That's correct. It will take some time. And I hope the policy is continued, because we have, since this administration came in office, extended the average maturity by quite a bit. When the administration came in, the average maturity was 2 years and 9 months. It is now 3 years and 9 months. And if you can keep going that way and get the average maturity out 5 or 6 years, it would help a good deal.

Senator BYRD. That's making some progress.

Secretary MILLER. I think we've made some good progress, thanks not to me, thanks to my associates who did the work. I have only been there 1 year, so I can't take any credit for this.

Senator BYRD. I was rather surprised at the figures you gave on the tremendous increase in the off-budget deficit from $14 billion in 1980 to $22 billion for 1981. That is a tremendous increase for off-budget items.

Secretary MILLER. I am not sure I have at my fingertips a breakdown of that. I could perhaps supply it.

Senator BYRD. That's all right. It shows that the trend is toward off-budget financing.

Secretary MILLER. If I may speak as an outgoing Secretary, I would point out several things that the new Congress, the new administration, should be concerned about.

One, the tendency to get around the appropriations process by off-budget financing is very dangerous. There should be a concerted effort to bring the credit budget into the same procedure that we have for the appropriation budget. I think that is important. We were moving and asking for that, and I think it should be pursued.

Second, I do believe that the growth of tax exempt financing for purposes that are beyond the original intention for municipal and State financing is also of considerable concern, because that in effect will give a preference to capital flows toward uses that are determined outside the market forces. I think this is unfortunate.

So I think both of these trends are ones to be careful about.

The third trend that one needs to be careful about in the future is the trend to use tax expenditures instead of appropriations, to take a purpose that is desirable or perceived to be desirable and, instead of appropriating money to make grants or disbursements, by giving tax credits, which also takes it outside of the appropriations process.

All of these techniques of getting around appropriations will be intensified as the efforts are made to control spending. Every time there is an effort to control spending, there will be people looking for ways to get around it, either through off-budget activities or by granting a tax credit, which affects revenues and doesn't show up as an appropriation, or to find devices to go into tax-exempt financing schemes, which of course ultimately drive up tax-exempt interest rates and therefore very much disadvantage municipalities and State governments from their normal financing requirements.

These are all dangers on the horizon.

Senator BYRD. Most of those could be got around if there were some mechanism by which the Congress and the administration would be required to discipline itself in the way of handling the finances.

Secretary MILLER. It is awfully important that the administration and the Congress come to an agreement to include the credit financing as part of the budget process and control it just as well as you control appropriations.

Senator BYRD. Well, the only means that I can think of at the moment which would force discipline would be the requirement that there be a balanced budget. Now, how would you feel about that? Or maybe you have other suggestions?

Secretary MILLER. I have been, in my 2½ years or so in Government, deeply concerned about the inadequacy of controls over the whole process. I certainly agree that we need some new will or commitment or mechanism or law or statute or something that would give us better controls.

I believe that the requirement of a balanced budget is attractive. We know that in the business cycle, that the budget is apt to swing. I have always thought that the budget should be balanced over the business cycle. We should be able to tolerate deficits in periods of recession and expect surpluses in good times.

Whether you can balance the budget every year and still make it responsive to the overall economic control mechanisms, I'm not sure. But if it could be controlled over a business cycle or if there could be some way to minimize the budget deficits over a period, I think that would be very desirable.

I haven't found a good way to do it, except to get the political will to do it.

Senator BYRD. I don't believe it is realistic to expect the political will. I think there has to be a disciplinary mechanism that will force the Members of the Congress and the administration to live within a balanced budget.

Secretary MILLER. I don't disagree with it. I am just not sure what the mechanism would be from year to year.

Senator BYRD. I tend to agree with you that the budget doesn't necessarily need to be balanced every year. But I am looking at figures right now for 25 years.

Secretary MILLER. We have had one balanced budget in the past 20 years. So that is not a good record.

Senator BYRD. That is a lousy record, a terrible record. And I think it shows that you can't rely on the Congress to discipline itself.

And the State legislatures do not rely on the legislators to discipline themselves. Virtually every State constitution has a mandatory requirement for a balanced budget.

