DEBT CEILING LIMIT ISSUE

HEARING

BEFORE THE

COMMITTEE ON BANKING AND FINANCIAL SERVICES

HOUSE OF REPRESENTATIVES

ONE HUNDRED FOURTH CONGRESS

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Thursday, February 8, 1996

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DEBT CEILING LIMIT ISSUE

THURSDAY, FEBRUARY 8, 1996

HOUSE OF REPRESENTATIVES,
COMMITTEE ON BANKING AND FINANCIAL SERVICES,
Washington, DC.

The committee met, pursuant to notice, at 9:40 a.m., in room 2128, Rayburn House Office Building, Hon. James A. Leach [chairman of the committee] presiding.

Present: Chairman Leach, Representatives McCollum, Roth, Bachus, Bono, Ehrlich, Cremeans, Watts of Oklahoma, Gonzalez, Vento, Schumer, Frank, Kanjorski, Kennedy, Orton, Maloney, Bentsen, and Jackson.

Also present: Representatives Mica and Saxton.

Chairman LEACH. The committee will come to order.

This hearing is called to discuss the debt ceiling issue and receive recommendations on appropriate courses of congressional action in the wake of the current budget impasse.

Let me begin by making it clear that while the committee can expect to hear today contentious concerns from various sides about actions taken or not taken over the past few months of budget negotiations, Congress is committed to the principle that there will be no default, not for 1 minute.

At issue this month is the establishment of the most appropriate methodology for lifting the debt ceiling, not whether the ceiling will be breached. Default is not on the table.

The effects of stock market, as well as bond market, turmoil that will be triggered by a Federal default cannot be underestimated. Markets depend on confidence, and confidence is rooted in the notion of a stable government. Given the difficulties in reaching political accommodations in an increasingly diverse and polarized political system, the political parties and first and second estates of government must understand that on certain issues, consensus has to be reached. Default is such an issue.

Nevertheless, while Congress has never in its history allowed default, few modern day legislators have pristinely supportive voting records on raising the debt ceiling, and no legislator who has been in Congress over the past few decades can say he or she supported only so-called clean debt ceiling approaches. Directly or indirectly, debt ceiling increases have generally been tied to budgetary precepts.

Over the last 10 years, for instance, the debt ceiling has been increased 17 times by Congress. Only seven times has this been accomplished through a clean bill and most of these have been short-term measures tied loosely to resolution of major budget issues.

The majority of times debt ceiling increases have explicitly been tied to budget legislation.

A decade ago the tradeoff demanded by a liberal Congress voting to increase the debt ceiling was acquiesced by the Reagan Administration in Congress' principal priority: greater percentage increases in domestic spending than in the defense budget. Indeed, the reason the national debt is such a problem today, is that Reagan era deficits were surprisingly driven more by increases in spending than decreases in taxes. Federal spending as a percentage of GNP increased from 21.5 to 23.5 percent during the Reagan Administration, while tax revenues basically remained level at 19.25 to 19.5 percent.

Hence, Republicans believe that if the country is to reach a balanced budget without tax increases, we must reduce the size of government in relationship to the whole economy, the GNP, although not necessarily in relation to current governmental expenditures.

The background of today's circumstance is that the new majority in Congress has attempted to couple the debt ceiling issue with constraints on the growth of government and institute an inflation-adjusted freeze on spending. The old majority is crying foul. Like in the 1980's, it insists on debt ceiling increases to accommodate Federal spending growth well above the inflation rate.

There is, of course, a shared responsibility between the executive and legislative branches on the issues of the budget and debt ceiling. But in today's context, each branch has a different perspective. The executive argues that Congress has not offered an approach it can support and that Congress has used strong-arm tactics which included bringing parts of the government to a standstill. The President in his State of the Union address even lectured those assembled, "never, never" to again press the executive to this extent.

The Congress, on the other hand, points out that last fall it passed and sent a balanced budget approach, including the lifting of the debt ceiling on the executive, which the President vetoed.

Subsequently, the President put the honor of the Presidency on the line by affirming publicly and signing a bill obligating himself to the development of a balanced budget approach using common economic assumptions, that is CBO estimates, by the end of last year. Only when it became clear that the word of the President, at least with regard to the budget negotiations, was not being kept, did Republicans put pressure, perhaps mistakenly, on Federal Government operations.

But it should be clear that just as the view of the executive is never, never should government be shut down for lack of timely appropriations, it is the view of the majority in Congress that always, always, should the President uphold the law and keep his word to the American people. When the President commits to a balanced budget approach by a time certain, it is not unreasonable for Congress to believe this commitment should and would be kept.

In this regard, subsequent reviews of documents and inside strategizing would appear to indicate that the White House had developed a strategy well in advance of a debt limit crisis to prolong confrontation with Congress. This strategy has had the effect of putting an element of instability into the economy and precipitated more than a little social splintering.

Here let me point out some of the nuances involved in the politicizing of economics. Medicare is the foremost.

In 1993, the First Lady testified before Congress that the Administration favored capping annual Medicare spending increases at 6 to 7 percent. The Vice President in 1993 pointed out on national television that the Administration favored a 5.5 to 6 percent annual Medicare cap. In the background, Leon Panetta, in one of his last acts as House Budget Committee Chairman, proposed a 5.5 percent annual cap.

The Republican balanced budget, vetoed last fall by the President, capped Medicare increases at 6.4 percent. Based on revised CBO estimates, the Republicans subsequently proposed a 7.2 percent annual Medicare increase approach.

Any neutral observer might ponder the fairness of Democrats charging Medicare was being gutted, when the Republicans offered higher Medicare spending levels than the President, the Vice President, and the President's chief of staff earlier proposed. Any neutral observer might also wonder where Treasury has been in advising the President and Congress on Medicare in recent months, when it must have had an early glimpse that the Medicare trust fund was in worse shape than was publicly known until revelations of last week.

The surprise deficit incurred by the Medicare fund last year underscores the need for reform to ensure Medicare solvency, not politics to advance the fortune of any politician or his or her party.

Here it might be noted, I know of no economist, conservative or liberal, who has not suggested in recent years that the budget can never be controlled unless the entitlement system is reformed. If one is serious about controlling Federal spending, at the same time leaving adequate room for discretionary spending programs such as education, entitlements must be disciplined.

In conclusion, let me stress there will be more than a little truth to the perspectives presented by both sides this morning, but the big picture is the public has been ill-served by the political games that have been played. The big picture is that the Republicans have a compelling case for budgetary restraint and endless entitlement reforms. Likewise, Democrats have a credible case to insist that priorities in certain areas like education should be reconsidered by the new majority.

The tragedy is that accommodation could and should have been achieved, with the discipline of the need to lift the debt ceiling supplying an effective time constraint. Since that circumstance has not materialized, both parties now find themselves less able to compromise and more likely to delay critical budget issues until after the next election.

The debt ceiling will soon be lifted and default averted, but the real story will not relate to this event which will occur later this month, probably on February 29, Leap Year Day, but to the opportunity that has been lost. What has been at issue is the thinness of the line between contemplating default and using the debt ceiling issue as a constructive opportunity to reach consensus on what realistically should be done in the legislative process.

The combination of Treasury tactics and an avalanche of partisan mischief and political apprehension in both parties, of Congressional miscalculation of the power of the President, and executive branch misunderstanding that taxing and spending decisions are constitutionally the principal province of Congress, has produced a stalemate, making orderly long-term budget and debt management approaches unlikely to be adopted this year.

It is not a high moment for democratic governance.

Before turning to our distinguished panel, I would like to recognize my esteemed ranking Member, Mr. Gonzalez, for his opening statement.

Mr. GONZALEZ. Thank you very much, Mr. Chairman. I appreciate that. It is very difficult to treat this hearing as a serious matter, because, after all, this committee does not have jurisdiction to act on the debt ceiling. Also, the Republican leadership has vowed not to permit default. But we are told there will be some kind of political conditions to be met in order to avoid default.

On the other hand, they have not decided what the conditions will be. In any case, those demands are being formulated not in this committee, but somewhere else. So this would seem to me to be the wrong forum for a hearing, since the policy decisions will not be made here.

One purpose of the hearing might be to allow those who are so inclined to attack the Secretary for protecting the Nation's credit to do so. But surely no rational person would seriously argue that the Secretary should have done anything else. It makes little sense to have a hearing to try to explain to the Secretary why a lighted stick of dynamite is actually a handy bat to beat the President into submission.

Another purpose might be to trot out the latest political message, to see if it works better than the old train wreck scenario. After all, when the train wreck seemed to be a great idea, the Secretary was blamed for crying wolf, and then accused of doing too much to keep the wolf away. Now he is being criticized for not doing enough to prevent default because there really was a wolf at the door.

But what I hope is this hearing will be an opportunity for us to hear some serious discussions about the debt limit and why default is a bad idea. Every family gets bills every month, and every bill carries with it a warning that there will be a penalty for late payment. Therefore, every family knows that if you don't pay your bills on time and in full, you either do not get credit, or you pay more for it.

The same thing is true of the Federal Government. If Congress does not permit the Treasury to pay bills on time, or if Congress gives anyone serious cause to believe that the bills will not be paid on time, the U.S. Government, and that means every one of us, will pay a penalty. Default, or even serious threats of default, will cost us real money, that is plain and simple, and there would be no one to blame but the U.S. Congress, which alone can enact the laws needed to allow those bills to be paid, bills that the Congress authorized anyway.

Specifically the actions needed to ensure that the bills get paid must originate here in the House, so if there is a default or if the credit of the U.S. Government is in any way impaired, the people of this country will know who is at fault: The U.S. House of Representatives, and, more particularly, its leaders.

As I recall it, the Secretary spent all of last summer and fall asking respectfully that Congress act to protect our credit. When Congress failed to act, the Secretary took steps to give us more time to think this through. At first the Republican reaction was to say that default would not matter, which is to me a crazed notion to anyone who has even seen a creditor's bill.

Then the Republicans threatened to impeach the Secretary, whose sin apparently was to pull them back from the edge of the cliff. Lately the message has been "default doesn't really matter, but we will never let it happen anyway."

My colleagues, Congress has the sole responsibility here. We authorized the spending, and we must now pay the bills or see the taxpayers subjected to immense and undeserved penalties for late payment.

Secretary Rubin has done all he legally and prudently can to protect us from ourselves. After all the threats and bluster and bullying, it is now time for the Congress to act as responsible adults should.

If my friends on the other side can think of some way we can protect our credit without paying our bills on time and in full, I certainly want to hear it. But I think the Secretary has already taken every legal and prudent action possible, and now it is the turn of Congress to act prudently and responsibly.

Chairman LEACH. Thank you, Mr. Gonzalez.

Before turning to other Members, I would like to notice that we have a new member of the committee that has joined us today, and we welcome you, Mr. Jesse Jackson, Jr. Your participation will be most appreciated.

Mr. JACKSON. Thank you, Mr. Chairman.

Chairman LEACH. Mr. McCollum.

Mr. MCCOLLUM. Thank you very much. I don't think there is any member of this panel of either party that thinks defaulting on the Federal debt and obligations of our government is a good idea, but I think the extremes of the two options have been grossly exaggerated. There would be, of course, some consequences that are not desirable to defaulting, but there would not be the ceiling falling that some have painted, at least I don't think so, from all the judgments that I have looked at on this. On the other hand, there would be some consequences to it.

What I think we have actually, though, is a very clear path that is being shown to us about some politics that were being played in another way that was perhaps far more dangerous to the long run of our economy than simply a question of brinksmanship that often has been played over the debt ceiling by Democrats as well as Republicans, the Democrats particularly, since they controlled this House for 40 years, and, as the chairman pointed out, on numerous occasions attached things to the debt ceiling, including a bill in the Carter era when the President wound up vetoing it, and so forth, involving oil embargoes.

But what I see happening, having listened to the President the last few weeks, the State of the Union message and so forth, is that somewhere along the way he said in his own mind and now to the

American public some things that don't quite jibe with the way the actions actually turned out.

He sounded awfully conservative in that State of the Union address. I could have given some of that myself. He said he thinks big government is at an end. I certainly hope so, but I don't see the signs to follow through on that. He says we are only a few dollars apart with regard to balancing the budget, and all he wants to do is to protect Medicare and Medicaid and welfare from those extreme things the Republicans want to do to them, and makes him sound like he is such a reasonable fellow about all this.

But it took 11 months and four budget submissions to this Congress before he submitted a budget that was in balance according to the Congressional Budget Office, and that only came about after there was brinksmanship, the shutting down of the government by this Congress and the President. Really, I think he shut it down because he vetoed the bills that would have kept it open. Whatever the case, he played that rather craftily from a political standpoint to get the most mileage out of it. Yet, getting a balanced budget up here sounds like the end-all-be-all when you listen to what he has to say.

That was never the end game. Republicans never wanted to get the President to simply present a balanced budget. How you balance it is equally important. We thought that would be the beginning of serious negotiations, once we could agree of the bottom line figures of something in balance, with figures that matched the Congressional Budget Office's reasonable assumptions about the future of the economy.

We wanted to reduce the size and scope of the Federal Government. We want to get at entitlements. We think it is required, two-thirds of the Federal budget are entitlements, and substantive changes in the way entitlements work has to be in place to get any credible budget in balance in 7 years or any number of years.

We are very chagrined by the fact that during the budget negotiations that went on at the White House with Congressional leaders at the end of December and the first of January, the President submitted a program for Medicaid reform that had been endorsed by 68 House Democrats, and he rejected it. He said, "I won't have anything to do with the balanced budget proposal in these discussions." He was given a Medicare proposal that was endorsed by 47 House Democrats, hardly something that was strictly a partisan proposal, and he rejected that. And he was given the Senate-passed version of the welfare reform bill that only nine Democrats voted against over there, and he rejected that.

I don't think Republicans have been unreasonable at all. I think this President has been playing politics with this, and I think the debt ceiling question we are on today is a part of that question. We should not be playing those kinds of politics, and least of all the President should not be, telling the American public and having Secretary Rubin, I am sure, in convulsions together with the President say the sky is going to fall if this or that doesn't happen, and then going out and using powers that are very dubious and have been highly criticized by well-respected authorities to circumvent the rule that Congress has the right to raise the debt ceiling and to be the one who determines these matters under the Constitution, not the executive branch of government.

So I think today's hearing is fruitful. It is important for us to put this in perspective, and I look forward to hearing what some of our colleagues have to say about this subject, but, most importantly, what Secretary Rubin has to say today about what appears to have been a pattern and practice going on in this Administration of trying to play as much politics to set Republicans up for the next election as possible, and lacking the seriousness that I think most of us expect of getting to a real balanced budget and actually accomplishing negotiations of compromise, which the rhetoric says they want to do, but the actions certainly don't conform to.

Thank you.

Chairman LEACH. Thank you, Mr. McCollum. Mr. Vento.

Mr. VENTO. Thank you, Mr. Chairman.

The government has been in some form of shutdown for almost a quarter of the current fiscal year. Congress has yet to successfully complete action on spending bills. Key programs are either underfunded or unfunded as Congress, through continuing resolutions, does a patchwork job of funding through March 15.

Today, the ultimate government shutdown is threatened by the Republicans. Did the Speaker push to enact a clean debt ceiling last week, or even a compromise debt ceiling bill? No. Instead we passed a politically-motivated debt extension whose literal intent is to prevent Social Security checks from bouncing March 1. It leaves a shadow over all the other credit plans.

In an effort to gloss over the possibility of hard work and explain away the risk of default, we no doubt will hear that this measure stays the guillotine of default until March 15 or 21.

This partial measure was a step backwards, and in truth signals that the Republican majority are at best mixed and at worst disingenuous in the matter of preventing U.S. default. After all, we are dealing with the real credit life of our Nation, not some cabbages in this self-made GOP guillotine crisis.

At this time of crisis, the House and Senate majority party leadership has postponed consideration of the necessary legislation until the 11th hour, and offered a convoluted Social Security measure as cover to protect their political hides. The Republican majority is playing a high stakes game with one of the fundamental benchmarks of the U.S. economy. This is not the type of leadership behavior that the market or the American people expect, but rather the threats and actions of those who are politically motivated.

The 104th Congress continues to fiddle while the good U.S. credit rating burns. U.S. default would be a crisis. Even the threat of it could tip our U.S. economy into recession. And at the very least it will mean higher mortgage rates, student loan increases, higher rates for pensions, for auto loans, consumer credit loans, which are linked to Treasury paper. The government will see higher costs of borrowing and the resulting increase in our debt as we pay those costs.

What thought process grips this Republican leadership and majority in the 104th Congress one can only speculate. Apparently, the true believers of supply-side tax cuts and dismantling the Federal Government believe their own rhetoric. But even if they are correct about their untested, questionable, inequitable policy proposals, doesn't the majority of Republicans understand that the economic shock wave of default and tarnished credit rating will eclipse any assumed benefit from the GOP Federal budget schemes?

In lieu of responsible action, of course, the Secretary of Treasury has had to take necessary and legal steps to avoid U.S. Government default. He told us he will run out of viable options on February 29 or March 1. Secretary Rubin supposedly will have the ability now to hold on until mid-March. The thanks he will probably receive again are threats of impeachment for such action.

U.S. default is simply unthinkable, but some of the Republican leadership have proudly held up this default as a trump card for the past year, in spite of the serious and certain negative ramifications. They have used the threat of government default for budget negotiation posturing and to blackmail the country into accepting their budget prescription to choke the economy.

This is outside the reasonable conduct assumptions of the Constitution that anticipate cooperation with the public interests for the American people, not confrontation for the political interests of candidates.

I must again commend Secretary Rubin for taking the legal and prudent steps. I commend you, Chairman Leach, for having the courage and willingness to air what has been a charged issue this past month.

But this hearing will tell us what we all should know: Pass a clean extension of the debt ceiling and pay your bills, and save the political posturing and threats for the campaign.

I look forward to the testimony today, Mr. Chairman, and hopefully a conclusion to this sorry story.

Chairman LEACH. I thank the gentleman. Mr. Roth.

Mr. ROTH. Mr. Chairman, I think this is absolutely the right time, the right committee, the Committee on Banking and Financial Services, to review this debt ceiling. After all, we are raising this debt ceiling or being asked to raise it from $4.9 trillion to $5.5 trillion. That means that the average American is going to have much more debt, that means that the average American out there is going to have higher interest rates, and that means the average American out there is going to have a harder time finding and keeping a good paying job.

To prepare for this hearing, I called a number of citizens in my district, small business owners, bankers, retirees. The real taxpayers. I asked them what their attitude is toward the national debt and toward the plan to borrow more money.

Everyone I talked to had the same reaction. They simply do not understand why the government cannot cut spending and balance the budget. Not in 7 years, but this year. One banker said if the Federal Government was his customer, he would cut off anymore credit until the government started paying down the existing debt. In other words, he would put the government on a work out plan, a business plan.

A very successful entrepreneur told me the government should be treated like everyone else. No more credit, unless the budget is balanced and you start paying off what you already borrowed. A retiree said, "Would you take money from your children and give it to someone who has borrowed an immense amount of money from you before who has not even tried to pay back anything? Would you loan such a debtor more money?"

The point is, people in the Midwest think that the government spending is totally out of control.

Now, this Congress is not going to default. We know that. But we have an obligation to start asking some questions when we are again asked to increase the debt ceiling from $4.9 to $5.5 trillion.

I noticed that under the President's budget, spending keeps going up year by year. After 7 years, we spend much more than we do today under this plan. Under the President's budget, revenues are raised, no cuts in spending, and as a result, you have piled on another $755 billion in debt. It is right here, on page 19, it comes out to $755 billion in additional debt over the next 7 years. Another three-quarters of a trillion dollars.

