S. HRG. 98-154

PUBLIC DEBT—1983

HEARING

BEFORE THE

SUBCOMMITTEE ON TAXATION AND DEBT MANAGEMENT

OF THE

COMMITTEE ON FINANCE UNITED STATES SENATE

NINETY-EIGHTH CONGRESS

FIRST SESSION

MAY 6, 1983

Printed for the use of the Committee on Finance

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1983 PUBLIC DEBT LIMIT

FRIDAY, MAY 6, 1983

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

The subcommittee met, pursuant to notice, at 9:30 a.m., in room SD-215, Dirksen Senate Office Building, the Honorable Bob Packwood (chairman) presiding.

Present: Senator Packwood.

[The press release announcing the hearing, the Joint Committee on Taxation, and tables of estimated net Government and private debt, by major categories follow:]

Press Release No. 83- 137

PRESS RELEASE

FOR IMMEDIATE RELEASE
May 6, 1983

UNITED STATES SENATE
COMMITTEE ON FINANCE
Subcommittee on Taxation and Debt Management
SD-221 (formerly 2227) Dirksen Senate Office Building

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

Senator Bob Packwood (R-Oregon), Chairman of the Subcommittee on Taxation and Debt Management, announced today that a hearing on raising the temporary limit on the public debt has been scheduled. Warren Carter, Deputy Assistant Secretary of the Treasury for Domestic Finance, will testify on the public debt at 9:30 a.m., Friday, May 6, in Room SD-215 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 double-spaced pages in length and mailed with five (5) copies By May 28, 1983, to Roderick A. DeArment, Chief Counsel, Committee on Finance, Room SD-221, Dirksen Senate Office Building, Washington, D.C. 20510.

P.R. #83-137

Joint Committee on Taxation
May 5, 1983
JCX-9-83

Public Debt Limit

Present Law

The Second Liberty Bond Act contains a statutory limit on the amount of debt that the Federal Government may issue. The current limit on the issue of Federal debt is $1,290.2 billion. The limitation consists of a permanent component of $400 billion and a temporary component of $890.2 billion. The temporary component is in effect through September 30, 1983.

The debt limit applies to debt issued to finance federal budget activities, investment of federal trust fund reserves in Treasury special debt issues, and debt issued by or for federal agency credit programs (both off-budget and on-budget).

Current Debt Situation

At the close of business on May 3, 1983, the outstanding federal debt subject to limit was $1,262.5 billion. The operating cash balance was $21.0 billion, which is only $1.0 billion above the constant level operating cash balance assumed for purposes of meeting daily financial needs.

Treasury announced on April 27, 1983, that it will raise an additional $9.8 billion on May 15, as part of its quarterly financing plans. Treasury also is required to transfer about $23 billion of noncontributory military wage credits to the social security trust funds on May 20. May also is a month characterized by relatively small inflows of budget receipts.

Net borrowing needs in the July-September quarter have been estimated at $55 to $60 billion.

Administration Request

The Administration is expected to request that the debt limit be increased by $99 billion, to $1,389.2 billion, through the remainder of fiscal year 1983.

This amount has been recommended as the appropriate level for the debt limit through September 30, 1983, in H. Con. Res. 91, the House-passed budget resoluton. S. Con. Res. 27, which currently is under debate in the Senate, contains a recommendation for a limit of $1,383.9 billion.

In the April 12 revision of budget estimates, the Administration indicated that a debt limit of $1,388.2 billion would meet its debt financing requirements through fiscal year 1983. This estimate assumes that a constant $20 billion operating cash balance would be maintained, and there is no additional allowance for contingencies.