If there is any other way out, I would be glad to support that. But in the absence of any other means of forcing discipline on the Congress and any particular administration, it seems to me a balanced budget requirement, leaving adequate flexibility for emergencies, would probably be the direction that we ought to go in.

Secretary MILLER. I don't disagree with that.

Senator BYRD. In regard to the Federal Financing Bank, is it not correct that the Federal Financing Bank buys loans from various Government agencies, thereby creating a source of Federal debt outside of the normal budgetary process? That is the way the Federal Financing Bank works, is it not?

Secretary MILLER. Correct.

Senator BYRD. What are the main programs that operate in this fashion?

Secretary MILLER. The best way to do it, perhaps, is to run down some of the major Federal Financing Bank acquisitions in fiscal year 1980, because that year we have. Let me just tick off some of the larger ones:

Purchases of agency loan assets: The Farmers Home Administration, $6.9 billion; Rural Electrification, $700 million.

Purchases of guaranteed securities: International security loans, $1.9 billion, rural electrification, $2.5 billion.

Seven States Energy, that is the TVA issues, $700 million.

So that purchases of agency loan assets ran $7.6 billion; purchases of guaranteed securities ran $6.8 billion, for $14.4 billion total last year.

Mr. Chairman, there is only one other point I would call to your attention, and I do so not in the sense of trying to suggest to Congress how its procedures best be handled. But the new procedure in the House of Representatives is that, with the adoption of a budget resolution, there is concurrently enrolled a resolution that sets the debt limit based on the budget resolution.

We now have such a resolution from the House of Representatives setting $978.6 billion for the fiscal year ending September 30, 1981. The Senate procedure has not followed this, and I know that feeling has been here, and I think your feeling has been, that adopting a debt limit through the budget process means an inadequate or too long a period without oversight, without review.

My own belief is that we are in such a dynamic period that if the Senate were now to merely enact or to approve the resolution adopted by the House, that you still would have the need for debt limit surveillance next spring. I believe there will be changes before the May 15 first budget resolution for fiscal year 1982. There will be changes in fiscal year 1981 that would require a new look.

So I rather think the procedure might be simplified if there could be a Senate approach similar to the House, and then have interim oversight at the various budget steps, so that there would be through the year several occasions to have an oversight on the budget. You would have more continuity and fewer of the crunches that we have had.

Since I have been Secretary of the Treasury, we have had, I think, three occasions where the expiration of a debt limit put enormous pressure on us, caused us to have to change our financing plans. And I think those have been costly, and they are horrible in the marketplace.

I think you might get the dual result of more continuity and yet adequate oversight if that could be done. I suggest that without, again, trying to look improperly into the procedures of Congress, but just as my observations of how things have worked during my year.

Senator BYRD. At this point, it occurs to me that the Congress, as a result of your testimony today, may want to consider several options. One would be to go to $949 billion through February 28, or possibly to $962 billion through March 31, or what you suggested, the $978 billion through September 30.

I think I would be inclined to one of the shorter periods. I thought I would leave it up, of course, to the committee to discuss it and reach whatever conclusion it thinks best, and see what the Senate wants to do.

Secretary MILLER. I think that's correct, Mr. Chairman. The only point I again make is that if you decide on the third option, it seems to me that you will be back looking at this subject in April or May in any case, before the first budget resolution——

Senator BYRD. You don't expect to hit $979 billion by that point?

Secretary MILLER. No, but I think the new program for 1981 would require a looking at 1981 again, even if it was for the whole year. That's my only point. In other words, I just want to say what I have said three times: I don't think the $978 billion——

Senator BYRD. It's going to be too low?

Secretary MILLER. I don't think it's reliable until we know the program of the new administration.

Senator BYRD. I think you are correct on that. I think you are exactly right; not only the program of the new administration, but the budget of the outgoing administration.

Secretary MILLER. Exactly.

Senator BYRD. That is going to have a very keen impact.

Secretary MILLER. Even on 1981.

Senator BYRD. Even on 1981.

