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DEBT LIMIT INCREASE; SAVINGS AND LOAN COSTS

HEARING

BEFORE THE

SUBCOMMITTEE ON TAXATION AND DEBT MANAGEMENT

OF THE

COMMITTEE ON FINANCE

UNITED STATES SENATE

ONE HUNDRED FIRST CONGRESS

SECOND SESSION

JULY 31, 1990

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DEBT LIMIT INCREASE; SAVINGS AND LOAN COSTS

TUESDAY, JULY 31, 1990

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

The hearing was convened, pursuant to notice, at 10:30 a.m., in room SD-215, Dirksen Senate Office Building, Hon. Tom Daschle (chairman of the subcommittee) presiding.

Also present: Senator Roth.

[The press release announcing the hearing follows:]

[Press Release No. H-45, July 20, 1990]

TAX SUBCOMMITTEE TO HOLD HEARING ON DEBT LIMIT INCREASE; SAVINGS AND LOAN COSTS TO BE MAJOR FOCUS OF DISCUSSION

WASHINGTON, DC—Senator Thomas A. Daschle (D., South Dakota), Chairman, announced Friday, the Subcommittee on Taxation and Debt Management will hold a hearing on legislation to increase the public debt limit.

The hearing is scheduled for *Tuesday, July 31, 1990 at 2 p.m.* in Room SD-215 of the Dirksen Senate Office Building.

The hearing will focus on the need to increase the statutory limit on the public debt from its current level of $3.1227 trillion. The Department of the Treasury has projected that the current limit will be exceeded sometime during August. The Administration's mid-session budget review, released on July 16, projects that the debt will reach $3.1627 trillion by September 30, 1990 and $3.4786 trillion by September 30, 1991.

Daschle said any discussion of a debt limit increase without serious consideration of the escalating cost of the savings and loan crisis would be irresponsible.

"We need to know what this situation will cost our children and grandchildren. It is imperative that we identify the most efficient and appropriate means of funding the thrift cleanup. How we plug this growing drain on government funds will directly impact each and every taxpayer," Daschle said.

STATEMENT OF HON. TOM DASCHLE, A U.S. SENATOR FROM SOUTH DAKOTA, CHAIRMAN OF THE SUBCOMMITTEE

Senator DASCHLE. The hearing will come to order. A number of other Senators have indicated their interest in attending but, as is my hope as Chair of this subcommittee, we will begin as promptly as we can. We appreciate our witnesses' attendance today.

We are here today to discuss the request by the administration to increase the amount of debt the Federal Government is permitted to incur on its own behalf. In recent years, we have seen an enormous increase in the debt limit, so that the Federal Government now has over $3 trillion of outstanding debt.

It is estimated that Americans will pay some $182 billion in net interest payments on that debt in 1990 alone. The administration has now proposed that the debt limit be increased to approximately $390 billion more than what is currently the amount authorized, in order to get us through the end of September 1991.

I find the rapid growth in the national debt deeply troubling, and it is imperative that we understand why. Those who pay the interest on this debt, American taxpayers, certainly have a right to know the reasons for the growth and our expectations for the debt increase in the future. They have a right to know what an increase in the national debt indicates about our ability to control annual budget deficits. They have a right to know how recent increases in the debt compare to past increases; and they have a right to know what the components of our debt are, who holds the debt of the United States, and what factors have contributed to the need for issuing more debt.

The single most important factor contributing to the current need to increase the debt limit is the savings and loan crisis. The American people need to know how and to what extent the financing of that gigantic mess has impacted the debt. We hear reports that more will be needed.

How much more debt will the United States have to incur to finish the work of putting the savings and loan industry back into order? Are there ways in which we can reduce this cost?

The hearing today is designed to give us a better opportunity to discuss these questions. I would like to welcome our witnesses from the Department of Treasury and the congressional Budget Office. I look forward to discussing these and related matters with them as we consider this request for an increase in the public debt limit.

Our first witness is Hon. Robert Glauber, the Under Secretary for Finance, U.S. Department of Treasury. Mr. Glauber, thank you for coming. We will hear your testimony at this time.

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

Mr. GLAUBER. Thank you, Mr. Chairman. My testimony deals both with the debt limit and with the S&L cleanup costs. With your permission, I will ask that my entire testimony be placed in the record, but just read the portion that deals with the debt limit.

Senator DASCHLE. Without objection.

Mr. GLAUBER. Thank you.

[The prepared statement of Mr. Glauber appears in the appendix.]

Mr. GLAUBER. I appreciate the opportunity to appear before you today to advise you of the need for congressional action to increase the debt limit before the scheduled August congressional recess. Treasury's current estimates show that the permanent ceiling of $3,122.7 billion will be sufficient only until mid-August. Without an increase in the debt limit it appears highly unlikely that the Treasury will run out of cash and borrowing authority and default on Government's obligations on August 15.

As you know, the limit usually is raised to a new permanent level sufficient to fund the Government's needs for the coming fiscal year. We estimate that a debt limit of $3,509 billion will be sufficient to last through fiscal year 1991. This figure is based on OMB's mid-session review estimate of the deficit for fiscal year 1991 of $176 billion.

Since the debt, subject to limit, is expected to hit a peak level in early September 1991 when the normalized tax transfer to the Social Security trust funds is invested, this figure includes a $30 billion allowance above the $3,479 billion of debt subject to limit estimated by OMB in the mid-session review.

I should note that the RTC outlays, which are subject to substantial forecast uncertainty, play a large role in the fiscal year 1991 overall outlay figure. Depending on actual RTC experience we could reach the proposed debt limit before or after the end of the fiscal year.

In light of the bi-partisan negotiations to reduce budget deficits it is appropriate at this time to consider increasing the permanent limit in the spirit of the bi-partisan negotiations to reduce Federal budget deficits. It is appropriate at this time to consider increasing the permanent debt limit in an amount that is sufficient to accommodate Treasury's securities issues over the next several years.

In this connection we will be glad to discuss with this committee a longer term debt limit that would reflect the work of the bi-partisan budget summit. If Congress were to leave for its August recess without increasing the debt limit, the Treasury would very likely default on $23 billion of notes maturing on August 15 and be unable to make interest payments totalling an additional $21 billion that same day.

Also, along with defaulting on numerous other obligations the Treasury most likely could not make on August 31, $3 billion of military retirement and salary payments, nor could it make payments totalling over $11 billion to Social Security and supplemental security income recipients--railroad retirees and veterans.

I want to particularly emphasize that August 13 is the last day on which final congressional action could occur in time for the Treasury to auction securities on August 14 and settle them on August 15. If Congress does wait until August 13 to act, Treasury's financing options will be limited and costly.

Treasury would normally announce the terms of the regular mid-August refunding on August 1. Under our usual auction schedule the securities would be auctioned on Tuesday, Wednesday and Thursday—August 7, 8 and 9. This schedule allows time between our announcement and the auctions for orderly distribution of the securities by the investment community.

However, without the assurance of sufficient debt limit room to settle these new securities on August 15 Treasury's August refunding announcement would be conditioned on congressional action to increase the debt limit. Congressional action after August 1, would reduce the normal time for distribution because distribution of these securities could not begin until Treasury could assure investors that the securities could be auctioned and settled.

Final congressional action after August 6, would disrupt the auction schedule itself and introduce an element of uncertainty into the Government securities market that, all other things being equal, would tend to raise the Treasury's cost of financing.

I urge Congress to act in a timely manner to increase the debt limit. Defaulting on Government obligations already incurred, such as the Treasury notes and interest payments that are due on August 15, is very different from halting Government operations when spending authority is allowed to lapse. In the event of a lapse in spending authority, such as when appropriations are delayed, the Government cannot incur new obligations. Once an obligation is incurred, however, it must be paid.

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

That concludes, Mr. Chairman, the portion of my statement that I will read and I would be happy to answer any questions you might have.

Senator DASCHLE. Thank you, Mr. Glauber. Let me ask, if I can, a question to begin with relating to your last comment pertaining to the additional costs incurred by our inability to act prior to August 6. As I understand it you have—you indicate that the cost of financing the additional debt will increase over what it would normally cost if we would fail to act by August 6. I think there is somewhat of a likelihood that that may be the case.

To what degree will we incur additional costs? Can we calculate that? Is there a dollar amount that we could envision this delay costing the Treasury with each additional delay beyond August 6?

Mr. GLAUBER. Well I think it of course is a very reasonable and important question to ask, Mr. Chairman. We find it hard to put a specific dollar price tag on it, but let me explain what would have to happen. Our current schedule, our normal schedule, calls first for announcing the auction of these securities tomorrow on August 1. We then would auction the 3-year, 10-year and 30-year securities on August 7, 8 and 9 of next week to settle all of them on August 15 when we need the money.

If Congress does not act by August 6 we will have to push back those scheduled auctions. It has been our experience, and it is our view, that any disruption in the orderly process of auction and settlement, any impaction of the time between auction and settlement, invariably leads to higher costs. Dealers are forced to carry more in inventory than they normally would. They have to borrow more money; and they have to pass the cost of that borrowing through in terms of the prices at which they bid for these securities.

So while it is very difficult for us to put a dollar price tag on it, we are quite convinced that other things equal, and remaining the same, the cost will go up.

Senator DASCHLE. But I guess I am trying to gauge the seriousness of those costs. The costs will go up. Are we talking a nominal cost or are we—is there a fairly significant cost attached to delay?

Mr. GLAUBER. Well remember we are talking——

Senator DASCHLE. How grave is the situation?

Mr. GLAUBER. We are talking about the auctioning of roughly $30 billion worth of securities, perhaps more. A one basis point, that is a one-hundredth of 1 percent, increase in that would be $3 million in interest per year. So we are talking about substantial amounts of money. A one basis point change would be a relatively small change. It could be considerably larger than that.

So when you are dealing with aggregate amounts as much as we are, just small changes in the interest rate mean very, very big dollar costs to the taxpayer.

Senator DASCHLE. It has been a longstanding practice for the Finance Committee to ask the Treasury to submit a series of tables showing the historical levels of debt subject to limit and the context of GNP net and gross debt and private borrowing. Would you arrange for an updated set of these tables to be submitted for the record?

Mr. GLAUBER. Very certainly, Mr. Chairman.

Senator DASCHLE. Thank you, Mr. Secretary.

[The tables appear in the appendix.]

Senator DASCHLE. I indicated in my opening statement that part of the reason we are here relates to the fact that the crisis in the S&L industry has required the Government to be exposed to a far greater degree of debt than we might have expected a couple of years ago. Could you give us some account within the last year as to the extent to which the S&L situation has caused the debt to be aggravated, to be affected, and has caused us to accelerate our projections about increased debt in the out years?

Mr. GLAUBER. I would be very happy to. As you know the S&L process is now in its almost 1-year anniversary. And I can give you an estimate of the costs, the amounts of money that have been spent or will have been spent by the end of fiscal year 1990 assuming that the RTC meets its projected operating plan for this quarter. It will have spent by the end of this year about $38 billion on loss funds and something on the order of about 60 or a little more billion dollars on working capital.

The $60 billion on working capital, of course, comes directly from the Treasury through the Federal Financing Bank. The funds spent on loss are in part offset by monies raised through REFCORP. There will have been raised by the end of this fiscal year about $18 billion from REFCORP, which would act as an offset to that $38 billion loss. But taken together, it means that perhaps $80 billion has come from the Treasury and goes to the increase of the debt subject to limit.

Senator DASCHLE. You said——

Mr. GLAUBER. Roughly, $80 billion.

Senator DASCHLE. $80 billion. Well, if you take $60 billion and $38 billion, you get more than $80 billion.

Mr. GLAUBER. Indeed.

Senator DASCHLE. That is offset, of course, by some realization of revenue from some of the transactions?

Mr. GLAUBER. That is correct, Mr. Chairman. We will have raised through the REFCORP mechanism about $18 billion. So that would act as an offset to the $38 billion, reducing it to roughly $20 billion—$20 billion, plus roughly $60 billion for working capital, is the $80 billion number I quoted.

Senator DASCHLE. In your statement you project that—and I will quote here—"A representative range of the resources the RTC may need in fiscal year 1991 to cover the losses should be from slightly over $30 billion to slightly over $50 billion. We estimate that working capital needs would be from $20 billion to $40 billion.

Mr. GLAUBER. Right.

Senator DASCHLE. I noticed in the newspaper just today that Mr. Seidman indicated in testimony yesterday—Chairman, Mr. Seidman—that the total amount needed in the next fiscal year could be $100 billion. That is slightly more as I see it than what you projected in your testimony. Slightly—we are—I do not know, we are taking on new definitions here I suppose, because I am not sure one could say a $20 billion difference is slight. But if you take the low end of your estimate, which is $50 billion, and the high end, which is $90 billion, there would be a substantial difference of opinion between your low end and Mr. Seidman's fairly definitive statement about what his cost expectations are for next year.

Could you elaborate a little bit as to your projections as they relate to his comments yesterday?

Mr. GLAUBER. I sat with Mr. Seidman yesterday during that testimony. His number of $100 billion, as he pointed out during the testimony, is the high end of his range, not what he was forecasting, but the upper end of what it might be. He said that on a number of occasions and also said he suspected that the press would quote whatever the high end of the range is as their number for their headline. Indeed, he was invited to write the headline by a member of Congress. And he wrote it and the press followed his lead. They used the high end of his range. So the $100 billion is the upper end.

As you will notice, as you just pointed out, Mr. Chairman, the upper end of our range if you add them together is roughly $90 billion.

Senator DASCHLE. But a year ago, if I am not mistaken, our upper end on the total cost was, I think, two-thirds of what it turned out to be. So I guess you can sympathize with our skepticism about low projections when we see the tremendous complications and the far-reaching pervasiveness of the problem.

Would you not expect it to be closer to the high end than the low end?

Mr. GLAUBER. Well I think first it is best to talk in terms of the overall costs, not any particular yearly cost. Because quite frankly, Mr. Chairman, the amount spent in a year is going to depend on the pace at which the RTC operates.

It is perfectly correct that the Secretary in testimony before the Senate in May indicated that our estimate of the total cost has gone up. In this regard I should point out that there is a difference between the funds spent on losses—that is to make up for the losses in these now insolvent S&L's—and funds that are spent temporarily for what we have called working capital.

Senator DASCHLE. Well I hope you are right. I do not know that we will really ever be able to define that from a budget point of view. It is nice to compartmentalize these debts, and I understand why we are doing it. But I must say, I think in the short term, especially as it relates to this debt limit increase request, that it is going to be impossible for us, really, from a budgetary point of view to differentiate between the two.

Mr. GLAUBER. Mr. Chairman, you are perfectly right as it bears on the debt limit. Money is money. And you are right.

I do think though in the longer term sense there is a major difference. Money spent on working capital to hold these assets in inventory so that we can sell them at the proper pace, not dump them on the market and realize the highest returns for the taxpayer, that money is temporary and it will come back.

You are perfectly correct in suggesting that until it is all over we will not know how much comes back. We can only make estimates of that. Indeed, that is the difficulty and the frustrating part of the entire cleanup. Until it is over, we will not know what the cost is.

Senator DASCHLE. When you made your estimate and the request to take us through the end of the next fiscal year, did you consider the low end or the high end as you made the request for the debt limit increase? Is it $100 billion, or is it $50 billion?

Mr. GLAUBER. The number contained in the OMB mid-session review, which is the number on which our debt limit increase request is based, is about $65 billion, which puts it about in the middle. It was intended, and OMB said in their mid-session review that the scenario they were using was a mid-range scenario, that it could be above that or below it.

Senator DASCHLE. So, to the degree we are off, if it is $100 billion, rather than $65 billion, it is probably safe to assume that we would not be able to reach that target of the end of September 1991?

Mr. GLAUBER. That is absolutely correct. Yesterday I emphasized that a number of times with regard to how much money might be requested to continue the process. We can request a specific amount of money. What we cannot tell you for sure is how long that will last. And in some respects if it lasts for a shorter time there is a benefit. It means that the RTC is moving more quickly and we are getting these losses cut down to size more quickly.

That is not a very satisfying result, but I do think it is in all of our interests that the RTC move forward on this as quickly as possible and that these losses not be permitted to mount any longer than absolutely necessary.

Senator DASCHLE. I think you are right. You know, from a purely theoretical point of view, obviously the faster we resolve many of these matters, the better. But I have to tell you, the bigger that number looks, the more the frustration and the outright anger expressed by taxpayers who were having to pay the bill and who see it as a clear choice between things that they would like to see the Federal Government commit its resources toward and the things that we are having without much of a choice to commit those resources to.

Mr. GLAUBER. Mr. Chairman, I could not agree with you more. And as a taxpayer, I am angry as well. The problem we face is this: We made a commitment to those people who had money deposited in these S&L's in insured accounts that we would make good on those accounts, on that deposit insurance. Once we made that commitment, we really have no choice but to pay for it. That is what we are doing.

How much we are going to have to pay for it really will not be known until we are entirely done. It is, I think, frustrating. I can understand why people are angry. But it is something we now have to do and then make certain that the rules are changed so that this never happens again. We believe in FIRREA we changed those rules under which S&L's operate so that this will not have to be done again. But now we have to make good on the commitment to insure depositors all over the country and that is what we are doing.