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

YEAR	PRIVATE(1) CORPORATE	OTHER	TOTAL	STATE AND LOCAL	(5) FEDERAL	TOTAL NET DEBT	PERCENT FEDERAL OF TOTAL
1929	88.9	72.9	161.8	13.6	16.5	191.9	8.6
1930	89.3	71.8	161.1	14.7	16.5	192.3	8.6
1931	83.5	64.9	148.4	16.0	18.5	182.9	10.1
1932	80.0	57.1	137.1	16.6	21.3	175.0	12.2
1933	76.9	51.0	127.9	16.3	24.3	168.5	14.4
1934	75.5	49.8	125.3	15.9	30.4	171.6	17.7
1935	74.3	49.7	124.5	16.1	34.4	175.0	19.7
1936	76.1	50.6	126.7	16.2	37.7	180.6	20.9
1937	75.8	51.1	126.9	16.1	39.2	182.2	21.5
1938	73.3	50.0	123.3	16.1	40.5	179.9	22.5
1939	73.5	50.8	124.3	16.4	42.6	183.3	23.2
1940	75.6	53.0	128.6	16.4	44.8	189.8	23.6
1941	83.4	55.6	139.0	16.1	56.3	211.4	26.6
1942	91.6	49.9	141.5	15.4	101.7	258.6	39.3
1943	95.5	48.8	144.3	14.5	154.4	313.2	49.3
1944	94.1	50.7	144.8	13.9	211.9	370.6	57.2
1945	85.3	54.7	140.0	13.4	252.5	405.9	62.2
1946	49.5	66.4	115.9	14.9	228.0	358.8	63.5
1947	56.7	80.6	137.3	16.3	220.8	374.4	59.0
1948	62.8	93.5	156.3	18.5	215.1	389.9	55.2
1949	64.6	104.4	169.0	21.0	217.7	407.7	53.4
1950	71.3	123.3	194.6	24.4	216.5	435.5	49.7
1951	79.6	136.1	215.7	26.6	216.1	458.3	47.1
1952	86.8	152.9	239.7	30.2	221.4	491.4	45.1
1953	91.0	169.2	250.2	34.5	228.4	523.1	43.7
1954	95.9	183.9	279.8	40.6	230.8	551.3	41.9
1955	104.2	213.3	317.6	45.9	230.0	593.5	38.8
1956	114.8	233.1	347.9	49.5	224.2	621.5	36.1
1957	124.7	251.4	376.0	53.7	222.0	651.7	34.1
1958	133.2	269.5	402.7	59.2	231.3	693.1	33.4
1959	143.5	303.6	447.2	65.5	238.3	751.0	31.7
1960	154.3	329.5	483.7	70.8	236.3	790.8	29.9
1961	165.1	356.6	521.7	75.9	243.5	841.0	29.0
1962	177.5	393.1	570.5	81.2	250.5	902.2	27.8
1963	190.2	440.2	630.4	86.9	254.4	971.8	26.2
1964	203.0	488.5	691.4	92.9	260.7	1045.0	24.9
1965	221.6	542.3	763.8	100.3	262.4	1126.6	23.3
1966	244.1	587.3	831.3	105.9	266.1	1203.3	22.1
1967	269.5	623.8	898.3	113.7	279.1	1291.1	21.6
1968	296.5	693.7	990.3	123.2	292.6	1406.1	20.8
1969	325.5	768.8	1094.3	133.1	289.0	1516.4	19.1
1970	355.0	824.7	1179.8	144.4	300.8	1624.9	18.5
1971	380.1	915.0	1295.2	161.8	325.7	1782.7	18.3
1972	412.5	1053.6	1466.1	176.5	340.8	1983.4	17.2
1973	461.2	1212.8	1674.1	191.2	349.1	2214.3	15.8
1974	527.2	1338.6	1865.8	207.7	360.8	2434.4	14.8
1975	548.2	1434.9	1983.1	223.8	446.3	2653.2	16.8
1976	591.0	1605.5	2196.5	239.5	515.8	2951.7	17.5
1977	660.1	1839.7	2499.8	262.9	572.5	3335.3	17.2
1978	737.3	2157.7	2895.0	291.3	626.2	3812.5	16.4
1979	835.7	2482.2	3317.9	321.1	663.6	4302.5	15.4
1980	916.4	2743.5	3659.9	356.9	742.8	4759.6	15.6
1981	1019.0	3026.4	4045.4	389.8	830.1	5265.2	15.8
1982	1094.4	3186.6	4281.0	450.5	991.4	5722.9	17.3

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

	PRIVATE(1)			STATE	(5)	TOTAL
				AND		NET
YEAR	CORPORATE	OTHER	TOTAL	LOCAL	FEDERAL	DEBT
1929	726	595	1321	111	135	1567
1930	722	531	1303	119	133	1556
1931	671	521	1192	129	149	1469
1932	639	456	1095	133	170	1397
1933	610	405	1015	129	193	1337
1934	595	393	988	125	240	1353
1935	586	389	975	126	269	1370
1936	592	394	986	126	293	1406
1937	586	395	981	124	303	1409
1938	562	383	945	123	311	1379
1939	557	384	941	124	323	1388
1940	567	398	965	123	336	1424
1941	619	413	1032	120	418	1570
1942	672	366	1038	113	746	1896
1943	691	353	1044	105	1117	2267
1944	673	363	1036	99	1516	2652
1945	604	387	991	95	1788	2874
1946	345	463	808	104	1590	2502
1947	388	552	940	112	1512	2564
1948	423	629	1052	124	1448	2624
1949	428	690	1118	139	1440	2698
1950	464	803	1267	159	1409	2835
1951	509	871	1380	170	1382	2932
1952	546	962	1508	190	1393	3091
1953	563	1046	1609	213	1413	3235
1954	583	1117	1700	247	1403	3349
1955	622	1274	1896	274	1373	3543
1956	673	1366	2039	290	1314	3644
1957	718	1449	2167	309	1279	3756
1958	755	1527	2282	336	1311	3928
1959	800	1693	2493	365	1329	4186
1960	846	1808	2654	388	1296	4338
1961	891	1925	2816	409	1314	4540
1962	944	2091	3035	432	1332	4799
1963	998	2308	3306	456	1334	5097
1964	1051	2527	3578	481	1349	5408
1965	1133	2773	3906	513	1342	5761
1966	1234	2970	4204	536	1345	6085
1967	1349	3147	4496	569	1397	6462
1968	1470	3438	4908	611	1450	6969
1969	1597	3771	5368	653	1418	7439
1970	1719	3995	5714	699	1457	7870
1971	1820	4379	6199	774	1559	8533
1972	1955	4994	6949	837	1615	9401
1973	2166	5696	7862	898	1639	10399
1974	2453	6228	8681	966	1679	11326
1975	2525	6610	9135	1031	2056	12221
1976	2696	7325	10021	1093	2353	13467
1977	2980	8307	11287	1187	2585	15059
1978	3293	9638	12931	1301	2797	17029
1979	3690	10962	14652	1418	2930	19000
1980	4004	11987	15991	1560	3245	20795
1981	4410	13098	17508	1687	3592	22787
1982	4692	13660	18352	1931	4250	24534