Secretary MILLER. We will have new estimates of revenues. We will have new estimates of spending under current law. So I don't want to prematurely judge, but I think that in the spring Congress, even if you adopted the House resolution of $978.6 billion, would need to look at that number for fiscal year 1981 to see if it is adequate. And my guess is it would have to be raised.

Senator BYRD. Just one other thought before we close. To get back to some mechanism for enforcing discipline on the Congress and the administration, from your vantage point as Secretary of the Treasury, if there were a requirement that before an unbalanced budget could be enacted, that a resolution must be adopted by the Congress by a two-thirds voting stating that, for specified reasons, the budget for that particular year would not need to be balanced, would that insure adequate flexibility and at the same time give a measure of discipline?

Secretary MILLER. Mr. Chairman, of all of the techniques that we have discussed over this period of time about how to deal with this, I think the idea of a higher plurality vote for—what you have just suggested, is the most appealing to me. But I think it needs to be coupled with the mechanism of what happens if you don't get the two-thirds vote for an unbalanced budget,—how do you reconcile the underlying spending that is in the law?

You would have to have a mechanism that forced it back to a balanced budget through a reconciliation or something. I think you need it coupled with a very strong budget process, because if you failed to get the two-thirds vote, that would say you must have a balanced budget. And yet, you would never have a balanced budget unless expenditures and revenues come to balance, which means Congress will have to change some law or it will have to renege on some existing commitments.

Senator BYRD. Or the new law could specify an across-the-board reduction.

Secretary MILLER. Yes. It needs a mechanism linked with it. But of all the things I have heard during my period here, I think the idea of going in the direction of requiring a greater consensus for a deficit is probably the next step that would make sense, rather than trying to go to specific limits and statutory limits, which have unknown troubles that we can't yet predict.

Senator BYRD. The key, as I see it, is some disciplinary program, some means to enforce discipline.

Secretary MILLER. Yes, sir.

Senator BYRD. I want to thank you for being here, Mr. Secretary. And I want to say, since this Congress will adjourn sine die on Friday, probably this may be your last meeting before the end of the year, and I just want to say that I feel you have done a fine job for our Government. I have found my association with you to be most pleasant, indeed.

I appreciate your great ability and I think that you have made a fine contribution to our Government. I hope we will see you from time to time in the future.

Secretary MILLER. Thank you very much, Mr. Chairman. I have enjoyed it and I have appreciated your help and cooperation. I will do my best in the private sector to continue along the lines of the disciplines you have talked about. I think we need to pursue those.

Senator BYRD. Thank you, sir.

Senator Dole has a statement for the record, which I will ask that it be inserted at this point. And I have some tables that I would like to be inserted in the record.

[Information follows:]

STATEMENT OF SENATOR DOLE, SUBCOMMITTEE ON TAXATION AND DEBT MANAGEMENT

Mr. Chairman, the public debt is no one's favorite subject, yet this is the third time this year that you have been obliged to schedule hearings on the debt limit. The Senate has already acted twice on the debt limit this year, and it appears that we may have to act again before we adjourn. When we last extended the debt limit, on June 26, some of us felt that we ought to have an opportunity to reexamine the limit before the end of the year, because of the uncertain course the economy might take. Now it appears that our concern was justified. There seems to be little chance that the current limit, $925 billion through the end of February 1981, will be adequate to cover the government's financing needs, even through the end of the year. The Congressional Budget Office now estimates the public debt will reach $928 billion before the end of this year, or $931 billion if you allow a $3 million margin for contingencies.

We do have an obligation to guarantee that the government meets its obligations, but I, for one, hope and expect that we will improve our management of the public debt in the coming year. Last-minute adjustments such as this ought not be necessary. Through more rigorous control of the Federal budget and off-budget governmental activities, we can limit the government's financing needs. By adopting realistic budget estimates and adhering to our budget plans, we can put a degree of certainty in the process. For now let us do our duty, but let us agree to do better in the future.