Senator DASCHLE. Let me just ask one other question pertaining to the S&L and then I am going to ask Senator Roth for his comments and questions.

As we debated this issue a year ago, one of the major issues was whether or not some or all of these costs ought to be off budget. There was a compromise, a certain part of it was off budget, and that is history. As we look at the future requests for additional dollars, is it your expectation that a request would come before the end of this year, even though, as I understand it, you estimate that no additional funds would be needed before the end of this year; and secondly, will the administration position be what it was last year, that some of this money ought to be off budget?

Mr. GLAUBER. Let me answer the second one first. It is the administration's position that all of these funds will have to be supplied by the Treasury. How that is accounted for in the Gramm-Rudman targets I think is something that is being discussed now in the Budget Summit. But the source of the funds will have to be the Treasury.

We proposed last——

Senator DASCHLE. Excuse me. Just to clarify. So initially the Treasury position is that since they are revenues from the Treasury they are on budget?

Mr. GLAUBER. They currently are on budget. They are scored currently as part of the Gramm-Rudman accounting procedure and that is how they are. There has been some discussion, some comments from CBO from the chairmen of the Budget Committees, about different scoring alternatives under Gramm-Rudman for both funds supplied for working capital and funds supplied for losses.

But as it stands today, they are on budget. That is absolutely correct, Mr. Chairman.

As regards how much will be needed or when it will be needed, what we have said is that we will hit the limitation on working capital obligations at the end of this current quarter. We will at that time, however, still have $12 billion roughly of funds for losses out of the $50 billion that was allocated in FIRREA. That should be expended by the end of this calendar year.

So what we have asked is that Congress act on the combination of working capital obligation and loss funds before they go out at the end of this year. And we have offered a number of alternatives. I did in testimony yesterday before the House offer a number of alternatives and in a letter to Chairman Byrd, Chairman Riegle and Chairman Sasser. The Secretary advanced those alternatives as well.

Senator DASCHLE. I am not sure I completely understand what you just said. We are out of working capital for all intents and purposes already or we will be by the end of this quarter. Is that correct?

Mr. GLAUBER. We will be right up against the limitation. Perhaps, if I may, I will take you on a slight detour through the working capital procedures. There is an obligation limitation which controls the amount of working capital funds that are available. As it is literally written in the law, it would not be binding at the end of this quarter; as it is interpreted by many, it would be binding. What we have said is that we hope Congress will act so that there is not an issue of whether to operate by the letter of the law or not. If Congress does not act on working capital before the end of this quarter, we would have to consider interpreting the law literally, which would mean that the working capital limitation would not be binding at the end of this quarter.

In any case, the amount of funds for losses will almost certainly be exhausted by the end of the calendar year.

Senator DASCHLE. You indicated a couple of minutes ago that it is certainly in our interest to move as rapidly as we can to resolve many of these issues. Are you suggesting then that for purposes of working capital we are going to have to wait until the next calendar year to do anything?

Mr. GLAUBER. What——

Senator DASCHLE. And as a result then delay many of the decisions that might otherwise be made before the end of the year?

Mr. GLAUBER. We would hope that Congress would act on the entire issue of funding, both working capital and losses, before it leaves at the end of this Congress, this session. We do believe that it is very important that the process of resolution not be slowed down or interrupted in any way. And the details of how it might act on that are in the letter to the various Chairmen that I noted.

Senator DASCHLE. Senator Roth?

OPENING STATEMENT OF HON. WILLIAM V. ROTH, JR., A U.S. SENATOR FROM DELAWARE

Senator ROTH. Thank you, Mr. Chairman. I do have an opening statement. The issue of the amount of the Federal debt is of course disturbing in and of itself. But there are additional issues which are equally difficult, two of which are the costs of the savings and loan bailout; and second, the treatment of the Social Security trust fund.

However, the decision to increase the debt limit of the Federal Government is not discretionary. Default on obligations already incurred is not an option, nor is the fulfillment of the Government's deposit guarantee for savings and loans. The debt limit must be increased.

How the payment of these debts is eventually paid is the discretionary option I would like to turn to and discuss briefly. Members of this committee will be faced with deciding whether taxes should be increased, spending should be cut, or some combination of the two should be done in order to bring the escalating costs of the savings and loan bailout and growing deficit back into line.

The third option would be to change the targets of the Gramm-Rudman law so that they now take into account the unforeseen circumstances of the bailout. For example, the target could be changed so that instead of a $100 billion sequester or more the potential cuts could be $40-$50 billion. The remaining debt would be continued to be financed.

Along with that theory, I would ask that a copy of a June 19, 1990 Wall Street Journal article be included in the record in full, outlining this argument. The title of the argument is "That (Non-) Problem, the Budget Deficit." In short, the point of the argument made by economist, Robert Eisner is two-fold. Congress should not raise taxes in order to replace funds lost to the S&L crisis. And two, as long as you keep debt from growing faster than the gross national product, then you should feel that you are successful in a balanced growth approach.

Now this is my concern. The worst thing Congress could do this year is to overreact to the deficit by passing the largest tax increase in history, which is near the ball park figures of $25 billion the first year that we have been discussing. Both the Kennedy and Reagan administration have taught us that to avoid recession and preserve the long expansion Congress should avoid tax increases or even reduce taxes.

Let me offer some recent data provided to me by the reputable brokerage firm of Bear, Stearns & Co. (1) Retail sales have fallen three straight months. Adjusted for inflation, the level of sales has declined by $5 billion or 4 percent since September 1989; (2) housing starts and permits have dropped to their lowest levels since November 1982, from a $1.7 million level in early 1989, starts have dropped to only $1.2 million; (3) employment growth has slowed over the past 18 months, sagging from 3.1 percent in the second half of 1988 to 1.5 percent in the first half of 1990.

Although we still have private sector growth we do not have it at nearly the rate it was previously. Corporate profits over the five quarters have dropped 26.5 percent. Much of this has occurred in the manufacturing sector.

Let me make one last point. One of our witnesses today, the Congressional Budget Office, is on record as having said that the benefits of any budget agreement will not be felt by the average American for more than 10 years. With that kind of payoff it seems to me we should not increase taxes, but instead control our spending so that the private sector can continue to provide the growth in the jobs that this country so desperately needs.

Mr. Glauber, many Americans correctly, I believe, feel that their taxes should not be increased in order to pay for the S&L bailout. Instead the institutions themselves should be responsible some say. An argument was made by Warren Brooks in yesterday's Washington Times that debt from the bailout should be financed by increased debt.

What is the reasonable expectation that such a plan could be done and paid off over a period of time through premium payments by the savings and loans institution themselves?

Mr. GLAUBER. Well it is not a specific plan we have studied. Currently, as you know, Senator Roth, the S&L's pay 23 basis points of premiums as an insurance premium, which is a number somewhat higher than the banks are currently paying. The question would be: How much more could the industry reasonably be expected to pay?

For many S&L's, as you know, profits are relatively marginal. When I answered the Chairman's question about the source of future funding and said it would be the Treasury, it is based on our view that the S&L industry, by in large, has paid about as much at this point as it can reasonably be expected to pay.

One of the reasons for the REFCORP structure of financing last year was to make certain that the S&L's would pay their fair share. We believe they have paid a substantial share. As I say, it is going to be difficult to get a large amount of additional funding from the healthy S&L's. We can, of course, look to try—and we will—to get as much financing for this project as possible in the form of recoveries in criminal cases from those who were involved in S&L fraud.

But from the healthy section of the S&L's it is going to be hard to get substantially large amounts of money, Senator.

Senator ROTH. But I take it from your answer that no study has actually been done on that?

Mr. GLAUBER. We have not conducted a careful study.

Senator ROTH. Do you think that will be done?

Mr. GLAUBER. We can certainly look at it and develop further plans.

Senator ROTH. Well, in the Warren Brooks article in the Washington Times it showed us where the benefits and the detriments from the savings and loans fiasco fall on a state-by-state basis. Clearly California and Texas are beneficiaries under the bailout. And the article argues that benefits were received by depositors who received higher interest rates and mortgage holders who pay low long-term mortgages, not to mention inflated prices for real estate.

Do you believe that the article is correct in its analysis of who benefited from the savings and loans? And if so, do you think there is an argument to be made that the beneficiaries in those States should bare the cost of bailout?

Mr. GLAUBER. I hate to start an answer by telling you it is a complicated question, but I better start there.

To some extent the problems in the S&L industry were caused by really very lax regulations in certain States that permitted a broad range of activities that ended up piling up substantial losses. What is also true is that depositors in these institutions often times were drawn from all over the country. Many of the most flagrant S&L's grew rapidly by attracting brokered deposits; and those brokered deposits flowed in from all over the country.

So the beneficiaries of deposit insurance in those institutions were not simply in those States or in those locales and communities; they were all over the country. So to some extent the benefits of deposit insurance really are Nationwide.

It is also true that the local economies in those States did benefit. So as I say it is complicated and very hard to reach a simple cut and dried answer.

Senator ROTH. But, if I also understand from your answer that it happened in part due to the lax regulations of certain States. Is that correct?

Mr. GLAUBER. There are certain States that led the way in opening up the range of activities in which S&L's could participate. And many of those activities ended up piling up these substantial losses. That is perfectly correct.

Senator ROTH. The budget deficit is no less today than it was in the 1980's. During that time we increased taxes in 1982, 1983, 1984, 1985, 1987, 1988 and 1989 and still the deficit became worse rather than better each time we increased taxes because the Gramm-Rudman law was hanging over our heads. The result is that many of us who took the plunge not to raise taxes are faced, reportedly, with the unpleasant choice of increasing taxes or accepting sequestration.

Don't you think that the result of Gramm-Rudman is really an annual tax increase rather than a reduction of the deficit? Doesn't history show that to be the case?

Mr. GLAUBER. Well it certainly is true that Gramm-Rudman has not worked as well as people had hoped. The point I would make is we simply do not know what it would have been like without Gramm-Rudman.

And, indeed, as you know, Senator, one of the objectives of the Budget Summit is to try and develop budgetary reform processes that will put more teeth into the spending control process.

Senator ROTH. Is there any concern over in your Department that with the economy as weak as it is that some of these proposals may push us along into a recession—which in turn would probably make the deficit larger rather than help the situation?

Mr. GLAUBER. Improperly administered they certainly could do it. And there is no question, as you suggested in your opening statement, that the economy is at a relatively low level of growth.

Senator ROTH. Does it make sense then to increase taxes at this very stage when the private sector is in trouble?

Mr. GLAUBER. I think that the proper balance between revenue increases and spending cuts is one that is obviously subject to a great deal of debate, and is going to be subject to negotiation in the Budget Summit.

Senator ROTH. Well——

Mr. GLAUBER. What I would say, Senator—excuse me.

Senator ROTH. But it may make political sense to try to balance it between the two, but does it really make economic sense at this juncture to try to increase taxes when our economy is slowing down?

Mr. GLAUBER. There certainly is a danger that comes from that. What I would emphasize is that, were that course to be taken, it is very important that monetary policy be brought into line to accommodate that course and to deal with what you are suggesting would be a deflationary restraint on the economy.

We would encourage, obviously—and the Secretary has spoken on this on a number of occasions—that monetary policy be made to fit with it.

Senator ROTH. As I understand it, the general sense seems to be that $50 billion is the maximum effort that should be made. Might it make sense just to limit sequestration to that and let it go?

Mr. GLAUBER. I think that how those negotiations proceed is very complicated. That certainly is one alternative among a wide range of alternatives. I think that the actual details ought best to be left to the negotiators at the Summit and not for me to comment on them.

Senator ROTH. I think that is all I have.

Senator DASCHLE. Thank you, Senator Roth.

We have talked about the debt. Let me just ask about the deficit. What is the projected deficit for fiscal year 1991 as the administration is now projecting?

Mr. GLAUBER. The deficit projection contained in the mid-session review I think is $176 billion, which includes RTC, that is S&L spending, and also some assumptions about deficit reduction.

Senator DASCHLE. $176 billion, and the Gramm-Rudman target was $64 billion; was it not?

Mr. GLAUBER. That is correct.

Senator DASCHLE. So it is $112 billion over the Gramm-Rudman target?

Mr. GLAUBER. As Mr. Darman and others have commented on occasion, we are facing roughly $100 billion or slightly more sequestration.

Senator DASCHLE. So using Senator Roth's suggestion that we simply sequester whatever it takes to reach our Gramm-Rudman target would mean that we would have to cut some $112 billion out of the budget.

Mr. GLAUBER. The sequestration would be something on the order of $100 billion and again as has been said, on the order of 40 percent of discretionary domestic spending.

Senator DASCHLE. Twenty-four percent?

Mr. GLAUBER. Forty percent, I think it is.

Senator DASCHLE. Forty percent of the discretionary spending.

Mr. GLAUBER. Domestic spending.

Senator ROTH. Mr. Chairman, the thing that concerns me, that if you go that direction, which has been proposed, that has some programs that are critically important such as our schools. So that from that standpoint it is not a very attractive option.

Senator DASCHLE. But if you do not sequester, you only have one other option and that is raise revenue. It seems to me. Now that does not mean raise taxes.

Mr. GLAUBER. No.

Senator DASCHLE. But it does mean raise revenue. I do not know that we have any other choice.

Mr. GLAUBER. Mr. Chairman, it is possible to have spending cuts which are not the kind of broad-based, across-the-board spending cuts that are implicit in sequestration. It would be possible to have targeted spending cuts going to some things which are not touched by sequester, such as entitlements.

Senator DASCHLE. That is correct.

Mr. GLAUBER. So I think there are a range of choices.

Senator DASCHLE. Let me clarify something, Mr. Glauber. You said the mid-session review is $176 billion deficit. I have it in front of me a report that says the deficit is $231 billion. How does——

Mr. GLAUBER. But then there is accounting in there for roughly $50 billion of deficit reduction, bringing it down to $176 billion.

If you look at page 15 with me, table 10, the table that is titled, "Mid-Session Review Budget Savings from Base Line," I think you will see what I am talking about.

Senator DASCHLE. Okay.

Mr. GLAUBER. You are perfectly correct. The adjusted beginning number is $231 billion, but then the bottom line number is $176 billion.

Senator DASCHLE. And the $50 billion assumes what? What is that?

Mr. GLAUBER. Well you can see the total deficit reductions proposed is $52.9 billion and you can see the various items that are contained in there.

Senator DASCHLE. But these are all assumptions, right?

Mr. GLAUBER. These were assumptions and implicit proposals in the original budget.

Senator DASCHLE. So if none of these assumptions are enacted by the Congress or in some way provided for, then the real deficit is probably $231 billion?

Mr. GLAUBER. As it says at the top of the table, "The adjusted consolidated baseline deficit, including RTC, is $231 billion."

Senator DASCHLE. Why, in your view, hasn't Gramm-Rudman worked better? Since it was enacted we have seen a $900 billion increase in the size of the debt. This was supposed to be a deficit reduction package and in spite of Gramm-Rudman we have seen an increase of $900 billion in additional debt. What is your analysis as to why that has happened?

Mr. GLAUBER. I guess the first point I would make is, we will never know what it would have been like if we hadn't had it. It could have been worse. There is no question that Gramm-Rudman has been shown to have several loopholes in it and indeed it is the hope that some of those can be fixed in the budget summit.

The simple answer I think though is that it is very difficult for all of us to constrain our spending. It is difficult for us to do it at the Federal Government level; it is difficult for us to do it privately. This is not an easy thing to do. I think the Gramm-Rudman process has helped. It clearly has not worked perfectly. The hope is that better mechanisms can be developed at the summit that would work better.

It is something that all of us have to be committed to. These kinds of deficits are simply not in the interest of the country. I know you feel that way. Surely the administration does as well. When we have to go constantly to the market and raise more money it has to drive interest rates up higher than they otherwise would be and that just is not good. Teamed with a low savings rate in this country, it just is not in our national interest to have this much public dissaving through a large and continuing deficit.

Senator DASCHLE. The Joint Tax Committee presented a—I believe it was Joint Tax and for the record I want to be sure that I am right in that. I do not have it in front of me. But it indicated that the tax cuts incurred through the 1980's have resulted in a net loss in revenue to the Treasury of $1.1 trillion.

Do you share that assessment of the impact of the tax cuts in lost revenue to the Treasury?

Mr. GLAUBER. I would like to supply that number to you for the record, because it is not a number that I carry around in the top of my head.

Senator DASCHLE. Is that a ball park figure?

Mr. GLAUBER. It has been a large number. As I say, I would like to supply the exact Treasury analysis for you for the record.

[The information appears in the appendix.]

Senator DASCHLE. You indicated before the Ways and Means Committee on July 11—and I do not know if it was in answer to a question or if it was a result of comments you made in your testimony—that a ceiling of $4.053 trillion would be the anticipated debt ceiling required to provide necessary spending through fiscal year 1993. Is that the figure you used?

Mr. GLAUBER. I believe it was. I do not have it in front of me, but it was taken again from the mid-session review of OMB.

Senator DASCHLE. Was that in response to a question or was that a request for committee consideration?

Mr. GLAUBER. The committee had asked the question of what would be reasonable targets for a longer term permanent debt limit increase. And as I said in my own statement here today before you, the administration would be perfectly interested in working with the committee on numbers that represented a longer term permanent debt limit increase.