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

YEAR	GROSS NATIONAL PRODUCT	PRIVATE(1)			STATE AND LOCAL	(5) FEDERAL	TOTAL NET DEBT
		CORPORATE	OTHER	TOTAL			
	(BILLION $)	(RATIOS OF DEBT TO GROSS NATIONAL PRODUCT)					
1929	103.4	86.0	70.5	156.4	13.2	16.0	185.6
1930	90.7	98.5	79.2	177.6	16.2	18.2	212.0
1931	76.1	109.8	85.3	195.1	21.0	24.3	240.4
1932	58.3	137.3	98.0	235.2	28.5	36.5	300.3
1933	55.8	137.8	91.4	229.1	29.2	43.5	301.9
1934	65.3	115.6	76.3	191.9	24.4	46.6	262.8
1935	72.5	103.2	68.6	171.7	22.2	47.5	241.4
1936	82.7	92.0	61.2	153.1	19.6	45.6	218.3
1937	90.9	83.4	56.2	139.6	17.7	43.1	200.5
1938	85.0	86.2	58.8	145.0	18.9	47.6	211.6
1939	90.9	80.8	55.9	136.7	18.0	46.9	201.6
1940	100.0	75.6	53.0	128.6	16.4	44.8	189.8
1941	125.0	66.7	44.5	111.2	12.9	45.0	169.1
1942	158.5	57.8	31.5	89.3	9.7	64.2	163.2
1943	192.1	49.7	25.4	75.1	7.5	80.4	163.0
1944	210.6	44.7	24.1	68.7	6.6	100.6	175.9
1945	212.4	40.2	25.7	65.9	6.3	118.9	191.1
1946	209.8	23.6	31.7	55.2	7.1	108.7	171.0
1947	233.1	24.3	34.6	58.9	7.0	94.7	160.7
1948	259.5	24.2	36.0	60.2	7.1	82.9	150.3
1949	258.3	25.0	40.4	65.4	8.1	84.3	157.8
1950	286.5	24.9	43.0	67.9	8.5	75.6	152.0
1951	330.8	24.1	41.1	65.2	8.0	65.3	138.6
1952	348.0	24.9	43.9	68.9	8.7	63.6	141.2
1953	366.8	24.8	46.1	70.9	9.4	62.3	142.6
1954	366.8	26.1	50.1	76.3	11.1	62.9	150.3
1955	400.0	26.1	53.3	79.4	11.5	57.5	148.4
1956	421.7	27.2	55.3	82.5	11.7	53.2	147.4
1957	444.0	28.1	56.6	84.7	12.1	50.0	146.3
1958	449.7	29.6	59.9	89.6	13.2	51.4	154.1
1959	487.9	29.4	62.2	91.6	13.4	48.8	153.9
1960	506.5	30.5	65.1	95.5	14.0	46.6	156.1
1961	524.6	31.5	68.0	99.4	14.5	46.4	160.3
1962	565.0	31.4	69.6	101.0	14.4	44.3	159.7
1963	596.7	31.9	73.8	105.7	14.6	42.6	162.9
1964	637.7	31.8	76.6	108.4	14.6	40.9	163.9
1965	691.1	32.1	78.5	110.5	14.5	38.0	163.0
1966	756.0	32.3	77.7	110.0	14.0	35.2	159.2
1967	799.6	33.7	78.6	112.3	14.2	34.9	161.5
1968	873.4	34.0	79.4	113.4	14.1	33.5	161.0
1969	944.0	34.5	81.4	115.9	14.1	30.6	160.6
1970	992.7	35.8	83.1	118.8	14.5	30.3	163.7
1971	1077.6	35.3	84.9	120.2	15.0	30.2	165.4
1972	1185.9	34.8	88.8	123.6	14.9	28.7	167.2
1973	1326.4	34.8	91.4	126.2	14.4	26.3	166.9
1974	1434.2	36.8	93.3	130.1	14.5	25.2	169.7
1975	1549.2	35.4	92.6	128.0	14.4	28.8	171.3
1976	1718.0	34.4	93.5	127.8	13.9	30.0	171.8
1977	1918.3	34.4	95.9	130.3	13.7	29.8	173.9
1978	2163.9	34.1	99.7	133.8	13.5	28.9	176.2
1979	2417.8	34.6	102.7	137.2	13.3	27.4	178.0
1980	2633.1	34.8	104.2	139.0	13.6	28.2	180.8
1981	2937.7	34.7	103.0	137.7	13.3	28.3	179.2
1982	3059.3	35.8	104.2	139.9	14.7	32.4	187.1