UNIFIED BUDGET OUTLAYS AND PERCENT INCREASE PER YEAR

[Dollar amounts in billions]

Fiscal year	Outlays	Increase	Percent increase
1973	$247.1		
1974	269.6	$22.5	9.1
1975	326.2	56.6	21.0
1976	366.4	40.2	12.3
1977	402.7	36.3	9.9
1978	450.8	48.1	11.9
1979	493.6	42.8	9.5

UNIFIED BUDGET OUTLAYS AND PERCENT INCREASE PER YEAR—Continued

[Dollar amounts in billions]

Fiscal year	Outlays	Increase	Percent increase
1980	579.0	85.4	17.3
1981[1]	632.4	53.4	9.2

[1] Estimate from 2d concurrent budget resolution for fiscal year 1981.

ESTIMATED OWNERSHIP OF PUBLIC DEBT SECURITIES—SEPT. 30, 1980

[Dollars in billions]

Held by	Amount	Percent
Federal Reserve System	$120.7	13.3
Government accounts	197.7	21.8
	318.4	35.1
Held by private investors:		
Individuals:		
Savings bonds	73.0	8.0
Other securities	50.0	5.5
Total individuals	123.0	13.5
Commercial banks	100.9	11.1
Insurance companies	14.4	1.6
Mutual savings banks	5.3	.6
Corporations	25.5	2.8
State and local governments	73.4	8.1
Foreign and international	126.0	13.9
Other investors	120.7	13.3
Total privately held	589.2	64.9
Total public debt securities outstanding	907.7	100.0

Source: Office of the Secretary of the Treasury, Office of Government Financing—Nov. 28, 1980.
Note: Figures may not add to totals due to rounding.

TABLE 1.—MATURITY DISTRIBUTION OF OFFICIAL FOREIGN HOLDINGS OF TREASURY PUBLIC DEBT SECURITIES, SEPT. 30, 1980 [1]

[In millions of dollars]

Years to maturity	Marketable	Nonmarketable	Total
1 year and under	52,836	6,977	59,813
1 to 5 years	23,024	8,857	31,881
Over 5 years	1,645	4,246	5,891
Total	77,506	20,078	97,584

[1] This table shows the maturity distribution of official foreign holdings of Treasury securities in custody at the FRBNY and in the Treasury Deposit Funds. Carter bonds which total $6,437 million, are not included here since they are not foreign official holdings.

Source: Office of the Secretary of the Treasury, Office of Government Financing—Dec. 1, 1980.
Note: Detail may not sum to totals due to rounding.

TABLE 2.—*Major foreign holders of Treasury public debt securities, Sept. 30, 1980*

	Millions
Oil exporting countries [1]	**$22,203**
Belgium	**1,779**

	Millions
Canada	1,954
France	8,045
Germany	33,685
Italy	2,874
Japan	20,188
Netherlands	2,666
Switzerland	6,434
United Kingdom	8,316
International and regional	5,018
All other and unclassified	12,872
Total	126,034

[1] Bahrain, Iran, Iraq, Kuwait, Oman, Qatar, Saudi Arabia, United Arab Emirates, Algeria, Gabon, Libya, Nigeria, Indonesia, Venezuela, Ecuador.

Source.—Office of the Secretary of the Treasury, Office of Government Financing—Dec. 1, 1980.

TABLE 3.—CHANGES IN FOREIGN HOLDINGS OF PUBLIC DEBT SECURITIES

[In billions of dollars]

	Dec. 31, 1979	Sept. 31, 1980 [p]	Changes [p]			
			Total	Nonmarketable	Marketable	
					Bills	Notes and bonds
Belgium	0.4	1.8	1.3	0	1.3	(3)
Canada	1.9	2.0	0.1	−0.1	−0.1	0.2
France	6.7	8.0	1.4	.1	1.2	(3)
Germany [2]	39.9	33.7	−6.3	−3.1	−1.1	−2.1
Italy	4.6	2.9	−1.7	0	−1.7	(3)
Japan	16.7	20.2	3.4	(3)	5.2	−1.7
Netherlands	2.3	2.7	.4	(3)	0.2	.2
Switzerland	11.5	6.4	−5.0	−1.7	−3.0	−.3
United Kingdom	7.1	8.3	1.2	0	(3)	1.2
International and regional	5.5	5.0	−.5	0	0.2	−.7
Oil exporting countries	15.0	22.2	7.2	1.0	0.3	5.9
Other	7.2	9.7	2.5	0.0	2.0	.6
Total	118.9	122.9	4.0	−3.8	4.5	3.3
Unclassified [1]	4.8	3.1	−1.7			
Grand total	123.7	126.0	2.3			

[p] Preliminary.
[1] Unclassified includes repurchase agreements not reported by country or security.
[2] Change in nonmarketable includes Carter bonds.
[3] change is less than $50 million.