This budget that is before us, I think this would make Marion Barry proud. No cuts, more spending, more taxes, and more debt. If the President took this budget out to my district, the constituents would laugh out loud. The people I represent seem to understand better than most that you do not balance the budget by raising taxes. If you don't cut spending, you will never get there. But, here is the President's budget: More spending every year as far as the eye can see. So I am forced to conclude that President Clinton believes in the Marion Barry School of Economics, throw up your hands, do nothing, and just keep spending.

Well, Mr. Chairman and members of this committee, we owe the American people a sense of trust. They have put their confidence in us. So before we raise this national debt ceiling on them again and their children, from $4.9 trillion to $5.5 trillion, I think it behooves us to ask some tough questions.

Thank you, Mr. Chairman.

Chairman LEACH. Does anyone else on this side—Mr. Schumer.

Mr. SCHUMER. Thank you, Mr. Chairman. I want to thank you for holding these hearings.

Last week you stated that nothing would be more irrational than to have any question of default of the government at any time. Not just don't default, don't have a question of default. Those are my words.

Back to you, Mr. Chairman. Whatever the status of the budget talks, this or any year, Congress has no choice but to ensure that default never occurs.

Well, I couldn't have stated it better myself. I applauded you then, I do so again today for your clear, forthright assertion of one of our Nation's most vital interests.

Unfortunately, as our hearing will sadly show today and has already been shown by some statements from the other side, there are Members of your party who continue to question that wisdom. They continue to insist, as Bill Archer, Republican Chairman of the Committee on Ways and Means, did on the same day you spoke out, that there should be no debt ceiling extension unless it is attached to Republican proposals on budget, taxes, and entitlements.

My good friend Toby Roth from Wisconsin, I doubt his constituents don't understand this, unless he explained it to them wrong.

One of them said the government should be treated the same as everyone else.

Well, go ask that small business owner, Mr. Roth, after he has incurred a debt, is he allowed not to pay it? Not cut down your spending in the future, but you went and incurred a debt last year or the year before. The small business man in Sheboygan is not going to get the opportunity to say, no, I am not going to pay. But Mr. Roth and some of the other colleagues think that Uncle Sam should have that right, even though every American, once they incur debt, should have to pay.

So it is incredible that this abstinence persists despite the shocking announcement by Moody's investment service that it may be forced to downgrade U.S. Treasury bonds for the first time in our Nation's history. Yes, the Congress passed a 2-week stay of execution last week, but we are still on the road to default unless we act decisively and quickly to pass a clean extension of the debt ceiling.

Why are we in this fix? One word: politics. We are not bankrupt, we can pay our debts. As Moody's warned, nonpartisan Moody's, the positions being taken in the current debate over the budget and the debt ceiling have significantly increased the risk of default. Simply put, the extremists in Congress are playing with fire. And if they are not very careful, we will all get burned. They say all they wanted is to reduce the government deficit. That is a worthy goal. And first they said President Clinton had to come out for a balanced budget. He did. They did not like that. So then they said he had to come out for a balanced budget in 7 years. He did. They didn't know what to do then. Then they said, well, it has to be a balanced budget in 7 years with CBO numbers. He said yes again.

Ladies and gentlemen, we know what the story is here. The 80 or 1,800 extremists in the Republican Caucus, they don't want a balanced budget. They wanted deep tax cuts. That is the only way they want a balanced budget.

Clinton's way, 7 years, CBO numbers, but not as deep tax cuts and not as deep government cuts, balances the budget every bit as well as the bill applauded by the extremists that passed this House.

So we know what is going on here. And when everyone else says we wanted to reduce the deficit, no, they are saying only reduce the deficit, some of these extremists, my way, $270 billion in tax cuts, which many Americans say is not the way to go.

But you know what? That is what politics is all about, to decide which way to balance the budget now that both sides have agreed on all the parameters of how much years, what numbers, and whether there should be a balanced budget.

That should be debated in Congress. That is a fair debate. But holding the debt ceiling hostage?

Now, many people watching today just cannot believe that a small number of those not very well schooled in how finance works, even though the business manager in Sheboygan would know it in a minute, say, oh, no, this Congress would not be brass even enough to default.

Well, let me tell you something. That is what they said about clogs closing down the government. It was substantively wrong, it was politically stupid, and yet, this Republican Congress did it not once, but twice. So I am worried they may be wrong now.

If you think it is just 80 freshmen Republicans, well, I will not use an expression, but look at the head. Look at the top, Newt Gingrich. Where do you think these guys got this goofy idea? It did not come to themselves. Here is what he said: "The President will veto a number of things, and we will then put them all on the debt ceiling, and then he will decide how big a crisis he wants." That was quoted not by some publication of the liberal establishment, but by none other than the most accurate, quote unquote, newspaper in Washington, DC., according to some, the *Washington Times*.

Now, I am having a good time, Mr. Chairman.

Chairman LEACH. You are, sir.

Mr. SCHUMER. Let me just do one other thing, one other thing. I will read one other quote from the Speaker. Skipping my paraphrasing, here is what he said. "I don't care what the price is. I don't care if we have no executive offices and no bonds for 30 days—not at this time."

Who is to blame that we have not resolved this debt ceiling crisis? Who is to blame that we don't have a clean debt bill while we debate the politics of how to balance the budget? I would blame the Speaker.

Mr. ROTH. Would the gentleman yield?

Mr. SCHUMER. I would yield with the Chairman's permission.

Chairman LEACH. The gentleman's time has expired. Maybe if we go in regular order, someone else will yield to you briefly.

Mr. Bachus.

Mr. BACHUS. Mr. Chairman, I think it was 1 week ago that many of us signed the civility pledge. I think we ought to pause for a minute of silence.

Mr. SCHUMER. When you have nothing to say, you may as well be silent.

Mr. BACHUS. In the memory of the rest-in-peace civility pledge, I guess.

Because of that civility pledge, my remarks are going to be somewhat thinner, because I think that pledge was a major step toward reforming the reputation of this body. When Bruce Vento earlier, Representative Vento, accused Republicans of being disingenuous, I didn't realize at the time it might be the kindest thing that was said about us today. So I will accept that as a compliment.

I will say this: For some time the Clinton Administration has been calling on Congress to adopt a clean debt ceiling increase. Two months ago, Secretary Rubin appeared before this same committee, this very committee, and argued that there was no relationship between the debt ceiling and spending.

I want to beg to disagree with that statement. I think the people of this country recognize and they are becoming united in their view that there is a clear linkage between deficit spending and the national debt. They are clearly interrelated. The more you spend, the greater the debt.

Because of that, there is nothing clean about continued deficit spending. There is no such thing as a clean debt ceiling increase. That is a contradiction.

So when we consider raising the debt ceiling, it is not a clean thing that we do. It is dumping more and more debt on to our children. The children of this country are already coming into this world with a debt of $187,000 in taxes over their lifetime just to pay the interest on the national debt. That is why those of us in Congress on just about every opportunity that we get, we talk about that it is not wise to increase the debt ceiling, that when we do that, we are passing the buck to our children.

We are going to continue to be dragged, kicking and screaming, into increasing the national debt.

Now, the Clinton Administration once again has requested that Congress increase the debt ceiling. I will say this: It is up to Congress and Congress has the responsibility, and Congress alone, to make this difficult decision whether or not we are going to raise the debt ceiling and to permit an increase in the borrowing authority.

I will say this: I recall that just last week we passed a bill, I think January 29, to increase the debt ceiling temporarily. So there is no question that we have done that. We did it last week, and actually I guess it was last week, and the President, it is my understanding, signed it this morning. So we have acted; the debt ceiling has been increased this morning.

But now is the time for us to get on with the important work. I want to quote from Secretary Rubin's speech that he has passed out to us today. It says, "Now Congress and the President must agree on legislation that addresses the debt limit problem on a long-term basis, legislation that addresses the debt limit problem on a long-term basis."

That is a balanced budget. That is what the legislation is that addresses the debt limit problem on a long-term basis, a balanced budget. Until we do that, we are going to continue to have these dirty little debt ceiling increases, where we pass the buck to our children and grandchildren. I hope we will not again consider or talk about these as "clean" legislation.

Thank you, Mr. Chairman.

Chairman LEACH. Thank you for those thoughtful observations. Mr. Frank.

Mr. FRANK. Thank you, Mr. Chairman.

The first thing we ought to remind people is if we had signed into law the Republican budget plan, I think the deficit would have had—the debt limit would have had to be increased because the Republican 7-year budget plan calls for $700 or $800 billion, maybe closer to $1 trillion, in additional debt.

We are in a fantasy world here. I apologize if the word "fantasy" strikes you as uncivil. My colleague was accused of incivility for quoting the Speaker.

Chairman LEACH. If the gentleman would yield, the Chair would rule that "fantasy" is an appropriate term of reference.

Mr. FRANK. I thank the Chair. I will submit any fantasies to him for further ruling.

Chairman LEACH. The Chair would rule that would be inappropriate.

Mr. FRANK. Well, I lost the opportunity.

The gentleman from New York quoted the expert and was accused of incivility. I can understand why that would be embarrassing, why it would be inconvenient, but I do not believe it was uncivil. Let's remember only a few weeks ago, and I think this is very important to note, members of the Republican leadership were outrageously suggesting that the Secretary of the Treasury ought to be impeached for doing his job. They have forgotten that. We have gone from impeachment to civility. I am sure at some point Attila went from war to tea parties. We have had that kind of spectrum change.

Let's not talk outrageously, inappropriately, unfairly about impeaching a hard-working, respectable hard-working public official with great integrity, and then a few weeks later say you quoted the Speaker unfairly.

Let's go to the debt limit. The Republican 7-year plan adds hundreds and hundreds and hundreds of billions of dollars to the debt. To get your own plan into effect, you have to increase the debt limit. The suggestion that there is somehow something wrong about increasing the debt limit is nonsensical, because the Republican plan says in the year 2001, let's have a deficit, a national debt that is hundreds of billions of dollars more than this one.

Here is what happened. The Republicans didn't like the Constitution of the United States, because the Constitution said if you want to make very drastic changes in basic law, you have to have two-thirds of both Houses of Congress or get a Presidential signature. They didn't have a Presidential signature on the plans to gut Medicare, make severe reductions in what Medicare would be otherwise spending, to prevent tax cuts we didn't like, to undo the Earned Income Tax Credit. So they didn't have two-thirds to override the President, they didn't have the President's signature, so they thought, as the gentleman from New York indicated and others, they could bludgeon the President into, in effect, suspending his veto by threatening government chaos. And the President would not give in.

The Speaker was quoted in the *Washington Post* as saying he was surprised the President wouldn't give in. Some of us weren't surprised, but that is a fact. So the Republicans threatened these things. At one point, they, of course, accused the Secretary of the Treasury of exaggerating the effect of shutting down the government through not raising the debt limit. They said he was crying wolf. Then they criticized him because he took steps to avoid it. Now they are back to criticizing him because he is again saying it might happen.

There is a total inconsistency here because this argument is based on such matters.

I find it particularly odd the Republicans on the one hand are threatening to shut down the government by not raising the debt limits to try and get leverage over the President, but then they object when we say that they were doing that. Now they say of course no one was going to shut down the government. Of course no one here was going to refuse to raise the new debt ceiling.

Well, I guess we have to ask your forgiveness for taking seriously what you said. Republican leaders kept saying, Republican Members kept saying, we will not vote for it unless the President gives in. We knew the President was not going to acquiesce in the de facto suspension of his veto power. He wasn't going to allow you to change Medicaid and other things so drastically. We have had this total inconsistency. You attack the Secretary of the Treasury for saying we should not shut down the government, and then for keeping the government from being shut down.

I have no idea what this hearing is about. I guess if I could sing better I would sing for spite the old song "First you say you do, and then you don't; you say you will, and then you won't."

What are you going to do? You are requesting to have a hearing that wastes everybody's time. Why don't we simply vote out an increase in the debt limit? I will make a deal with you. I will vote for one that will only accommodate the amount of debt you plan to add to the Federal Government's debt between now and 2002. Let's settle about 8 or 9 huge billion. Let's get your debt accommodated, the one you are going to add, and then we will work on other things.

Chairman LEACH. Mr. Watts.

Mr. WATTS OF OKLAHOMA. Thank you, Mr. Chairman.

It is interesting to see the minority party complaining and moaning about the effort of the Congress to balance the budget. I have some interesting quotes here from some of the minority Members from back in 1990 when President Bush was the President of the United States. Mr. Obey from Wisconsin stated, "For the Congressional budget process to work, the President has to be involved from the beginning with real budgets, real numbers, and real deficit reduction."

Mr. Panetta said in October of 1990, "The fact is, we are a Nation at risk. We are a Nation at risk economically, facing a slow but steady erosion of our economy, frustrating our ability to confront difficult issues that face us and the rising likelihood of recession."

Mr. Gephardt said in October of 1990, "With all my heart, the country is at stake. These deficits cannot go on."

Mr. Fazio said, "We have to reject this effort to clean the hands of the President from this fiasco. We need to grow up. We need to stop being carping critics, recriminating from one end of Pennsylvania Avenue to the other."

This was concerning the government shutdown and the deficits and the things that were going on when George Bush was the President of the United States. So it seems to me that some Members seem to have amnesia and are not remembering what was happening back in 1990.

I would like to thank the chairman for holding this hearing on a most timely and pertinent topic, our Nation's debt management. I would like to welcome and thank our panelists for being here today and look forward to hearing their testimony.

Article I, section 8 of the Constitution clearly states that it is the Congress who has the power to borrow money on the credit of the United States, not the President or the executive branch. The problem that continues to trigger increases in the debt limit is the failure to balance the Federal budget. Balancing the budget is the first step in paying off the ever-mounting debts that have accumulated for future generations.

Passing the Balanced Budget Act of 1995 could be the best gift we ever give our children, but this cannot be done without the President's help. We offered the President a balanced budget which included a raised debt ceiling, but the President vetoed it.

I am baffled that we are continuing to be called extremists because we wanted our children not to be strapped with a debt and a deficit that will require them to pay 80 percent of their income in the form of some government tax. We are called extremists because we want to give our kids and grandkids a chance to achieve the American dream.

Instead of negotiating a balanced budget plan, the President permitted the Treasury to raid two Federal trust funds. I recall in the State of the Union address the President stated that the Congress should not allow private employers to raid trust funds or pension funds of employees. But it is interesting to me that the President is not raising a hand, not saying a thing, when we find our Treasury Secretary taking a total of about $61.3 billion from the Civil Service Retirement and Disability Fund and the Federal Employees' Thrift Savings Fund.

By shifting these funds, the President bought more time to allow the government to skirt the debt limit and avoid a default. While no one wants a default, disinvesting retirement funds to free up room under the debt ceiling circumvents the debt limit as well as Congress' role in authorizing Federal borrowing. Moreover, it allows the Administration to avoid having to change its spending habits, a change which the American people have demanded.

The Administration says that those funds will be repaid with interest, but that interest is going to have to come from somewhere. Every dollar the Administration removes from the trust funds can then be spent by issuing new debt to the public. Again, we are left with another government bill with more interest payments at taxpayers' and our children's expense.

I would appreciate it if the Secretary and other panelists could incorporate into their statements where the money for these interest payments comes from and the accounting methods used in performing such transactions.

Living within one's means is the financial reality that individual Americans confront every day. We cannot continue to call the bank or a financial institution and ask them to continue to raise our limit on spending and not worry about how our borrowing is going to be paid back.

In closing, a case in point are the figures from the Treasury Department's annual report for fiscal year 1995. The total amount of money the U.S. Government Treasury Department received was $1,350,600,000,000 (1 trillion, 350 billion, 600 million dollars). The amount of money paid out by the U.S. Government's Treasury Department was $1,514,400,000,000 (1 trillion, 514 billion, 400 hundred million dollars), resulting in a deficit of $163.9 billion. If this continues, there will be no funds left in any of the government's trust accounts to pay any Social Security checks, any veterans checks, or any pension funds.

We must stop accumulating this debt and deficit and stop amassing an insurmountable burden on the youth, the children, the grandchildren, and the great-grandchildren of America.

Thank you, Mr. Chairman.

Chairman LEACH. Thank you for that economics lecture.

The gentleman from Utah.

Mr. ORTON. Thank you, Mr. Chairman. I would ask unanimous consent to submit my full statement into the record and just make a couple of brief comments at this time.

Chairman LEACH. Before doing that, let me say the unanimous consent request is accepted. I would also ask unanimous consent that all the opening statements of Members be allowed to be revised and extended and all of the Congressional panelists as well. Without objection, so ordered.

[The prepared statement of Hon. John J. LaFalce can be found on page 131 in the appendix.]

Mr. ORTON. Thank you, Mr. Chairman. The subject matter of this particular hearing is the extension of the debt ceiling, extending the limit of the amount of borrowing that our Treasury Department can engage in, in order to keep our government operating and functional.

As the chairman has stated and quoted in the news in the past, it should never be a question as to whether or not our country will default on its liabilities, on its debts. The full faith and credit of the United States is far too serious an issue to use as a political bargaining chip, regardless of what the final goal is to be attained.

It is wrong for either political party to politicize this issue, now or in the past. The most irresponsible act I can imagine as a legislator or as an administrator would be to attempt to put our country into default. I can plan nothing more irresponsible.

It has been suggested that the debt limit, the debt ceiling, is a way, and perhaps the only way, to limit our country's continued spending and thereby to force a balanced budget. I take a back seat to no one in an effort to balance the budget. But I disagree that the debt ceiling ought to be a bargaining chip in that balanced budget effort. In fact, I would like to quote from the nonpartisan Congressional Budget Office's economic and budget outlook from August 1995, wherein it stated: "Limiting the Treasury's borrowing authority is not a productive method of achieving deficit reduction. Significant deficit reduction can only be accomplished by legislative decisions that reduce outlays or increase revenues."

Those are the tough decisions. Where are we going to cut spending? Where are we going to raise revenue? Those are the two choices in balancing the budget.

Everyone in both political parties, in the Congress and in the Administration, should be totally embarrassed by the way we have handled ourselves in the last year. Our failure to listen to one another, our failure to negotiate in good faith, our failure to find compromise, common sense solutions to solve the problems and move forward, we should be embarrassed by that. We should be embarrassed by the way this has been handled. We should be embarrassed by statements that each political party has made.

In November of 1995, we hit the debt ceiling. Our country is prohibited by statute from borrowing any more money. At that point in time, the Secretary of Treasury had two options: Default on the debt or attempt to use money management techniques that previous Administrations have used in shifting short-term and long-term debt instruments among funds within the government in order to stave off default. The Secretary of Treasury took, I believe, the responsible action to avoid default. He was criticized and there were calls for impeachment.

Congress on several occasions attempted to pass legislation which would have forced immediate default. Those are irresponsible acts. We need to drop the partisanship; we need to listen to one another; we need to find a commonsense solution.

I would suggest to you that it is not too late to balance the budget. In fact, last week I and over a dozen of my colleagues on the Democratic side and a dozen of my colleagues on the Republican side of the aisle submitted to the Speaker, the President, the Majority Leaders of both Houses, a letter suggesting that there is consensus in the middle of both parties, that we should in fact separate the issues of balancing the budget and tax cuts, have separate votes, but we should be moving forward to finding solutions. I am hopeful we can do that.

I hope that this committee in our hearing today and deliberations will, indeed, as my friend from Alabama said, adopt the civility pledge, simply listening to the witnesses. I commend them for attending and look forward to the information we will receive.