TABLE FOUR
ESTIMATED FEDERAL DEBT RELATED TO POPULATION AND PRICES

	OUTSTANDING FEDERAL DEBT			PER CAPITA FEDERAL DEBT(3)			REAL PER CAPITA FEDERAL DEBT(8)		
YEAR	GROSS(2)	NET(5)	PRIVATELY HELD NET(6)	GROSS(2)	NET(5)	PRIVATELY HELD NET(6)	GROSS(2)	NET(5)	PRIVATELY HELD NET(3)
1929	18.7	16.5	16.0	153	135	131	298	263	255
1930	18.6	16.5	15.8	150	133	128	301	267	256
1931	20.4	18.5	17.7	164	149	142	359	326	312
1932	23.2	21.3	19.4	185	170	155	453	415	379
1933	26.8	24.3	21.9	213	193	174	548	497	448
1934	38.1	30.4	28.0	300	240	221	749	598	550
1935	41.8	34.4	32.0	327	269	251	796	655	610
1936	46.2	37.7	35.3	360	293	275	865	707	662
1937	48.9	39.2	36.6	378	303	283	879	705	658
1938	51.8	40.5	37.9	397	311	291	941	736	689
1939	55.7	42.6	40.1	422	323	304	1014	775	730
1940	59.4	44.8	42.6	446	336	320	1061	800	751
1941	73.3	56.3	54.0	544	418	401	1234	948	909
1942	119.2	101.7	95.5	874	746	700	1791	1528	1435
1943	176.1	154.4	142.9	1275	1117	1034	2450	2157	1997
1944	236.6	211.9	193.1	1693	1516	1382	3212	2877	2622
1945	281.1	252.5	228.2	1990	1788	1616	3693	3317	2998
1946	261.9	228.0	206.1	1826	1590	1437	3122	2718	2457
1947	256.8	220.8	199.1	1758	1512	1363	2629	2260	2039
1948	253.6	215.1	192.0	1707	1448	1292	2367	2008	1792
1949	257.7	217.7	197.7	1705	1440	1308	2399	2017	1832
1950	257.6	216.5	196.6	1677	1409	1280	2325	1955	1775
1951	259.7	216.1	193.1	1661	1382	1235	2136	1777	1589
1952	267.8	221.4	196.8	1685	1393	1238	2119	1752	1557
1953	275.6	223.4	200.0	1704	1413	1237	2128	1764	1544
1954	278.8	230.8	204.2	1694	1403	1241	2104	1742	1541
1955	282.1	230.0	204.8	1684	1373	1223	2100	1712	1524
1956	278.9	224.2	199.4	1635	1314	1169	2009	1615	1435
1957	280.6	222.0	198.8	1617	1279	1146	1918	1517	1359
1958	286.8	231.3	204.7	1625	1311	1160	1877	1513	1340
1959	300.1	238.3	214.8	1673	1329	1197	1916	1522	1372
1960	300.5	236.3	212.4	1648	1296	1165	1859	1461	1314
1961	307.4	243.5	217.8	1659	1314	1176	1852	1467	1312
1962	315.8	250.5	222.8	1680	1332	1185	1854	1470	1308
1963	322.2	254.4	223.9	1690	1334	1174	1843	1455	1281
1964	332.5	260.7	227.0	1721	1349	1175	1852	1452	1265
1965	336.7	262.4	225.6	1722	1342	1154	1822	1420	1221
1966	353.6	266.1	227.5	1788	1346	1151	1840	1384	1184
1967	382.0	279.1	237.3	1912	1397	1188	1912	1397	1188
1968	386.4	292.6	240.7	1915	1450	1193	1838	1392	1145
1969	382.0	289.0	233.0	1874	1418	1143	1707	1291	1041
1970	401.6	300.8	239.8	1945	1457	1162	1673	1253	999
1971	435.2	325.7	256.5	2083	1559	1228	1717	1285	1012
1972	461.1	340.8	271.9	2185	1615	1289	1744	1289	1029
1973	480.7	349.1	271.2	2257	1639	1274	1695	1232	957
1974	504.0	360.8	280.1	2345	1679	1303	1589	1137	842
1975	587.6	446.3	358.1	2707	2056	1650	1679	1275	1023
1976	664.8	515.8	418.5	3033	2353	1910	1779	1380	1120
1977	729.2	572.5	469.5	3292	2585	2120	1814	1424	1168
1978	797.7	626.2	515.4	3563	2797	2302	1823	1431	1173
1979	852.2	663.6	546.0	3763	2930	2411	1731	1348	1109
1980	936.7	742.8	621.3	4093	3245	2714	1659	1315	1100
1981	1034.7	830.1	698.9	4478	3592	3025	1644	1319	1110
1982	1201.9	991.4	851.9	5152	4250	3652	1782	1470	1263

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

YEAR	GROSS NATIONAL PRODUCT	PRIVATELY HELD DEBT(6)	RATIO OF DEBT TO GNP	YEAR TO YEAR PRICE CHANGES(7)
1929	103.4	16.0	15.5	.0
1930	90.7	15.8	17.4	-2.5
1931	76.1	17.7	23.3	-8.8
1932	58.3	19.4	33.3	-10.3
1933	55.8	21.9	39.2	-5.1
1934	65.3	28.0	42.9	3.4
1935	72.5	32.0	44.1	2.5
1936	82.7	35.3	42.7	1.0
1937	90.9	36.6	40.3	3.6
1938	85.0	37.9	44.6	-1.9
1939	90.9	40.1	44.1	-1.4
1940	100.0	42.6	42.6	1.0
1941	125.0	54.0	43.2	5.0
1942	158.5	95.5	60.3	10.7
1943	192.1	142.9	74.4	6.1
1944	210.6	193.1	91.7	1.7
1945	212.4	228.2	107.4	2.3
1946	209.8	206.1	98.2	8.5
1947	233.1	199.1	85.4	14.4
1948	259.5	192.0	74.0	7.8
1949	258.3	197.7	76.5	-1.0
1950	286.5	196.6	68.6	1.0
1951	330.8	193.1	58.4	7.9
1952	348.0	196.8	56.6	2.2
1953	366.8	200.0	54.5	.8
1954	366.8	204.2	55.7	.5
1955	400.0	204.8	51.2	-.4
1956	421.7	199.4	47.3	1.5
1957	444.0	198.8	44.8	3.6
1958	449.7	204.7	45.5	2.7
1959	487.9	214.8	44.0	.8
1960	506.5	212.4	41.9	1.6
1961	524.6	217.8	41.5	1.0
1962	565.0	222.8	39.4	1.1
1963	596.7	223.9	37.5	1.2
1964	637.7	227.0	35.6	1.3
1965	691.1	225.6	32.6	1.7
1966	756.0	227.5	30.1	2.9
1967	799.6	237.3	29.7	2.9
1968	873.4	240.7	27.6	4.2
1969	944.0	233.0	24.7	5.4
1970	992.7	239.8	24.2	5.9
1971	1077.6	256.5	23.8	4.3
1972	1185.9	271.9	22.9	3.3
1973	1326.4	271.2	20.4	6.2
1974	1434.2	280.1	19.5	11.0
1975	1549.2	358.1	23.1	9.1
1976	1718.0	418.5	24.4	5.8
1977	1918.3	469.5	24.5	6.5
1978	2163.9	515.4	23.8	7.7
1979	2417.8	546.0	22.6	11.3
1980	2633.1	621.3	23.6	13.5
1981	2937.7	698.9	23.8	10.4
1982	3059.3	851.9	27.8	6.1