Source: Office of the Secretary of the Treasury, Office of Government Financing—Dec. 1, 1980.
Note: Detail may not sum to totals due to rounding.

FOREIGN AND INTERNATIONAL HOLDINGS OF PUBLIC DEBT SECURITIES [1]

[Dollars in billions]

Date	Foreign and international	Total public debt	
		Holdings	Percent
December 31:			
1969	$10.4	2.8	$367.4
1970	19.7	5.1	388.3
1971	46.0	10.9	423.3
1972	54.4	12.1	448.5
1973	54.7	11.7	469.1
1974	58.8	11.9	492.7
1975	66.5	11.5	576.6
1976	78.1	12.0	653.5

FOREIGN AND INTERNATIONAL HOLDINGS OF PUBLIC DEBT SECURITIES [1]—Continued

[Dollars in billions]

Date	Foreign and international	Total public debt	
		Holdings	Percent
1977	109.6	15.2	718.9
1978	137.8	17.5	789.2
1979	123.8	14.6	845.1
September 1980	[2] 126.0	13.9	907.7

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

Source: Office of the Secretary of the Treasury, Office of Government Financing—Dec. 3, 1980.

FEDERAL FINANCING REQUIREMENTS

[In millions of dollars]

Fiscal years	1979	1980	1981 [1]
Budget deficit	27.7	59.0	27.4
Off-budget deficit	12.4	14.2	22.0
Total deficit	40.2	73.2	49.4
Means of financing other than borrowing from the public [2]	−6.5	−2.7	([3])
Total	33.6	70.5	([3])
Increase in debt held by Government agencies	19.7	10.1	([3])
Increase in gross Federal debt	53.3	80.6	([3])

[1] Estimates based on Second Congressional Budget Resolution for fiscal year 1981.
[2] Consists largely of change in Treasury cash balance.
[3] Not available.

Source: Office of the Secretary of the Treasury, Office of Government Financing—Dec. 3, 1980.

DEBT SUBJECT TO LIMIT

[In billions of dollars]

	Fiscal years—		
	Actual 1979	Estimate [1]	
		1980	1981
Unified budget deficit	27.7	59.0	27.4
Portion of budget attributable to trust surplus or deficit (−)	18.3	8.8	13.0
Federal funds deficit	46.1	67.8	40.4
Deficit of off-budget Federal entities	12.4	14.2	22.0
Total to be financed	58.5	82.0	62.4
Means of financing other than borrowing, and other adjustments	−3.6	−0.9	([2])
Change in debt subject to limit	54.9	81.1	69.9
Debt subject to limit, beginning of year	772.7	827.6	908.7
Anticipated debt subject to limit, end of year	827.6	908.7	978.6

[1] Second Congressional Budget Resolution for fiscal year 1981.
[2] Not available.

Source: Office of the Secretary of the Treasury, Office of Government Financing—Dec. 1, 1980.

FEDERAL DEFICITS AND DEBT, 1970–81

[In billions of dollars]