Chairman LEACH. Thank you, Mr. Orton. Mr. Ehrlich.

Mr. EHRLICH. Mr. Chairman, I haven't been here for a while, and I really wasn't sure where I was. I walked in the room here and sat down, and within 2 minutes I was called an extremist, and then I knew I was back in Washington, DC.

I want to hear what our colleagues have to say, but I hope that we can get something done today and not just the name calling.

Thank you.

Chairman LEACH. Thank you, Mr. Ehrlich. Mr. Jackson.

Mr. JACKSON. Thank you, Mr. Chairman, for the opportunity to address this issue of paramount importance to our Nation's economic future.

Before I begin, I would like to first say how honored I am to be representing the people of the Second Congressional District of Illinois in this esteemed body and how pleased I am to have received an appointment to the Committee on Banking and Financial Service. I look forward with great anticipation to joining all of you and those members of the committee who are not present today as we engage in a very productive legislative calendar for the remainder of this Congress.

Mr. Chairman, I encourage all Members to look at this issue with an open mind as we face a very serious predicament, for as we know the full faith and credit of the United States is at stake. As we go through this process, we must remember what is important: Our children, and our seniors upon whom our personal character and our infrastructure as a Nation was built. We must not forget our working people, the backbone of this Nation. In the instance of our country, let us work together to build upon the broad support for passing a clean debt limit bill.

Mr. Chairman, I thank you.

Chairman LEACH. Thank you, Mr. Jackson. Mr. Bono.

Mr. BONO. Thank you, Mr. Chairman.

First of all, I would like to say to my colleague, Barney Frank, if he is ever going to go on the road as a singer, OK, I will go with you, but after hearing you sing, you have to take the harmony.

Mr. FRANK. Will the gentleman yield?

Mr. BONO. The gentleman will yield.

Mr. FRANK. I think someone once said that to you, too.

Mr. BONO. You always got to get in the last word; don't you?

OK. On this issue that we are talking about, you know, I get a little disgusted when we continue with this name calling and everybody is outraged that we are now dealing with the Nation's debt ceiling and we are dealing with the CRs and we have taken it this far.

I come from the street, and if I ever get into an issue and into a confrontation, of course I would love to resolve that confrontation. But if someone, if the opposition continues with the confrontation, the notion that I am just going to go, OK, you are continuing with this confrontation, I will leave and forget everything I have done—please understand that we came here a year ago with a vision of balancing the budget, and we have come this far to getting to that point. Now it is hard ball. Unfortunately, it is hard ball, but that is where it is at now.

So the notion that how dare we play hard ball when we have two different philosophical positions and not capitulate to the President and just walk away from this thing because it is serious, well, of course it is going to be serious. This is 40 years of opposing philosophy coming to a head. Why that is not recognizable, I don't know. But that is where we are.

So for me to come here and just drop it at this point, the reason I wanted this job was to try to achieve what we are trying to achieve as a conference, as a Republican conference. So we are at the rough portion of it, but we have to hang in there now. So if it gets to a debt ceiling, if it gets to a CR, if it gets to these rough issues, unfortunately, they are very rough. But the point is, we are serious. We wanted a balanced budget and the Nation wants a balanced budget.

So I don't believe in quitting, and we don't believe in quitting. So wherever it goes, it is going to go, but we are not going to give up.

Thank you, Mr. Chairman.

Chairman LEACH. Thank you, Mr. Bono.

We will now turn to our panel, and let me say you are all welcome to summarize your statements. They will be in the record.

Our four panelists are the Honorable Jim Saxton, John Mica, Paul Kanjorski and Joe Kennedy. Mr. Kanjorski and Mr. Kennedy are members of this committee. Mr. Saxton is a former member and is the distinguished cochairman of the Joint Economic Committee, and Mr. Mica is the distinguished chairman of a relevant subcommittee of the Government Operations Committee.

I thought what I would do is begin with Mr. Saxton and then alternate and go to Mr. Kanjorski and Mr. Mica and then Mr. Kennedy, if that is all right.

Mr. Saxton.

STATEMENT OF HON. JIM SAXTON, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF NEW JERSEY

Mr. SAXTON. Thank you, Mr. Chairman. I appreciate the opportunity to be here.

The purpose of my appearance here today, Mr. Chairman and Members, is to summarize the interim results of a Joint Economic Committee investigation of the Treasury Department as it relates to the debt limit increase, and particularly as it relates to the events surrounding the November 15 deadline. Let me say, Mr. Chairman, as you said in your statement, the public has been ill-served by the political games that have been played with this issue.

I would just like to make three very general points this morning in my testimony. The first is that our investigation shows that there was a deliberate effort on the part of Treasury officials, including Secretary Rubin, to mislead the country relative to the November default, a default that has become known as the default hoax; second, that the White House and the Office of Management and Budget were partners in the default hoax; and, finally, that Treasury subsequently went to great lengths to conceal information relative to the planning that preceded the default hoax.

Our inquiry into the disinvestment of the debt limit and the debt limit issues was initiated on November 17 by a letter to Secretary Rubin signed by myself and by Majority Leader Armey. Our letter requested, and I quote, "copies of all of the documents related to this decisionmaking process."

Though the Administration has still not provided all the documents covered by our request, we do have enough information to draw several conclusions, which I have just outlined. In fact, Treasury and other administrative officials have gone out of their way to keep information from us, which has been very discouraging.

I will get to that shortly, but now let me just get to the crux of the issue, which is the American people and the Congress were misled on the matter of a Federal Government default. Of course, we are hearing much of the same language again today relative to a drop-dead date of March 1, and someone mentioned today a March 15 deadline.

First of all, available documents show that early last summer, June 27 to be exact, the Administration had identified trust funds as a source of financing during a protracted debt limit impasse. These documents reflect a very detailed plan to disinvest or borrow from the Civil Service Retirement Trust Fund as well as a number of other funds. The internal Treasury documents show that inaction by Congress when the debt limit was reached in November, 1995 would not trigger a default; and, again, I remind you, this was on June 27. Those in possession of the information contained in these documents knew that disinvestment or borrowing from the trust funds, not default, would be the consequence of a debt impasse.

It is now an indisputable fact, in my view, that disinvestment of the trust funds was listed in the Treasury memo as early as June 27 as a way of managing the debt limit. Nonetheless, a number of high-ranking Clinton Administration officials created the misleading impression that inaction on the debt limit could lead to default and catastrophic economic consequences.

For example, on September 13 of last year, the *Los Angeles Times* reported, and please let me quote, "Treasury Secretary Rubin has warned that fiscal disaster could occur unless the debt ceiling is raised by November 15." The Treasury memos clearly show that anyone with access to this information had to know that inaction on the debt limit would lead to disinvestment, not default.

So while high-ranking Clinton officials in the Treasury Department and elsewhere were publicly raising a misleading impression of default risk, privately Clinton officials had been preparing for disinvestment plans all summer.

One high Treasury official was asked at a press conference if he had been crying wolf about default. He explained that legal clearance for the disinvestment had only just occurred shortly before the decision was announced on November 15—or perhaps it was the 14th. However, the Treasury documents show that legal analysis of these issues began early in the summer. So they misled the press, they misled the American people, and they created nervous markets in this country as well as around the world.

On to point number two. The default hoax was not confined to the Treasury Department, but it was partnered by the White House and the Office of Management and Budget. The evidence shows that the default hoax was part of a larger Administration political strategy. Like the Treasury officials, other Administration officials also knew that default last November was not going to happen but that disinvestment would.

The political origins of the default hoax may not have originated in the Treasury Department at all but perhaps in the White House. White House officials participated in perpetuating the default hoax in a series of inflammatory statements.

For example, Leon Panetta said, of the Republicans, "they will send a budget to the President of the United States, including a debt ceiling; and if he doesn't sign it, they will let the country go to hell and basically default on the debt."

But when Panetta said this, we now know the Administration had already been planning to use trust funds for 4 full months.

An Administration spokesman has confirmed in a recent press account—as a matter of fact, it was on February 2 of this year in the *Washington Times*. That article states: "An Administration spokesman confirmed that top Administration officials in the White House and other offices outside the Treasury were involved in the debt limit decisions and that these decisions were related to politics."

The White House official also added, "Obviously, the debt limit got all wrapped up in the budget debate which was political. The President is very concerned about dealing with this and other budget issues at the same time."

The default ruse was used in concert by a variety of Clinton Administration officials in a way that suggests some degree of coordination as called for in the June 27 Treasury memo.

Point number three: The Treasury Department went to great lengths to conceal information regarding this series of events.

The information that I have laid out thus far was extremely difficult to obtain. It is quite obvious that officials at Treasury didn't want us to have it. For over 2 months, beginning on November 17, the Treasury Department attempted to withhold information from Congress by various delaying tactics and extensive censorship of documents.

For example, a June 27 memo of the kind targeted by our investigation was provided only after more than a month of delay; and when we finally received it, 90 percent of the memo and its attachments were deleted.

Across the room here on this wall is the memo which we received, beginning on the left; and if you will note, each page, which has been blown up, has a number down in the bottom right-hand corner which was placed there by Treasury, so we didn't take pictures of anything they didn't send us. But you can see that this is a memo which had deletions in order to try to satisfy us, I suppose, by being able to tell the public we forwarded the document, and this is what they sent us.

When we finally received this months after our request, of course, we were extremely disappointed. Of the 10 pages, the text of 7 pages was entirely deleted when it was provided to us. It is impossible, in my opinion, to regard this kind of response as anything other than an attempt to conceal information.

Perhaps the Treasury Department will attempt to excuse this inexcusable obstruction of our inquiry by pretending that there was a misunderstanding about the nature of our request or that we did not request all of the material related to the decisionmaking process. However, our request originally and on all follow-up occasions specifically covered all documents and all information.

We received, finally, the uncensored version of this memo of June 27 and several other documents only after the Joint Economic Committee staff called Treasury's bluff and requested a meeting to review the uncensored documents in the original. This review of documents, which included the participation of staff from other committees, established that there was no justification for the censorship of the Treasury documents. Though we finally received these documents on January 24, 2½ months after they were requested, we still have not received all of the documents covered under our request.

Ironically, yesterday afternoon, Treasury had delivered to us additional documents. These are the documents that we received yesterday afternoon. Volumes of them. It is obvious that they were withheld until the last minute so as to make it impossible for us to review and understand them before today's hearings.

Unfortunately, the Treasury has refused to provide other Administration documents on debt-limit planning. We were informed just a few minutes ago that they are now on the way. So we thank you, Mr. Chairman, for having this hearing, which has helped us pry loose these documents.

I would just like to use this opportunity, Mr. Chairman, to call on Secretary Rubin to immediately release the rest of the documents to the Joint Economic Committee, without delay. Further efforts to withhold relevant information can only reinforce the conclusion that the Treasury Department is intent on keeping all of this information from Congress, the press and the public as long as possible.

Thank you, Mr. Chairman.

[The prepared statement of Hon. Jim Saxton can be found on page 133 in the appendix.]

Chairman LEACH. I thank you, Mr. Saxton.

Mr. Kanjorski.

STATEMENT OF HON. PAUL E. KANJORSKI, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF PENNSYLVANIA

Mr. KANJORSKI. Mr. Chairman, thank you very much.

Mr. Chairman, you don't very often, as a Member of Congress, get an opportunity to sit at this table and listen to the committee give their various positions on an issue like this; and it is most enlightening, to tell you the truth. In a way, I would like to critique us all.

The American people out there, now I understand why they are frustrated with Washington and the congressional process. We sound like a bunch of arguing children over an obvious issue. The obvious issue is we owe a debt, and we have two choices. We either fund it and pay it or we default on it.

Then what are the consequences of that default? All the waiting or tiptoeing—as my good friend, Mr. Saxton, has pointed out, the hoax, was it going to happen on November 15 or January 1 or February 15? Does it really matter? Is there anybody that doubts that if we don't refund the debt of the United States we will at some point in time in the not-too-distant future end up in default, and then what are the consequences of that default?

Interestingly enough, maybe the best explanation in my critique here is made by my good friend, Mr. Bono. This is really the culmination of 40 years of political and philosophical differences that have come together before the American people's eyes in the Congress and in the Government of the United States to resolve some very fundamental issues, very fundamental issues. But, unfortunately, they are appearing to be superficial in nature.

I was sitting here thinking of an analogy of default. The only thing I could think of to describe it would be the famous cocktail in Jonestown. It is the Washington cocktail. If we are so firm in our belief that this is the only way to accomplish a balanced budget or some other philosophical trial that we are willing to kill our political and economic system, then we should drink of the glass of default, because I think it will accomplish just that. And all the believers, indiscriminately—Republicans, Democrats, Independents—all Americans will die, and that will satisfy I am not sure who, perhaps our enemies somewhere else.

On the other hand, I hear gloom and doom. Every year, the expenditures of the American government goes up. Does that surprise anybody? Every year, the population of the United States for the last 208 years has grown. If you take a per capita cost of running the U.S. Government per individual, it would be reasonable to assume, if logic prevailed, the cost of government every year would go up. Now, is that such a shocking revelation that we should shock the American people and not explain why that occurs? Should we not explain to the American people why we have the debt that we have?

Not to get too political, but my friends on the right, 60 percent or over $3 billion—$3 trillion of this debt that we are about to vote on is debt that was run up during the Administration of those two great conservatives, Ronald Reagan and George Bush, when they ran the presidency of the United States. It is this President that in 1993—and this side of the aisle with 218 votes in the House—that responsibly voted to bring down the deficit and have accomplished the same so that this coming year we will be able to brag that for the first time in more than three decades the deficit of the United States will have decreased 4 years in a row.

But is that something to brag about? Well, not if you are a terribly fiscally conservative person that can't stand debt at all.

But to explain debt from the standpoint that bankers can't stand debt, my friends on the Republican side, bankers wouldn't be in business if their customers didn't have debt. That is what they do. They lend money for people. They lend money for people to buy homes. They lend money for people to build businesses or to educate their children and make a long-term investment. That is what America has done.

But, above and beyond that, what we don't tell the American people is that a good portion of this debt that we are about to refund went to finance the Third World War. It went to finance the trillions of dollars spent from 1945 to 1990 that did incur more than $4 trillion in debt as a result—or partially as a result—of that. But, also, it didn't account for one live new graveyard to be built in America to house our veterans in a classic confrontation of the Soviet Union and the United States.

Is that something to brag about? I think it is. We may differ on that philosophically. We probably could have lessened our population problems both in the United States and throughout the world. We could have had a different political perspective on the world if we had gone to that Third World War. We could debate that all night.

But let us not confuse the American people that somebody came to Washington and burnt money, purposely thinking that in 1996 we were going to get back at all of those Americans and their future children by destroying the credit of the United States and have justification for doing the same.

Then we hoist favorite things here. We bring the Secretary of Treasury, like past Secretaries of the Treasury, and think that if we ram them hard enough, insult them long enough, they will either resign, be impeached, or leave for some other thought-up reason, as so many in the past have, when in fact they are doing their job. They are paying the bills of the United States, and they are raising the revenues of the United States. Neither of those functions are particularly popular, and they are certainly not too popular for us in the Congress, who like to mislead the American people, so that they will continue to return us here.

If we yell that we are fiscally responsible long enough and believe in a balanced budget but don't tell them that the budget is not going to be balanced for 7 years from now and it is going to run up more debt, almost $1 trillion, before it gets balanced, we think we have accomplished something.

There is nobody on my right side here that is voting this year or at any time that I have been in Congress for a balanced budget this year. It is just an unmitigated misstatement of fact and some people could say a lie, a political lie, but we go with those lies.

Mr. Bono said it is 40 years of coming together, and I believe he is right; and I believe, as Mr. Frank said, you have to believe in the Constitution again. If you don't have two-thirds of both bodies of the House and the Senate, you cannot prevail. The American Constitution will not allow you to do that.

How can you prevail? You have a majority of the House and the Senate, and you elect a President of the United States in November, and you will prevail without that two-thirds approval. What is it better under our Constitution and our system of government but to take this issue to the people?

I could be facetious politically and say, if it is a clash, as Mr. Bono said, is it a clash that the Democratic party is in favor of Medicare and Social Security and education and the environment and that the Republican party is not in favor of those things? I could say that. Those issues that we are fighting over were developed and passed for 60 years under the Democratic parties since Franklin Roosevelt.

But that would be misleading and political. It isn't that. Some of my friends on the Republican side have voted for Social Security, have voted for Medicare, have voted for education and have voted for environment. Not all.

We have a new element of the majority party. Some of us on our side and editorialists have referred to them as extremists. Maybe they are not as extreme as that word implies. But they are certainly of a different philosophical and political bent than the average legislator that has served in the Congress for the last 30 years, and their exactitude in their way. They want their solution now, almost in a parliamentary form of government, again forgetting that we live under the Constitution and live under a different form of government, that a single election does not provide you the methodology or means to attain your end without the checks and balances and the magnificence of the American Constitution.

Mr. Chairman, I hope we do take today to listen to Mr. Rubin and any other witnesses that may come before us, not with the idea that we are going to solve and reduce the deficit or that we are going to solve the debt of the United States or anything else but just that reason prevails today in America.

I think—I think the election results out there that we are seeing, both in 1994, 1995 and in the recent elections, the American people are just fed up. They aren't Republican, they aren't Democrat, they are American, and they want us just to do the best we can in the best way we can with the best judgment we can and to stop politicizing issues such as this that are so fundamental to them, to their children and grandchildren, and that we do them little service if we balloon and exaggerate, we misstate, and we don't stick to the truth.

I hope that we give the opportunity to the Secretary of the Treasury to let him tell us why, in fact, he took the actions he took, that he did, by taking such action, prevent default, and that he hasn't told us probably as bluntly as he should but let him come up here and let us say, cut the nonsense, stop playing politics with us, stop playing philosophy, let's get on. And that can either be handled in the second half of the 104th Congress or, ultimately, in November of 1996.

[The prepared statement of Hon. Paul E. Kanjorski can be found on page 114 in the appendix.]

Chairman LEACH. Thank you, Mr. Kanjorski.

Mr. Mica.

STATEMENT OF HON. JOHN L. MICA, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF FLORIDA

Mr. MICA. Thank you, Mr. Chairman.

I welcome your committee's efforts today to examine recent actions taken by the Clinton Administration in dealing with our Federal indebtedness. Quite frankly, I believe this Administration's disinvesting the Civil Service Retirement and Disability Trust Fund and stopping routine reinvesting of Federal employees' contributions to the G–Fund borders on the illegal and is at least a breach of trust. This Administration has broken faith with Federal employees and annuitants. This fiscal mismanagement represents really the ultimate failure of this Nation and our Congress to bring its finances and its indebtedness into order.

Treasury Secretary Rubin really has stretched, in my opinion, the language of Title 5 beyond the breaking point to rationalize this Administration's unprecedented raid on the Civil Service Retirement and Disability Fund. Section 8348(k)(2) clearly prohibits the Secretary from disinvesting more than is necessary to make authorized payments from the fund during, and I quote from the law, "a debt issuance suspension period."

The purpose of that language is quite clear: Congress wanted to protect the retirement funds on which our Federal employees and annuitants depend. As then-Senator from Tennessee Al Gore stated, the statute was intended to, and let me quote from him, "preserve the sanctity of those contributions that these employees have made toward their retirement by making them," and I will continue the quote, "usable only for the payment of civil service retirement and disability benefits."