TABLE SIX
CHANGES IN PER CAPITA REAL GROSS NATIONAL PRODUCT

YEAR	GNP IN BILLIONS OF 1972 DOLLARS	GNP PER CAPITA CONSTANT 1972 DOLLARS(3)	GNP PER CAPITA, CHANGE FROM YEAR AGO	
			CONSTANT 1972 DOLLARS	PERCENT
1929	315.7	2577	0	0
1930	285.6	2310	-266	-9
1931	263.5	2117	-193	-7
1932	227.1	1813	-303	-13
1933	222.1	1763	-50	-2
1934	239.1	1885	122	7
1935	260.0	2036	151	8
1936	295.5	2300	264	13
1937	310.2	2398	98	4
1938	296.7	2275	-122	-4
1939	319.8	2422	147	6
1940	344.1	2582	160	7
1941	400.4	2973	392	15
1942	461.7	3386	412	14
1943	531.6	3847	462	14
1944	569.1	4072	224	6
1945	560.4	3968	-103	-2
1946	478.3	3336	-631	-15
1947	470.3	3220	-114	-2
1948	489.8	3297	76	2
1949	492.2	3257	-39	0
1950	534.8	3481	225	7
1951	579.4	3707	225	6
1952	600.8	3779	72	2
1953	623.6	3857	78	2
1954	616.1	3743	-112	-2
1955	657.5	3925	182	5
1956	671.6	3937	12	0
1957	683.8	3940	3	0
1958	680.9	3859	-81	-1
1959	721.7	4023	164	4
1960	737.2	4044	21	1
1961	756.6	4084	40	1
1962	800.3	4257	172	4
1963	832.5	4366	110	3
1964	876.4	4536	169	4
1965	929.3	4753	217	5
1966	984.8	4980	228	5
1967	1011.4	5062	81	2
1968	1058.1	5244	182	4
1969	1087.6	5335	91	2
1970	1085.6	5258	-76	0
1971	1122.4	5372	114	2
1972	1185.9	5621	248	5
1973	1254.3	5891	270	5
1974	1246.3	5799	-91	-1
1975	1231.6	5673	-125	-1
1976	1298.2	5923	250	4
1977	1369.7	6184	261	4
1978	1438.6	6426	241	4
1979	1479.4	6533	107	2
1980	1474.0	6440	-92	0
1981	1502.6	6503	63	1
1982	1476.9	6331	-171	-2

FOOTNOTES

(1) Data for years 1929-1945 from the Bureau of Economic Analysis, Commerce Department. Data for years 1946-1982 from the Federal Reserve Board Flow of Funds.

(2) Total Federal securities includes public debt securities and budget agency securities.

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

(4) Real GNP is in constant 1972 dollars.

(5) Borrowing from the public equals gross Federal debt less securities held in Government accounts. (a unified budget concept).

(6) Borrowing from the public less Federal Reserve holdings.

(7) Measured by all item Consumer Price Index, year to year basis.

(8) Real per capita debt expressed in 1967 prices (i.e., Consumer Price Index for all items).

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

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

Senator PACKWOOD. The committee will come to order. This used to be the biannual hearing on the debt ceiling increase. It then became the annual hearing on the debt ceiling increase, and it is now becoming the semiannual and soon, the quarterly hearing on the debt ceiling increase. At each one of these hearings, I indicate that as far as I am concerned, this is nothing more than an acknowledgement of debt that we have undertaken and committed ourselves to. I regard the vote on the debt ceiling as really illusory from the standpoint of controlling spending. If we wanted to control it, the votes we need to make comes significantly earlier than the vote on the debt ceiling.

We have only one witness today and that is the Treasury Department. And if you are ready, Mr. Acting Secretary, I am ready.

STATEMENT OF HON. C. WARREN CARTER, ACTING ASSISTANT SECRETARY OF THE TREASURY FOR DOMESTIC FINANCE, WASHINGTON, D.C.

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

Our immediate need is for legislation before May 31 to increase the debt limit to at least $1,389 billion for the remainder of fiscal year 1983.

The present temporary debt limit of $1,290.2 billion will expire on September 30, 1983, and the debt limit will then revert to the permanent ceiling of $400 billion. Based on the Office of Management and Budget's April estimates of fiscal year 1983 and fiscal year 1984 budget deficits of $210.2 billion and $190.2 billion, respectively, and of other transactions affecting debt subject to limit, the amount of debt subject to limit outstanding on September 30, 1983, and September 30, 1984, will total $1,388 billion and $1,619 billion, respectively, assuming a $20 billion cash balance on those dates. Given this projected debt level, and allowing a $5 billion margin for contingencies, we request that the debt limit be increased to $1,624 billion through September 30, 1984.

We recognize that Congress has not yet completed action on the first budget resolution for fiscal year 1984 and that that resolution may contain a different debt limit figure for fiscal year 1984. We would urge that any budget resolution debt limit figure incorporate our recommended $5 billion margin for contingencies and our assumption that the cash balance at the end of fiscal year 1984 will be $20 billion.