Fiscal years	1970	1971	1972	1973	1974	1975	1976	TQ	1977	1978	1979	1980 [6]	1981 [6] [7]
Federal funds deficit	13.1	29.9	29.3	25.6	18.7	52.5	68.9	11.0	54.5	61.5	46.1	67.8	40.4
Less: Trust fund surplus (−) or deficit	−10.3	−6.8	−5.9	−10.7	−14.0	−7.4	−2.4	2.0	−9.5	−12.7	−18.3	−8.8	−13.0
Equals: Total unified budget deficit	2.8	23.0	23.4	14.8	4.7	45.2	66.4	13.0	45.0	48.8	27.7	59.0	27.4
Plus: Deficit of off-budget Federal entities [1]				0.1	1.4	8.1	7.3	1.8	8.7	10.3	12.4	14.2	22.0
Equals: Total deficit	2.8	23.0	23.4	14.9	6.1	53.1	73.7	14.7	53.7	59.2	40.2	73.2	49.4
Less: Nonborrowing means of financing [2]	2.6	−3.6	−3.9	4.4	−3.1	−2.4	9.2	3.3	−0.1	−0.1	−6.5	−2.7	([8])
Equals: Total borrowing from the public	5.4	19.4	19.4	19.3	3.0	50.9	82.9	18.0	53.5	59.1	33.6	70.5	([8])
Plus: Change in debt held by Government agencies [3]	10.1	7.4	8.4	11.8	14.8	7.0	4.3	−3.5	9.2	12.2	19.7	10.1	([8])
Equals: Change in gross Federal debt	15.5	26.9	27.9	31.1	17.8	57.9	87.3	14.5	62.7	71.3	53.3	80.6	([8])
Less: Change in Federal agency debt	1.7	0.3	1.3	−0.2	0.9	1.1		−0.2	1.4	1.4	1.6	0.6	([8])
Equals: Change in gross public debt	17.2	27.2	29.1	30.9	16.9	59.0	87.2	14.3	64.1	72.7	54.9	81.2	([8])
Plus: Change in other debt subject to limit [4]	−0.7	−1.2		−0.4		0.1	0.1					−0.1	([8])
Equals: Change in debt subject to limit	16.5	26.0	29.1	30.5	16.9	59.0	87.3	14.3	64.1	72.7	54.9	81.1	69.9
Debt outstanding end of fiscal year:													
Gross Federal debt [5]	382.6	409.5	437.3	468.4	486.2	544.1	631.9	646.4	709.1	780.4	833.8	914.3	([8])
Less: Federal agency debt [5]	12.5	12.2	10.9	11.1	12.0	10.9	11.4	11.7	10.3	8.9	7.2	6.6	([8])
Equals: Gross public debt	370.1	397.3	426.4	457.3	474.2	533.2	620.4	634.7	698.8	771.5	826.5	907.7	([8])
Plus: Other debt subject to limit [4]	2.5	1.3	1.3	.9	.9	1.0	1.1	1.1	1.1	1.1	1.1	1.0	([8])
Equals: Debt subject to limit	372.6	398.6	427.8	458.3	475.2	534.2	621.6	635.8	700.0	772.7	827.6	908.7	978.6

[1] Consists largely of Federal Financing Bank borrowings to finance off-budget programs.
[2] Consists largely of changes in the Treasury cash balance.
[3] Consists largely of trust fund surplus or deficit.
[4] Net of certain public debt not subject to limit.
[5] Fiscal year 1976 figure includes reclassification of $471 million of Export-Import Bank certificates of beneficial interest from asset sales to debt.
[6] Estimate.
[7] Based on Second Congressional Budget Resolution for fiscal year 1981.
[8] Not available.

Source: Special Analysis E, U.S. Budget.

FUNDS RAISED IN U.S. CREDIT MARKETS

[Dollars in billions]

	Total	Federal	Federal as percent of total
Fiscal year 1975	$200.9	$51.9	25.8
Fiscal year 1976	308.9	82.9	26.8
Fiscal year 1977	380.7	53.6	14.1
Fiscal year 1978	486.8	59.1	12.1
Fiscal year 1979	529.5	33.7	6.4
Fiscal year 1980	423.4	70.5	16.7
Fiscal year 1981 (estimate)	454.1	([1])	([1])

[1] Not available but expected to be similar to fiscal year 1980.

Interest rate assumptions used by OMB in the midsession review of the 1981 Budget to estimate interest on the public debt for fiscal year 1981.