Senator DASCHLE. Well I guess what startled me was that represents about $1 trillion increase over the debt ceiling we have right now, in over just a mere 3-year period of time. That must make some assumptions with regard to savings and loans or something that was not represented in the 1980's when we saw a record accumulation of debt.

What assumptions were you making to reach that $4 trillion target?

Mr. GLAUBER. A major assumption is the savings and loan process and the OMB mid-session review contains a scenario for S&L costs, which is about a mid-level scenario. If you recall, the Secretary testifying before the Senate Banking Committee said that we estimate in present value—today's—costs, the cost of the RTC process would be somewhere between $89–$130 billion.

The number that is in the OMB mid-session review is consistent with a number in the middle of that, around $110–$115 billion, in present value terms.

Senator DASCHLE. $180 billion?

Mr. GLAUBER. $110–$115 billion for the RTC.

Senator DASCHLE. I'm sorry, $110 billion.

Mr. GLAUBER. Again in——

Senator DASCHLE. That is over what period of time?

Mr. GLAUBER. Over the life of the RTC's job, but measured in today's costs, up front costs.

Senator DASCHLE. Well if measured in up front costs, certainly in out year costs 3-year period of time, you would not realize that significant an increase in cost to the Treasury. Let me see if I understand what you just said.

The trillion dollar expectation of increased debt over a 3-year period of time would be discounted by $115 billion at the outset because of the savings and loan——

Mr. GLAUBER. It would be somewhat larger than that, because if you translate this sort of up front equivalent into stretched out budgetary numbers over time——

Senator DASCHLE. For 3 years?

Mr. GLAUBER. Yes, it would be somewhat more.

Furthermore, that number would be inflated by the amount we spent on this working capital, the return of which we would not get until further into the future.

Senator DASCHLE. Given your assessment of the trillion dollar expectation of increased debt over that 3-year period of time, to what degree can that increase be attributed to the S&L cost?

Mr. GLAUBER. I am at a loss to give you an answer. But I imagine that something on the order of $200 billion would be the cost for short periods of time. Some of that money would come back to the Treasury in later years as these assets were sold.

Senator DASCHLE. Only $200 billion in the next 3 years? Mr. Seidman has said the high level is $100 billion just for next year.

Mr. GLAUBER. Mr. Chairman, the other, of course, major element in all these numbers is Social Security investments. Just to give you an example, in the number that I presented to you just a moment ago for this year, an increase of, as you said, roughly $390 billion, about $170 billion of that is debt limit capacity needed to accommodate the investment of the Social Security trust fund and other trust funds. And there would be an equivalent amount in those longer term 3-year numbers.

Senator DASCHLE. I am still puzzled, frankly, a little bit by the $200 billion estimate. I am hopeful, but frankly I would be somewhat surprised if all that we were to incur in additional debt as a result of the savings and loan crisis is $200 billion over the next 3 years.

Are you taking into account the assessment of whatever we recoup through the sale of some of the assets for working capital purposes?

Mr. GLAUBER. Some of it is in that. And what I wanted to point out to you is, some of those sales would not occur until later than this 2- or 3-year period we are talking about; and some of the recouping of those sales would not occur until much later.

Senator DASCHLE. How does——

Mr. GLAUBER. I would be more than happy to provide for you a break down——

Senator DASCHLE. Would you do that?

Mr. GLAUBER [continuing]. Of those larger numbers for 2- and 3-year debt limit increases.

Senator DASCHLE. I think it would be helpful if you could.

Mr. GLAUBER. I would be more than happy to.

Senator DASCHLE. Frankly, anytime, and I would guess that this is the first time that we project a trillion dollars of new debt over the next 3 years.

I think it is extremely important that we gain some assessment as to how those costs were calculated and to what extent savings and loans have something to do with the costs to be incurred.

Mr. GLAUBER. Of course they have a great deal to do and I will be more than happy to break it out for you and give you the detail.

[The information appears in the appendix.]

Senator DASCHLE. Let me ask finally if you could elaborate a little bit as to the extent to which foreign debt—I should say foreign ownership of debt—is a factor here. In 1988, as I understand it, the foreign-held Federal debt was about 16½ percent of the total. What do you project it will be in the next couple of years?

Mr. GLAUBER. We project that it will be this year roughly on the order of 13 or 14 percent of the total.

Senator DASCHLE. Down from 1988?

Mr. GLAUBER. Yes. It will be about roughly $400 billion, which is about 13 or so percent. And our projections, I think run right in line with that in the near future.

Senator DASCHLE. Thirteen to 14 percent?

Mr. GLAUBER. Yes.

Senator DASCHLE. To what do you attribute the lower percentage?

Mr. GLAUBER. It I think depends in part on changes in exchange rates and obviously differential interest rates in the U.S. and other countries. It has not changed dramatically in percentage terms over the years.

Mr. Chairman, if I might, you asked me a question earlier and I gave you a partial answer. I would just like to clarify it for the record.

Senator DASCHLE. Sure.

Mr. GLAUBER. You asked the added cost of our slipping back the date of the debt limit increase and the effect it might have on disrupting our issuance.

Senator DASCHLE. Yes.

Mr. GLAUBER. And I told you a one basis point change on the $30 billion roughly that we would seek to raise would be $3 million. Of course, that is $3 million a year over 30 years, if that was the length of the security offering, that would be $90 million for one basis point change.

So small changes in interest rates have really very, very large effects on the cost of the taxpayer.

Senator DASCHLE. Thank you for that clarification.

Senator Roth?

Senator ROTH. Yes. I want to go back to a couple of questions I asked you earlier because your answer disturbed me. I am going first of all to cutting taxes. In cutting taxes in 1981 you have to look at the economy before and after and I do not know of anybody that wants to go back to the economy of 1979, 1980 where you had double digit inflation, high unemployment, extremely high interest rates.

So that I do not think it is an accurate thing to assume that the economy would have grown if you did not have the tax cut. To those who object to those tax cuts, I would urge them to propose to eliminate them.

We are now taxing at a rate of 19 percent of gross national product. That is as high—that is the average in the post-World War II period. To me that would be a very serious critical change to urge higher taxes at this stage.

A second comment I want to make is on spending cuts. I do not think it is a question of necessarily cutting entitlements. That is one possibility. But I would just like to point out what this Congress has been doing during this current year. In the supplemental we increased discretionary spending by $2 billion. I understand the budget resolution that the Appropriations Committee is acting on has raised discretionary spending $5 billion. We passed a housing bill that authorizes an additional $12 billion; and AIDS bill, $1.2 billion; a defense bill that will increase spending $2.2–$4 billion a year; a program to pay volunteers $200 million in 2 years.

So the thing that concerns me, we talk about reducing deficit and yet if you look at the record of Congress at this time it is to lay the ground work for increased spending. And the lessons of 1982, 1983, 1984 or 1985 is that even though we raised taxes we increased the deficit and we increased the deficit because we increased spending. That is exactly what we are doing again I fear.

Mr. GLAUBER. I certainly—you said at the beginning there were some things that disturbed you in what I said. I do not want in any sense to disagree with what has been the thrust of what you have said. If you look over the last 10 years at the basis for the deficit, it has not been a failure of revenues; it has been a rapid increase in spending.

I think you are perfectly correct.

Senator DASCHLE. Mr. Glauber, we have a vote on and we will not have a lot of time to debate that point. But let me just say I think it is understood by economists that as a result of the tax cuts in the 1980's there was a fairly dramatic loss of calculated revenue. And so for anyone to say, and certainly one with your credibility, that that had nothing to do with the deficit would not be correct; and I do not think you intended to say that.

I think your first answer was right. And although we cannot calculate it precisely, we do know there was a substantial loss in revenue.

Senator ROTH. If the Chairman—and we are not going to resolve that. But all I can say is that the percentage of taxes has to apply against the gross national product. And if your GNP was declining as it was in 1980, 1981, you are not going to get more income by raising taxes.

What we need now in my humble opinion is to create an environment for growth. I greatly fear that the old-fashioned thinking is going to take us the other direction.

Senator DASCHLE. We need to agree to disagree here. But I think clearly if you look at the taxes in 1980's and I think for the record it needs to be pointed out that the biggest increase we have seen in taxes at the Federal level is in Social Security taxes. And that has nothing to do with the revenue generated for other purposes in the Federal Government.

Let me just ask one last question before I excuse you, Secretary Glauber. I asked a question relating to foreign ownership of Federal debt. What is the percentage of privately-held U.S. debt by foreigners, currently and in the future?

Mr. GLAUBER. Privately held as opposed to total debt?

Senator DASCHLE. That is right.

Mr. GLAUBER. It is on the order of 23 percent, 23½ percent.

Senator DASCHLE. Twenty-three percent this year?

Mr. GLAUBER. Yes.

Senator DASCHLE. And do you expect that to increase in the future?

Mr. GLAUBER. The number I gave you was for fiscal year 1989 of 23½ percent.

Senator DASCHLE. Fiscal year 1989.

Mr. GLAUBER. That number has been up and down. It was higher in the mid-1970's and late-1970's. It was as high as 27 percent. It fell into the high teens and it is now in the low twenties. It has moved around.

Senator DASCHLE. And you expect it to stay about that level for the foreseeable future?

Mr. GLAUBER. We have made no precise projections of it, Mr. Chairman.

Senator DASCHLE. Well we have kept you long enough. And as I said, there is a vote. Let me thank you for your testimony, for your answers to the questions and we appreciate it very much.

Let me also welcome your family. It is not everyday that we have the opportunity as public people to be with our families. I am delighted you saw fit to bring them here this morning.

Mr. GLAUBER. Thank you very much.

Senator DASCHLE. The hearing will stand in recess until I return from the vote.

[Whereupon, the hearing recessed at 11:33 a.m. and resumed at 11:52 a.m.]

Senator DASCHLE. The hearing will come back to order. I want to apologize for my belatedness in returning.

Our second witness is Mr. James Blum, the Assistant Director for the Budget Analysis Division of the congressional Budget Office. Mr. Blum, we thank you for coming. My personal apologies to you. We invite you to proceed with your testimony as you see fit.

STATEMENT OF JAMES L. BLUM, ASSISTANT DIRECTOR, BUDGET ANALYSIS DIVISION, CONGRESSIONAL BUDGET OFFICE

Mr. BLUM. Thank you, Mr. Chairman. I am pleased to appear before the subcommittee this morning to discuss the Federal debt limit. With your permission and in the interest of time, I will summarize my prepared statement and ask that it be included in the record.

Senator DASCHLE. Without objection.

[The prepared statement of Mr. Blum appears in the appendix.]

Mr. BLUM. The statement covers three topics. First, the budget and economic outlook as seen by CBO and presented in our recent update report. Secondly, the implications of the CBO projections for the debt ceiling. And thirdly, the impact of the spending required for resolving the savings and loan problem.

Turning first to the budget and economic outlook, table 1 on page 3 of my prepared statement provides a summary of CBO's most recent baseline budget projections and underlying economic assumptions. For 1990, CBO projects a deficit of $195 billion. But a more recent projection by the administration in the OMB mid-session review puts the 1990 deficit about $24 billion higher at $218.5 billion.

The difference in the two projections results largely from different estimates of spending by the Resolution Trust Corporation. This difference illustrates two important factors in setting a statutory debt limit. First, even at this late stage in the current fiscal year, there is still a great amount of uncertainty over the size of the deficit; and secondly, the impact of the savings and loan crisis on Federal borrowing needs is indeed quite large.

The second point is also demonstrated by our baseline projections for 1991. Assuming that the RTC is provided with the additional spending authority which Secretary Glauber spoke about this morning, CBO's baseline deficit projection for 1991 is $232 billion. The OMB comparable number is almost the same at $231 billion, as was pointed out during Secretary Glauber's testimony.

These high baseline deficit projections—this is before any deficit reduction takes place—for 1991 include very substantial spending by the RTC. Net outlays by the RTC under CBO's projection are $70 billion, and $63 billion under OMB's latest estimates. But the RTC must first be given additional resources, as we heard this morning. It now appears that the RTC will exhaust its funds early in fiscal year 1991. If they were allowed to run out of money, then the baseline deficit would fall in our projections to about $164 billion in 1991. But in that event, almost 700 insolvent thrifts would be left unresolved and the Government's eventual costs would rise even higher.

The CBO baseline budget projections imply very large increases in debt subject to statutory limit in the next few years. The current limit of $3,122.7 billion will be reached in a few weeks.

Table 2 on page 7 of my prepared statement provides CBO projections of Federal debt under current policies that includes additional spending by the RTC, and also the debt under a $500 billion deficit reduction package that could be adopted by the summit negotiators, starting with a $50 billion deficit reduction in 1991.

Assuming a $50 billion deficit reduction, and $68 billion in additional spending by RTC beyond currently authorized amounts, debt subject to limit would rise to $3,446 billion in CBO's projections by the end of 1991, a $323 billion increase above the current limit.

The administration's estimate is even higher, largely because they are projecting a higher 1990 deficit than CBO. Since we made our projections in June, Mr. Chairman, RTC spending and Treasury borrowing have outstripped our estimates. So the administration's projections may, in fact, prove to be more accurate.

Table 2 also illustrates the impact of the Government trust funds on the debt limit. Debt subject to limit applies not just to Treasury borrowing from the public, but also to the holdings of Federal trust funds. In fiscal year 1991, trust fund investments in Federal securities are expected to grow by about $135 billion, with Social Security alone accounting for more than half of the increase. Even with a balanced budget, debt subject to limit would continue to grow because of trust fund investments.

Turning to the savings and loan problem, estimates of deficits and borrowing needs have been made more uncertain than usual because of the huge and volatile spending to resolve the savings and loan crisis. No one can say for sure how fast the RTC will resolve insolvent thrift institutions or what the ultimate costs will be.

CBO estimates that through 1995 the RTC will spend almost $100 billion more to cover losses than the $50 billion provided last year by the Congress. It will spend even more initially because of the need to pay off insured liabilities when a thrift is liquidated or merged with another financial institution. Assets acquired in this process can later be sold, which will result in receipts or negative outlays. But this could take 8 years or more to realize. This is the reference to working capital-type spending by the RTC. In the meanwhile, the RTC spending must be financed by more Treasury borrowing.

Table 3 on page 11 of my prepared statement provides CBO projections for RTC spending, assuming that additional spending authority is provided by the Congress in the next few months. The table illustrates that the spending will be quite large during 1991 and 1992, but then should diminish sharply as assets acquired in the resolution process are sold. Between 1991 and 1994, we are projecting a swing of $100 billion in the net budget impact of RTC spending. So that demonstrates vividly the volatility of the RTC spending and its impact on the budget.

While RTC spending is having a major impact on Federal spending and borrowing, it is not affecting the economy in the same way as other Government spending. Unlike a benefit check, a salary payment, or purchases of goods and services from the private sector, RTC payments do not represent current income to their recipients. Depositors do not become wealthier when their savings and loan institutions close or are merged by the Government. They are exactly as well off as before, undergoing only minor change in their banking habits.

Private saving and consumption behavior is unaffected by the large year-to-year fluctuations depicted in the CBO baseline. Similarly, RTC spending and the additional Federal borrowing needed to finance that spending should have little effect on interest rates. Nearly all the money that the Government raises is directly recycled in the financial markets as recipients deposit the funds in new accounts or invest them in other assets. The Government's borrowing does not reduce the funds available to other borrowers.

Of course, over a broader time span, deposit insurance losses in the thrift industry have had definite implications for the economy and for the distribution of resources. The availability of deposit insurance helped to spur certain types of spending that turned out to be wasteful. Borrowers and their suppliers benefited. The wealth of depositors was protected from loss even as many earned unsustainable rates of return. Moreover, thrift managers and owners were subsidized. Thus, the thrift crisis has reduced the nation's capital stock as bad loans and fraud diverted the savings of depositors from productive uses. While the high-flying institutions that now require resolution were geographically clustered, all regions of the country shared in those impacts, particularly as nationwide capital markets imply that both deposit-taking and lending effectively are spread throughout the nation.

In conclusion, Mr. Chairman, there is a clear need to enact a new statutory debt limit before the August recess. There is also a need to provide more resources to the Resolution Trust Corporation so that it can continue its work. Any delays will only boost the cost of resolving the savings and loan problem.

Finally, there is a need to reduce the budget deficit in 1991 and in later years. Although the payoff from deficit reduction is not immediate and dramatic, it should result in longer run growth in our capital stock and our standard of living.

That completes my summary, Mr. Chairman. I would be happy to answer any questions you may have.

Senator DASCHLE. Thank you, Mr. Blum.

Let me go immediately to a question pertaining to something you just said a minute ago relating to behavior, that is, that behavior would not be affected by whatever resources are invested in the necessary bailout of the savings and loan industry. I would think that, as it relates to working capital and the sale of assets, the acceleration of the sale of assets as facilitated by the provision of working capital would affect behavior.

Mr. BLUM. I think what I am referring to is simply an exchange of assets. I do not think it would affect consumption or savings behavior which is what the economists would worry about as affecting the growth of the economy. We are engaged in a series of asset transactions.

The Federal Government is simply liquidating liabilities that it has already incurred. The depositors have not felt any loss. Their deposits are whole. There is no reason to believe that the depositors will change their behavior in terms of how they save or consume.