For fiscal year 1983 the budget resolution adopted by the House on March 23, 1983, contains a debt limit figure of $1,389 billion for September 30, 1983, which is $1 billion greater than our current estimate for debt subject to limit on that date. While we believe the additional margin for contingencies should be $5 billion, rather than $1 billion, our current estimates indicate that the $1,389 billion figure will be adequate to meet our financing needs through fiscal year 1983.

As to the timing of congressional action on the debt limit bill, our current estimates indicate that final action on the bill will be needed before May 31, 1983, at which time the current limit of

$1,290.2 billion will be exceeded. On June 1 the debt will reach $1,320 billion.

Our current request for an increase in the debt limit reflects two provisions of the Social Security Amendments of 1983 which the President signed on April 20, 1983. First, that act requires a transfer within 30 days after enactment from the general fund to the social security trust funds of about $23 billion to finance certain military retirement credits. This transfer will be made on May 20. Since these funds will be invested immediately in public debt securities, there will be a corresponding increase in the debt subject to limit on that day. Second, that act requires that tax receipts which would otherwise be credited to the social security trust funds as received during a month be credited to the trust funds on the first day of the month. Since these funds are invested immediately in public debt securities, the transfer on June 1 will account in large part for the increase in the debt to $1,320 billion on that date.

Timely action on the debt ceiling is required to avoid a repetition of past dislocations which have hampered Treasury financing operations. In recent years, delays in action on the debt limit have generated market uncertainty about Treasury financing schedules and on several occasions costly emergency measures have been undertaken, including suspension of savings bonds sales, cancellation of scheduled security auctions and failure to fully invest trust funds. In this regard, following our normal financing schedule, the Department would ordinarily announce on Wednesday, May 18 an auction for May 25 of 2-year notes which would settle on May 31. Without assurance of timely congressional action on the debt limit legislation, this schedule will be placed in jeopardy, and the increased market uncertainty could add significantly to the cost of Treasury financing.

Action on the debt limit bill this month is absolutely essential. Otherwise, if the debt limit is not increased, the President will need to determine which obligations should be paid—social security checks, payroll checks, unemployment checks, defense contracts—or, indeed, whether, for the first time in history, the United States will default on its securities.

Now, I would like to bring to your attention our need for additional authority before the end of this year to issue marketable Treasury bonds.

The maximum interest rate that the Treasury may pay on marketable bonds—securities with maturities in excess of 10 years—has long been limited by law to 4¼ percent. This limit did not become a serious obstacle to Treasury issues of new bonds until the mid-1960's. At that time market rates of interest rose above 4¼ percent and the Treasury was precluded from issuing new bonds. The average length of the privately held marketable debt of the Treasury declined steadily from 5¾ years in mid-1965 to about 2½ years in 1975, because of the heavy reliance by the Treasury on short-term bill financing of the budget deficits during this period.

In 1971, Congress authorized the Treasury to issue up to $10 billion of bonds without regard to the 4¼ percent ceiling. The dollar limit since has been increased from time to time, most recently on September 3, 1982, when the limit was raised by $40 billion—from

$70 billion to $110 billion—to accommodate additional long-term financing.

Since 1975, the Treasury's debt extension policies have moved the average length of the marketable debt from 2 years, 5 months in January 1976, to 3 years, 10 months in March 1983, thus reducing the administrative burden and the market disrupting effects of frequent Treasury operations to refund maturing issues. Yet while the Treasury has significantly improved the maturity structure of the debt in recent years, almost one-half of outstanding marketable debt matures within 1 year. This refunding need must be added to Treasury's new cash borrowing requirement to determine gross Treasury issuance in the market. Because of the short average maturity of outstanding Treasury debt, long bond issuance must remain an integral part of Treasury's debt management policy.

At this point I would like to note that market uncertainty and disruption was created last year by congressional inaction on Treasury's request to repeal the 4¼ percent ceiling on long bonds. Treasury exhausted its authority to issue marketable bonds in February 1982 and was unable to sell bonds until Congress increased the authority by $40 billion in the Tax Equity and Fiscal Responsibility Act, enacted September 3, 1982. The Treasury was forced to cancel four of its regular auctions of bonds as a result of this congressional inaction. Inability to sell these securities created dislocations in the market and raised questions about the Treasury's ability to carry out predictable, prudent debt management policies.

To avoid repetition of the market dislocations created by congressional inaction last year, we request action on long bond authority legislation in this session of Congress. Assuming continuation of our recent pattern of long bond issuance, the existing $110 billion authority will be exhausted early in 1984. An additional increase of $40 billion, from $110 billion to $150 billion, would be sufficient to carry us through 1984.

We continue to believe that the 4¼-percent ceiling should be repealed. This administration abhors interest rate ceilings as ineffective attempts to control prices and incompatible with our commitment to a free market pricing system. We view the interest rate ceiling on marketable bonds as an anachronism which serves only to frustrate the efficient management of the public debt. Removal of the 4¼-percent ceiling on Treasury marketable bonds will help the Treasury meet its financing needs in an efficient, cost-effective manner. Interest on the public debt is estimated to total a record $146 billion in fiscal year 1984. We must make every effort to reduce this staggering cost to the taxpayer. Especially at this time of severe budget stringency, we must not add to our budget costs by mismanaging the public debt.