Assumed rates—fiscal year 1981 [1]

Maturity:	
13 weeks [2]	8.5
26 weeks [2]	8.9
52 weeks [2]	9.4
1 to 3 years	9.6
3 to 6 years	9.9
Over 6 years	10.1

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

FOREIGN HOLDINGS OF TREASURY PUBLIC DEBT SECURITIES—SEPT. 30, 1980

[Dollars in billions]

	Amount	Percent
Foreign and international official accounts	114.6	91.0
Other	11.4	9.0
Total	126.0	100.0

Source: Office of the Secretary of the Treasury, Office of Government Financing.

OWNERSHIP OF FEDERAL AGENCY DEBT, SEPT. 30, 1980

[Dollars in millions]

	Outstanding	Federal Reserve and Government Accounts	Privately held
Export-Import Bank	661	16	645
Federal Housing Administration	495	157	338
Government National Mortgage Association	2,842	1,325	1,517
Postal Service [1]	250	37	213
Tennessee Valley Authority	1,725		1,725
Other [2]	643	71	572
Total	6,616	1,606	5,010

[1] Postal Service is an off-budget agency.
[2] Includes Defense and Coast Guard family housing mortgages.

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

Source: Office of the Secretary of the Treasury, Office of Government Financing.

THE NATIONAL DEBT IN THE 20TH CENTURY [1]

[Rounded to the nearest billion dollars]

Date	Total [2]	Date	Total [2]
1900	1	1941	58
1901	1	1942	79
1902	1	1943	143
1903	1	1944	204
1904	1	1945	260
1905	1	1946	271
1906	1	1947	257
1907	1	1948	252
1908	1	1949	253
1909	1	1950	257
1910	1	1951	255
1911	1	1952	259
1912	1	1953	266
1913	1	1954	271
1914	1	1955	274
1915	1	1956	273
1916	1	1957	272
1917	3	1958	280
1918	12	1959	288
1919	25	1960	291
1920	24	1961	293
1921	24	1962	303
1922	23	1963	311
1923	22	1964	317
1924	21	1965	323
1925	21	1966	329
1926	20	1967	341
1927	19	1968	370
1928	18	1969	367
1929	17	1970	383
1930	16	1971	410
1931	17	1972	437
1932	19	1973	468
1933	23	1974	486
1934	27	1975	544
1935	29	1976	632
1936	34	1977	709
1937	36	1978	780
1938	37	1979	834
1939	48	1980	914
1940	51	1981 [3]	962

[1] Gross Federal debt.
[2] At end of fiscal years.
[3] Estimated figures (OMB Mid Session Budget Review).

Source: Office of Management and Budget, 1981 Budget.

UNIFIED BUDGET RECEIPTS, OUTLAYS AND SURPLUS OR DEFICIT FOR FISCAL YEARS 1958–81, INCLUSIVE

[In billions of dollars]

Fiscal year	Receipts	Outlays	Surplus (+) or deficit (−)
1958	79.6	82.6	−3.0
1959	79.2	92.1	−12.9
1960	92.5	92.2	+0.3
1961	94.4	97.8	−3.4
1962	99.7	106.8	−7.1
1963	106.6	111.3	−4.7
1964	112.7	118.6	−5.9

UNIFIED BUDGET RECEIPTS, OUTLAYS AND SURPLUS OR DEFICIT FOR FISCAL YEARS 1958-81, INCLUSIVE—Continued

[In billions of dollars]

Fiscal year	Receipts	Outlays	Surplus (+) or deficit (−)
1965	116.8	118.4	−1.6
1966	130.8	134.6	−3.8
1967	149.5	158.2	−8.7
1968	153.7	178.8	−25.1
1969	187.8	184.6	+3.2
1970	193.8	196.6	−2.8
1971	188.4	211.4	−23.0
1972	208.6	231.9	−23.3
1973	232.2	247.1	−14.8
1974	264.9	269.6	−4.7
1975	281.0	326.2	−45.2
1976	300.0	366.4	−66.4
1977	357.8	402.7	−45.0
1978	402.0	450.8	−48.8
1979	465.9	493.7	−27.7
1980	520.0	579.0	−59.0
1981 (estimate)	605.0	632.4	−27.4

Prepared by Senator Harry F. Byrd, Jr. of Virginia.
Source: Office of Management and Budget, fiscal year 1981 Second Concurrent Budget Resolution.