To achieve Senator Gore's objective, Congress enacted strict limits on the Secretary's authority to disinvest that fund. Secretary Rubin has broken faith with that objective by arbitrarily setting the length of the "debt issuance suspension period." First, he set it at 1 year. Later, he extended it to 14 months. The longer the period, of course, the more he can rob from the fund and the longer the Clinton Administration can avoid getting its runaway Federal spending program under control. Until we get spending under control, we will really continue to have this recurring crisis in managing the growth of our Federal debt before us.

The bitter irony of all of this, Mr. Chairman, is that, even after all of this skullduggery, Secretary Rubin had the gall recently to say without a higher debt ceiling he wouldn't be able to pay civil service retirement benefits in March. Let me repeat, Mr. Chairman. The law says Secretary Rubin can only disinvest the Civil Service Retirement and Disability Fund to pay retirement benefits. The Secretary disinvested, but he still says he won't have the money to pay civil service retirement benefits. Where did all that money go? Down the Federal spending rathole, that's where.

When I assumed responsibility over the Federal retirement system as chairman of our subcommittee, I was absolutely shocked to discover the civil service retirement trust funds carried an unfunded liability. This is the report issued by this Administration September 30, 1994. This is one fund. This one fund is $540 billion. I hope the staff will pass this page out so you can see the shape this fund is in.

The General Accounting Office is completing right now a review of more than 50 Federal retirement systems. This is just one of them. That review should be a wake-up call that a huge, incredible unfunded obligation exists in nearly every single one of our Federal retirement funds.

Not only are there multibillion dollar unfunded liabilities, but the so-called "assets" of Federal employee retirement trust funds have been replaced with nonmarketable government securities. So, Mr. Chairman, these funds have been depleted of real assets and replaced by an accumulation of IOUs. So you have an unfunded liability here, over half a trillion dollars; and then in this one fund they have stolen and replaced with IOUs somewhere in the neighborhood right now of $360 billion. That should be in the assets right now. Not there. Again, it's been replaced by these IOUs.

As a result of these past practices, taxpayers will shell out billions of dollars in annual retirement costs and last year paid $24 billion in interest on trust funds' IOUs. You know, just last year, because there is no money in that fund, just the IOUs, out of the general Treasury we paid $24 billion. So we have created incredible unfunded liabilities, we have stolen trust funds, we pay huge amounts of interest on missing trust fund money, and now we robbed the final pickings of the retirement fund carcass. That is how bad this has gotten.

Our true national debt actually is understated by more than $1 trillion because of the unfunded liabilities, really in just two of these funds, our civil service and military system retirement funds, which are kept off of the books.

Now comes the ultimate insult, which is the President's strategy to divert public attention from the debt issue by telling senior citizens and our retirees, our Federal retirees, that he will be forced to stop Social Security payments and retirement payments. Unfortunately, this Administration believes it can legislate, appropriate, and extend the indebtedness of our Nation in spite of the Constitution and in spite of the Congress. This fiscal irresponsibility in managing the future obligations of the American taxpayer must end.

By obscuring the real costs of retirement and misusing these funds, we understate the full cost to the taxpayer of every Federal employee on the payroll by about, grab this, 30 percent. These real costs are concealed from today's taxpayers in a fiscal footnote to the Office of Personnel Management accounts.

In 1986, the Federal Employees Retirement System was created. Well, they—Congress—knew in 1986 the whole thing was going to collapse, so they created a new system to fix the growing retirement fund problems. They created FERS, the Federal Employee Retirement System. In that, they created a Thrift Savings Plan, keeping employees' contributions outside the budget. By taking these contributions out of the budget, not merely calling them off-budget, Congress intended to safeguard at least a portion of these retirement funds.

Now, that fund is the fund that the Secretary has been taking from. This safeguard was intended to prevent the very manipulations that we have witnessed over the past few months. Now, as we look into the status of the G–Fund and the Thrift Savings Plan, we find that old, bad habits still prevail. The G–Fund has become merely another bundle of cash for an insatiable Federal appetite for spending.

Secretary of the Treasury Rubin really, in my opinion, has bastardized reinvestment of this fund to the tune of $21.8 billion. Altogether, the civil service retirement funds have provided a slush fund to the tune of $61 billion, which you heard earlier. The Secretary of the Treasury has, again in my opinion, illegitimately used these funds to evade the debt ceiling that the Congress has imposed by law. I ask, how much lower can the executive branch of our government stoop to avoid fiscal responsibility?

The ultimate insult really to taxpayers and retirees is the shameless robbing of the very last shreds of cash flow from the Federal retirement system.

This whole exercise pursued by the Administration in the name of managing fiscal resources is really hidden debt. The Secretary of the Treasury may be moving numbers on ledgers, erasing interest-bearing debt and replacing it with IOUs, but our obligations to Federal employees and retirees cannot evaporate with the computer keystroke.

We will have to, first of all, restore every cent that has been stolen. We will have to pay interest on every dime that has been hidden through fiscal gimmickry. We will have to redeem every dollar of our obligations to the people who worked long and hard in public service.

Unfortunately, this Administration's legacy will be more debt, more red ink and more robbing Peter to pay Paul.

During his State of the Union address, President Clinton asserted, and these are his words, "We should also protect existing pension plans. Two years ago, with bipartisan support, we protected the pension plans of 8 million working people and stabilized the pensions of 32 million more. Congress should not let companies endanger workers' pension funds." That is what the President said.

Meanwhile, back at the Federal ranch, Trail Boss Rubin was raiding the last cash at the Federal retirement corral. Unfortunately, only private citizens can go to jail if they abuse or misuse employee pensions' funds in this fashion.

When private sector employers attempt to invest surplus funds in their pension accounts, the Secretary of Labor, another Cabinet official, tells them, "Hands off." If they try to use the funds, even to create new jobs, he threatens criminal prosecution.

One employer that the Secretary of Labor should speak to real soon is the Secretary of the Treasury. He needs to hear the message loud and clear: "Hands off Federal employees' pension funds." Payroll deductions from Federal employees should never again be used to finance this Administration's deficit spending.

Since the Secretary of Labor is not likely to deliver that message, it is especially important that this Congress send the signal in the clearest possible terms. We should be providing more protection to our underfunded government system than private employers are required to provide for their overfunded systems. Instead, we are providing less.

I applaud the Chairman of the Ways and Means Committee for proposing that we fence off Federal employee pension funds from these financial shenanigans, and I support his initiative and will support any other positive action to protect Federal employees' pension funds.

Finally, I recommend that Congress act now to move these funds into real assets and investments. At the very least, we can require that the Thrift Savings Plan Board start moving into marketable securities rather than nonmarketable bookkeeping entries. Federal employees deserve something more tangible than a bookkeeping entry when they are ready to retire. We must not allow this mismanagement of our debt to continue in this irresponsible manner.

I thank you.

[The prepared statement of Hon. John L. Mica can be found on page 175 in the appendix.]

Chairman LEACH. I thank you, Mr. Mica.

Mr. Kennedy.

STATEMENT OF HON. JOSEPH P. KENNEDY, II, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF MASSACHUSETTS

Mr. KENNEDY. Thank you very much, Mr. Chairman.

First of all, I want to thank you, Mr. Chairman and other members of the committee, for hosting this hearing this morning. I think it is important that we have a complete airing of what the implications of defaulting on the national debt might be.

We had a hearing last week where we heard from a number of experts on Wall Street as to exactly what the implications of a debt default could perhaps take, not only in the United States but throughout the world. It was an eye-opener. The estimates were that interest rates overnight would rise by a minimum of 1 percent. That would create an overnight increase in the amount of debt that we will pay in this country over the course of the next 7 years by over $175 billion.

We could see an average home mortgage rate rise by over $1,200. We would see the potential default on not only the national debt of the country but the ability of people to get everything from Social Security checks to veterans checks. So it seems to me that, whether you are a Democrat or whether you are a Republican, everybody can agree that a default scenario is a bad scenario. None of us want this country to default on our debt.

So then I am trying to understand, if that is the case, what Mr. Saxton and Mr. Mica are really objecting to. Are they objecting to the fact that we were facing a default scenario where Mr. Archer, the Chairman of the Ways and Means Committee, had proposed a bill on the House floor that would have actually forced us to go into a default in early December by not allowing the Secretary of the Treasury to have any flexibility in terms of paying off our debts? So what they seem to be complaining about and calling it gross mismanagement and fiscal irresponsibility and all of these words are really the attempt by the Secretary of the Treasury to avoid the very default that is, by some legislative tool, being issued as a threat against the agenda which the Republicans somehow view as the Democratic agenda.

So what is the underlying concern that has brought us to a point where we are even discussing default? I am trying to understand. What is the issue that the Republicans care so much about that they would issue the kind of threat that Speaker Gingrich talked about when he said that he wanted to use the default mechanism as a way of ramming through his program?

Now, I am a supporter of the balanced budget, so I figure, well, maybe it is because of the balanced budget. But then, President Clinton agreed to a balanced budget. So then it wasn't that it was a balanced budget, it was that it wasn't a balanced budget within 7 years. So President Clinton agreed to a balanced budget within 7 years.

Then there was a whole discussion about whether it was a balanced budget within 7 years using CBO numbers, and then President Clinton agreed to a balanced budget in 7 years, CBO numbers. So then it was balanced budget, 7 years, CBO numbers, with a tax cut. President Clinton agreed to 7 years, CBO numbers, with a tax cut.

So I guess what we are really talking about is the size of the tax cut. Because I would think that anybody on the Republican side would recognize that if you take a look at the total number of dollars that you will send the country into debt over the course of the next 7 years is roughly equivalent to the total number of dollars that the Democrats will send the country in debt over the next 7 years.

Nobody should think that just because we get to zero in 7 years that that means we haven't run up the deficit between now and 7 years from now. The truth is, we do; and both of our numbers are roughly the same.

So the real issue here is not whether or not we run up debt. You agree that we are going to run up debt. The budget that you have proposed, that most of you have voted for, runs up the debt. So it is not the fact that you are running up the debt. That issue isn't what you are concerned about. It is not the fact that we are going to get to a balanced budget. It is now we get to a balanced budget.

Now, if we are down to the level of the cuts that we are going to make in Medicare and Medicaid in order to achieve a tax cut of $245 billion, isn't that something we ought to be able to talk about and work out? I mean, do we really have to issue a threat on defaulting on the national debt to be able to get to a point where we can negotiate that out?

This is guerilla tactics. It is zealotry. It is the tactics of a party that cannot get their legislative mandate through, through the constitutional means that have been laid out and have been adhered to for over 208 years or 215 years of United States history.

What we have is a situation where, if you want to get our budget passed on the House floor, you need 218 votes. You can get several different versions of a balanced budget passed with 218 votes. All of us know that. The Blue Dog budget would pass with 250 votes.

There are a whole stack of budgets. There is probably some I would vote for and every member of this committee would vote for.

But that is not good enough. What you have to do is you have to get every single Republican to sign off on your version of a balanced budget before you will ask for one Democratic vote, and that is all it comes down to. It would be as though Barney Frank and I drew up our version of a Democratic budget and said we will not allow a single Republican to vote until we get every Democrat to vote for it. We couldn't get our version of a balanced budget through, but you can't get all of your right-wingers to come to the middle and come up with a compromise, and that is all this takes.

You start to cut off those individuals that are insistent upon not just a tax cut but a huge tax cut that goes to the richest Americans, you cut them off and come to grips with a reasonable balanced budget within 7 years that, yes, cuts back on Medicare, yes, cuts back on Medicaid and, yes, deals with welfare reform. We can get this done. But if all you do is insist upon this right-wing agenda, then you are going to get into this very tough rhetoric and name-calling; and it comes not because, in my opinion, of an aggressive Democratic agenda—we don't have one—it comes in response to an overly aggressive Republican agenda.

So if we are really interested in doing what is best for this country, if we are interested in not defaulting on the debt, then the purpose of this hearing or getting together here in Washington today should be to work out the budget.

This notion that we are going to spend days or the next few hours grilling Bob Rubin over the fact that he had some staffers come to grips with what we should do in the Treasury Department to avoid going into default, what would you expect him to do? I mean, think of your Secretaries of the Treasury. Do you think that if we were trying to jam our agenda down their throat and said that we were going to issue a default mechanism if they didn't do it, don't you think that our past Secretaries of the Treasury would be in asking their people to try to come up with some ways to avoid default? It is a reasonable expectation that anybody running a Federal agency is going to come to grips with with their staff.

So let's try to figure out why we are coming to grips with this default mechanism. If we answer that today, then these hearings will have proved fruitful. If all we do is use this to try to throw some spears at the Secretary of the Treasury or his staff because they tried to avoid the default of this country, this will be a continued sham and a continued sense of people just name-calling rather than dealing with the underlying crisis that this country faces.

Thank you, Mr. Chairman.

[The prepared statement of Hon. Joseph P. Kennedy can be found on page 128 in the appendix.]

Chairman LEACH. I thank the gentleman.

The Secretary of the Treasury has been kept waiting a little bit longer than we predicted, so I don't expect a lot of questions, but Members are certainly entitled to ask any questions.

I would like to make a 15-second observation. Some of what Mr. Kennedy says I think is valid. But I think it also valid to point out the last two major budget resolutions, in 1990 and 1993, were tied to major debt ceiling resolutions, two budget agreements; and so that is commonplace, not unusual; and that the real distinction between the parties today is that the Republicans are favoring an inflation-adjusted freeze in spending; the Democrats would like a somewhat greater level of spending, whatever that might be.

I would also say that, just in terms of compromise, when the President finally submitted in January a CBO-scored balanced budget, within a few days the Republicans offered a compromise which included many of the numbers of the conservatives in the Democratic party, which was immediately rejected. I only lay that on the table because that was the last proposal of the Republican party, which did envelop many of the compromises that were certainly of a different ilk than some more conservative Republicans felt comfortable with.

So I just think in terms of the historical record that should be understood.

Mr. KENNEDY. May I respond, Mr. Chairman?

Chairman LEACH. Yes.

Mr. KENNEDY. I would only make the point that if, in fact, President Clinton's offer of just taking the agreed-upon numbers on how to reduce the deficit over the course of the next 7 years in every major account of the government were to be accepted, the same proposals that the Republicans and Democrats had both agreed upon, without a tax cut, you get and arrive at a balanced budget within 7 years. President Clinton has made that offer to the Republicans, and the Republicans have rejected that.

Mr. Chairman, I believe there is, in fact, enough common ground to achieve a balanced budget, but I think that if all we do is just sit here and play Ping-Pong with whose fault it is, it isn't going to work. I think that if you try to make certain that this hearing doesn't evolve into another Ping-Pong game, then you would serve the American people well.

Chairman LEACH. Well, I will tell you, I think this hearing is intended to mete out perspectives from both sides. There is going to be truth in virtually all of the perspectives. There is also going to be some misleadingness in virtually all of the perspectives, and it is up to the public to take that into consideration.

Does anyone else want to ask the panel a question?

Let me turn first to Mr. Vento.

Mr. VENTO. Mr. Chairman, I have an observation; and the observation would be that the debt ceiling really, I think, you can't argue it on the merits. What is happening here is we are confounding it with what the process is, who gave us what papers, what your innermost thoughts were in terms of the Department of Treasury with regard to this.

I mean, I don't understand, you know—the whole argument is going to be on who is right on the budget, when we all know that there is a difference of agreement on the budget, OK? So we set that aside.

But the issue is, is there going to be default or not? I mean, it seems to me that my colleagues come and suggest you shouldn't have done this. You were planning on doing this earlier. You shouldn't have done it. I mean, that would mean that we would then be in default right now.

So if it is the intention not to have default, then why haven't we dealt with it? Apparently, you have been unable to convince anyone to come up with a clean solution. I mean, obviously, we can all say we want our agenda to anneal to whatever is going in terms of the debt ceiling. Habeas corpus, I recall, was one of the suggestions to be put on there at one point.

So I just think that issue is—we know we disagree on this, but what we shouldn't disagree on is we shouldn't risk the credit and the default of the United States on its obligations. It is not—it does not presuppose a certain outcome in terms of budget, because we honor the obligations that we have.

I think you could put together a debt ceiling for whatever period of time to avoid default that would not preconceive what the outcome was going to be in terms of the policy decisions. That really is what the issues are. There is no advantage.

But the point is that that hasn't been the case. The debt ceiling is attempting to be used for the purposes of achieving a goal that you can't sell or haven't been able to sell to date on its merits. It is clear and simple.

So you can talk about, well, what you did was, you know, improper or illegal, although I see no court cases coming up on that, so I am unimpressed with an argument that comes from a certain view or persuasion. Or you can argue about we didn't get the papers back, and you are not sharing everything with us, and that you had actually planned that. I guess that is good for pointing out what the utmost political thoughts of the Secretary of the Treasury is or somebody is in the end, if, in fact, that is the case. But it doesn't really address what the issue is: Are we going to avoid default or not? So we take your words, we take your actions and look at them, and they suggest that that is where you are going.

Thank you, Mr. Chairman.

Mr. ROTH. Mr. Chairman, I just have a short statement.

I want to compliment our panel this morning, our four colleagues, for their excellent statements.

Mr. Kennedy, I was interested in your analysis. You had mentioned the words right-wing extremists. There are people, of course, who are very much dedicated to balancing the budget. Then you had mentioned that you and your colleague from Massachusetts, if you came up with a budget—I am just interested in this right, center, left. Where would you and your colleague from Massachusetts come down on the budget?

Mr. KENNEDY. Well, Mr. Roth, I had proposed a balanced budget and written one up. It would not have a $7 billion increase in national defense spending, which your party insisted upon. It would not contain a $245 billion tax break. It would go after a lot of the corporate welfare that exists in this country that provides enormous support to everything from the oil and gas industry to the mining interests to the lumber interests in this country, at the expense of keeping the Medicare system sufficiently funded, at the expense of looking out after the education system in this country and looking out after our environment.

I don't expect that those are your priorities, but I do expect that we can find ways of compromising on the positions that I might have in order to try to get a budget that looks out after the overall interests of this country.

Mr. ROTH. I understand what your budget does, and I compliment you for taking the initiative. But my question remains unanswered. If the people over here who want to balance the budget are right-wing extremists, where do you come down?

Mr. KENNEDY. I had voted once for the Blue Dog budget, if that is what you are asking me, Mr. Roth. I think that goes a long way toward achieving the kind of level of compromise that I think would pass on the floor of the House. If that budget were put forward by Speaker Gingrich this afternoon on the floor of the House, I think it would get over 250 votes. Don't you, Mr. Roth? Do you agree with that?

Mr. ROTH. It might. It might. I don't know.

Mr. KENNEDY. No, but I am asking your opinion now, Mr. Roth. Don't you think if the Blue Dog budget were put on the House floor that it would pass?

Mr. ROTH. My opinion is there is a lot of folderol going on when you see the budget go from an increase in the next 7 years in spending and the taxes increase, when we are being asked to increase the Nation's debt ceiling from $4.9 trillion to $5.5 trillion, that in no way is helping the youngsters, the seniors, or anyone in this country.

Mr. KENNEDY. Toby, doesn't your budget increase the deficit by about $1 trillion in the next 7 years? Doesn't it do that?

Mr. ROTH. Our budget balances in 7 years.

Mr. KENNEDY. So does ours. But I am just saying, over the course of the next 7 years, doesn't your budget, in fact, increase the national debt by somewhere between $800 billion and $1 trillion?

Mr. ROTH. No. We balance it. We start paying off. But I see——

Mr. KENNEDY. Wait a second, Toby. Just be reasonable. Don't mislead people.

Chairman LEACH. There will be regular order. It is the gentleman from Wisconsin's time.