Senator DASCHLE. I can see where the depositors would not change their behavior. But it would seem to me that an organization holding some of these assets, given the working capital they have now been provided, would be more likely to dispose of the assets, thereby affecting their behavior. Maybe there isn't enough of a macroeconomic affect from the sale of these assets to legitimately recognize that as a change in behavior.

What am I missing?

Mr. BLUM. I think the acquirers of the assets that fall into the Government's hand through this resolution process would be making investments anyway. I mean, they are acquiring these particular assets as opposed to other potential assets, so that the amount of asset acquisition should not be materially different.

Senator DASCHLE. If that were the case, in other words, from an economic point of view certainly it would mean a big difference to the people holding the assets whether or not the Government were there to provide assistance in the form of working capital.

Mr. BLUM. Oh, no question about that.

Senator DASCHLE. And if that were the case, it seems to me that that would make some difference to them in determining what they did with those assets. I mean that——

Mr. BLUM. Well I think you are certainly correct, Mr. Chairman, that the quicker the process proceeds the lower the ultimate cost to the Government and to the taxpayer will be. If these assets are not taken back over by the private sector and put into use, they can depreciate in value even more. So the quicker the process proceeds the better off we will all be.

Senator DASCHLE. I guess my point is, and it is really a tangential issue, that, when you said nothing we do here affects behavior, it struck me that, given what limited knowledge I have relating to the effect working capital is supposed to have on the industry, it would affect behavior at least from the point of view of those holding the assets and what decisions they are going to have to make as a result of Government intervention.

If there were no affect on behavior, my hunch is that we would not be doing this.

Mr. BLUM. You are quite correct, Mr. Chairman. I was looking at the economy as a whole.

Senator DASCHLE. Right.

Mr. BLUM. Clearly, on a regional basis, or for individuals, there are some changes in behavior. I guess what I am saying is that overall these tend to wash out.

Senator DASCHLE. That is interesting. I mean, given the tremendous consequences economically that this is having, to say that the relationship of working capital to the sale of assets is ultimately to the disposition of those assets is negligible from an economic point of view is a very interesting point.

Mr. BLUM. I recognize that that seems surprising.

Senator DASCHLE. As you said, the deficit is expected to reach $231 billion for this fiscal year.

Mr. BLUM. For 1991. That's a baseline projection. According to the administration, $231 billion; according to CBO, essentially the same number, $232 billion. That is a baseline projection, assuming no deficit reduction but assuming that the RTC is given sufficient additional resources to continue on with its work.

Senator DASCHLE. That was my question. What is the degree to which an assumption that additional resources will be provided is calculated into that figure?

Mr. BLUM. It is calculated fully into both the administration's figure and the CBO figure.

Senator DASCHLE. And what figure is being utilized?

Mr. BLUM. For the CBO figure we have additional spending and interest costs of $68 billion over and above those we would project if the RTC was not given new spending authority.

Senator DASCHLE. So you accept also the middle range estimate? Somewhere between $40–$100 billion; you pick $68 billion.

Mr. BLUM. Actually our numbers, as it turns out, are somewhat higher than the middle of the range in the administration's numbers. I think we are a little closer to the numbers that Mr. Seidman mentioned yesterday during the hearing.

Senator DASCHLE. Mr. Seidman mentioned $100 billion.

Mr. BLUM. Well, that was the upper end. I think we have, for example, built into our baseline for 1991 a little over $90 billion in spending by the RTC, which breaks out to roughly $40 billion for the net losses and about $50 billion for working capital.

Senator DASCHLE. Is it proper then to subtract whatever amount you realize in the sale of assets from the $90 billion to realize the actual $68 billion that you projected here? Is that correct?

Mr. BLUM. Yes, that is correct. You would subtract two things. First of all, about $12 billion in final borrowing by the Resolution Funding Corporation (REFCORP), which is the off-budget entity created last year by the FIRREA, and second, whatever proceeds are gathered in by the selling of assets.

Senator DASCHLE. Well, if my calculation is correct, if you subtract $68 billion from $231 billion, you get $163 billion, which is the deficit to be projected outside of the additional estimated savings and loan cost. Is that——

Mr. BLUM. That is approximately correct. As you see in table 1 of my prepared statement, due to rounding the figure turns out to be $164 billion, in the third line of that table under 1991. Then we would add the $68 billion for additional RTC spending to get to our $232 billion figure.

Senator DASCHLE. To what do we attribute the—if it is only $68 billion—and I think you have made a pretty fair explanation as to why the cost is not $90 billion—to what else can we contribute the additional size of the deficit in the next fiscal year beyond the savings and loan costs that you have just described? What else in the budget is growing at rates that have caused this budget to balloon to the degree it has?

Mr. BLUM. Well clearly the RTC spending is the major factor——

Senator DASCHLE. That is $68 billion.

Mr. BLUM [continuing]. In terms of ballooning it over 1990. If it were not for that then we would expect the 1991 baseline deficit to fall from 1990. But——

Senator DASCHLE. How can that be? I thought the 1990 deficit was about $100 billion.

Mr. BLUM. No, in 1990 we are projecting $195 billion; the administration is closer to $220 billion. And I suspect, when all of the results are in in October, that for 1990 the deficit will be closer to that $220 billion level.

Senator DASCHLE. But the deficit target was $100 billion for this year.

Mr. BLUM. That is exactly right.

Senator DASCHLE. And, the last time we——

Mr. BLUM. So what happened? Why did we get to——

Senator DASCHLE. That is what I am asking. And all you have given me is a $68 billion explanation. Where is the rest?

Mr. BLUM. You're asking how come we did not get to $100 billion, which was where we were going; and why are we going to be over $200 billion?

Senator DASCHLE. You asked the question more effectively than I did. That is what I want to know.

Mr. BLUM. The answer turns out to be, not surprisingly, that a large part of it is the higher RTC spending.

Senator DASCHLE. Over and above the $68 billion?

Mr. BLUM. No, we are in 1990 now.

Senator DASCHLE. Right.

Mr. BLUM. We are in 1990 and we are going to go from $100 billion, which was the Gramm-Rudman-Hollings deficit target.

Senator DASCHLE. Which we projected when we passed the budget resolution last year That was the expectation.

Mr. BLUM. That was the expectation.

Senator DASCHLE. Okay, we projected it would be $100 billion.

Mr. BLUM. Right.

Senator DASCHLE. So, let's assume we started with $100 billion and now you have given me a good reason why it is at least $68 billion more than $100 billion.

Mr. BLUM. Well there was——

Senator DASCHLE. Where is the rest of the explanation?

Mr. BLUM. Well, to go from $100 billion, the basic elements would be as follows: RTC spending was not contemplated essentially in that $100 billion lower number. It essentially was not provided for, or taken account of, in the President's budget a year ago, nor was it really fully reflected in the budget resolution that the Congress adopted for 1990. We are just talking about the current fiscal year.

Senator DASCHLE. I understand the off budget part of that calculation. But there was part of it that was on budget, which I assume was calculated in the $100 billion. Is that not correct?

Mr. BLUM. Not completely. Not completely in the budget resolution. So when we take into account all of the spending that the RTC now is doing in the current fiscal year, almost all of that spending is the reason why the deficit in the current year is going to be much higher. That could be on the order of $55 or $60 billion, it would appear.

Senator DASCHLE. Over and above the $68 billion?

Mr. BLUM. No, over and above the $100 billion. $68 billion is something that refers only to 1991. We are talking only about what is happening in the current year, in 1990.

Senator DASCHLE. What I am trying to do is to focus on a year. And 1990 is obviously the base year.

Mr. BLUM. Right.

Senator DASCHLE. In 1990 our target was $100 billion.

Mr. BLUM. $100 billion, but we are likely to——

Senator DASCHLE. What we are saying now is that the projection for 1991 is $231 billion.

Mr. BLUM. But I am saying that 1990 is likely to come closer to $220 billion.

Senator DASCHLE. Okay. Let's take $220 billion then.

Mr. BLUM. All right. So we are going from $100 billion to $220 billion.

Senator DASCHLE. Yes.

Mr. BLUM. Just for the current year.

Senator DASCHLE. Right.

Mr. BLUM. I have to get up before we do that.

Senator DASCHLE. Let's go to $220 billion.

Mr. BLUM. All right. I would say that roughly $55-$60 billion can be attributed to the RTC spending. Another factor is that the economic assumptions that were used by the administration and by the Congress last year proved to be too optimistic in terms of revenues that would be coming in, as well as of inflation and interest costs going out.

Senator DASCHLE. Did the Congress differ from the CBO in those economic projections?

Mr. BLUM. Yes. The Congress adopted the administration's economic assumptions for purposes of its budget resolution.

Senator DASCHLE. I recall that, too.

Mr. BLUM. Right.

Senator DASCHLE. Okay.

Mr. BLUM. So that would add a considerable amount. On the revenue side alone it would appear to add on the order of $30 billion—$30-$35 billion. So I am up to $90-$95 billion to explain $120 billion.

The rest is spending, obviously. A large chunk of that consists of interest on the public debt, because of higher interest rates and also because of the higher amounts that have to be borrowed. And other spending turned out to be somewhat higher, including defense outlays which are marginally higher than estimated or contemplated in that budget plan.

Spending by the Federal Deposit Insurance Corporation through its bank insurance fund is also higher. We have had a lot more spending for insolvent banks than was contemplated a year ago. And there would be other minor increases in outlays.

So that gets us to——

Senator DASCHLE. That gets us to $220 billion.

Mr. BLUM. Sort of where we are right now.

Senator DASCHLE. So it is just a mere bump of $11 billion from 1990 to 1991; is that what you are saying?

Mr. BLUM. That is right.

Senator DASCHLE. Were you here when I asked Secretary Glauber for his explanation as to the reasons for the administration's $1 trillion estimate over the next 3 fiscal years of necessary increases in the debt limit? He indicated that it was his expectation—and I hope I am quoting him correcting, or at least paraphrasing him correctly—that, of the trillion dollars of anticipated debt to be accumulated over the next 3 years, $200 billion of that would be related to RTC.

I responded that I thought that was a very conservative estimate given the $100 billion estimate that Mr. Seidman mentioned yesterday. What is your expectation for the next 3 years, and to what degree will the RTC play a role in the realization of whatever debt we incur?

Mr. BLUM. I can respond by taking you through two tables in my prepared statement. First of all, turn to table 2 of the prepared statement. This relates to our projections of the Federal debt. Now you will notice there are really two sets of numbers here. The first tier would be our debt projections under current policies. That is a baseline which includes the additional RTC spending but does not have any deficit reduction in it.

The lower tier has a deficit reduction in it. For purposes of illustration we used a $500 billion deficit reduction package spread over 5 years. That is roughly similar to the kinds of numbers that are embodied in the administration's mid-session review. So perhaps it would be useful just to work with that lower tier of numbers.

You can see that the debt subject to limit rises to almost $4 trillion by the end of 1993 from somewhat over $3 trillion in the end of 1990. So that is roughly the trillion dollar increase.

If we look at some of the numbers in there we can see where those increases come from. First of all, you have the Government still running, even with the deficit reduction package, very high deficit levels under this projection. The 1991 deficit could be as high as $182 billion with a $50 billion deficit reduction incorporated. That would fall to $164 billion in 1992 and to $94 billion by 1993.

That adds over $400 billion of additional deficits over that 3-year period which would have to be met by additional Treasury borrowing.

Secondly, any trust fund surpluses are invested in securities. These securities also are part of the debt subject to limit. The trust fund surpluses are projected to range from $135 billion in 1991 up to $150 billion in 1993. So that adds another over $420 billion. So you have two things happening—the deficit itself in the budget, including the RTC, as well as the surpluses in the various Government trust funds that are invested in Government securities.

So those are the two factors that are forcing the debt subject to limit up. Within the deficit are numbers for the RTC, and its impact on the budget deficit is shown in table 3 on page 11. In the RTC baseline numbers we have—and this would represent the net amount of additional Treasury borrowing—$70 billion in 1991; $60 billion in 1992; and $13 billion in 1993.

The reason the RTC outlays come down is that once we get beyond 1992 they are expected to be through the bulk of the resolution process and more receipts will be coming in from the sale of assets. Those numbers are displayed at the top of the table.

So the RTC alone, under these assumptions, is adding something like $140 billion over the next 3 years to net Treasury borrowing needs.

But I would hasten to add that even though these figures look very precise, they conceal a great amount of uncertainty as to exactly how this is going to play out in terms of the timing of the resolution process, and how quickly the assets that are acquired can in fact be disposed of. These numbers are really just reasonable guesses at this point, and clearly could be much higher.

Senator DASCHLE. What is really stunning in your projections here is that you estimate in the next 3 years that we could realize an increase in accumulated debt of almost $1.5 trillion if no deficit reduction plan were put in place.

Mr. BLUM. That is correct.

Senator DASCHLE. And $1 trillion even with optimistic expectations of a $500 billion deficit reduction package can be agreed upon? We are still talking about a $1 trillion increase in accumulated debt over the next 3 years?

Mr. BLUM. Of the debt subject to limit. The debt held by the public would not go up as much. That would go up by roughly the amount of the deficit in the budget. But these are enormous amounts, yes.

Senator DASCHLE. Do you share the view expressed by Secretary Glauber that the foreign ownership of U.S. Federal debt will probably decline in that period of time?

Mr. BLUM. I don't have any reason to disagree with that particular view. We do anticipate under our economic assumptions that the value of the dollar will fall somewhat over this period of time. We also are anticipating that interest rates will fall assuming that a deficit reduction package, a credible deficit reduction package, is adopted this year.

My guess is, that would affect the amount of the foreign investment.

Senator DASCHLE. And the amount of foreign ownership of privately held debt would be—I think the answer you gave me was around 23 percent. Do you expect it to stay at that level?

Mr. BLUM. Well, again, we haven't specifically examined that. But I would not be surprised if that were the outcome.

Senator DASCHLE. Let me just go back. You told me just a minute ago that you expect the cost of the RTC over the next 3 years to net out at about $140 billion. Is that a correct statement of your estimate?

Mr. BLUM. Yes, and it is a present value calculation in terms of what the net loss to the Government will be. In other words, if we could over this period of time resolve everything, then the cost——

Or are you referring only to the cash flows? I guess you are just referring to the cash flows, aren't you?

Senator DASCHLE. That is right.

Mr. BLUM. Yes. That $70 billion and the $60 billion and the $13 billion, we would anticipate those being the amounts reflected in the budget.

Senator DASCHLE. Let me ask you a question related to the question I asked in assembling the deficit that we currently have: What is it besides the cost of interest that you believe will be driving the explosion of debt in the next 3 years, if it is not RTC?

Mr. BLUM. Well obviously we are starting from a very deep hole, not only with RTC, but with the Federal budget as a whole, with a deficit as high as $220 billion in the current year; and it just takes a long period of time to work our way out of that. A first-year deficit reduction effort of say $50 billion only brings the deficit down to around $180 billion, for example. If we keep on that road, it just takes time to achieve budgetary balance—say by 1995.

But in the meanwhile we will have accumulated over $400 billion of additional deficits that will have to be financed.

Senator DASCHLE. Mr. Blum, we got into a little bit of a discussion about the effect of taxes on the economy. As we consider our options, to what degree do you feel that any increase in revenue could have very negative consequences in the economy, especially in terms of economic growth?

Mr. BLUM. Again, from a macroeconomic point of view, the important thing as we would see it is to reduce the deficit in order to increase national saving.

How we do that is not as important as just doing it, I think. We find that from a macroeconomic point of view you can get pretty much the same benefits whether it is by reducing spending or by raising revenues. Clearly, when you get down to specific spending reductions or specific revenue increases, different ways of doing this can have different economic effects.

Raising revenues through the individual income tax route could have different economic effects than raising revenues by excise taxes, for example, in terms of some behavior. But it wouldn't make much difference from a macroeconomic point of view.

Senator DASCHLE. Can we calculate behavioral differences from taxes, be they excise or income?

Mr. BLUM. Not to anyone's satisfaction I think.

Senator DASCHLE. So that really cannot be a factor. Behavior certainly cannot be a factor in the consideration of our options for revenue, can they?

Mr. BLUM. Well, I think it can if the name of the game is to increase national saving in order to increase national investment.

There are certain types of taxes, for example, that might do more to encourage private saving than others.

Taxing consumption, for example, would be viewed in that regard as preferable to, say, taxing total income. On the spending side a similar kind of argument could be made, that in cutting back on Government spending the Government should not cut back on its investment spending, which could be beneficial to economic growth.

But these are global strategies that have to be worked out in the political negotiation process.

Senator DASCHLE. Let me just ask you one last question. There are those who cite debt as a percent of gross national product and historically relate that to times in our past when, as a percent of gross national product, the debt has been substantially higher. I have a chart before me that indicates that during the 1940's it was even over 100 percent.

Is there a fair rebuttal for those who may be concerned about the soaring increase in the debt, the $4 trillion limit we may experience in the next 3 years? And how concerned should we be with the fact that right now the estimate is, what? What is the current estimate as a percent of gross national product?