GROSS NATIONAL PRODUCT

[In billions of dollars]

Year	Raw figure	Adjusted figure [1]
1972	1,171	1,171
1973	1,307	1,235
1974	1,413	1,214
1975	1,516	1,192
1976	1,706	1,275
1977	1,887	1,333
1978	2,128	1,399
1979	2,369	1,432
1980 (estimate)	2,570	1,422
1981 (estimate)	2,841	1,437

[1] To account for inflation—adjusted to 1972 dollars.

Prepared by Senator Harry F. Byrd, Jr. of Virginia.
Source: Office of Management and Budget, fiscal year 1981 Second Concurrent Budget Resolution.

CONGRESSIONAL BUDGET RESOLUTIONS

[Dollars in billions]

Resolution/date	Fiscal year	Receipts	Expenditures	Deficit/surplus
First Concurrent Budget, May 1975	1976	$298.2	$367.0	−$68.8
Second Concurrent Budget, December 1975	1976	300.8	374.9	−74.6
First Concurrent Budget, May, 1976	1977	362.5	413.3	−50.8
Second Concurrent Budget, September 1976	1977	362.5	413.1	−50.6
First Concurrent Budget, May 1977	1977 (revisions)	356.6	409.2	−52.6
First Concurrent Budget, May 1977	1978	396.3	461.0	−64.7
Second Concurrent Budget, September 1977	1978	397.0	458.3	−61.3
First Concurrent Budget, May 1978	1979	447.9	498.8	−50.9
Second Concurrent Budget, September 1978	1979	448.7	487.5	−38.8
Second Concurrent Budget, May 1979	1979 (revised)	461.0	494.5	−33.5

CONGRESSIONAL BUDGET RESOLUTIONS—Continued

[Dollars in billions]

Resolution/date	Fiscal year	Receipts	Expenditures	Deficit/surplus
First Concurrent Budget, May 1979	1980	509.0	532.0	−23.0
Second Concurrent Budget, November 1979	1980	517.8	547.6	−29.8
Second Concurrent Budget	1980 (revised)	525.7	572.7	−47.0
First Concurrent Budget	1981	613.8	613.6	+0.2
Second Concurrent Budget	1981	605.0	632.4	−27.4

DEFICITS IN FEDERAL FUNDS AND INTEREST ON THE NATIONAL DEBT FOR FISCAL YEAR 1959–81, INCLUSIVE

[In billions of dollars]

Year	Receipts	Outlays	Surplus (+) or Deficit (−)	Debt interest [1]
1959	65.8	77.0	−11.2	7.8
1960	75.7	74.9	+0.8	9.5
1961	75.2	79.3	−4.1	9.3
1962	79.7	86.6	−6.9	9.5
1963	83.6	90.1	−6.5	10.3
1964	87.2	95.8	−8.6	11.0
1965	90.9	94.8	−3.9	11.8
1966	101.4	106.5	−5.1	12.6
1967	111.8	126.8	−15.0	14.2
1968	114.7	143.1	−28.4	15.6
1969	143.3	148.8	−5.5	17.6
1970	143.2	156.3	−13.1	20.0
1971	133.8	163.7	−29.9	21.6
1972	148.8	178.1	−29.3	22.5
1973	161.4	187.0	−25.6	24.8
1974	181.2	199.9	−18.7	30.0
1975	187.5	240.1	−52.6	33.5
1976	201.1	269.9	−68.8	37.7
1977	241.3	295.8	−54.5	42.6
1978	270.5	332.0	−61.5	49.3
1979	316.4	362.4	−46.1	59.8
1980	350.9	418.7	−67.8	74.8
1981 (estimate)	415.4	455.8	−40.4	84.0

[1] Interest on gross Federal debt.

Source: Office of Management and Budget fiscal year 1981, Second Concurrent Budget Resolution.

Senator BYRD. The committee will stand in recess.

[Whereupon, at 11:05 a.m., the committee was adjourned.]

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