Mr. ROTH. Thank you, Mr. Chairman.

Chairman LEACH. Are there further questions?

Mr. FRANK. Yes, Mr. Chairman.

Chairman LEACH. Mr. Frank.

Mr. FRANK. Mr. Chairman, first I want to sympathize with the gentleman from New Jersey. I am sorry that your enlarger broke, because apparently we got that redacted memo up there. He has had the full version of it for 2 weeks, and apparently he didn't have a new enlarger so he had to have the old one up there. He could have, of course, had the full memo up there; and I hope he can buy a new enlarger. But people should understand, if they are watching this on television, for 2 weeks now he has had the full thing. Maybe they are copying it by hand, and we are going to get an illuminated manuscript for the next hearing.

But I wanted to ask him, it seemed to me that there was a great contradiction. The gentleman from New Jersey was criticizing the Secretary of the Treasury for claiming there would be a crisis when we all along had the ability to do certain things. Then we heard the gentleman from Florida, apparently not having been here when we discussed the civility pledge, say that it was stolen, it was bastardized, it was a hoax, and all of these very uncivil words.

So I would ask the gentleman from New Jersey, do you agree with the gentleman from Florida that all of those things that were done, that the Secretary of the Treasury stole from the trust fund and bastardized it? Because, if he did, then all of the things he was planning to do he shouldn't have done. So I am not sure how you come out of that. But would you agree with the characterization that the things that the Secretary did were as dastardly as the gentleman from Florida suggests?

Mr. SAXTON. My purpose for being here this morning, I would say to the gentleman from Massachusetts, is to simply say that if we are going to move down a road toward a balanced budget together, which seems to me most of us now agree on, that we have to tell each other the truth, the whole truth and nothing but the truth, and not perpetuate what I characterize as a hoax.

Mr. FRANK. Good. Well, that is what I am trying to elicit from you is the truth. This notion that you came only to do this, I didn't understand that we couldn't ask you about other topics.

You have said that it was a hoax because the Secretary of the Treasury knew very well he could do certain things to avoid a default. But the gentleman from Florida has said that those very things that you said he could do were terrible, dastardly acts of theft, that he stole things. I need to know, because is it your opinion that the things that the Secretary of the Treasury was planning to do were such terrible things? In that case, maybe it wasn't such a hoax. So I really am interested in your opinion. Do you agree with the characterization of those steps that the Secretary of the Treasury took?

Mr. SAXTON. It is not my purpose to agree to or disagree.

Mr. FRANK. Are we allowed to ask you only your purposes?

Mr. SAXTON. Let me just respond to your question by saying that the gentleman from Florida is the chairman of a subcommittee, and he has taken it upon himself as his subcommittee's task to deal with that issue. I have spent untold hours dealing with a separate issue: whether or not the Secretary told the American people the truth, and I have characterized what he told the American people as a hoax.

Mr. FRANK. Thank you for failing to answer, because I think it shows the intellectual inconsistency here. On one hand we have a Republican who says the Secretary of the Treasury claimed there was a crisis and there wasn't one, because he could have done all of these things and he knew it. Then once he does them, the gentleman from Florida says, look at all of these terrible things the Secretary of the Treasury is doing.

It is clear that the Republican party has formed the old psychological question, who do you like better, your mother or father, to which there is no right answer. Because if, in fact, he had allowed things to default, then he could have been criticized; and if he avoids it, he is criticized.

The gentleman from New Jersey said, how dare he forget that there is a crisis? He had all of these things to avoid, but apparently they are dastardly acts. He stole from the trust funds. No one thinks he stole from the trust funds. No one thinks they were going to be diminished. Stole is an entirely inappropriate word.

But the fact is there is this fundamental conflict in the Republican approach. Should the Secretary of the Treasury have done that or shouldn't he?

Let me ask the gentleman from Florida, should he have allowed there to be a default? Given that we had not increased the debt limit to accommodate—the $600 billion the gentleman talked about came from the Republican reconciliation plan. That is where the $600 billion came from that he said wasn't helping.

But let me ask the gentleman from Florida, do you think the Secretary of the Treasury, A, should have done what he did; B, allowed us to default; or, C, done something else, and what would that be?

Mr. MICA. If I could respond, Mr. Chairman, first of all, I think Mr. Saxton outlined how the Administration planned the robbery and executed the robbery; and I detailed the effects of the robbery on the people of this Nation. You can make light of this, but I am telling you——

Mr. FRANK. Would you answer the question?

Mr. MICA. I don't want to be interrupted, Mr. Chairman.

Mr. FRANK. I know that.

Mr. MICA. I am trying to answer the question.

Mr. FRANK. Will you answer the question? My time is running out, Mr. Chairman. It is my time, as you instructed Mr. Kennedy to defer to Mr. Roth.

Mr. MICA. Could I have the courtesy of responding?

Chairman LEACH. Let the Chair say, there will be regular order. It is the gentleman from Massachusetts' time, but it is the tradition of the committee that witnesses should have the right to answer in their own way.

Mr. FRANK. Mr. Chairman, it is my time. You did tell Mr. Kennedy to defer to Mr. Roth.

I asked a specific question which the gentleman doesn't want to answer: Should the Secretary of the Treasury have done what he did or should he have allowed default or should he have done something else? And, apparently, he doesn't intend to answer that.

Mr. MICA. Mr. Chairman, if I may, I would like to respond. Again, I think that Mr. Saxton investigated the planning and execution of this, and I consider it stealing from these funds. I think I also cited the current Vice President, who was a Senator, who spoke about how these funds—and again you have to look at what they took—the last vestige of any cash was picked from the G–Fund. We have already stolen $540 billion in unfunded liability. There are reckless IOUs left in what should be a trust account. So now we are down to the very last pickings. I say it borders on the illegal. It described in fact what led up to this. But I am telling members of this panel, this is only one example.

Mr. FRANK. This has nothing to do with my question. I would like to reclaim my time.

Mr. MICA. The fund has been robbed, and how low this Congress and Administration has stooped in stealing funds to extend the indebtedness and spending of this country, and we should in fact act in a responsible fiscal manner. Thank you.

Chairman LEACH. The time of the gentleman has expired.

Mr. FRANK. The last sentence, to point out, he did not answer the question; he repeated the statement. We haven't gotten from either of the gentlemen what they think the Secretary of the Treasury should have done. The gentleman from Florida has explicitly refused to answer the question, which I understand from the position he has taken.

Chairman LEACH. Mr. Bachus.

Mr. BACHUS. I hope we can reach consensus on one thing, Mr. Chairman, and that is when we ask the Secretary of the Treasury what potential actions are you considering, here is his answer. Hold up the document. That is what he supplies to Congress. When we ask the Secretary of the Treasury what options are you considering? Hold that answer up.

Mr. FRANK. Will the gentleman yield?

Mr. BACHUS. No, I will not yield.

When we ask the Secretary of Treasury, share your legal opinions with us and your legal analysis, these are the answers we get.

I want to applaud Mr. Saxton for doing some heavy lifting and simply, and I don't think what he said is all that irrational, he is simply saying, please, provide us with answers, please provide us with the documentation. I hope that all of us can agree that when we ask for a legal analysis, does the Treasury have any legal analysis, and we are given this, I hope that all of us would say that is not an answer. If we are going to make decisions, can we make those decisions based on those answers? I don't think that we can.

We have asked the Secretary of Treasury for all his information, legal opinions, legal analysis, options, in confronting the debt ceiling, and he has supplied to this Congress less information than I supply to the IRS when I file my income tax. We have gotten less documentation than I have to supply to the IRS. He may say 5,000 pages of information. But look at some of those pages. Can we not agree that this doesn't lead to bipartisan cooperation? That this doesn't lead to us making rational, reasonable decisions?

I could take that information there, I could probably buy a $1 lottery ticket based on that information. But I don't think—I certainly wouldn't make a decision involving billions of dollars.

Let me say this. I am going to give two more illustrations. We have been not only asking for this legal opinion and this legal analysis since early last fall, and Mr. Frank, the gentleman from Massachusetts, says 2 weeks ago we finally got a complete document. It is sort of like a guy in a jail cell that has been kept in the dark without food or drink for 6 months. Finally somebody hands him a glass of water through the jail cell.

I don't know whether we are supposed to be grateful or still annoyed about all this, Mr. Saxton. Maybe we just ought to accept, after 6 months, 2 weeks, and after a lot of these actions are already taken, they finally give us the document.

I do have some good news and I want to compliment the Secretary of Treasury, that not only did we get that document, the gentleman from New Jersey, but late yesterday afternoon we got another August 16, 1995, legal analysis that we have been asking for since at least November, and we have been told it did not exist, it might exist, it is being prepared. And then we get it, and it is dated August 16, and we got it late yesterday afternoon. You probably don't even have it. I don't know that you have ever seen this.

Mr. SAXTON. I have not seen that document. I would like to point out to the gentleman also we strongly believe there are still a lot of documents we have not received from the White House or OMB.

Mr. BACHUS. Here is one of them. I don't know whether they found this in a closet on the third floor or where.

Let me say this. I think that everyone in America can understand this. I wrote a letter on December 15 as chairman of the Subcommittee on Oversight and simply asked for the names of those persons attending the meeting between Treasury and representatives of the Wall Street security firms, which was reported in the *Washington Post* on December 15. I was promised these answers for 2 weeks. I will tell the Representative from New Jersey, I received them finally a month and a week later.

And get your pen out, I want to tell you who these people were at the meeting. Question that I asked: "Please provide the names and positions of all Treasury officials involved in the meeting." Answer: "We will be providing you the names." That is the answer.

Mr. ROTH. Will the gentleman yield?

Mr. BACHUS. I will yield for a second.

Mr. ROTH. All of those documents are in the living quarters of the White House. You can go down and check there.

Mr. BACHUS. The second question: "Please identify the security firms and their representatives attending the meeting." Answer: "We will be providing you with the names."

The third one is: "Please supply a copy of all documents that relate to the meeting." Answer: "We are searching for copies of all documents." At least it did not say we are shredding all documents.

Mr. KENNEDY. Will the gentleman yield?

Chairman LEACH. The gentleman's time has expired.

Mr. KENNEDY. Let him rattle on and then you are not going to let him answer?

Mr. BACHUS. If he can ask me a question, I would like to ask him a question.

Mr. KENNEDY. I am trying to answer.

Chairman LEACH. The time is up of the gentleman from Alabama. The witnesses have not been asked questions.

Mr. KANJORSKI. If the gentleman is the captain of the civility team, I think his team lost.

Chairman LEACH. Are there further questions? I hope Members will bear in mind, we do want to get to the Secretary. I think he would like to come as well.

Mr. SCHUMER. I understand that. I would just make two points. One, I would ask all members of the press to check with the gentleman from New Jersey, my good friend's staff. They got all these documents 2 weeks ago. Yet since they—just ask them, did they get them 2 weeks ago. They did.

Second, look at them. The whole reason people are worried about redacted documents is there is something bad or nefarious in them. There is nothing there. It is all bureaucratic gobbledygook. I would ask all those documents be made public, and before any allegation of some kind of impropriety is brought up, they are looked at.

Finally, I would just repeat Mr. Frank's question to the gentleman from Florida, because we have heard no answers here. We have heard a lot of ranting and raving and no answers, and using the word "stealing" and things like that that are pretty gross in my judgment and don't fit Mr. Bachus's civility model.

In any case, I would ask him a simple question and ask him to please answer it. If you were Secretary Rubin, on the dates when the government would have been unable to pay its already accumulated debts, you have said what you wouldn't do. You wouldn't have borrowed from some of these trust funds. What would you have done? What would you have done to prevent default, or do you not care about default?

Please answer the question as opposed to more unfounded rhetoric that really demeans not really the Secretary of Treasury, whose integrity is second to none, but demeans people that use the language such as stealing.

Mr. MICA. First of all, I think I tried to paraphrase the intent that Senator Gore had laid out when they set up again these last funds and set them aside and hopefully wouldn't be taken in this fashion. I may term it stealing or robbing or bastardization. And I think that is an adequate characterization.

More fundamentally, if I were the Secretary of Treasury and saw what was going on, to see the indebtedness of this country, to see how we have stooped to robbing from our retired Federal employees and our senior citizens, we have basically robbed every fund, folks. The cookie jars are all done. I would have encouraged the President to sit down, make some adjustments to the spending and this out-of-control indebtedness, and get this Nation's finances in order, working with the Republicans and the Democrats and all reasonable people.

Mr. SCHUMER. Reclaiming my time, you have not answered the question. Because they were sitting down at that time. They could not come to an agreement. We all know that. The Secretary of Treasury could have whispered to the President until the cows came home, "come to an agreement." He might have even said, "go along with the Republican plan." But that did not happen. You knew it was not going to happen.

You are faced with a fiscal choice, not the policy on the budget, but whether to take the money from the trust funds, borrow; whether to allow the country to default; or some third fiscal mechanism. If you do not have a third fiscal mechanism, then by logic you would say let the country default.

I am waiting for your third fiscal mechanism that would have been available to the Secretary of Treasury.

Mr. MICA. I serve also on the task force that the Speaker has on the debt limit, and there are a variety of other choices, all of them are pretty grim.

Mr. SCHUMER. Name one.

Mr. MICA. Stealing from the gold reserve. He lists them in his memo from the 22nd, some of the other options.

I think, again, we have stooped to a new low in this country when we choose to rob the trust funds of the employees of this Nation. It is a low point, and it should be a low point for Congress, it should be a low point for this Administration, and again, if I were the Secretary of Treasury, I would have brought this to the public's attention rather than using it as a scare tactic.

Mr. SCHUMER. Reclaiming my time, it is obvious the gentleman has no solution. This is rhetorical ranting. He has not pointed to a single action that the Treasury Secretary could undertake, other than default, except for "some pretty horrible actions."

We rest our case.

Mr. FRANK. I thank the gentleman for asking the question. Now I don't take it personally that he refused to answer. It is clear they wanted to make accusations and not try to deal responsibly with what the alternatives were.

Chairman LEACH. The time of the gentleman has expired.

Mr. MICA. He laid out the alternatives in his memo.

Chairman LEACH. I hope there will not be too many questions. Mr. Orton.

Mr. ORTON. Thank you, Mr. Chairman. I do want to hear the Secretary, so I will be very brief.

In the interests of accuracy of the record, Mr. Kanjorski and Mr. Kennedy have raised the issue of the need for additional debt limit extension regardless of which balanced budget proposal would be enacted. Let me cite from the Congressional Budget Office: The Republican conference bill would result, this is the Balanced Budget Act passed by the House and Senate, the conference report, according to CBO, would result in deficits in 1995, $164 billion; 1996, $151 billion; 1997, $159 billion; 1998, $127 billion; 1999, $97 billion; 2000, $73 billion; 2001, $34 billion; 2002, a surplus of $3 billion. The net increase in deficit, therefore the required addition to the Federal debt limit under the Republican conference report over the next 7 years, $638 billion.

Under their final offer, according to the Senate Committee on the Budget, the final Republican offer would result in the following deficits: 1995, $164 billion; 1996, $159 billion; 1997, $165 billion—note that 2 years from now the deficit would actually be higher than it is in this fiscal year—1998 would be $148 billion; 1999, $125 billion; 2000, $102 billion; 2001, $60 billion; 2002, a surplus of $1 billion, for a net required increase in the debt limit of $758 billion.

Under either Republican scenario, you would have to increase the debt limit over the next 7 years from $638 to $758 billion.

The coalition budget, of which I was the principal sponsor in the House, would raise the debt limit, would be required to raise the debt limit as a result of deficits over the same 7-year period by $517 billion. Period. Regardless of which approach we take to balancing the budget, we must increase the debt limit.

I will end with two other additional quotes from CBO. This is CBO, page 48 of the Economic and Budget Outlook: "Voting separately on the debt is ineffective as a means of controlling deficits because 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."

Finally, from page 54 of the same report: "Failing to raise the debt limit in a timely manner, though perhaps bringing a difficult vote on legislation to a head, only serves to make the Treasury's job of paying the government's bills more difficult, and an extended delay could have a significant effect on the government's credibility and the interest rates that it must pay on future borrowing." That is the nonpartisan CBO.

I would also like to hear an answer to the question what the Secretary of Treasury should do when faced with ultimate default. There are numerous occasions which I will not go into since the 1950's, in the Eisenhower Administration, the Reagan Administration, the Bush Administration, where similar kinds of efforts by the Secretary of Treasury to avoid default have been conducted, and I look forward to the Secretary's comments.

Mr. VENTO. If the gentleman will yield, I think it is of really fundamental importance in terms of the major prerogatives of the Congress in terms of control over financing that is really being raised here with regard to the actions of the Secretary of the Treasury.

We have, obviously, various laws in terms of the antideficiency law and others that safeguard that particular prerogative, Mr. Chairman. So I think we began to make allegations; I think they have to be backed up. I would think and hope that if in fact there is a conclusion, that in fact this is the case, that the Speaker and the Majority Leader of the Senate would take such action.

One of the fears I have, quite frankly, Mr. Chairman, the way the conduct of this has gone on, is that I think there really is a question here whether or not Congress will be in the end losing some of the responsibility or power it has because of the precipitous type of action. So I think when you look over this, we have had, after all, Mr. Zoellick and others here that were instrumental in writing the laws and legislation in 1986 and 1987 with regard to the authority to in fact borrow from these funds.

But if there is such a great misunderstanding or I am misunderstanding what is being alleged here, then I think the full legal exploration and extinguishing of those particular questions ought to have gone immediately in terms of one of our basic powers. So I just find the absence of that suggests to me that this is more a political rhetoric than it is in fact substantive legal questions that are being raised.

Chairman LEACH. I thank the gentleman for his constructive observation. Mr. Bentsen. I believe this will be the last question.

Mr. BENTSEN. Mr. Chairman, I apologize for not being here earlier. Let me say as a new Member, this hearing underscores my understanding as to why Congress has such a low positive rating from the American public.

Let me ask a couple of questions. I appreciate Mr. Orton for talking about the Blue Dog budget. I supported that budget. I am not a blue dog, I am a beige dog, I think. But I did support the budget. He does underscore the fact that all of these plans add to the debt. So my colleague was incorrect when he said the Republican budget would not add to the debt. I think the American public needs to understand that.

Mr. Mica, let me ask you a question. Presumably, you are an expert as the chairman of the subcommittee that oversees the government pension plan. I would imagine you are an expert, you have read all the things. Doesn't the law provide that the Secretary of Treasury will restore all the funds, plus accrued interest, to those pension funds? Doesn't the law require that? Just a "yes" or "no" is sufficient.

Mr. MICA. The law does require that. However, looking at the projections of replacing some of these funds, for example, you weren't here when I pointed out the obligations.

Mr. BENTSEN. I am going to get to that. I would appreciate a "yes" or "no."

Mr. MICA. Some of the projections of the funds that must come out of the general treasury, for example, I said out of the current trust account, the obligation which you as a Congressman must make to meet that deficit, is now $24 billion a year, the money we took out of that. By the year 2002, it goes to $53 billion. Within 3 decades, that goes to an amount the size of the current deficit.

Mr. BENTSEN. Answer my question first. The answer was "yes, they are restored." Just a second, I need to follow up.

You also said in your testimony that nonmarketable securities are put in there, and inferred I believe that somehow those securities' values were less than a marketable security.

For purposes of the government—for the government's accounting purposes, isn't it true that those securities also bear interest and pay interest, and therefore would have the same value to the bottom line? So isn't it incorrect to infer otherwise?