Mr. BLUM. Let's see, at the end of 1989 it was 42½ percent. So it is somewhere in that ball park for the current year, around 42 to 43 percent I would anticipate. That is higher than in 1974 when it reached a low of 24 percent of GNP.

I think the concern, again from a macroeconomic point of view, is that that ratio of debt held by the public to GNP should be stable or falling. If it is rising, then we have a problem in the sense that interest costs keep growing almost exponentially. And that clearly affects other spending. It constrains the amount that can be spent on other things, investments or transfers or whatever.

To the extent that the debt can be held down as a percentage of GNP, then those interest payments will be held more in check. If you can reduce the debt as a percentage of GNP, which would happen if we move toward a balanced budget, then the falling interest costs actually work on your behalf and help lower the deficit even more, as the size of the debt relative to the economy falls.

Senator DASCHLE. Can we learn anything from history and that? As I look at the chart, we were at about the same point, as a percent of our gross national product held by the public, in 1962; and then by 1970 we dropped from about 43 percent, I guess 44.5 percent, all the way down to 28.8 percent. What did we do in those 7 years that generated that dramatic reduction?

Mr. BLUM. Well, there were two things. First of all, the GNP grew fairly rapidly. The 1960's were a period of very long sustained growth. And secondly, the Federal budget deficit over that period of time was very small. There was really only 1 year in which there was a deficit above $10 billion. That was in 1968 when the deficit was $25 billion, which seems small in comparison with the numbers we are using now.

Senator DASCHLE. Well, what was the total budget that year?

Mr. BLUM. The total outlays in that year were only $178 billion.

Senator DASCHLE. So if the deficit was $25 billion, percentagewise you are talking about a fairly significant figure, are you not?

Mr. BLUM. Well, it was 3 percent of GNP, which at that time was very high. The highest it got during the 1980's though was 6.3 in 1983, which is the peak in the post-World War II period.

Senator DASCHLE. Are things different? I guess that's the bottom line. The question is: Are things different today, as we look at the deficit, even though as a percent of gross national product there were times in our past when the percentage was equal to or exceeding the level that we have today? Are things different in some calculable way that would make the debt more onerous today than it was back then?

Mr. BLUM. Probably not in that kind of global sense. What is different today as compared with the 1960's is that we are facing a budget that is badly out of control. We have these very large structural deficits, which are not related to the economy, but represent full-employment levels of spending that are not being met by taxes. Moreover, the deficit as a percentage of GNP is not just 3 percent in 1 year out of a decade, but has averaged 4 percent annually over the entire period of the 1980's. We now have a sustained problem as opposed to what was essentially a 1-year problem.

Senator DASCHLE. Not to belabor the point, but—we get this on the floor from time to time: Why worry? The fact is that, as a percent of gross national product, we were up in the 80's, the 100's, the 50's, the 40's, throughout most of the 1950's and 1960's. You are talking a couple of decades here where, as a percent of gross national product, the debt was much worse. We pulled out of that and the country continued to sustain economic growth in the 1960's, despite its debt so, we ought not worry now. Frankly, that has always impressed me as a fairly legitimate rebuttal to those of us who have expressed concern with this soaring debt increase. To be honest, I have yet to hear a persuasive enough rebuttal to that argument. That leads me to believe, from a historical context, that we are still not at a point to bring to the table people who frankly are not that concerned and who don't believe we are dealing with a very serious problem.

Mr. BLUM. You are right, Mr. Chairman. In a sense there is no immediate crisis. It is not as though the nation is having a heart attack, for example. It is more like a cancer that grows slowly over time. The concern over the high deficits really is that the nation as a whole is not saving enough for the future, to invest in economic growth. An important reason or a major reason for reducing the deficit is to eliminate dissaving by the Federal Government in order to increase saving by the nation as a whole.

With that increased saving will come increased investment. That in turn should lead to increased productivity and higher growth over the long run. As I said in my statement, the benefit of deficit reduction is not immediate or quickly observable. It really comes over time. But it is very important when we look ahead to see what kind of standard of living we are passing on to future generations. I think it is for their sake that we ought to be acting today.

Senator DASCHLE. Mr. Blum, I have kept you long enough. I appreciate your responsiveness, your testimony, and the information you have provided. We thank you. The hearing stands adjourned.

[Whereupon, the hearing was adjourned at 12:42 p.m.]

APPENDIX

ADDITIONAL MATERIAL SUBMITTED

PREPARED STATEMENT OF JAMES L. BLUM

Mr. Chairman, I am pleased to appear before this Subcommittee this morning to discuss the Federal debt limit. In my statement today I will summarize the Congressional Budget Office's (CBO's) new economic forecast and baseline budget projections. These are elaborated in CBO's summer report, *The Economic and Budget Outlook: An Update.* I will then consider the implications of our projections for the debt ceiling. Finally, I will focus on the economic effects and budgetary treatment of the savings and loan crisis.

THE BUDGET AND ECONOMIC OUTLOOK

CBO now expects that the fiscal year 1990 deficit will total at least $195 billion, which is almost $60 billion above the estimate just six months ago (see Table 1). In relation to the size of the economy, the deficit is projected to rise from 2.9 percent of gross national product (GNP) in 1989 to 3.6 percent of GNP in 1990.

For 1991 and thereafter, the budgetary picture is complicated by the savings and loan bailout. The Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (FIRREA) assigned the Resolution Trust Corporation (RTC) the task of closing or subsidizing the sale of hundreds of insolvent thrift institutions. It now appears, however, that RTC will exhaust its funds early in fiscal year 1991. If RTC were actually allowed to run out of money, the baseline deficit would fall to $164 billion in 1991 and remain near $160 billion through 1994. In that event, however, almost 700 insolvent thrifts would be left unresolved; their losses would continue to mount and raise the government's eventual cost.

Clearly, RTC must be given more resources. CBO estimates that additional RTC spending needs, with associated debt service costs, would add $68 billion to the deficit in 1991, $81 billion in 1992, and $33 billion in 1993. Including the additional spending needs of the RTC, the Federal deficit would reach $232 billion in 1991 and $239 billion in 1992, before slipping under $200 billion again in 1993. These deficit figures are far above the Balanced Budget Act targets of $64 billion in 1991, $28 billion in 1992, and zero in 1993.

If sequestration were to apply to the 1991 deficit estimates shown in Table 1, the cuts would boggle the mind. Excluding the additional RTC spending from the calculation, defense would be cut by 25 percent, and nondefense programs would be slashed by 38 percent. Including RTC's spending needs, the required cuts would be 42 percent for defense and 64 percent for nondefense programs.

Table 1.—BASELINE BUDGET PROJECTIONS AND UNDERLYING ASSUMPTIONS

	1990	1991	1992	1993	1994	1995
Budget Projections (by fiscal year) In Billions of Dollars						
Revenues	1,044	1,123	1,188	1,260	1,337	1,417
Outlays	1,238	1,287	1,346	1,422	1,496	1,559
Deficit	195	164	158	162	160	142
Additional RTC Spending Needs [1]	0	68	81	33	−13	−3
Deficit with Additional RTC	195	232	239	194	146	138
Deficit Targets	100	64	28	0	(a)	(a)

Table 1.—BASELINE BUDGET PROJECTIONS AND UNDERLYING ASSUMPTIONS—Continued

	1990	1991	1992	1993	1994	1995
As a Percentage of GNP						
Revenues	19.1	19.3	19.1	19.0	19.0	18.9
Outlays	22.6	22.1	21.7	21.5	21.2	20.7
Deficit	3.6	2.8	2.5	2.4	2.3	1.9
Deficit with Additional RTC	3.6	4.0	3.8	2.9	2.1	1.8
Economic Assumptions (By calendar year)						
GNP (Billions of current dollars)	5,560	5,925	6,314	6,726	7,166	7,634
Real GNP Growth (Percentage change)	2.0	2.5	2.6	2.6	2.6	2.6
Implicit GNP Deflator (Percentage change)	4.1	4.0	3.9	3.8	3.8	3.8
CPI-U (Percentage change) [3]	4.8	4.2	4.2	4.0	4.0	4.0
Civilian Unemployment Rate (Percent)	5.3	5.4	5.4	5.5	5.5	5.5
Three-Month Treasury Bill Rate (Percent)	7.6	6.9	6.7	6.2	5.6	5.4
Ten-Year Government Note Rate (Percent)	8.5	7.8	7.4	7.2	6.9	6.8

[1] Includes debt service costs resulting from additional RTC spending.
[2] The Balanced Budget Act sets targets through 1993.
[3] CPI-U is the consumer price index for all urban consumers.

SOURCE: Congressional Budget Office.

NOTES: For comparability with the Balanced Budget Act targets, the projections include Social Security but exclude net outlays of the Postal Service.

RTC = Resolution Trust Corporation.

As dismal as these budget projections appear, they could prove to be optimistic. At the request of the Congressional budget negotiators, CBO's budget projections are based on an economic forecast that assumes significant cuts in the deficit—$40 billion to $60 billion below the baseline in 1991 and $400 billion to $600 billion over the 1991-1995 period. The continuation of economic expansion in the face of such fiscal restraint depends critically on two assumptions. First, the Federal Reserve must meet the dramatic change in fiscal policy by loosening monetary policy. Second, the deficit reduction package must be sufficiently credible to convince financial markets that long-term interest rates will fall.

The assumed deficit reductions affect CBO's forecast of key economic variables—chiefly real economic growth and interest rates—in ways that improve the budget outlook. CBO expects that the U.S. economy will grow by 2.0 percent in 1990 and by about 2.6 percent a year in 1991 through 1995. The three-month Treasury bill rate is projected to fall from its current level of 7.8 percent to an average of 6.9 percent in 1991 and 5.4 percent in 1995. If significant deficit reduction measures of the sort assumed by CBO are not enacted, interest rates are likely to be higher; moreover, growth rates in the medium term are likely to be lower than CBO has projected. As a result, the 1995 deficit could be $40 billion to $50 billion higher than the estimates in Table 1 suggest.

IMPLICATIONS FOR THE DEBT LIMIT

The CBO baseline budget projections imply large increases in debt subject to the statutory limit in the next few years. The Congress must address this matter soon: if the current limit of $3,122.7 billion is not increased before the August Congressional recess, the government will almost certainly run out of cash during the recess. Among the payments that would be imperiled are Social Security and other benefits, interest and principal payments on the debt, and paychecks for civilian and military employees. Even a temporary default—that is, a few days' delay in the government's ability to pay back its debt holders—could also have serious financial market consequences, including a permanent increase in Treasury borrowing costs, a temporary rise in the overall level of U.S. interest rates relative to foreign rates, and a temporary decline in the value of the dollar.

When the current ceiling was enacted last November, it was expected to suffice roughly through September or October of this year. Subsequent increases in the deficit have accelerated the need for an increase in the debt limit. The chief culprits are unexpectedly large savings and loan-related outlays in 1990 and lackluster revenues.

Under CBO's baseline projections, debt subject to limit would total $3,133 billion at the end of September—$10 billion above the current limit. (In fact, debt subject to limit would be even higher in early September, because of the daily patterns of borrowing and trust fund investment.) This estimate is conservative: it is predicated on CBO's baseline deficit estimate of $195 billion for fiscal year 1990, which was completed about a month ago. Since that time, deposit insurance spending and Treasury borrowing have outstripped our estimates, and the CBO deficit and debt estimates for the current fiscal year might be as much as $20 billion to $25 billion too low.

In fiscal year 1991, CBO projects that, without deficit reductions, debt subject to limit would climb by $363 billion (see Table 2). It may seem perplexing that debt subject to limit goes up by more than the amount of the deficit. The reason is that the debt limit applies not just to Treasury borrowing from the public—the familiar sales of bills, notes, and bonds and of other instruments such as savings bonds—but also to the holdings of Federal Government trust funds. In fiscal year 1991, trust fund holdings are expected to grow by about $135 billion, with Social Security alone accounting for more than half of the increase.

Of course, the Congress and the Administration hope to trim the borrowing needs of the government by concluding a successful deficit reduction pact. These savings, however, have yet to be identified and enacted. Even with a hypothetical deficit reduction package amounting to $50 billion in 1991 and $500 billion over the 1991-1995 period, debt subject to limit would continue to grow, as depicted in the bottom panel of Table 2.

Table 2.—CBO PROJECTIONS OF FEDERAL DEBT

[By fiscal year, in billions of dollars]

	1990	1991	1992	1993	1994	1995
Under Current Policies (Including additional RTC spending)						
Debt Subject to Limit, Start of Year	2,830	3,133	3,496	3,872	4,219	4,529
Changes in Debt Subject to Limit:						
Deficit	195	232	239	194	146	138
Trust fund surplus	123	135	140	150	163	176
Other changes [1]	−14	−3	−3	2	1 2	
Total change	303	363	376	347	311	317
Debt Subject to Limit, End of Year	3,133	3,496	3,872	4,219	4,529	4,846
Debt Held by the Public, End of Year	2,378	2,607	2,844	3,038	3,183	3,321
With a $500 Billion Deficit Reduction Package [2]						
Debt Subject to Limit, Start of Year	2,830	3,133	3,446	3,747	3,994	4,179
Changes in Debt Subject to Limit:						
Deficit	195	182	164	94	21	−12
Trust fund surplus	123	135	140	150	163	176
Other changes [1]	−14	−3	−3	2	1	2
Total change	303	313	301	247	186	167
Debt Subject to Limit, End of Year	3,133	3,446	3,747	3,994	4,179	4,346
Debt Held by the Public, End of Year	2,378	2,557	2,719	2,813	2,833	2,821

[1] Primarily changes in cash balances and in interest accrued but not paid.

[2] Assumes illustrative deficit reductions amounting to $50 billion in 1991 and $500 billion over the 1991-1995 period. For simplicity, programs financed by trust funds are assumed to unaffected.

SOURCE: Congressional Budget Office.

NOTE: The current debt limit is $3,122.7 billion.

Many analysts view the statutory limit on Federal debt as archaic. Through its regular budget process, the Congress already has ample opportunity to vote on overall revenues, outlays, and deficits (an opportunity that did not exist before the Budget Act of 1974). Voting separately on the debt is hardly effective as a means of controlling deficits, since the decisions that necessitate borrowing are made elsewhere. By the time the debt ceiling comes up for a vote, it is too late to balk at paying the government's bills without incurring drastic consequences. In recent years, the debt limit has served mainly as a vehicle for other budgetary and unrelated legislation.

Even if there remains a justification for a separate ceiling on Federal debt, many argue that it should not apply to trust fund holdings. Instead, they maintain, the debt ceiling should focus on debt held by the public—that is, the amount borrowed to finance deficits. Such borrowing is the chief concern of economists, financial market participants, and others who worry about the Federal government's demands on credit markets. As Table 2 shows, debt held by the public climbs each year by approximately the amount of the deficit. The President's Commission on Budget Concepts in 1967 refined the concept of debt held by the public, and urged that the statutory limit on Federal debt be revised accordingly. More recently, Chairman Rostenkowski's plan for reducing the deficit and reforming the budget process uses debt held by the public as the appropriate measure for statutory ceilings.

SPENDING RELATED TO SAVINGS AND LOANS

Estimates of deficits and debt are even more uncertain than usual because of huge and volatile outlays for deposit insurance. No one can say for sure how fast the Resolution Trust Corporation can resolve failed or failing institutions, or what the costs will be. As noted earlier, CBO's deficit estimate of $195 billion for 1990 predated a surge in RTC spending. Two weeks ago, the Office of Management and Budget predicted that the 1990 deficit would be almost $24 billion higher than CBO's forecast, with RTC responsible for virtually all of the difference. These contrasting estimates underscore the great uncertainty about RTC spending. OMB states that outlays in individual years might be $30 billion higher or lower than projected.

Current Projections

The RTC spends money for several purposes, chiefly for insurance losses and working capital. Insurance losses represent money that will not be recouped by the government because insured deposits of failed institutions far exceed what can be recovered by selling the institutions' assets. In contrast, working capital represents temporary financing needs: in the course of resolving institutions, the government holds many assets temporarily pending their disposition. The need for working capital results in budget outlays when assets are acquired and results in receipts (that is, negative outlays) when the assets are sold. Selling assets may take eight years or more. Until that time, the expected proceeds are conjectural. Thus, while the distinction between losses and working capital is conceptually clear, it is arbitrary in practice.

Under FIRREA, the RTC faces several constraints on its spending. One restriction caps the RTC's total losses at $50 billion; another, more complicated cap acts to restrict total outstanding working capital. The resources provided under FIRREA are insufficient. CBO projects that, unless new legislation is enacted providing the agency with extra resources, many RTC operations will grind to a halt early in fiscal year 1991. But new legislation must be passed sooner or later. Deposit insurance outlays are not discretionary; the government is legally required to fulfill its guarantees. CBO estimates that, through 1995, the RTC will need almost $100 billion more to cover losses than current law provides. CBO's projections of RTC outlays, assuming that new resources are provided soon, are depicted in Table 3. Clearly, RTC spending will be a source of great volatility in budget totals for the next several years, as projected outlays swing from a staggering $70 billion in 1991 and $60 billion in 1992 to −$30 billion in 1994.