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

Senator PACKWOOD. Mr. Carter, I have no questions. I would like to see the debt ceiling repealed and let Treasury manage the debt that we jointly create with the President. I don't think Congress is going to do that. The debt limit has become a handy tool, from time to time, for Congress to hang things on in a game of chicken with the President to see whether he will sign the bill with the additional items. One day we are going to hang something very volatile on it, and the President is going to veto it, social security checks will not be paid, and then we will see who will give up first. My hunch would be that it would be Congress.

I look forward to seeing you here often. Congratulations, and I hope you become the actual Secretary.

Mr. CARTER. Thank you very much, sir.

Senator PACKWOOD. I appreciate you coming up.

The hearing is adjourned.

[Whereupon, at 9:41 a.m., the hearing was adjourned.]

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

The Heritage Foundation Backgrounder

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May 18, 1983

TAMING THE NATIONAL DEBT

INTRODUCTION

Congress hates raising the federal debt ceiling. Yet, in the next couple of years, it faces the prospect of voting for debt hikes averaging some $225 billion annually. Congress may have to agree, in fact, to more new debt in the next six years than the total authorized debt in the entire history of the United States. If the past is any guide, these debt ceiling bills will provoke extremely hard fought, controversial, close votes.

To assure approval of ever higher debt, liberals in Congress have employed a very effective tactic. They have made two-thirds of the national debt "temporary." This means that it has to be renewed at least annually. At that time, the new debt increase is often tacked on to the measure. This confronts conservatives and moderates with a painful dilemma. They must either vote for the "temporary" reauthorization with its added new debt, or vote down the entire package, thereby threatening the financial markets with catastrophe. If the temporary debt ceiling is not reauthorized, the Treasury is legally prohibited from issuing any new debt. As a result, the United States might not be able to pay off maturing debt and thus could be declared in default.

This threat of default bludgeons even the most tough-minded conservative into supporting reauthorizations which also raise the debt ceiling. By using the device of temporary debt, liberals hold the financial markets hostage to increases in the debt ceiling, which ultimately permit increases in federal spending.

This is likely to be the tactic this spring or early summer when Congress again considers the enormous increases in the public debt necessary to finance the growth in government spending scheduled for this and future years. Unless something is done to deny to liberals the temporary debt maneuver tactic, conservative opposition to these bills will melt, as usual, before the prospect of the collapse of the financial markets.

Some conservatives feel that the periodic renewal of the temporary debt ceiling is valuable because it at least keeps the issue in front of the public. History proves them wrong. The ritual of "temporarily" reauthorizing the debt has done nothing to keep the debt from soaring. Indeed, periodic renewal simply has assured the automatic accommodation of deficit spending.

Something can be done, however, to stop this and to allow fiscally responsible legislators to brake the seemingly inexorable ascent of the nation's debt. The first step is for Congress to end the fiction that most of the debt is "temporary." It is about as temporary as death and taxes. The entire current debt should be made permanent. Since permanent debt does not have to be reauthorized, liberals would lose the hostage they have used to force conservatives to vote for debt hikes. Votes on the debt ceiling would become clear-cut, visible votes for or against new debt, not a rollover of past debt. And the sums involved would not be so towering as to cripple the government and financial markets were they not approved. Americans thus would be able to see, clearly and unambiguously, which ones of their lawmakers supported ever greater federal spending and which did not. Only then could Americans expect their representatives to tame the national debt.

BACKGROUND

The Exploding National Debt

The federal debt is the total amount of money borrowed by the U.S. government to meet current outlays not covered by receipts and to refinance maturing debt. The federal government issues debt primarily to finance the federal deficit, although in recent years the deficits stemming from off-budget federal agencies have become a significant component of the debt.[1]

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1 See James T. Bennett and Thomas J. DiLorenzo, Underground Government: The Off-Budget Public Sector (Washington, D.C.: The Cato Institute, 1983). Over $17 billion in debt was issued in 1983 to finance off-budget federal entities including the Federal Financing Bank, Rural Electrification Administration, and the Post Office. Borrowing to finance the off-budget deficit is subject to the debt ceiling limit.

The national debt ceiling, however, does not limit total outstanding guaranteed borrowings by such agencies as the Federal Housing Administration ($171.4 billion in 1983), education activities, ($30.6 billion in 1983) and the Veterans Administration ($125.9 billion in 1983.) The national debt ceiling also does not limit outstanding borrowing by government-sponsored enterprises such as the Federal National Mortgage Association ($103.8 billion in 1983), the Farm Credit Administration ($84.6 billion in 1983), and the federal Home Loan Bank System ($117.3 billion in 1983).

The gross federal debt grew from $16.9 billion in 1929 to $1,147 billion at the end of 1982.[2] Between 1974 and 1982, the gross federal debt has increased annually by an average $68 billion. In 1983, the federal government is expected to add a staggering $242 billion to the total. And further, the gross national debt will probably increase almost 80 percent between the beginning of 1983 and the end of 1986, topping $2 trillion.[3]

Increases of this size are far from typical. The national debt actually decreased from 61.6 percent of GNP in 1954 to a postwar low of 25.1 percent of GNP in 1974. Since then, the federal debt has fluctuated between 25 and 31 percent of GNP. In 1982, the federal debt reached 30.6 percent of GNP, the highest level since 1969. With the enormous increases in the pipeline, the Treasury predicts that the debt will reach 41.2 percent of GNP by 1986.[4]

The Debt Ceiling

Congress places statutory limitations on the total amount of federal debt that can be financed by borrowing. The Treasury may legally issue no more debt than authorized by statute. This ceiling may be specified directly by legislation or indirectly through the congressional budget process. The first and second budget resolutions establish ceilings for budget outlays and receipts, and recommend an appropriate national debt ceiling. A favorable House vote on these budget resolutions amounts to a vote for the implicit debt limit. Senate rules, however, require that chamber to vote separately on debt ceiling measures. Either house, however, can change the debt ceiling by ordinary legislation. Both methods have been used since the new procedure went into effect in September 1979.