Mr. MICA. Well, again, this is part of the interest that we are paying out of the general treasury, which I just spoke to, which is currently $24 billion. If those assets were in fact maintained separately and fenced off, you would have some real assets.

Mr. BENTSEN. The question is, your statement infers someone is stealing from pension plans. That is what you infer in your testimony. But isn't it true, doesn't the nonmarketable security which is put in there, doesn't that pay interest, and therefore on the ledgers for the purposes of the pension fund, they accrue interest, and therefore the full faith and credit of the U.S. Government backs the payment of those pension funds? Is that not true as the chairman of the subcommittee that oversees that?

Mr. MICA. Again, you are not talking about what we are talking about here.

Mr. BENTSEN. I am talking about accounting and how the government keeps its books.

Mr. MICA. We are talking about taking G–Funds which are not part of that fund. G–Funds are what we are talking about, G–Funds that were set aside separately. He has chosen not to reinvest those G–Funds.

Mr. BENTSEN. But he put nonmarketable securities that do pay interest.

Mr. MICA. I am not talking about the $360 billion he robbed from the trust funds; I am talking about the G–Funds, which is a separate amount.

Mr. BENTSEN. Let me ask you a question: You said that the Secretary stole from the pension trust funds in your testimony. Would you then assume that Jimmy Baker, who was Treasury Secretary until 1985 and 1986, that he stole?

Mr. KANJORSKI. May I answer that? I am a member of the same committee Mr. Mica is on.

I have sat here today, particularly in light of the caveat Mr. Bachus said in civility, to use the words "robbery, stolen and theft," in association with the Secretary of Treasury and what he did to defend the full faith and credit of the United States is a malignant growth on this institution.

I think, Mr. Mica, you ought to apologize, as you cited on the floor of the House for referring to the President of the United States incorrectly, this is wrong, uncivil, and absolutely incorrect.

The fact of the matter, what the Secretary of the Treasury did was perfectly allowed by law, had previously been done, and no action has been taken by any American, including Mr. Mica, who could have brought a cause of action if he really felt it was any illegality or impropriety there. It hasn't been done and will not be done. This is misstatement and hyperbole for the purposes of political advantage and it should leave today, now.

We ought to allow the Secretary of the Treasury to come here, tell us what he did, why he did it, and tell us what we can do as a responsible Congress.

Mr. BENTSEN. I think the facts are fairly clear and I thank the chairman.

Chairman LEACH. I would like to thank the panel. It has been a long morning.

Our next witness is the Honorable Robert E. Rubin, Secretary of the Treasury.

Let me just say to my colleagues, it is the position of our party at this time that not only is default not on the table, neither are constitutional remedies on the table.

Mr. Rubin, why don't we wait just a minute. The committee will recess for 1 minute.

[Brief recess.]

Chairman LEACH. The committee will reconvene.

The committee will now hear from the Honorable Robert Rubin, Secretary of the Treasury.

Please proceed formally or informally, whatever is your preference, Mr. Rubin.

STATEMENT OF HON. ROBERT E. RUBIN, SECRETARY OF THE TREASURY, U.S. DEPARTMENT OF THE TREASURY

Secretary RUBIN. Thank you, Mr. Chairman. I appreciate once again being before your committee to discuss an issue of enormous national importance, the debt ceiling, and an extension and increase in the debt ceiling.

In the past week, Mr. Chairman, the debt limit discussion has reached a new stage and has proceeded in a welcome spirit of bipartisan cooperation. On February 1, Majority Leader Dole, Speaker Gingrich, and Majority Leader Armey wrote to the President and committed to enact a debt ceiling increase acceptable to both the President and to Congress by February 29 in order to ensure that the United States continues to meet its obligations.

That same day, Congress passed the Archer legislation, legislation authorizing Treasury to borrow $29 billion outside the debt limit. This bill, H.R. 2924, will enable us to deal with the March 1 crunch date of benefit payments. It was adopted with the full support of the Congressional minority, which has urged action on the debt limit throughout this process. President Clinton signed that bill in the Oval Office this morning.

Now we need to move on and put in place legislation that addresses the debt limit problem on a long-term basis. By ensuring that this country can meet its obligations, we protect the holders of public securities, Social Security recipients, and other beneficiaries from any additional risk. It is clearly time to get this job done now.

Since my last appearance before this committee, Mr. Chairman, much has changed. We have reached a common understanding of how important it is to protect the creditworthiness of the United States, a vital national interest that must never be tarnished by anyone for any purpose. It is now time that comity replace conflict and that the debate over the debt limit be drawn to a close.

Last December I testified before this committee about the actions I had taken and anticipated taking to protect America's creditworthiness absent adoption of a clean debt limit. I will only briefly review that history today and then turn to more current issues.

In July 1995, our Administration began asking Congress to adopt a clean debt limit bill. Our communications on this matter were consistent and clear. I said first, default is unthinkable; second, the United States will not default because, in the final analysis, Congress will fulfill its responsibilities and pass acceptable debt limit legislation; third, if Congress did not adopt such legislation, Treasury would be forced to use extraordinary means subject to resolving legal and practical problems to avoid default; fourth, that I would notify Congress before taking any extraordinary actions to ensure that the U.S. Government fulfilled its obligations; fifth, passage of a clean bill would permit the debate to proceed on its own terms, the debate on the budget, unencumbered by risks to the Nation's credit.

Because the debt limit was not increased last fall, it was necessary for me to take the actions that I did take in order to assure that we had cash and debt limit capacity so the Nation could meet its obligations. I will not recite the list of those actions, Mr. Chairman, but they are in my submitted testimony. I will comment only on one, and that was the final and critical action on November 15.

On November 15, I was forced to invoke statutory authority in the Civil Service Retirement Fund and Disability Fund provided the Treasury Secretary by a Republican Senate and Democratic House and signed into law by President Reagan.

November 15 was the date when we would have been out of debt limit room and out of cash and unable to meet the financial obligations of the United States of America. We were on the eve of default.

Counsel, both in Treasury and the Office of Legal Counsel at the Justice Department, had consistently advised me that this decision with respect to the Civil Service Fund and the application of that statute could only be made in the context of the facts that existed on the eve of default.

It was only at that time that I was able to determine that we could make the judgments necessary to replace approximately $40 billion in securities from the Civil Service Retirement and Disability Fund and $21.4 billion in securities from the so-called G–Fund with non-interest-bearing cash credits.

As I said to this committee in December, workers and retirees are fully protected by the statutes that authorized those actions. The asset value of those funds was reduced by not one nickel, and the statutes provide for full and automatic restoration of unpaid interest. Both of those statutes explicitly refer to the use of those statutes for debt limit management purposes.

Finally, on December 29 I took an additional $14 billion step, and, as I told the committee last year, that measure has enabled us to continue meeting the financial obligations of this country through January and will continue to enable us to meet those obligations through February, to February 15; that is to say, through February 14.

Each action I mentioned was necessary because a debt limit increase had not been put in place. Each action fit my criteria of only employing those means that were within my legal authority, were practical, and prudent. Every one of them was driven by my responsibility as Secretary of the Treasury to protect the full faith and credit of the United States of America—only, only, by that concern.

As we entered the new year, Treasury continued to examine other options. As I promised this committee when last I appeared before you, we would report our findings to Congress and the American people.

On January 22, I announced that by February 29 or March 1, absent enactment of a debt limit increase, we would not be able to meet the Nation's obligations. I reported that there were only three remaining options available consistent with what was legal, prudent, and practical, that could be exercised by February 15 in order to pay obligations due on that date.

These actions, approved by our Department's Office of General Counsel and the Justice Department's Office of Legal Counsel, include: One, suspending the reinvestment of approximately $3.9 billion of dollar-denominated assets in the Exchange Stabilization Fund, an action that has been taken by several prior Secretaries of the Treasury; two, amending my November 15 termination on the length of the debt issuance suspension period under the Civil Service Fund to 14 months, thus permitting the redemption of approximately $6.4 billion.

However, let me point out that the final decision on the Civil Service redemption cannot be made, once again, until we are on the eve of what would otherwise be a failure to meet our obligations, just as was the case on November 15.

Finally, exchanging approximately $9 billion of assets in the portfolio of the Federal Financing Bank for an equivalent amount of Treasury securities held by certain government trust funds; this action is authorized by statute.

There are no additional legal and prudent measures that I can take to meet our obligations. We reached that conclusion after considering and rejecting other actions because they failed to meet the criteria that I have already discussed. I will not delay mailing tax refunds owed the American people. I will not sell the Nation's gold.

I cannot legally go beyond the $9 billion in exchange assets—in asset exchanges with the Federal Financing Bank.

Delaying tax refunds would hurt more than 70 million Americans and would still provide only a short-term deferral, not a long-term solution, to the problem.

Secretary Baker dismissed selling gold in 1985 and said, "It would undercut confidence here and abroad based on the widespread belief that the gold reserve is the foundation of our financial system and because Congress clearly has the power to prevent a default by assuming its responsibility with respect to the debt limit." That was Secretary Jim Baker in 1985. Exactly the same arguments prevail today.

I do not have legal authority to divest any of the other 189 government trust funds for debt management purposes. Only the G–Fund and the Civil Service Fund where authority is explicitly provided.

In addition, the President took Social Security off the table, though, as I said a moment ago, I also did not have the legal authority to disinvest Social Security for debt management purposes.

As to the balance of the Federal Financing Bank assets, I have been advised by counsel that the Federal Financing Bank assets we have identified are the only such assets that can be sold within my legal authority.

Let me also say, Mr. Chairman, that all of these measures and the measures that I have taken—though in the case of the ones I have taken, their use was absolutely necessary to avoid default—are no way for a great nation to manage its financial affairs.

For all of these reasons, the commitment of the leadership to move debt limit legislation acceptable to the President and to the Congress by February 29, and the enactment of the Archer legislation which allows for orderly financing and relieves anxieties with respect to the beneficiary payments due on March 1 and shortly thereafter, are items of enormous importance with respect to the debt limit and meeting the obligations of the U.S. Government.

The conclusive and correct answer is right before us. The Congress should pass a debt limit increase for at least 1 year to separate this issue from the budget debate and to get this issue out beyond the election. That would end the risk both for our credit and for Federal beneficiaries. I think it is important, I think it is critical, that we do exactly that, and do it now.

This debate began last year when some people said that default was an acceptable price for getting the version of the budget law they preferred enacted into law. That kind of comment is not being heard anymore. I believe that is because people now have a better understanding of the enormous stakes involved in making sure that this country meets its financial obligations.

In that sense, much has been accomplished during this difficult period. A nation's financial reputation is an invaluable asset. Its creditworthiness is a sacred trust. Our reputation has enormous practical importance for this country. It should not be called into question; it ought not be subject to uncertainty for any purpose.

We must honor interest and principal obligations, and we need to protect Social Security recipients, veterans, indigent children, military personnel, civilian employees, contractors with the Federal

Government—indeed, anyone who counts on the full faith and credit of the United States of America.

National leaders, regardless of party, have always acted to protect our creditworthiness. In my December testimony, I read affirmations of this principle from Alan Greenspan, Paul Volcker, two Republican and four Democratic former Treasury Secretaries, and comments from the major international rating agencies.

Protecting the Nation's credit is a bipartisan—indeed, a nonpartisan—tradition. More than a decade ago, President Reagan urged Congress to adopt an increase in the debt limit. In a letter he wrote to then Majority Leader Howard Baker, he gave voice to sentiments I share today. He said, "This country now possesses the strongest credit in the world. The full consequences of default or even the prospect of default by the United States are impossible to predict and awesome to contemplate."

I continue to quote: "Denigration of the full faith and credit of the United States would have substantial effects on the domestic financial markets and on the value of the dollar in exchange markets. The Nation can ill afford to allow such a result."

Throughout this process, it has been my view that the Secretary of the Treasury must act as so many prior secretaries have acted, doing what is clearly legal and within the bounds of prudence to protect the creditworthiness of the United States. We did what we needed to do to avoid default, to make sure the country met all of its financial obligations, and everything we did was done only for that purpose.

We communicated our intentions to Congress clearly and well in advance. Upon reaching the end of our options, we reported that to Congress as well. We have now reached a new, and, I hope, concluding chapter in the debt limit impasse. Congress has taken steps to protect this absolutely fundamental underpinning of our economy, our Nation's creditworthiness.

I look forward, Mr. Chairman, to working with all of you and with all Members of Congress so that we can make good on the leaders' commitment to pass and sign debt limit legislation acceptable to the President and to Congress and then to return to the hard but critical work of balancing the budget and raising the living standards of our people.

Thank you.

[The prepared statement of Hon. Robert E. Rubin can be found on page 178 in the appendix.]

Chairman LEACH. Thank you, Mr. Secretary.

Let me just say, the Congressional leadership is, as you cited, committed to resolving this issue on a timely basis. Indeed, no Congress has ever defaulted, and I am confident this Congress would not have.

One of the key things to know is, though, in a legislative sense, what are the time constraints of these decisions? And that has been revealed, as of the end of this month now, mid-March.

But it has been my personal view that this time constraint issue has been, unfortunately, not taken advantage of this year in ways that it could otherwise. That is, prolongation of this whole debt ceiling issue has clearly made compromise on the budget resolution less likely and, quite frankly, has led to greater social splintering.

Here, as you know, and as we have talked about before, I think it is symbolized in the Medicare issue. You have heard some concerns on some from my side of the aisle about documents that people believe were not provided on a timely basis where they were requested.

I would express some concern about information that wasn't provided that was not requested. That is, it appears that we have had a change in the basic status of the Medicare Trust Fund. Instead of earning $4.7 billion last year, it lost $35 million. That is a change. It is an issue that is under review in the whole budget circumstance.

The Republicans' balanced budget approach, which included lifting the debt ceiling, was vetoed in partial measure because Republicans were alleged to be gutting Medicare. So one of the questions I would have is, "where was Treasury on this issue of the change in status of the Medicare Trust Fund?" Why did you not advise the Congress? Did you advise the executive branch and other parts? And where has Treasury been?

Secretary RUBIN. Mr. Chairman, let me respond, if I may, to your questions in a little different order than you presented them.

In terms of the Medicare Trust Fund, there was about a $36 million shortfall in 1995. On October 27 of 1995, this document from the Treasury and the OMB was sent to every Member of Congress, 50 copies of it were sent to each of the budget committees, and it fully discloses the $36 million shortfall you are referring to.

So as of October 27 of 1995, which is when the official document was prepared, these numbers were fully available, not only available to Members of Congress, they were sent to each Congressional office; 50 copies of each were sent to each of the budget offices.

I think the central point that this document makes though, Mr. Chairman, is that it is absolutely critical, as the President has said consistently from the health care debate of 1994 on, to deal with Medicare. There is no question that the exhaustion date is approaching. It is currently estimated to be 2002.

Our best estimate is that this shortfall will not change that. If it does, it will change it by a few months or perhaps get it into 2001. But with the shortfall approaching, what is necessary to put in place are reductions in the rate of growth of Medicare, but in such a way as to maintain an effective program.

That is precisely what the President has advocated. If his Medicare proposal were enacted, that would extend the exhaustion date out to 2011. It is possible with this shortfall that you get down to 2010.

So I would say the primary import of the change in the Medicare numbers which were fully disclosed to Members of Congress on October 27, 1995, would be to say we ought to get on with the Medicare changes that the two parties, roughly speaking, can agree on, and that is the President's program, both in magnitude and underlying policy.

The other policy areas which we disagree on, on Medicare, are the kinds of things that need to be debated out and, if necessary, taken to the electorate in November.

On the question of prolongation, Mr. Chairman, the only reason we had a prolongation of the budget process was because the two parties, the congressional majority and the President, could not agree.

The only objective that we ever had with respect to the debt ceiling increase was to meet the obligations of the United States of America. That was the only animation with respect to any of the actions we took. That issue, the debt ceiling and meeting our obligations, could readily have been taken off the table by passing a debt ceiling increase. In fact, we consistently advocated the debt ceiling be separated from the budget process, and let the budget process proceed on its own two feet.

In terms of documents, Mr. Chairman, I have here a list of the documents that were provided and the dates they were provided. I think it was a very full provision of documentation with respect to the request. The opinions on our November 15 actions were provided, if I read this correctly, on November 22, which was 7 days after the actions were taken. From then until now, something like 4,300 pages of documents have been produced. We believe we are in full compliance with the requests made.

If there are shortfalls in that compliance, Mr. Bachus, I can assure you, we would be fully prepared to share everything that we have with you.

In terms of redaction, I gather that 2 weeks ago there was another production of documents which cured most of those redactions. There were additional documents provided yesterday. We continue to be ready to participate and cooperate with you in any sort of production that is consistent with the requests that you have made.

I think, Mr. Chairman, that responds to the three items you have mentioned.

Chairman LEACH. Mr. Gonzalez.

Mr. GONZALEZ. Thank you.

Mr. Secretary, to follow-up, the Republican leaders of the House and Senate sent a letter to the President on February 1, 1996, which expressly commits the Congressional Republicans to pass a mutually agreeable debt limit by February 29.

Mr. Chairman, I would like unanimous consent to place that letter into the record at this point.

[The letter referred to can be found on page 225 in the appendix.]

Mr. Secretary, what progress has been made toward such an end, and are you confident that the Republican leadership will fulfill its commitment?

Also, would you consider an attempt by the Republicans to load up the bill with controversial and unacceptable measures to be a breach of that commitment?

Secretary RUBIN. Mr. Gonzalez, I think that that letter was a very constructive step, because it was precisely what you just said it was.

On its terms, what it said was that the congressional leadership would provide an increase in the debt ceiling that was acceptable to both Congress and the President. I think that is precisely the kind of increase in the debt ceiling that we have been calling for from the very beginning of this debate.

We have not since then had meaningful work with respect to fulfilling that commitment. But I don't take that as anything other than the fact that the people simply have not gotten to the point of working on this. But I would assume that everybody will act in an appropriate fashion, and I take that commitment as being a very, very positive development.

In terms of the last piece of your question, I think the letter, upon its terms, says that the debt ceiling increase will be what it should be, which is not loaded up—not used as a measure to try to pressure anybody, either Congress or the President, into doing things that they are not otherwise willing to do, but rather will only have attached to it mutually acceptable other measures, if any.

Mr. GONZALEZ. All right, sir. Thank you very much.

Chairman LEACH. Mr. McCollum.

Mr. MCCOLLUM. Thank you very much.

Mr. Secretary, back in November a lot of us remember and a lot of the public remembers that you were letting us know in no uncertain terms there was a great concern in your mind that we might default and have a debt crisis. In fact, today you have pointed to the November 15 date as a pretty important date in terms of those things which you had to make decisions on.

I realize that you have a track record of being very meticulous about how you have gone about things. You have always done that, and that I do respect. There is a saying in the law, when it comes to judging, the appearance of impropriety at times is just as bad in many ways as taking the step across the breach.

There are those who are saying right now that you screamed so loudly about the potential debt crisis that we had, and yet at the same time you knew that you had the powers that you have outlined to us today, that in fact while you may not have technically made the decision to use those powers, that you indeed were certainly, in your own mind, not going to let the default occur at that point. Yet you created a great impression out there with a lot of people in the general public that the Nation was on the brink of default in November.

I would ask you, how do you respond to the critics who say, with some appearance of justification, that instead of the Republicans creating the debt crisis that we were accused of creating back in that period of time, that indeed you yourself, by making those shrill statements and not letting us know in a public and open way you were not that concerned about what was going to happen in the immediate future, you yourself created that debt crisis at that moment?