Table 3.—PROJECTIONS FOR THE RESOLUTION TRUST CORPORATION ASSUMING UNLIMITED RESOURCES

[By fiscal year, in billions of dollars]

Outlays	Actual 1989	1990	1991	1992	1993	1994	1995
Insurance Losses	1	35	41	32	28	4	3
Working Capital:							
Asset acquisition and repayable advances	10	30	52	52	19	0	0
Receipts from asset sales	0	−1	−9	−24	−34	−34	−21
Repayment of advances	0	−12	0	0	0	0	0
Proceeds from Resolution Funding Corporation (REFCORP)	0	−16	−14	0	0	0	0
Payment from Federal Home Loan Banks	−1	0	0	0	0	0	0
Subtotal, outlays excluding interest and administrative expenses	9	36	70	60	13	−30	−18
Interest and Administrative Expenses [1]	([2])	([2])	([2])	([2])	([2])	([2])	([2])
Total	9	36	70	60	13	−30	−18

[1] Administrative costs included in the budget are projected to be $200 million to $300 million a year. Administrative costs associated with institutions in Resolution Trust Corporation (RTC) receivership are not included. Interest costs reflect only the payments from the RTC to the Federal Financing Bank (FFB), an intrabudgetary arrangement stemming from the RTC's working capital agreement. The projections assuming unlimited resources dispense with this intrabudgetary arrangement, and all debt service costs are presumed to be borne directly by the Treasury.

[2] Less than $500 million.

SOURCE: Congressional Budget Office.

Economic Consequences

There is disagreement over how policymakers should deal with the economic consequences of the savings and loan crisis. Everyone agrees that RTC outlays do not affect the economy quite like other government spending. Unlike a benefit check, salary payment, or a purchase of military hardware, deposit insurance payments do not represent current income to their recipients. Depositors do not become wealthier the instant their savings and loan institution is closed or merged by the government. They are exactly as well-off as before, undergoing only minor changes in their banking habits. Thus, the year-to-year outlay fluctuations depicted in CBO's baseline paint a seriously misleading picture of the government's current impact on the economy.

This conclusion—that RTC spending has little short-run economic impact—is mirrored in the financial markets. Currently, a large fraction of Federal borrowing is done on behalf of the RTC. Nearly all the money that the government raises is directly recycled in the financial markets, as recipients deposit the funds in new accounts or invest them in other assets. The government's borrowing does not reduce the funds available to other borrowers, and there is little reason for it to boost the level of interest rates.

Because savings and loan-related spending is not like other Federal spending in its short-run economic impact, many argue that annual spending for this purpose ought to be excluded from the Balanced Budget Act targets for the Federal deficit. The spending's volatility, these advocates argue, could lead to inappropriate swings in fiscal policy as well as rich opportunities for manipulating the budget estimates.

Of course, over a broader time span, deposit insurance losses have had definite implications for the economy and for the distribution of resources. The availability of deposit insurance helped to spur certain types of spending. For much of the past decade, savings and loan institutions made wasteful loans backed by their deposits. Borrowers and their suppliers benefited; the wealth of depositors was protected from loss even as many earned unsustainable rates of return; moreover, thrift managers and owners were subsidized. Thus, the thrift crisis has reduced the nation's capital stock as bad loans and fraud diverted the saving of depositors from productive uses. While the high-flying institutions that now require resolution were geographically clustered, all regions of the country shared these impacts—particularly as nationwide capital markets imply that both deposit-taking and lending effectively cross borders.

Resolution of failed thrifts simply recognizes past financial losses. It does not repair the damage that the thrift crisis has done to our capital stock. Some argue that the government should recoup its losses, perhaps with a tax surcharge over several years. This approach is the most direct way of replacing the lost capital and the material well-being that it could have provided. In addition, many observers fear that unless the nation explicitly taxes itself or otherwise faces up squarely to the costs of the thrift crisis, it will not make the needed reforms to the regulatory structure and the deposit insurance system to ensure that such a situation never recurs. But other analysts, even as they acknowledge the harm to the U.S. capital stock done by the crisis, point out that its effect pales beside the $1-1/2 trillion in Federal debt accumulated during the 1980s. The underlying problem, in this view, is the government's large overall deficit and accumulated debt; the savings and loan debacle only makes the problem bigger.

CONCLUSIONS

My testimony has pointed to a clear need for Congressional action in three separate areas. First, the Congress needs to enact a new statutory debt ceiling before its August recess. Second, the Congress, in cooperation with the Administration, should enact a plan to reduce the deficit in 1991 and later years. The payoff to deficit reduction is not immediate and dramatic, but long-run growth in our capital stock and standard of living should result. And third, policymakers must swiftly provide more resources to the Resolution Trust Corporation to enable it to continue its work. Further delays will tend only to boost the long-run costs of resolving the savings and loan crisis.

[SUBMITTED BY SENATOR TOM DASCHLE]

[Joint Committee on Taxation, July 23, 1990, JCX-21-90]

INCREASING THE PUBLIC DEBT LIMIT

[Scheduled for a Public Hearing before the Subcommittee on Taxation and Debt Management of the Senate Committee on Finance on July 31, 1990]

PRESENT LAW

The permanent limit on the amount of public debt outstanding is $3,122.7 billion. This limit was enacted on November 8, 1989. At that time, the newly enacted debt limit conformed with the budget resolution for fiscal year 1990, and was expected to provide enough borrowing authority through the fiscal year.

CURRENT SITUATION

As of the close of business on July 19, 1990, the total amount of public debt subject to limit was $3,091.7 billion. The operating cash balance at that time was $23.7 billion. On the first day of July, the amount of debt subject to limit was $3,077.0 billion.

In testimony before the Ways and Means Committee on July 11, 1990, Under Secretary of the Treasury for Finance Robert Glauber reported that "it appears likely that the Treasury will run out of cash and borrowing authority and default on the government's debt obligations in mid-August. It is highly likely that default would occur before Congress returns in September."

In that testimony, Under Secretary Glauber indicated that without Congressional action on the debt limit, the Treasury most likely could not honor payments totaling approximately $14 billion scheduled for August 3, 1990 (including approximately $3 billion of military retirement and salary payments and approximately $11 billion of payments to social security and supplemental security income recipients, railroad retirees and veterans). In addition, the Treasury has $20 billion of notes maturing on August IS and approximately $21 billion of interest payments due on that day.

ADMINISTRATION PROJECTIONS

Under Secretary Glauber indicated increasing the debt limit to the following amounts would be sufficient to maintain Federal Government operations (including peak cash flow needs at the beginning of each September):

[In billions of dollars]

Through Fiscal Year 1991	Through Fiscal Year 1992	Through Fiscal Year 1993
$3,509	$3,881	$4,053

In the Mid-Session Review of the Budget (July 16, 1990), the Office of Management and Budget presented the following end-of-fiscal-year estimates of total debt subject to limit:

[In billions of dollars]

Fiscal Year 1990	Fiscal Year 1991	Fiscal Year 1992	Fiscal Year 1993	Fiscal Year 1994	Fiscal Year 1995
$3,163	$3,479	$3,776	$4,013	$4,187	$4,355

ROLE OF RTC FINANCING

Higher-than-expected interest rates and unanticipated losses in thrift institutions under the responsibility of the Resolution Trust Corporation (RTC) have caused the Administration to revise upward the cost of troubled thrift institution case resolutions by approximately $55 billion since January. In its Mid-Session Review of the

Budget, the Office of Management and Budget estimated that RTC net outlays for fiscal 1991, for both losses and working capital, would be between $32 billion and $63 billion.

STATUS OF CONGRESSIONAL BUDGET RESOLUTIONS

The House of Representatives adopted a budget resolution (H. Con. Res. 310) for fiscal year 1991 which prescribes $3,315.85 billion as the appropriate debt limit through fiscal year 1991.

The Senate adopted an amended version of H. Con. Res. 310 for fiscal year 1991 which would increase the public debt limit through the fiscal year to $3,323.4 billion. The Senate insisted on its amendment and requested a conference with the House of Representatives.

Prepared Statement of Robert R. Glauber

I appreciate the opportunity to appear before you today to advise you of the need for Congressional action to increase the debt limit before the scheduled August Congressional recess.

DEBT LIMIT

Treasury's current estimates show that the permanent ceiling of $3,122.7 billion will be sufficient only until mid-August. Without an increase in the debt limit, it appears highly likely that the Treasury will run out of cash and borrowing authority and default on the Government's obligations on August 15.

As you know, the limit usually is raised to a new permanent level sufficient to fund the Government's needs for the coming fiscal year. We estimate that a debt limit of $3,509 billion will be sufficient to last through FY 1991. This figure is based on OMB's Mid-Session Review estimate of the deficit for FY 1991 of $176 billion. Since the debt subject to limit is expected to hit a peak level in early September 1991, when the normalized tax transfer to the social security trust funds is invested, this figure includes a $30 billion allowance above the $3,479 billion of debt subject to limit estimated by OMB in the Mid-Session Review. I should note that RTC outlays, which are subject to substantial forecast uncertainty, play a large role in the overall FY 1991 outlay figure. Depending on actual RTC experience, we could reach the proposed debt limit before or after the end of the fiscal year.

In the spirit of the bipartisan negotiations to reduce Federal budget deficits, it is appropriate at this time to consider increasing the permanent debt limit in an amount that is sufficient to accommodate Treasury securities issues over the next several years. In this connection, we will be glad to discuss with this Committee a longer-term debt limit that would reflect the work of the bipartisan budget summit.

If Congress were to leave for its August recess without increasing the debt limit, the Treasury would very likely default on $23 billion of notes maturing on August 15 and be unable to make interest payments totaling an additional $21 billion that same day. Also, along with defaulting on numerous other obligations, the Treasury most likely could not make, on August 31, $3 billion of military retirement and salary payments, nor could it make payments totaling over $11 billion to social security and supplemental security income recipients, railroad retirees, and veterans.

I want particularly to emphasize that August 13 is the last day on which final Congressional action could occur in time for the Treasury to auction securities on August 14 and settle them on August 15. If Congress does wait until August 13 to act, Treasury's financing options will be limited and costly.

Treasury would normally announce the terms of the regular mid-August refunding on August 1. Under our usual auction schedule, the securities would be auctioned on Tuesday, Wednesday, and Thursday, August 7, 8, and 9. This schedule allows time between our announcement and the auctions for orderly distribution of the securities by the investment community. However, without the assurance of sufficient debt limit room to settle these new securities on August 15, Treasury's mid-August refunding announcement would be conditioned on Congressional action to increase the debt limit.

Congression action after August 1 would reduce the normal time for distribution, because distribution of these securities could not begin until Treasury could assure investors that the securities could be auctioned and settled. Final Congressional action after August 6 would disrupt the auction schedule itself and introduce an element of uncertainty into the Government securities market that, all other things being equal, would tend to raise the Treasury's cost of financing.

I urge Congress to act in a timely manner to increase the debt limit. Defaulting on Government obligations already incurred—such as the Treasury notes and interest payments that are due on August 15—is very different from halting Government operations when spending authority is allowed to lapse. In the event of a lapse in spending authority, such as when appropriations are delayed, the Government cannot incur new obligations. Once an obligation is incurred, however, it must be paid.

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

RTC CLEAN UP COSTS

I want to turn now to the financing needs of the RTC. We have attached for your information Secretary Brady's May 23 testimony before the Senate Committee on Banking, Finance, and Urban Affairs, which gives a more complete description of our estimates of the cost of the thrift clean up.

Original Cost Estimates

The $50 billion provided in the Financial Institutions Reform, Recovery and Enforcement Act of 1989 (FIRREA) to the RTC for thrift resolution during the 1989-92 period was based on the most credible estimates at the time, prepared by the Federal Deposit Insurance Corporation, the Federal Home Loan Bank Board, and the General Accounting Office. All three of these agencies estimated that $50 billion would be sufficient to meet the RTC's needs. FIRREA also provided an additional $32 billion for resolutions in the post-RTC period and to fund the Savings Association Insurance Fund.

However, as we said during the legislative process, the level of resources needed, no matter how thoroughly researched or widely agreed upon, was still based only on estimates. Uncertainties included the level of interest rates and the strength of the economy, the timing and amount of asset sales, as well as many other factors that could have a significant impact on the size of the problem.

Revised Estimates

Actual experience over the past eleven months indicates that RTC losses have increased because: the losses in individual thrifts are larger than expected; marginal thrifts are likely to fail sooner than expected (becoming the responsibility of the RTC, not the Savings Association Insurance Fund) and the total number of projected thrift failures has increased.

A number of factors have contributed to these higher projections:

• The population of thrifts which has become the responsibility of the RTC has been in worse financial condition than anticipated. Until the RTC was able to get inside these institutions, it could not make an effective evaluation.

• There has been a sharper than previously assumed decline in regional real estate markets, particularly commercial real estate, in many parts of the country. Unfortunately, RTC thrifts' assets are heavily concentrated in real estate, whether through direct investments, foreclosed property, or real estate loans.

• Interest rates, which are now higher than we had projected, have increased operating losses for thrifts in conservatorships and caused softer real estate markets.

• There have been unexpected losses in below-investment grade bonds, sometimes referred to as "high yield" or "junk" bonds—RTC has $4 billion of junk bonds in its portfolio. Again, all of these factors have produced not only higher than expected losses, but also an increase in the population of savings and loans that will require attention.

When Will More Funding Be Needed?

Even though the RTC has spent only about half of the $50 billion provided in FIRREA to cover losses, if it maintains its aggressive schedule of case resolutions, it will exhaust the $50 billion by the end of this calendar year. However, the RTC faces another important constraint in the form of the obligation limitation included in FIRREA. This is the provision which limits RTC obligations—most notably, working capital borrowings—to the amount of unused REFCORP authority, cash on hand, and 85 percent of the fair market value of assets held by the RTC.

Based on its current method of calculating the working capital obligation limitation, the RTC will run up against that limitation sooner than it uses the $50 billion to cover losses—that is, not later than very early in the fourth calendar quarter of this year. If the RTC cannot raise additional working capital and the cost of acquiring assets exceeds the amount generated from sales, it cannot proceed with resolutions. To assure that the pace of resolutions is not constrained by the availability of funds, and that the cost to the taxpayer is not increased by the consequent delay, it is essential that the RTC receive increased funding by the end of the third guarter—by September 30, 1990.

How Much More Will Be Needed?

There are too many variables to pick a single number of cases, losses on assets, interest rates, and market conditions, among others. The most responsible course, we believe, is to consider a range of possible outcomes.

Taking into account all of the uncertainty and all of the variables, it appears that the cost, in present value terms, of resolving institutions which are likely to come under the control of the RTC will be in the approximate range of $90 billion to $130 billion.

Any attempt to convert these present value costs to yearly expenditures must incorporate an additional factor, the pace at which the RTC can resolve institutions. This greatly affects the amount of RTC outlays on a yearly basis, but has relatively little impact on the overall size of the loss. A representative range of the resources the RTC may need in fiscal year 1991 to cover losses should be from slightly over $30 billion to slightly over $50 billion. We estimate that working capital needs would be from $20 billion to $40 billion.

How Should Additional Funds Be Raised?

The Federal Home Loan Bank System simply does not have the financial capacity to back substantially more Resolution Funding Corporation (REFCORP) borrowing than was provided for in FIRREA. Additional resources will have to come from Treasury funds.

Providing Additional Resources

Congress must act to provide additional resources to the RTC before the end of the fiscal year to keep the cleanup process going. While, as Secretary Brady said in his May 23rd testimony, funds will have to come from the Treasury, there are a number of alternatives from which to choose.

One alternative would be to consider appropriating an amount sufficient to keep resolutions going into the beginning of calendar year 1991. At that point, funding legislation could be considered against the backdrop of the study of Federal deposit insurance mandated by FIRREA and which the Treasury has indicated it expects to submit at the end of this year.

We estimate that an appropriation of $5 billion, combined with a literal reading of the obligation limitation, should allow the RTC to continue resolution activity through January. An appropriation of about $10 billion (and the same reading of the note cap) should fund resolutions through February.

A second alternative would be to provide the RTC with permanent, indefinite authority to complete the job of resolving failed thrifts. The Government has already incurred the obligation to insure deposits and has no choice but to provide funding. Such authority would permit the process to continue uninterrupted by potential funding delays.

A third alternative would be to provide funding in an amount likely to cover RTC's estimated needs for fiscal year 1991 or another intermediate period.

Whatever alternative is chosen, it will be necessary for the Congress to take some action before adjourning for the year. Moreover, it will be necessary to address the limitations imposed by the note cap. We cannot afford to let the RTC run out of money and we must not let the process grind to a halt.

The Treasury and the Oversight Board stand ready to work with the Congress to develop legislation based on any of the proposals outlined above or to explore additional options.

Mr. Chairman, this completes my formal statement. I will be happy to answer the Committee's questions.

Attachments.