Congress passed its most recent debt limit bill on September 23, 1982, and the President signed it into law on September 30th. But thanks to congressional failure to curb spending, the new limit of $1,290.2 billion is well under the $1,389 billion of debt needed by the end of fiscal year 1983.

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2 The statutory limit on the national debt does not apply to most agency debt, although such debt is subject to special statutory limits. The Export-Import Bank, Postal Service, Tennessee Valley Authority, Department of Defense, Coast Guard, and participation certificates in loans issued by the Government National Mortgage Association are not subject to the statutory limit, but are included in gross federal debt.

3 Special Analyses Budget of the United States Government, Fiscal Year 1984, Executive Office of the President, Office of Management and Budget, see Special Analysis E, p. E-7.

4 Ibid.

According to Treasury estimates, the debt will exceed the current ceiling by May 31, 1983. The Administration thus is asking Congress to raise the debt ceiling immediately to $1,389 billion or face a major financial crisis.

PERMANENT AND TEMPORARY DEBT

The permanent debt ceiling was set at $400 billion in 1971 and remains fixed at this amount. The permanent debt need not be reauthorized by Congress since it does not expire, but Congress must authorize new "temporary" debt ceilings to cover increments of the national debt above the permanent level. This temporary debt authorization normally expires within a year, requiring regular congressional reauthorization.

The distinction between the temporary and permanent national debt, therefore, is practically meaningless, except for its political implications. Congress continues to raise the temporary debt ceiling without indicating any real intention of paying it off. Congress raised or extended the temporary debt ceiling thirteen times during the 1960s and eighteen times in the 1970s.[5] The permanent debt ceiling, on the other hand, has not been increased since 1971. If Congress fails to reauthorize the temporary debt, however, the total public debt ceiling reverts to the permanent level when the temporary debt limit expires.

Three times in recent years the temporary limit has expired without having been extended; for a few days, the federal debt exceeded the statutory limit. The Treasury then had to suspend auctions of new securities and sales of savings bonds, since the United States is not authorized to incur debt above $400 billion. Debt issued prior to the expiration date, however, remained valid. The rights and liabilities of all debt outstanding was unaffected. In all three cases, Congress moved quickly to increase the debt ceiling to avert a budgetary crisis. Conservatives found themselves forced to put the integrity and stability of the financial markets ahead of their own determination to hold down the size of the debt.

Priority Claims of Bondholders

Holders of Treasury debt have a legally enforceable claim against the Treasury to compel payment of interest and principal on the maturing debt. If a temporary debt ceiling is not reauthorized, however, the Treasury has no right to issue the additional securities whose sale yields the cash to repay holders of maturing bonds. Under those circumstances, even recourse to the courts would not be useful to compel the government to honor its debt

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[5] Ibid., p. E-22.

obligations. In any case, the courts are reluctant to become involved in political confrontations between Congress and the President.

The Politics of Temporary Debt

With deficits now running at about $200 billion annually, the federal government would have to cut expenditures by nearly $4 billion each week if no new debt were authorized. This would mean that available tax revenues would have to be divided among government programs according to priority.

There are no established procedures, however, for allocating tax revenues in the event of an insufficient debt ceiling. There is no federal procedure analogous to corporate bankruptcy laws, in other words, to determine the disposition of government revenues. Certain "essential" services would no doubt continue to be supported, including national defense, the courts and legislatures, and such entitlement programs as social security and health care. Many "nonessential" government services and agencies, on the other hand, would have to be halted until the debt ceiling were lifted or reauthorized. And no politician would relish explaining to his or her constituents why he or she voted for such a sweeping and disorderly closedown of services.

RELEASING THE HOSTAGE

By using the fiction of temporary debt, liberals can force conservatives to accept increases in the national debt ceiling by pointing to the cataclysmic consequences for the financial markets and basic government programs if the request is rejected. If the entire current national debt were made permanent, however, it would not have to be reauthorized each year. Increased federal outlays could not be slipped through Congress camouflaged as "temporary" debt.

All new debt would be seen for what it is. Congressmen could block increases in the debt ceiling and brake the growth in spending without causing a default on the existing, maturing national debt. The amount of the new debt would then be very small compared to the temporary debt now due each year. A vote against new debt, therefore, no longer would amount to a vote for chaos in the financial markets. The Treasury would be prohibited from issuing debt above the permanent debt level, but the existing permanent debt ceiling would ensure sufficient funds to service all maturing debt. If a debt ceiling increase were denied, however, government outlays exceeding available revenues would have to cease. A real constraint would at last be placed on the growth of government.

CONCLUSION

As a matter of honesty in government, temporary debt should be renamed permanent debt. Temporary debt is an illusion that undermines the credibility of Congress and makes it difficult for legislators to control the size of government. If the current debt were made permanent, the Treasury could divorce management of existing debt from the heated political issue of increasing the public debt ceiling.

Congress could then reject attempts to raise the national debt ceiling and yet not risk financial chaos. It is this threat which enables liberals to force debt ceiling hikes through the Congress. If the debt were made permanent, Congress then would be able to debate a proposed increase in the debt ceiling on the merits. Members of Congress could be held accountable for their votes. The public would know who was for--and who against--a bigger federal debt.

Thomas M. Humbert
Walker Fellow in Economics