Secretary RUBIN. I think the best answer is simply to recite what actually happened. Every time that I referred to the impending debt ceiling problem, which actually was October 31, and the potential for default problem, which was November 15, I, having spent 26 years on Wall Street running trading operations and being exceedingly aware of the importance of not undermining confidence in the market, always said this Nation will not default because Congress will fulfill its responsibility, and, if not, Treasury will take measures, subject to the caveat, if they were legal and practical, which indeed they were.

Second, the decision that we made 2 or 3 days before November 15 was not technically made on that date, Mr. McCollum. We met for several hours—I believe it was on a Sunday night—in the main conference room of the Treasury to look at the facts as they then existed and at the statute.

We got the Office of Legal Counsel attorneys on the phone at the Justice Department, and we went through the application of the statute to the facts.

Having spent many, many years, as I have, making very complex legal decisions, I can absolutely assure you that that was not a 5-minute technicality, that was a many-houred discussion of the application of that statute to those facts.

Up until that time, there could not have been a certainty that we in fact could have obtained the resources necessary to get through the November 15 and December 1 dates. Those were the two dates which, you may remember correctly, required about $60 billion if we were going to avoid a default.

In terms of "shrillness of tone," which is a phrase you used, I would like to go back to that, if I may, for one moment too. I am repeating myself to some extent, but it is very important to say.

All through this period, given, as I said a moment ago, the experience I had with respect to markets, I was exceedingly conscious of the importance of not creating a problem with the markets. I think the best evidence of the success in that respect is the fact that the markets in fact took the problems that we had with the calmness that I think was very, very important to this country.

Mr. McCOLLUM. Mr. Secretary, with all due respect to the decisionmaking that you just outlined, and I don't doubt you went through some deliberations on that, the memorandum that is redacted up there but which we now have had an opportunity to see, which you produced to us, shows that long ago, before November, you had legal analysis showing you what indeed your path could be.

Now, I know there was debate, I am sure there was, and you described it rather succinctly to us today. But it seems to me that you would have served the Nation far better had you then, on television, on the Brinkley show or elsewhere, outlined, these are the powers that I see I have got; I have got this analysis yet to do, but I anticipate analyzing this in this way; and that while I don't like the idea of being put in this position—whatever—the Nation is not going to go into default because of these reasons.

Instead, it is my impression—correct me if I am wrong—that maybe it was by error of simple misspelling that you actually said on the Brinkley show in that timeframe that the auctions that were going to be taking place the following day were canceled, when in fact they weren't.

How do you respond to that? It is very difficult for me, even though I know the technical niceties here, to understand why you went about creating this. A lot of people think this was all part of—and I can see why they might think that—an Administration effort to bring pressure on the Republicans and this whole budget discussion, instead of the other way around.

A very strange political maneuver that you obviously don't agree with, but nonetheless, it has a ring of appearance of truth.

Secretary RUBIN. Mr. McCollum, I think the facts are in variance with that interpretation. On October 17, I think that date is correct, you can check your files, but on October 17 we sent a letter to the Speaker and the Majority Leader, saying that there were measures that we could take subject to legal and practical uncertainties.

On October 31, we sent another letter, I believe, in response to a question from the leadership outlining the conditions that were requisite with respect to the Civil Service Fund.

I think on October 24, but I won't swear to the absolute date, our staffs briefed the staffs of the, certain of the congressional staffs at least with respect to the Civil Service Fund, and I believe it was on a subsequent Brinkley show that I think was sometime a little later, sometime in November, that I, in fact, did say that we would be using the Civil Service Fund.

The point is that we were always very clear that there were measures we could take, but we also were very clear, and I think had to be very clear, because it was the case, that these were measures that we could not be absolutely certain we could use until we got to the point that we could in fact make the decision about applying the statute.

Mr. McCOLLUM. But didn't you actually say on the Brinkley show, mistaken or otherwise, that the auctions were going to be canceled on the next day when they were in fact not? That upset a lot of folks.

Secretary RUBIN. They were postponed and the reason they were postponed, Mr. McCollum, is because October 31 would have been the settlement date. Had we proceeded with the auctions on a regular basis, then we would have had settlements on that date that would have put us $3 billion or $4 billion over the debt limit. So we had to do two things. One, we had to postpone the auctions; and two, to remain under the debt limit.

Mr. McCOLLUM. My time is up, but my problem was maybe your linguistics that day in terms of your using "canceled" instead of "postponed."

Secretary RUBIN. Well, if I could respond, I don't think there is any question, Mr. McCollum, that we had to treat those auctions—we had to cancel, we had to change the security, the amounts of the securities that were being issued, and we had to conduct the securities in an unusual fashion, because of the fact that we had a debt limit date on October 31. So I don't think there is any difference in import of what I said and what we in fact did.

Mr. McCOLLUM. The impression you left, though, was one of great deal more crisis in doing that than you otherwise would have left. That is what I am concerned with. That is the whole point of this.

Chairman LEACH. The gentleman's time has expired. Mr. Vento.

Mr. VENTO. I remember them being canceled, as a matter of fact. I don't know what you said, but they were in fact canceled.

The question, though, is let's get back to this in terms of, you know, has the President, to your knowledge, Mr. Rubin, or have you advised him not to sign a debt ceiling extension at any time that was not clean?

Secretary RUBIN. Mr. Vento, the President has been consistent from the very beginning. Number one, he wanted to have a clean increase in the debt ceiling so that we could get the creditworthiness issue off the table and separated from the budget; and, number two, I think that he has been the foremost person in the country in decades, in decades, with respect to fiscal responsibility, because of the deficit reduction program that he put in place in 1993 and obviously now the balanced budget.

Mr. VENTO. I mean, I understand that the debt ceiling at times has been attached to other measures that have received a majority of votes and have received the signature of the President. So the fact is that there is this issue about clean or not. But the issue is that you obviously do that in the tenor of where you have agreement, where you have compromise, and of course that is what is absent here.

The issue of course is that if this is going to be a tactic to in fact accomplish what your goal is, I would suggest to my colleagues that then I think it would be appropriate for the President, I mean if this is going to be the tactic, if the debt ceiling is one of the tools in the arsenal of trying to accomplish what you want to do, then to refuse to sign it unless they have my Medicare program on there, unless they have my health care program on there. Of course, Mr. Secretary, you would not advise that particular conduct if it was the President who wanted to achieve that goal and/or Members of Congress; is that correct?

Secretary RUBIN. Mr. Vento, I can assure you that the only objective we ever had was to protect the creditworthiness of the country by getting in place a clean debt ceiling increase. It was never even contemplated that we would attempt to use the debt ceiling increase in any other way and for any advantage of our own.

Mr. VENTO. I see no demonstration of that. In fact, it is quite to the contrary. Here we are, we are almost 3 months without an extension of the debt ceiling. In other words, we are within 3 months.

Do you know, Mr. Secretary, what the longest period of time was prior to this where a debt ceiling was not extended?

Secretary RUBIN. What happened—there has never been a period even remotely like the one that we have gone through just now. In the past what has happened when there have been disputes around budgets or on other matters at a time that a debt ceiling was pending, you would have a series of temporary debt ceiling increases.

Mr. VENTO. You are saying this is unprecedented.

Secretary RUBIN. Unprecedented, by a vast multitude of whatever the previous time period was.

Mr. VENTO. So I mean the concerns about default and the concerns about credit rating in terms of your expressions have to be considered in the context that this is unprecedented. My understanding is that the longest period of time was maybe 3 or 4 days.

Secretary RUBIN. My impression, Mr. Vento, is that that is probably right. There was also never, at least we have not been able to find in the record any evidence that in the past people have talked about default, default as an instrument in attempting to accomplish another legislative purpose.

Mr. VENTO. So we are operating really in a twilight zone in terms of what is going on in terms of how we might conduct ourselves.

The fact is that when you talk about debt ceiling, the debt ceiling has not been increased, and so you have been doing activities and actions under the context, under the ceiling of the debt ceiling within the context of the normal revenue and spending flow and borrowing of the Federal Government; is that correct?

Secretary RUBIN. And within the context of our clear legislative authority.

Mr. VENTO. Now, one of the concerns that has been expressed and will be expressed by a later witness, and I apologize to him, but I wanted to get the issue out, because I think you can probably give some better feedback than most of us could to this particular issue, and that is that if the market looks at this and suggests that this is not a fundamental economic, underlying economic problem in terms of default or a problem in terms of default, but recognizes it as a political source, that it will discount that and that it will have little impact or little meaning.

Secretary RUBIN. I think just the opposite, Mr. Vento. I think that the notion that the United States of America would default, not out of financial necessity but as a matter of political will, is actually in some ways more pernicious in terms of how we are perceived in the years and decades going forward. Clearly, this Nation has the political ability to meet its obligations. But if a perception develops in the financial markets that, as a matter of political will, we are prepared not to meet our obligations for political purposes, I think that that is exceedingly dangerous. Fortunately, we now have a bipartisan coalescence around dealing with the debt limit, increasing the debt limit, doing it in a noncoercive fashion and getting on with our business.

Mr. VENTO. I don't want to do anything to upset that particular tenor, Mr. Secretary, but I would say that, you know, after all, I suppose that since we have the workings of what was going on in terms of your thought process here that I would like to have those of the Speaker and others that have made statements to the contrary in terms of how the debt ceiling would be in fact delayed, how it would be—how a default would not be that big of a problem, and so I think that, you know, it would be good to have I think on both sides of this the full expansion of that.

Mr. Secretary, one further question, and that is, have you been in any way legally challenged by any of the actions taken to date, to your knowledge, in any shape or form or manner?

Secretary RUBIN. Mr. Vento, I think there is absolutely zero question about our statutory authority with respect to everything we have done and we have not had anybody—we have had nobody challenge us in court and nobody has suggested challenging us in court and we have not been notified by anybody saying that they would consider challenging us in court.

Mr. VENTO. I know that these new changes that the Republicans were going to be putting in place were effective; I didn't realize that they were quite this effective. So I would suggest again, as I said earlier, Mr. Chairman, I am sort of jealous really, I suppose all of us are, of the prerogatives of Congress with regard to our spending authority, and I think that seriously, if we have concerns about that, I don't care for what purpose it is, that I think that that is the constitutional prerogative that we ought to uphold. So it doesn't give great comfort to the Secretary and his staff, but I think that since none has been forthcoming, that is an indication of the lack of merit in terms of the——

Chairman LEACH. I thought you wanted to lead the challenge.

Mr. VENTO. Well, I very well may do it if I see the need for it, Mr. Chairman.

Chairman LEACH. Mr. Roth.

Mr. ROTH. Thank you, Mr. Chairman.

Secretary Rubin, I have had a chance to look at your testimony and I also heard your statement before our committee, and I have to agree with you, Congress is not going to default, so I would have to conclude that, you know, this issue of default is really a red herring and it is somewhat disingenuous to bring it up.

I think the basic issue here is that the debt ceiling goes up and up and up, and now you are again coming before Congress and asking us to increase the debt ceiling from $4.9 to $5.5 trillion.

Now, you mentioned before that you have been on Wall Street for 26 years. You know, people always accuse Congress of not living in the real world. So I asked a couple of our people back home, and called people back home and asked, what would you ask the Secretary when he appears before the committee? One woman said, I would ask him, would he take money from his children and give it to someone who has borrowed an immense amount of money from him before who hasn't even tried to pay anything back, would he loan such a debtor more money? What would he tell such a borrower? I was just interested in what you would tell her.

Secretary RUBIN. Mr. Roth, the $5.5 trillion increase, which is, I do believe, what Congress should do, was the number that appeared in the Republican budget resolution of last year, and that is where we got that from. The reason it was in the Republican budget resolution was in recognition that in order to meet the obligations that will exist under either of our budgets going forward, the debt ceiling simply has to increase.

I might add as another comment that the debt of the Federal Government quadrupled from 1980 to 1992, a period during which——

Mr. ROTH. Mr. Secretary, if I may be so bold, but I have taken a look at your budget that you submitted to Congress the day before yesterday and in 7 years, there is nothing but spending increases; the next 7 years, nothing but tax increases. And how is that going to fulfill the President's primary concern, which your testimony indicates is to raise the standard of living for average Americans? That doesn't seem to jibe, that doesn't seem to fit.

Secretary RUBIN. Mr. Roth, I believe that the deficit reduction program that we put in place in 1993 was the first serious attack on the deficit in a long, long time. It has brought the deficit down by roughly 30 percent, and if I just may finish, has been the primary, not the only, but the primary factor with respect to the recovery we have had for the last 3 years.

The budget that we introduced this past Monday with our estimates of CBO scoring would bring us to balance in 7 years, just as would the congressional majority, and would continue on that track toward, of fiscal discipline toward balance, and I think it is a continuation of exactly the policies that have brought us to this point during the past 3 years.

Mr. ROTH. Unless my eyes are deceiving me, here are the total outlays: Increased spending every single year, revenue increases every single year, and I see a big minus sign in front of 755, which tells me there is going to be an increase of over three-quarters of a trillion dollars in spending.

Secretary RUBIN. Mr. Roth, in a growing economy you will find that revenues increase under our budget; they increase under the congressional majority's budget. That is because tax revenues increase with the increase in the economy.

As you know, both our budget and the congressional majority's budget have a tax cut, although they are very different in magnitude, I agree with you on that, and they are different in the purposes and the direction of those who would be the beneficiaries.

Mr. ROTH. You know, in all due deference, Mr. Secretary——

Secretary RUBIN. And second, both budgets have increased expenditures. The question is, can we go to balance, and I think the answer is clearly yes.

The President put forth a budget that had been developed, actually by Senator Daschle, that the Congressional Budget Office scored as reaching balance in 7 years, which is exactly what the congressional majority is doing, and then he put forth another budget on Monday that had the same purpose.

Mr. ROTH. You know, Mr. Secretary, we hear that same scenario year after year and it keeps climbing year after year after year.

I have only so much time, but I have to make one statement here. I wonder if you are putting the right spin on this letter. Because as I read this letter, it says that, committed to act by this date in a manner acceptable to both you and the Congress.

Boy, that is a big loophole. By the way you interpret it, everything is done. But the way I interpret it, wow, you could drive semis through that thing.

Secretary RUBIN. Well, if you think that the majority leadership signed a letter that was designed to have a big loophole, then I think that suggests that you should discuss it with them. I took it at face value. It said that it committed to increase the debt limit in a manner acceptable to the Congress, which is themselves, and to the President. I don't have it in front of me.

Mr. ROTH. All I am saying is that——

Secretary RUBIN. I would not have imputed to them that I put a loophole in that letter.

Mr. ROTH. Well, neither would I. Neither would I. But it still is a matter of interpretation and I think you are misinterpreting that letter. Is that possible?

Secretary RUBIN. I really just take it at its face, Mr. Roth, at face value.

Mr. ROTH. Well, so do I.

Mr. SCHUMER. I am glad we have agreement, Mr. Chairman.

Chairman LEACH. I thank the gentleman. I think the Chair ought to make it clear that I am confident the words of the letter were sincerely presented.

Mr. Schumer.

Mr. SCHUMER. Well, thank you, and I thank you, Mr. Secretary, for having to endure this. I want to thank you for coming here to be criticized for saving us from default. I will bet you never thought you would experience that in all of your days.

The bottom line to me is when some—my friend from Florida said, well, this is the Democrats' crisis for default, it is sort of like putting the hostage on trial for the crimes of the kidnappers. It is just unbelievable, the doublespeak here is appalling to me, and it is almost embarrassing. I will again, lest we think that this issue of default was brought about by the Secretary in some memo that no one has paid any attention to, I am going to read again the quotes from Speaker Gingrich. Quote, last April: "The President will veto a number of things and then will put them all on the debt ceiling, and then he will decide how big a crisis he wants."

Later, Speaker Gingrich said about the budget debate: "I don't care what the price is; I don't care if we have no executive offices, no bonds for 30 days."

The bottom line is a simple one, Mr. Secretary. You know it, I know it, everyone in this room who is not totally partisan and biased knows it, and that is that just as at one point some in the majority thought shutting the government down would be a good strategy and would bring the President to his knees, there was a smaller, but very vocal group in the majority who thought going to default would be the same type of strategy. And now that they realize it is not such a good strategy, they are trying to figure out how to work their way out of the box.

So we have my good colleague from Wisconsin first saying, we will never default, and then saying, all the people are saying you shouldn't raise the debt ceiling. Well, you can't have it both ways. Nor can they say to you, or they are saying to you, oh, you came up with these mechanisms and yet you were still worried about default. How could you know that there might be other ways to borrow and yet still be worried about default, and what they don't mention is that at the very same time they were putting legislation on the floor of the House of Representatives to prevent you from using those mechanisms. I remember, I remember personally talking to the Secretary about it and people in Treasury as well and how worried they were that if that legislation had passed, then we could have indeed defaulted.

So there is no contradiction in saying, yes, we know that there may be some other mechanisms untried, uncertain how they would work until you did them, but at the same time worrying that if they didn't work or if legislation passed that the Congress, majority-inspired legislation, that it wouldn't happen.

So I guess I would like you to address that point. How did the awareness of the fact that the majority might cut off your ability to borrow from these other trust funds play into your worries about default?

Secretary RUBIN. Mr. Schumer, I think that the thing that was unique about this situation, having now looked at a couple of decades at least of past circumstances around budgets and debt limits and the like, is that this is the only time that we have been able to determine in which there was serious talk by people in positions of responsibility, of using default or the threat of default as a measure in an attempt to pressure or coerce in a budget negotiation, and that was part of the context. That really was the context within which this discussion began.

Our entire objective during this entire period, and we conducted ourselves in that context that I just mentioned, was to do everything possible to make sure that, number one, we met all of our obligations; and, two—and I am sorry Mr. McCollum isn't still here, because I think this is a very important point. Number two, on the one hand, urge Congress to pass a debt ceiling increase, because that was absolutely essential, and at the same time not to create anxiety in the markets. And I think the best evidence that we succeeded in pursuing those dual paths was the fact that the markets did not in fact react adversely to the circumstances and we managed our way through a very difficult period to the point now where there seems to be a real coalescence around doing what needs to be done without having adverse market reactions.

Mr. SCHUMER. Mr. Chairman, I yield back my time.

Chairman LEACH. Thank you.

Mr. Bachus.

Mr. BACHUS. Thank you. I appreciate you being here, Mr. Secretary. I do want to tell you this. I think I have told you this privately, but I want to say it publicly, that this talk about impeachment, that sort of talk, I have told you that I felt that was inappropriate, and that it was nonconstructive.

Secretary RUBIN. I tend to have the same view, Mr. Bachus.

Mr. BACHUS. This is—you know, when I hear Members attribute that as the view of some of the Republicans, it is troubling to me, and I want to make that clear to you.

I also want to—you mentioned today sort of an assurance to give us disclosure of information, and I will tell you that for the August 16 document that we finally got late yesterday, when you read that document, it actually at least supported and justified some of your actions, at least I would think it was favorable to the actions you have taken. It at least showed a carefully thought-out legal opinion that much of what you did, you know, I may disagree with the policy, but at least legally you had grounds for that. So when we finally got the documents, there is nothing in there that—it certainly did not imply that there was something in there that indicated you had done anything improper. So it just sort of puzzles me sometimes.

I would like to say in that regard two things, one I have mentioned to your staff. In information you supply to us, they had mentioned that sometimes this information could be used by the financial markets, and I would say to you, I don't want that information. I would say simply, slap on there something that this disclosure—something to indicate that. I would rather not have the burden of having that information and having it get out, but at least as opposed to just a blank sheet of paper, give us some indication of that. And then if we want to pursue it, which I don't think we would, let us know.