Table 1.—ESTIMATED NET GOVERNMENT AND PRIVATE DEBT, BY MAJOR CATEGORIES

[Billions of dollars]

Year	Private [1]			State and local	Federal [2]	Total net debt	Percent Federal of total
	Corporate	Other	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

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Table 1.—ESTIMATED NET GOVERNMENT AND PRIVATE DEBT, BY MAJOR CATEGORIES—Continued

[Billions of dollars]

Year	Private [1]			State and local	Federal [2]	Total net debt	Percent Federal of total
	Corporate	Other	Total				
1931	83.5	64.9	148.4	16.0	18.5	182.9	10.1
1932	80.0	57.1	137.1	16.6	21.3	175.0	12.2
1933	76.9	51.0	127.9	16.3	24.3	168.5	14.4
1934	75.5	49.8	125.3	15.9	30.4	171.6	17.7
1935	74.8	49.7	124.5	16.1	34.4	175.0	19.7
1936	76.1	50.6	126.7	16.2	37.7	180.6	20.9
1937	75.8	51.1	126.9	16.1	39.2	182.2	21.5
1938	73.3	50.0	123.3	16.1	40.5	179.9	22.5
1939	73.5	50.8	124.3	16.4	42.6	183.3	23.2
1940	75.6	53.0	128.6	16.4	44.8	189.8	23.6
1941	83.4	55.6	139.0	16.1	56.3	211.4	26.6
1942	91.6	49.9	141.5	15.4	101.7	258.6	39.3
1943	95.5	48.8	144.3	14.5	154.4	313.2	49.3
1944	94.1	50.7	144.8	13.9	211.9	370.6	57.2
1945	85.3	54.7	140.0	13.4	252.5	405.9	62.2
1946	49.8	66.6	116.4	14.9	228.0	359.3	63.5
1947	57.1	80.8	137.8	16.3	220.8	374.9	58.9
1948	63.3	93.6	156.9	18.5	215.1	390.5	55.1
1949	65.2	104.4	169.6	21.0	217.7	408.3	53.3
1950	72.0	123.4	195.4	24.4	216.5	436.3	49.6
1951	80.4	136.2	216.7	26.6	216.1	459.3	47.0
1952	87.6	152.9	240.5	30.2	221.4	492.2	45.0
1953	91.8	167.8	259.6	34.5	228.4	522.5	43.7
1954	96.6	182.7	279.3	40.6	230.8	550.7	41.9
1955	105.0	211.7	316.7	45.9	230.0	592.6	38.8
1956	115.4	231.6	347.0	49.5	224.2	620.7	36.1
1957	125.0	250.0	375.0	53.7	222.0	650.7	34.1
1958	133.4	267.6	401.0	59.2	231.3	691.4	33.4
1959	143.7	301.4	445.1	65.5	238.3	749.0	31.8
1960	153.7	328.7	482.4	70.8	236.3	789.4	29.9
1961	163.6	356.5	520.0	75.9	243.5	839.4	29.0
1962	176.0	391.0	567.1	81.2	250.5	898.8	27.9
1963	188.3	438.1	626.4	86.9	254.4	967.7	26.3
1964	200.9	487.1	688.0	92.9	260.7	1041.6	25.0
1965	219.8	539.8	759.6	100.3	262.4	1122.3	23.4
1966	243.0	585.2	828.3	105.9	266.1	1200.3	22.2
1967	268.1	626.4	894.6	113.7	279.1	1287.3	21.7
1968	295.0	690.6	985.7	123.2	292.6	1401.5	20.9
1969	324.0	765.9	1090.0	133.1	289.0	1512.1	19.1
1970	352.4	822.9	1175.4	144.4	300.8	1620.6	18.6
1971	377.7	911.4	1289.1	161.8	325.7	1776.6	18.3
1972	409.2	1043.6	1452.7	176.5	340.8	1970.0	17.3
1973	467.4	1191.7	1659.0	191.2	349.1	2199.3	15.9
1974	517.8	1340.8	1858.6	207.7	360.8	2427.1	14.9
1975	532.8	1438.4	1971.2	223.8	446.3	2641.3	16.9
1976	570.2	1609.5	2179.7	239.5	515.8	2934.9	17.6
1977	638.6	1848.7	2487.4	261.4	572.5	3321.3	17.2
1978	706.1	2168.4	2874.5	289.7	626.2	3790.4	16.5
1979	773.5	2524.1	3297.7	320.1	663.6	4281.3	15.5
1980	828.4	2805.9	3634.3	350.3	742.8	4727.4	15.7
1981	925.4	3096.0	4021.4	375.3	830.1	5226.8	15.9
1982	966.1	3317.6	4283.7	425.7	991.4	5700.7	17.4
1983	1043.8	3681.0	4724.8	469.0	1177.9	6371.7	18.5
1984	1216.9	4169.8	5386.8	520.0	1376.8	7283.5	18.9
1985	1353.6	4764.8	6118.4	655.5	1600.4	8374.2	19.1
1986	1555.8	5521.9	7077.8	679.1	1815.4	9572.3	19.0
1987	1711.6	6192.6	7904.3	713.2	1960.3	10577.8	18.5
1988	1899.4	6759.8	8659.2	759.8	2117.8	11536.8	18.4
1989	2096.4	7378.0	9474.4	785.2	2267.6	12527.2	18.1

Table 1.—ESTIMATED NET GOVERNMENT AND PRIVATE DEBT, BY MAJOR CATEGORIES—Continued

[Billions of dollars]

Year	Private [1]			State and local	Federal [2]	Total net debt	Percent Federal of total
	Corporate	Other	Total				

Footnotes at end of document.

Table 2.—ESTIMATED PER CAPITA NET GOVERNMENT AND PRIVATE DEBT [3]

[In dollars]

Year	Private [1]			State and Local	Federal [2]	Total net debt
	Corporate	Other	Total			
1929	726	595	1321	111	135	1567
1930	722	581	1303	119	133	1556
1931	671	521	1192	129	149	1469
1932	639	456	1095	133	170	1397
1933	610	405	1015	129	193	1337
1934	595	393	988	125	240	1353
1935	586	389	975	126	269	1370
1936	592	394	986	126	293	1406
1937	586	395	981	124	303	1409
1938	562	383	945	123	311	1379
1939	557	384	941	124	323	1388
1940	567	398	965	123	336	1424
1941	619	413	1032	120	418	1570
1942	672	366	1038	113	746	1896
1943	691	353	1044	105	1117	2267
1944	673	363	1036	99	1516	2652
1945	604	387	991	95	1788	2874
1946	347	465	812	104	1590	2506
1947	391	553	944	112	1512	2567
1948	426	630	1056	124	1448	2628
1949	432	690	1122	139	1440	2702
1950	469	803	1272	159	1409	2840
1951	515	871	1386	170	1382	2938
1952	551	962	1513	190	1393	3096
1953	568	1037	1605	213	1413	3232
1954	587	1110	1697	247	1403	3346
1955	627	1264	1891	274	1373	3538
1956	677	1357	2034	290	1314	3639
1957	720	1441	2161	309	1279	3750
1958	756	1517	2273	336	1311	3919
1959	801	1680	2481	365	1329	4175
1960	843	1803	2646	388	1296	4331
1961	883	1924	2807	409	1314	4531
1962	936	2080	3016	432	1332	4780
1963	988	2297	3285	456	1334	5076
1964	1040	2521	3561	481	1349	5391
1965	1124	2761	3885	513	1342	5740
1966	1229	2960	4189	536	1346	6070
1967	1342	3135	4477	569	1397	6443
1968	1462	3423	4885	611	1450	6946
1969	1589	3758	5347	653	1418	7418
1970	1707	3986	5693	699	1457	7849
1971	1808	4362	6170	774	1559	8504
1972	1939	4947	6886	837	1615	9337
1973	2195	5596	7791	898	1639	10329
1974	2409	6238	8647	966	1679	11293
1975	2454	6626	9080	1031	2056	12166
1976	2601	7344	9945	1093	2353	13391
1977	2884	8347	11231	1180	2585	14996
1978	3154	9685	12839	1294	2797	16931

Table 2.—ESTIMATED PER CAPITA NET GOVERNMENT AND PRIVATE DEBT [3]—Continued

[In dollars]

Year	Private [1]			State and Local	Federal [2]	Total net debt
	Corporate	Other	Total			
1979	3416	11147	14563	1413	2930	18907
1980	3637	12320	15957	1538	3261	20756
1981	4020	13450	17470	1630	3606	22707
1982	4155	14268	18423	1831	4264	24517
1983	4445	15678	20123	1997	5017	27137
1984	5135	17594	22729	2194	5809	30732
1985	5657	19913	25570	2739	6688	34998
1986	6439	22853	29292	2811	7513	39616
1987	7017	25385	32402	2924	8036	43362
1988	7712	27444	35156	3085	8598	46839
1989	8428	29658	38086	3156	9115	50358

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Table 3.—NET GOVERNMENT AND PRIVATE DEBT RELATED TO GROSS NATIONAL PRODUCT

Year	Gross national product (Billions of dollars)	(Debt as a percent of gross national product)					
		Private [1]			State and local	Federal [2]	Total net debt
		Corporate	Other	Total			
1929	103.9	85.6	70.2	155.7	13.1	15.9	184.7
1930	91.2	97.9	78.7	176.6	16.1	18.1	210.9
1931	76.4	109.3	84.9	194.2	20.9	24.2	239.4
1932	58.5	136.8	97.6	234.4	28.4	36.4	299.1
1933	56.0	137.3	91.1	228.4	29.1	43.4	300.9
1934	65.6	115.1	75.9	191.0	24.2	46.3	261.6
1935	72.8	102.7	68.3	171.0	22.1	47.3	240.4
1936	83.1	91.6	60.9	152.5	19.5	45.4	217.3
1937	91.3	83.0	56.0	139.0	17.6	42.9	199.6
1938	85.4	85.8	58.5	144.4	18.9	47.4	210.7
1939	91.3	80.5	55.6	136.1	18.0	46.7	200.8
1940	100.4	75.3	52.8	128.1	16.3	44.6	189.0
1941	125.5	66.5	44.3	110.8	12.8	44.9	168.4
1942	159.0	57.6	31.4	89.0	9.7	64.0	162.6
1943	192.7	49.6	25.3	74.9	7.5	80.1	162.5
1944	211.4	44.5	24.0	68.5	6.6	100.2	175.3
1945	213.4	40.0	25.6	65.6	6.3	118.3	190.2
1946	212.4	23.5	31.4	54.8	7.0	107.4	169.2
1947	235.2	24.3	34.3	58.6	6.9	93.9	159.4
1948	261.6	24.2	35.8	60.0	7.1	82.2	149.3
1949	260.4	25.1	40.1	65.1	8.1	83.6	156.8
1950	288.3	25.0	42.8	67.8	8.5	75.1	151.3
1951	333.4	24.1	40.9	65.0	8.0	64.8	137.8
1952	351.6	24.9	43.5	68.4	8.6	63.0	140.0
1953	371.6	24.7	45.1	69.9	9.3	61.5	140.6
1954	372.5	25.9	49.0	75.0	10.9	62.0	147.8
1955	405.9	25.9	52.2	78.0	11.3	56.7	146.0
1956	428.2	26.9	54.1	81.0	11.6	52.4	144.9
1957	451.0	27.7	55.4	83.1	11.9	49.2	144.3
1958	456.8	29.2	58.6	87.8	13.0	50.6	151.4
1959	495.8	29.0	60.8	89.8	13.2	48.1	151.1
1960	515.3	29.8	63.8	93.6	13.7	45.9	153.2
1961	533.8	30.6	66.8	97.4	14.2	45.6	157.2
1962	574.6	30.6	68.1	98.7	14.1	43.6	156.4
1963	606.9	31.0	72.2	103.2	14.3	41.9	159.5
1964	649.8	30.9	75.0	105.9	14.3	40.1	160.3
1965	705.1	31.2	76.6	107.7	14.2	37.2	159.2
1966	772.0	31.5	75.8	107.3	13.7	34.5	155.5

Table 3.—NET GOVERNMENT AND PRIVATE DEBT RELATED TO GROSS NATIONAL PRODUCT—Continued

Year	Gross national product (Billions of dollars)	(Debt as a percent of gross national product)					
		Private [1]			State and local	Federal [2]	Total net debt
		Corporate	Other	Total			
1967	816.4	32.8	76.7	109.6	13.9	34.2	157.7
1968	892.7	33.1	77.4	110.4	13.8	32.8	157.0
1969	963.9	33.6	79.5	113.1	13.8	30.0	156.9
1970	1015.5	34.7	81.0	115.7	14.2	29.6	159.6
1971	1102.7	34.3	82.7	116.9	14.7	29.5	161.1
1972	1212.8	33.7	86.0	119.8	14.6	28.1	162.4
1973	1359.3	34.4	87.7	122.1	14.1	25.7	161.8
1974	1472.8	35.2	91.0	126.2	14.1	24.5	164.8
1975	1598.4	33.3	90.0	123.3	14.0	27.9	165.2
1976	1782.8	32.0	90.3	122.3	13.4	28.9	164.6
1977	1990.5	32.1	92.9	125.0	13.1	28.8	166.9
1978	2249.7	31.4	96.4	127.8	12.9	27.8	168.5
1979	2508.2	30.8	100.6	131.5	12.8	26.5	170.7
1980	2732.0	30.3	102.7	133.0	12.8	27.2	173.0
1981	3052.6	30.3	101.4	131.7	12.3	27.2	171.2
1982	3166.0	30.5	104.8	135.3	13.4	31.3	180.1
1983	3405.7	30.6	108.1	138.7	13.8	34.6	187.1
1984	3772.2	32.3	110.5	142.8	13.8	36.5	193.1
1985	4014.9	33.7	118.7	152.4	16.3	39.9	208.6
1986	4231.6	36.8	130.5	167.3	16.0	42.9	226.2
1987	4524.3	37.8	136.9	174.7	15.8	43.3	233.8
1988	4880.6	38.9	138.5	177.4	15.6	43.4	236.4
1989	5234.0	40.1	141.0	181.0	15.0	43.3	239.3

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Table 4.—ESTIMATED FEDERAL DEBT RELATED TO POPULATION AND PRICES

Year	Outstanding Federal debt (In billions of dollars)			Per capital Federal debt [3] (In dollars)			Real per capital Federal debt [4] (In 1967 dollars)		
	Gross [5]	Net [2]	Privately held [6]	Gross [5]	Net [2]	Privately held [6]	Gross [5]	Net [2]	Privately held [6]
1929	18.7	16.5	16.0	153	135	131	893	788	764
1930	18.6	16.5	15.8	150	133	128	901	799	765
1931	20.4	18.5	17.7	164	149	142	1078	978	935
1932	23.2	21.3	19.4	185	170	155	1352	1241	1130
1933	26.8	24.3	21.9	213	193	174	1636	1483	1337
1934	38.1	30.4	28.0	300	240	221	2241	1788	1647
1935	41.8	34.4	32.0	327	269	251	2389	1966	1829
1936	46.2	37.7	35.3	360	293	275	2587	2111	1977
1937	48.9	39.2	36.6	378	303	283	2625	2105	1965
1938	51.8	40.5	37.9	397	311	291	2817	2203	2061
1939	55.7	42.6	40.1	422	323	304	3035	2321	2185
1940	59.4	44.8	42.6	446	336	320	3184	2401	2283
1941	73.3	56.3	54.0	544	418	401	3703	2844	2728
1942	119.2	101.7	95.5	874	746	700	5362	4575	4296
1943	176.1	154.4	142.9	1275	1117	1034	7367	6459	5978
1944	236.6	211.9	193.1	1693	1516	1382	9618	8614	7850
1945	281.1	252.5	228.2	1990	1788	1616	11058	9933	8977
1946	261.9	228.0	206.1	1826	1590	1437	9366	8155	7371
1947	256.8	220.8	199.1	1758	1512	1363	7885	6780	6113
1948	253.6	215.1	192.0	1707	1448	1292	7082	6007	5362
1949	257.7	217.7	197.7	1705	1440	1308	7164	6051	5496
1950	257.6	216.5	196.6	1677	1409	1280	6958	5847	5310
1951	259.7	216.1	193.1	1661	1382	1235	6390	5316	4751
1952	267.8	221.4	196.8	1685	1393	1238	6357	5256	4671
1953	275.6	228.4	200.0	1704	1413	1237	6384	5291	4633

Table 4.—ESTIMATED FEDERAL DEBT RELATED TO POPULATION AND PRICES—Continued

Year	Outstanding Federal debt (In billions of dollars)			Per capital Federal debt [3] (In dollars)			Real per capital Federal debt [4] (In 1967 dollars)		
	Gross [5]	Net [2]	Privately held [6]	Gross [5]	Net [2]	Privately held [6]	Gross [5]	Net [2]	Privately held [6]
1954	278.8	230.8	204.2	1694	1403	1241	6297	5214	4612
1955	282.1	230.0	204.8	1684	1373	1223	6284	5124	4562
1956	278.9	224.2	199.4	1635	1314	1169	6011	4833	4298
1957	280.6	222.0	198.8	1617	1279	1146	5754	4552	4077
1958	286.8	231.3	204.7	1625	1311	1160	5624	4535	4014
1959	300.1	238.3	214.8	1673	1329	1197	5749	4566	4115
1960	300.5	236.3	212.4	1648	1296	1165	5569	4379	3936
1961	307.4	243.5	217.8	1659	1314	1176	5550	4396	3932
1962	315.8	250.5	222.8	1680	1332	1185	5562	4411	3924
1963	322.2	254.4	223.9	1690	1334	1174	5522	4361	3838
1964	332.5	260.7	227.0	1721	1349	1175	5551	4352	3790
1965	336.7	262.4	225.6	1722	1342	1154	5466	4261	3663
1966	353.6	266.1	227.5	1788	1346	1151	5519	4153	3551
1967	382.0	279.1	237.3	1912	1397	1188	5724	4182	3556
1968	386.4	292.6	240.7	1915	1450	1193	5503	4168	3429
1969	382.0	289.0	233.0	1874	1418	1143	5107	3863	3114
1970	401.6	300.8	239.8	1945	1457	1162	5014	3755	2994
1971	435.2	325.7	256.5	2083	1559	1228	5143	3850	3031
1972	461.1	340.8	271.9	2185	1615	1289	5228	3864	3084
1973	480.7	349.1	271.2	2257	1639	1274	5084	3692	2869
1974	504.0	360.8	280.1	2345	1679	1303	4756	3405	2644
1975	587.6	446.3	358.1	2707	2056	1650	5031	3821	3066
1976	664.8	515.8	418.5	3033	2353	1910	5331	4136	3356
1977	729.2	572.5	469.5	3292	2585	2120	5433	4266	3498
1978	797.7	626.2	515.4	3563	2797	2302	5465	4290	3531
1979	852.2	663.6	546.0	3763	2930	2411	5184	4036	3321
1980	936.7	742.8	621.3	4113	3261	2728	4991	3958	3310
1981	1034.7	830.1	698.9	4495	3606	3036	4945	3967	3340
1982	1201.9	991.4	851.9	5169	4264	3664	5356	4418	3797
1983	1415.3	1177.9	1026.0	6028	5017	4370	6052	5037	4387
1984	1667.4	1376.8	1215.8	7036	5809	5130	6771	5591	4937
1985	1950.3	1600.4	1418.9	8151	6688	5930	7575	6216	5511
1986	2218.9	1815.4	1603.3	9183	7513	6635	8379	6855	6054
1987	2435.2	1960.3	1734.1	9983	8036	7109	8788	7074	6258
1988	2707.3	2117.8	1879.1	10992	8598	7629	9291	7268	6449
1989	2975.5	2267.6	2039.2	11961	9115	8197	9646	7351	6611

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Table 5.—PRIVATELY HELD FEDERAL DEBT RELATED TO GNP

Year	(Billions of dollars)		(Percent)	
	Gross national product	Privately held debt [6]	Ration of debt to GNP	Year to year price changes [7]
1929	103.9	16.0	15.4	.0
1930	91.2	15.8	17.3	−2.3
1931	76.4	17.7	23.2	−9.0
1932	58.5	19.4	33.2	−9.9
1933	56.0	21.9	39.1	−5.1
1934	65.6	28.0	42.7	3.1
1935	72.8	32.0	44.0	2.2
1936	83.1	35.3	42.5	1.5
1937	91.3	36.6	40.1	3.6
1938	85.4	37.9	44.4	−2.1
1939	91.3	40.1	43.9	−1.4
1940	100.4	42.6	42.4	.7
1941	125.5	54.0	43.0	5.0
1942	159.0	95.5	60.1	10.9

Table 5.—PRIVATELY HELD FEDERAL DEBT RELATED TO GNP—Continued

Year	(Billions of dollars)		(Percent)	
	Gross national product	Privately held debt [6]	Ration of debt to GNP	Year to year price changes [7]
1943	192.7	142.9	74.2	6.1
1944	211.4	193.1	91.3	1.7
1945	213.4	228.2	106.9	2.3
1946	212.4	206.1	97.0	8.3
1947	235.2	199.1	84.7	14.4
1948	261.6	192.0	73.4	8.1
1949	260.4	197.7	75.9	−1.2
1950	288.3	196.6	68.2	1.3
1951	333.4	193.1	57.9	7.9
1952	351.6	196.8	56.0	1.9
1953	371.6	200.0	53.8	.8
1954	372.5	204.2	54.8	.7
1955	405.9	204.8	50.5	−.4
1956	428.2	199.4	46.6	1.5
1957	451.0	198.8	44.1	3.3
1958	456.8	204.7	44.8	2.8
1959	495.8	214.8	43.3	.7
1960	515.3	212.4	41.2	1.7
1961	533.8	217.8	40.8	1.0
1962	574.6	222.8	38.8	1.0
1963	606.9	223.9	36.9	1.3
1964	649.8	227.0	34.9	1.3
1965	705.1	225.6	32.0	1.6
1966	772.0	227.5	29.5	2.9
1967	816.4	237.3	29.1	3.1
1968	892.7	240.7	27.0	4.2
1969	963.9	233.0	24.2	5.5
1970	1015.5	239.8	23.6	5.7
1971	1102.7	256.5	23.3	4.4
1972	1212.8	271.9	22.4	3.2
1973	1359.3	271.2	20.0	6.2
1974	1472.8	280.1	19.0	11.0
1975	1598.4	358.1	22.4	9.1
1976	1782.8	418.5	23.5	5.8
1977	1990.5	469.5	23.6	6.5
1978	2249.7	515.4	22.9	7.6
1979	2508.2	546.0	21.8	11.3
1980	2732.0	621.3	22.7	13.5
1981	3052.6	698.9	22.9	10.3
1982	3166.0	851.9	26.9	6.2
1983	3405.7	1026.0	30.1	3.2
1984	3772.2	1215.8	32.2	4.3
1985	4014.9	1418.9	35.3	3.6
1986	4231.6	1603.3	37.9	1.9
1987	4524.3	1734.1	38.3	3.6
1988	4880.6	1879.1	38.5	4.1
1989	5234.0	2039.2	39.0	4.8

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Table 6.—CHANGES IN PER CAPITA REAL GROSS NATIONAL PRODUCT

Year	GNP in billions of 1982 dollars	GNP per capital constant 1982 dollars [8]	GNP per capital, change from previous year	
			Constant 1982 dollars	Percent
1929	709.6	5793	0	0
1930	642.8	5200	−593	−10
1931	588.1	4724	−476	−9

Table 6.—CHANGES IN PER CAPITA REAL GROSS NATIONAL PRODUCT—Continued

Year	GNP in billions of 1982 dollars	GNP per capital constant 1982 dollars [a]	GNP per capital, change from previous year	
			Constant 1982 dollars	Percent
1932	509.2	4065	−659	−14
1933	498.5	3956	−109	−3
1934	536.7	4230	274	7
1935	580.2	4543	312	7
1936	662.2	5154	612	13
1937	695.3	5376	221	4
1938	664.2	5093	−282	−5
1939	716.6	5427	333	7
1940	772.9	5799	373	7
1941	909.4	6753	954	16
1942	1080.3	7922	1168	17
1943	1276.2	9236	1315	17
1944	1380.6	9878	641	7
1945	1354.8	9593	−285	−3
1946	1096.9	7650	−1943	−20
1947	1066.7	7304	−346	−5
1948	1108.7	7462	158	2
1949	1109.0	7338	−124	−2
1950	1203.7	7835	498	7
1951	1328.2	8497	662	8
1952	1380.0	8681	183	2
1953	1435.3	8877	196	2
1954	1416.2	8605	−272	−3
1955	1494.9	8924	320	4
1956	1525.6	8944	20	0
1957	1551.1	8938	−6	0
1958	1539.2	8723	−215	−2
1959	1629.1	9082	358	4
1960	1665.3	9136	54	1
1961	1708.7	9224	89	1
1962	1799.4	9571	346	4
1963	1873.3	9825	254	3
1964	1973.3	10213	388	4
1965	2087.6	10676	464	5
1966	2208.3	11168	492	5
1967	2271.4	11368	200	2
1968	2365.6	11725	357	3
1969	2423.3	11888	163	1
1970	2416.2	11703	−185	−2
1971	2484.8	11894	191	2
1972	2608.5	12363	470	4
1973	2744.1	12887	524	4
1974	2729.3	12698	−189	−1
1975	2695.0	12414	−285	−2
1976	2826.7	12897	483	4
1977	2958.6	13358	462	4
1978	3115.2	13915	556	4
1979	3192.4	14098	183	1
1980	3187.1	13993	−105	−1
1981	3248.8	14114	121	1
1982	3166.0	13616	−498	−4
1983	3279.1	13966	350	3
1984	3501.4	14774	808	6
1985	3618.7	15123	350	2
1986	3717.9	15387	264	2
1987	3853.7	15798	411	3
1988	4024.4	16339	541	3
1989	4144.1	16659	320	2

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

[2] Net Federal debt equals gross Federal debt less Federal debt held in U.S. Government accounts.

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

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

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

[6] Federal debt held by the public less Federal Reserve holdings of Federal debt.

[7] Measured by the Consumer Price Index for all items, year to year basis.

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

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

Office of Market Finance, July 10, 1990.

CHANGES IN RECEIPTS

(In billions of dollars)

	1988	1989	1990	1991	1992
Receipts under tax rates and structure in effect January 1, 1981 [1]	1,002.6	1,088.2	1,167.3	1,252.7	1,349.9
Administrative action	0.8	0.8	0.6	0.2	0.[illegible]
Enacted legislative changes:					
Economic Recovery Tax Act of 1981	−264.4	−290.9	−322.8	−357.7	−397.6
Tax Equity and Fiscal Responsibility Act of 1982	57.3	55.7	57.2	61.2	64.7
Highway Revenue Act of 1982	4.9	5.1	5.1	5.1	5.1
Social Security Amendments of 1983 [2]	10.9	11.8	14.5	17.2	18.1
Interest and Dividends Tax Compliance Act of 1983	−1.8	−2.0	−2.5	−2.8	−3.1
Railroad Retirement Revenue Act of 1983	1.2	1.1	1.1	1.1	1.2
Deficit Reduction Act of 1984	25.4	27.7	31.0	33.8	37.9
Consolidated Omnibus Budget Reconciliation Act of 1985	2.9	3.0	3.0	3.2	3.5
Federal Employees' Retirement System Act of 1986	−0.2	−0.2	−0.3	−0.4	−0.4
Omnibus Budget Reconciliation Act of 1986 [3]	1.2	2.0	1.0	0.1	1.0
Superfund Amendments and Reauthorization Act of 1986	0.6	0.8	0.8	0.8	0.8
Continuing Resolution for 1987	2.8	3.0	2.6	2.6	2.6
Tax Reform Act of 1986	−8.9	−24.4	−20.3	−16.4	−20.9
Omnibus Budget Reconciliation Act of 1987	8.6	13.9	16.1	15.4	12.2
Continuing Resolution for 1988	2.0	2.7	2.6	2.7	2.7
Medicare Catastrophic Coverage Act of 1988 [4]		0.6	6.6	7.2	6.9
Family Support Act of 1988		0.1	0.2	0.3	0.3
Technical and Miscellaneous Revenue Act of 1988		−0.4	−0.1	0.1	−0.3
Social security taxable earnings base increases: [5]					
$29,700 to $32,400 on Jan. 1, 1982	6.9	8.0	9.0	10.0	11.1
$32,400 to $35,700 on Jan. 1, 1983	6.9	8.1	9.2	10.4	11.6
$35,700 to $37,800 on Jan. 1, 1984	3.6	4.3	5.0	5.7	6.4
$37,800 to $39,600 on Jan. 1, 1985	2.8	3.4	3.9	4.5	5.1
$39,600 to $42,000 on Jan. 1, 1986	3.3	4.0	4.7	5.5	6.2
$42,000 to $43,800 on Jan. 1, 1987	2.2	2.7	3.1	3.7	4.2
$43,800 to $45,000 on Jan. 1, 1988	0.5	1.6	1.9	2.2	2.6
$45,000 to $48,000 on Jan. 1, 1989		1.5	4.4	5.2	6.1
$48,000 to $50,700 on Jan. 1, 1990			1.4	4.0	4.7
$50,700 to $53,400 on Jan. 1, 1991				1.4	4.2
$53,400 to $56,100 on Jan. 1, 1992					1.4
Social security (OASDHI) tax rate increases: [5] [6]					
13.3% to 13.4% effective Jan. 1, 1982	1.8	2.0	2.0	2.2	2.2
13.4% to 14.0% effective Jan. 1, 1984	13.6	14.5	15.3	16.1	16.8
14.0% to 14.1% effective Jan. 1, 1985	2.5	2.7	2.8	2.9	3.1
14.1% to 14.3% effective Jan. 1, 1986	4.5	4.8	5.1	5.4	5.7
14.3% to 15.02% effective Jan. 1, 1988	10.8	15.8	16.7	17.7	18.6
15.02% to 15.3% effective Jan. 1, 1990			6.1	10.4	10.7
Other	3.4	3.8	3.3	2.9	3.0
Proposed legislation and administrative action		—*	1.8	3.8	3.6
Total, receipts under existing and proposed legislation and administrative action [7]	**909.0**	**975.5**	**1,059.3**	**1,140.5**	**1,212.2**

* $50 million or less

[1] These estimates assume a social security taxable earnings base of $29,700 through 1992.

[2] Excludes the effect of increases in the OASDHI tax rate that are shown below.

[3] Excludes the effect of increases in the social security taxable earnings base that are shown below

[4] Includes the effect on income taxes of the substitution of cash benefits for a portion of employer medigap insurance that would have been otherwise provided

[5] When the tax rate and the taxable earnings base increase at the same time, dividing up the total effect on receipts is arbitrary to some small extent because of an interaction effect. The increase in receipts due to this interaction effect is attributed to the rate and base changes in proportion to the increases in receipts that would occur if the rate and base were each changed separately

[6] The combined employer-employee old age and survivors, disability, and hospital insurance (OASDHI) tax rate.

[7] These estimates include both the direct and indirect effects of administrative action and legislative changes

Table D-23. MID-SESSION REVIEW: FEDERAL GOVERNMENT FINANCING AND DEBT

(In billions of dollars)

	Actual 1989	Estimates					
		1990	1991	1992	1993	1994	1995
Financing:							
Surplus or deficit (–)	–152.0	–220.1	–176.3	–133.9	–49.2	31.5	55.4
On-budget	(–204.7)	(–276.0)	(–253.1)	(–220.3)	(–149.7)	(–86.1)	(–75.5)
Off-budget	(52.8)	(56.0)	(76.8)	(86.4)	(100.5)	(117.6)	(130.9)
Means of financing other than borrowing from the public:							
Decrease or increase (–) in Treasury operating cash balance	3.4	11.0	—	—	—	—	—
Increase or decrease (–) in:							
Checks outstanding, etc.[1]	8.1	0.1	2.4	—	—	—	—
Deposit fund balances	0.7	–1.2	–0.7	–1.2	—	—	—
Seigniorage on coins	0.6	0.6	0.6	0.6	0.6	0.5	0.5
Proceeds from the sale of loan assets with recourse[2]	*	—	—	—	—	—	—
Total, means of financing other than borrowing from the public	12.9	10.5	2.3	–0.6	0.6	0.5	0.5
Total, requirements for borrowing from the public	–139.1	–209.6	–174.1	–134.5	–48.7	32.0	55.9
Reclassification of debt[3]	—	—	—	—	–2.4	—	—
Change in debt held by the public[4]	139.1	209.6	174.1	134.5	51.1	–32.0	–55.9
Debt Outstanding, End of Year:							
Gross Federal debt:							
Debt issued by Treasury[4]	2,842.0	3,174.9	3,490.8	3,787.9	4,025.3	4,199.5	4,366.7
Debt issued by other agencies	24.2	31.2	30.7	30.7	33.1	31.9	30.6
Total, gross Federal debt[4]	2,866.2	3,206.1	3,521.5	3,818.6	4,058.5	4,231.4	4,397.2
Held by:							
Government accounts	676.9	807.2	948.4	1,111.1	1,299.9	1,504.8	1,726.6
The public[4]	2,189.3	2,399.0	2,573.0	2,707.5	2,758.6	2,726.6	2,670.7
Debt Subject to Statutory Limit, End of Year:							
Debt issued by Treasury[4]	2,842.0	3,174.9	3,490.8	3,787.9	4,025.3	4,199.5	4,366.7
Deduct (–): Treasury debt not subject to limit	–15.6	–15.6	–15.6	–15.6	–15.6	–15.6	–15.6
Agency debt subject to limit	0.3	0.5	0.5	0.5	0.5	0.5	0.5
Unamortized discount or premium (–) on Treasury notes and bonds	3.1	2.9	2.9	2.9	2.9	2.9	2.9
Total, debt subject to statutory limit[6]	2,829.8	3,162.7	3,478.6	3,775.7	4,013.1	4,187.3	4,354.5

*$50 million or less.

[1] Besides checks outstanding, includes accrued interest payable on Treasury debt, miscellaneous liability accounts, allocations of special drawing rights, and, as an offset, cash and monetary assets other than the Treasury operating cash balance, miscellaneous asset accounts, and profit from the sale of gold.

[2] Proceeds from the sale of vendee loans with recourse are required by law are to be classified as offsetting collections rather than means of financing.

[3] The Farm Credit System Financial Assistance Corporation is estimated to be reclassified from a Government-sponsored enterprise to a Federal agency as of October 1, 1992, and its debt is accordingly reclassified as Federal agency debt.

[4] Treasury securities held by the public are measured at accrual value (i.e., sales price plus amortized discount or less amortized premiums).

[5] Consists primarily of Federal Financing Bank debt.

[6] The statutory debt limit is $3,122.7 billion.