Second, we have a problem sometimes, and I will give you an example, the February 7 letter to Jim Saxton where you mentioned that there were materials which were pertinent, but which had been supplied by other third agencies, or other agencies other than Treasury that was in your files. Third-agency material and Treasury files. Sometimes it is hard for us, if we don't know what that information is, we can't request it from someone else. I am not sure that some of that information we shouldn't have. I would like to work a little closer on that.

Secretary RUBIN. Mr. Bachus, let me say that there is absolutely nothing in any of our files with respect to the debt limit that isn't totally consistent with everything that we have been doing. I can't speak to the August 16 document, because I just don't know why you got it so late. The fact that it is consistent with what we have done is on the one hand I suppose a positive; on the other hand I can't tell you why it came up as late in the production as it did. But I can tell you that we have made a full-faith effort to comply with the request that we received. I think we already turned over something like 4,300 pages. But if there are things that we haven't turned over that you need, we will continue to work with you until you have what you need.

Mr. BACHUS. I would just say let's sort of build on some cooperation and try to do—I think a lot of the confusion is simply we didn't get it, and when we did, we wondered why we hadn't before.

Now, let me move on and ask you about a different subject, one that concerns me, and I know at the Summit for the Americas laundering of drug money came up. I think that is an important issue. You are here on something else, but would you like to comment on what steps have been taken since the Summit for the Americas? I think you went to Argentina.

Secretary RUBIN. Yes.

Mr. BACHUS. If I am putting you on the spot, I——

Secretary RUBIN. No, no, that is all right, Mr. Bachus. I think that is an exceedingly important issue and one that I suspect is going to be receiving a lot more attention in the years ahead.

As you know, because you wouldn't have otherwise asked the question, money laundering is absolutely essential to organized crime and drug trafficking, because it is only through that that they can take the illegally gotten gains and turn them into usable gains. One of the prime objectives of this Administration has been to try to cut that cord.

Eight years ago, Treasury set up a separate organization within its law enforcement capabilities to focus on precisely these kinds of issues, but most specifically money laundering.

About—some months ago, I forget exactly when, I went down to Argentina, as you said, and chaired a money laundering conference of which we had all of the nations of the Summit of the Americas. Our objective is to get the other nations of the Americas to join with us in this focused effort with respect to money laundering.

I think it was actually quite a successful conference and we have had some good results in this fairly short period since the conference. But I think that you have correctly identified what will be a prime focus of law enforcement, not only in this Administration, but I suspect in Administrations to come.

Mr. BACHUS. I would just like to encourage you to continue with your initiatives and let us know in that regard. Obviously, that is something that affects us every day and we need to spend more time on it.

Secretary RUBIN. We would be delighted to do that. We would be delighted, if you would like, to come by your office at some point and discuss what is going on, because I think it is a very important subject.

Chairman LEACH. The gentleman's time has expired. Let me also mention to the committee, we will be holding a hearing on February 28 on this and related subjects.

Mr. Frank.

Mr. FRANK. Mr. Chairman, I would just say I believe that the gentleman from Alabama repudiated that impeachment talk that others had said. I refer to it, and I imputed it to some members of the Republican leadership, because it came from the Chairman of the Rules Committee and it came from I believe the gentleman from California, who is the head of the Republican Policy Committee, but I am glad to have it repudiated.

I am also glad that we have had repudiated by silence the wholly intemperate and unfair attack on you, Mr. Secretary, from the gentleman from Florida, Mr. Mica. Mr. Mica, in your absence, made these outrageous accusations appropriately characterized by Mr. Kanjorski, and I am delighted to see that not one Member of the majority has picked them up or carried them forward, and I think it ought to be very clear that this is disassociation by silence that is entirely appropriate.

What I am curious about here is this theory. Apparently, I was surprised to hear you accused of having come up with this whole strategy of default. Now, I had been under the impression that this was something the Republicans were talking about, but I guess they have said it isn't true. So I find myself somewhat in the position of Groucho Marx's interlocutor, what Groucho said "Who are you going to believe, me or your own eyes?" I guess I will believe them for a while.

I want to congratulate you, because it seems to me this strategizing that you have been credited with doing is even greater in its brilliance than has been said, because apparently you somehow provoked them into raising this default issue. That was the "rope-a-dope" strategy of all time. There you were, going about your business, dropping your guard, sticking your chin out, and suggesting that they deal with default, because it did seem to me, looking at it, that they threatened to default and thought that would force you, you being the Administration, to give in, and then you found a way to avoid that, using the trust funds. Half of them decided to accuse you of stealing the trust funds; the others accused you of doing something that was so routine, we don't know why it was a crisis, but all of it seems to be your fault. How you managed to plant that idea in Speaker Gingrich's head I do not know.

Mr. Schumer read those quotes from Speaker Gingrich, and your cleverness in leading Speaker Gingrich into threatening default certainly sets new heights. I don't think Andrew Mellon or Alexander Hamilton combined could have approached that degree of cleverness. I guess I would have to congratulate you for it.

The only other thing, though, I would like to say is the criticism that you got for some of your department staff of not sending your material in. Don't let the warriors overdo this. This stuff got redacted because somebody gave some overly legalistic interpretation.

Listen to the wires, but understand there is a broader political context, and people have a right to complain that the stuff didn't come in cordially. Although I must say the tactic of putting up blank sheets of paper when you have in fact had for 2 weeks what is really on the paper seems to me to be fairly tawdry. But you let yourself into it. So the next time you are brilliantly strategizing and leading them into this briar patch for you of the default, don't ruin it with that.

Finally, let me just ask you, if you would, because I think it is fair for you to comment. Mr. Mica said that you had stolen funds from the retirement system, that it was robbery, that it was the lowest thing ever. As I said, several of us on this side have expressed our extreme distaste for that kind of language and the Members on the other side have made clear by not talking about it how little they think of it. But it does seem to me, you having been accused of this stuff, you ought to have a chance to respond, so I would ask you to do that.

Secretary RUBIN. I think, Mr. Frank, that I would commend to Mr. Mica the statute, which I think is the best response to the——

Mr. FRANK. Well, he might need some help with interpreting it.

Secretary RUBIN. Well, we have legal counsel that can do that. In fact, we have opinions from both our counsel and the office of Legal Counsel of the Justice Department, but the statute clearly on its face says that the actions that we have taken can—or rather, let me put it differently, that once you make the requisite findings, then you can use the resources of the fund to the extent that you make the findings.

Mr. FRANK. Let me just ask, the notion that this was all so carefully preplanned, you just made a clear point there about making the findings. You could not have in fact made the specific factual findings until very close to the moment. Is that correct?

Secretary RUBIN. That is exactly right, because what you needed to do was to make a finding with respect to a debt issue and how long a period of time might it be during which you might not be able to issue debt in the normal fashion.

Obviously you can't know the answer to that until you get right up against a true default and see what the facts are, and that will enable you to make a determination as to what in fact is the period during which you might not be able to issue debt in the usual fashion.

Mr. FRANK. One quick question. Are any of the retirees, present or future, of the Federal Government in any financial jeopardy as a result of anything you have done?

Secretary RUBIN. The answer to the question, Mr. Frank, is absolutely not. As I said in my statement, what happened was that nonmarketable government securities, which are offered to the fund on special terms—they actually do better than they would in the market—are redeemed, but in their stead are put credits on the books of the U.S. Government backed by the full faith and credit of the United States, with statutory requirements that the interest be made good once the debt issuance period is passed and there be full restoration of interest.

Mr. FRANK. I thank you for that.

Of course private companies are not comparable to the full faith and credit.

The last point is, I would like your assurance that the whole business of the trust funds leading to Mr. Mica's denunciation of you for robbing and theft, I would like your assurance that this was not a clever plot of yours that you led poor Mr. Mica into making these accusations and he is going to have to repudiate a couple of months from now.

Secretary RUBIN. That is all much too clever for me, Mr. Frank. All I tried to do was to protect the creditworthiness of the United States of America, make sure we can meet our obligations and utilize our statutory authority toward those ends.

Chairman LEACH. Mr. Baker.

Mr. BAKER. Thank you, Mr. Chairman.

Good morning, Mr. Secretary.

Secretary RUBIN. Good morning, Mr. Baker.

Mr. BAKER. I am trying to go back and look at what has actually happened over the course of the last 4 or 5 months and make sure I am understanding properly the flow of events.

You were just looking at the statute, I take it, that authorizes the actions from the G–Fund and the CSR Fund that clearly establishes legal precedent for you to take whatever actions, in your determination, are warranted on the eve of a principle of default, and you make that assessment.

On that basis, there was some $21.5 billion from the G–Fund, $39.8 billion from the CSR Fund, something in excess of $61 billion transferred via that mechanism, not only to forestall the immediate default, first question, but for residual operations for the remainder of the year; is that correct?

Secretary RUBIN. Well, the two periods that we actually were looking at, at the time we made the decision, were the November 15 date, which would have been a default date, and then the December 1 date, when there were additional substantial obligations, and it was really those two periods we looked at together, although we did it on the eve of what otherwise would have been a default date.

Mr. BAKER. So you really had two funding principles. One was the defaulting trigger which you acted on just prior to November 14, but you also contemplated a later cataclysm on December 1 which you funded at the same time.

Secretary RUBIN. Yes, although let me make a point that I perhaps wasn't clear enough about. Those are the two dates we looked at, that is correct, but the determination under the civil service statute was not driven by the amounts of money we needed. It could only be driven by the period with respect to which we felt we might not be able—there was a reasonable chance that we would not be able to issue, or we could not be sure that we could issue debt in the usual fashion, and that gave you an amount of money. That amount of money——

Mr. BAKER. That is my point, I guess, is that it was not a distinct, clearly identifiable debt that we are going to resolve. There was part A, which was a debt and then some future commitments, possibly operations, future debt resolution, that was at some foreseeable time in the future, two or three later, perhaps.

Secretary RUBIN. Well, no; if I could just put it slightly differently, if I may. The G-Fund is the amount that doesn't roll over if you are at the debt limit, and then you can use that for debt management purposes on its own term.

Mr. BAKER. You have to take it when you can get it.

Secretary RUBIN. The G-Fund, what you have to do is to make a judgment about the debt issuance suspension period. That was the judgment we made—that gave us an amount of money—that we made on own merits.

But if you take those two amounts together, what it did do was get us through November 15, what otherwise would have been the default period, and also get us through the December 1 period.

Mr. BAKER. What are the residual assets in the CSR Fund today?

Secretary RUBIN. You mean the total amount?

Mr. BAKER. About $300 billion?

Secretary RUBIN. I think they are more like—well, if you count, which I think you should count, the credits on the books that were established to replace what was redeemed, I think it is closer to $350 billion.

Mr. BAKER. My point is that you now have the ability, under the statute you referenced, to make the judgments about events that may take place, not tomorrow morning, but at some date certain in the future, based on the availability of the CSR fund assets to you to manage, with a fund that now has $350 billion in its pockets. What are the reasons for the stated consequential default if all of those facts are in your favor?

Secretary RUBIN. No, because—that is why I made the point, I made the distinction I made. I am glad you raised that question.

It is our judgment that you don't go at it that way. You don't look at the monies in the fund and then look at the—you look at the problem, the needs going forward—no, you don't look at the problem and say how much do you need. It is a rather curiously drafted statute.

Mr. BAKER. I think so. If you don't look at the money or the problem, what are you looking at?

Secretary RUBIN. What you look at is, you look at how long a period you can reasonably judge you might not be able to issue debt in the usual and normal fashion. That gives you a number of months. You take that number of months, and you multiply it times the amount of benefits paid per month. That will give you an aggregate amount of money, and that is what you can take out. That actually is unrelated to——

Mr. BAKER. And this all happens in a few minutes.

Secretary RUBIN. Well, we spent a few hours doing it.

Mr. BAKER. When did you first start thinking about debt resolution processes? Did you do it in early November? Late September?

Secretary RUBIN. No. We began thinking about contingency planning sometime in June of——

Mr. BAKER. June 27, perhaps?

Secretary RUBIN. On June 27. I think we actually began a little before that.

We looked at all kinds of ideas, almost all of which turned out to be not available to us legally.

Mr. BAKER. So that from your extensive work from June probably until the time or the day before the default, the only mechanism you could determine that was available was only this statute authorizing you to take this action, based upon whatever might be available in that fund on that date certain for events that may or may not take place the next day?

Secretary RUBIN. Well, let me put this slightly differently, if I may. When we started—we started with a wide range of ideas, some of which I at least thought were reasonably promising.

As we went through the period, not only up to November 15 but beyond November 15, almost all of the ideas we had ultimately determined not within our authority by our counsel or the counsel at OLC, November 15——

Mr. BAKER. I hate to interrupt. I am out of time.

Secretary RUBIN. Wait a minute. The November 15 we could not have gotten through without the Civil Service Fund.

Mr. BAKER. Thank you. I appreciate your courtesy.

My last point—and this is meant with true respect for your abilities as a Wall Street participant, with some measured degree of success, I might add—you were viewed as a fairly knowledgeable participant in that process.

During the course of this projection from September to whenever, today, with the repeated comment of default being imminent and the crises that would result as a consequence thereof, the stock markets went up 500 points. Why aren't your friends on Wall Street listening to what you are saying?

Secretary RUBIN. I think they have listened to what I said. I think you may not have come in at the time, Mr. Baker——

Mr. BAKER. My timing is always bad, but go ahead.

Secretary RUBIN. That is all right. You didn't miss all that much. But let me just on that particular point make a comment, if I may.

I really tried to accomplish two things at the same time, and I was exceedingly conscious of that need, having spent as much time as I have with markets.

On the one hand, we had to urge Congress to put in a clean debt ceiling increase, because it was only by so doing that we could find a long-term solution to this problem. At the same time, I was exceedingly conscious of not doing anything that would create uncertainty in the markets.

Mr. BAKER. Well, that was clear.

Secretary RUBIN. Let me say, I think that we managed to accomplish both purposes at the same time, and we did it, or I did it, I suppose, predominantly by saying, on the one hand, we must do this, and, on the other hand, I do not believe—and if you look back at my statement, I always said this—I do not believe we will default, because Congress will fulfill its responsibility.

Mr. BAKER. I would agree with that, but I would come to a slightly different conclusion, because there were published accounts in the media saying, here are the statutory authorities, the funds, the assets; friends, it ain't happening; this Secretary can do what he needs to do in order to get this problem resolved; and the political consequences were a different matter.

But the point is, there were different tools at your disposal to avoid default, and that was evident to the markets because they knew at no time would there likely be a default.

Secretary RUBIN. Mr. Baker, let me tell you, having lived in markets, whether markets think—it is a very complicated question.

Mr. BAKER. They buy the rumor and sell the fact, I know.

Secretary RUBIN. Well, if it was that simple—well, let me tell you what actually happened. What actually happened is precisely what I said, which is that early in the process we identified a relatively wide range of possibilities; almost all of them got knocked out as we did our legal analysis.

The civil service one was one that was clearly available to us on its face. It was equally clearly the case that we could not make that decision, and therefore nobody could be certain whether we could get enough money out of that to get through November 15 until the eve of default, and that is when we had a several-hour meeting at Treasury, during which we analyzed the application of that statute to the facts that existed.

Mr. BAKER. Are you certain of that now, or has the CSR Fund been fully exploited? There is no room to move now?

Secretary RUBIN. It is our judgment that we cannot take anything out of the Civil Service Fund in addition to the 12 months that we have taken, plus the two that we may be able to take.

Mr. BAKER. I mean the funds that have been replenished that were taken out.

Secretary RUBIN. It has nothing to do with that. It has to do with respect to the debt issuance suspension period. It is a very technical standard that has to be met. In our judgment, if we do the full 14 months, that will be the most that we can do.

Chairman LEACH. Thank you, Mr. Baker.

Mr. Kanjorski.

Mr. KANJORSKI. Thank you very much, Mr. Chairman.

Mr. Secretary, I am not sure why we are here, but since we are here and we have to occupy this time, we might as well.

Is it not correct that under your leadership and President Clinton's leadership, this is the first time in decades that the deficit of the United States will decrease 4 years in a row?

Secretary RUBIN. Mr. Kanjorski, I think that it is the first time—I know it is the first time since Mr. Truman was President that that has occurred. In fact, it is the first time since Mr. Truman was President that the deficit has decreased 3 years in a row. Four years might take you back even further.

Mr. KANJORSKI. Isn't it correct that in inflation-adjusted dollars the deficits during the Clinton Administration are smaller than those of either the Bush or the Reagan Administration?

Secretary RUBIN. On an inflation-adjusted basis, the deficits are lower, but even on a non-inflation-adjusted basis, I believe they are lower, and they are certainly lower. In fact, the last deficit projected by the outgoing Bush Administration was in the neighborhood of $300 billion. The deficit of the last year of the Bush Administration was, I think, $290-some-odd billion. You had better check my number; I am not sure.

This year's deficit is about—the year just passed—$164 billion. The deficit as a percentage of total economy, which may in some ways be the most useful measure, has fallen by more than 50 percent. We now have the lowest deficit as a percentage of our total economy among the G-7 nations.

I really and truly believe that the last 3 years with respect to fiscal responsibility have been the most important 3 years probably in decades with respect to establishing the fiscal responsibility of this country.

Mr. KANJORSKI. In reality, Mr. Secretary, if you took the period of time, 1945 when the United States ended the Second World War, you took the gross domestic product of the United States and the gross debt of the United States at that time, and you compared them, and you compared the gross domestic product today and the gross debt today, it is actually, percentage-wise, less today than it was when we ended the war in 1945?

Secretary RUBIN. When we ended the war, yes, that is correct. You mean debt as a percentage of the total economy?

Mr. KANJORSKI. Right.

Secretary RUBIN. Yes, that is correct.

Mr. KANJORSKI. And the reality was that from 1945 until 1980, when we had a new theory put in of supply side economics, the real debt of the United States under that 25 years of Democratic control of the Congress, the real debt of the United States decreased by almost 60 percent. Isn't that correct?

Secretary RUBIN. That number I truly don't know, but I do know, Mr. Kanjorski, that it decreased very substantially, and then it quadrupled from 1980 to 1992.

Mr. KANJORSKI. Over 60 percent of what we are trying to refinance today was debt run up under supply side economics that said you could cut taxes significantly, you could increase spending on defense significantly, and you could get to a balanced budget by, I think, 1984, or I won't run for reelection. Wasn't that the promise in 1980?

Secretary RUBIN. I truly don't remember.

Mr. KANJORSKI. We couldn't recall that anyway, probably, the people that were engaged in making that commitment.

Is there any reason in the world—I mean actually you are being watched by probably 50, 60 million Americans—is there any reason in the world why we should be terribly pessimistic as to the economic future of the United States, where we are going, what we can attain, and what this whole land is about today, or do you view the future of America as I do, as probably one of the most pessimistic times, and the world indeed is perhaps almost a revisit to the Renaissance period of centuries ago, that we are about to explode in intellectual pursuits, in science and technology like we have never before, and that maybe the correct perception of the whole country is that our institutions of government—or maybe that means the world—is one of our bigger problems?

Secretary RUBIN. As Secretary of the Treasury, I spend a reasonable amount of time with the finance ministers of other countries, and we meet, the G-7 finance ministers—the seven big industrial countries meet on a roughly quarterly basis.

It is very interesting at those meetings, Mr. Kanjorski, because what you do is, you reflect on the strengths and weaknesses of respective countries.

I think this country is remarkably positioned for the future, but I think it is very important, if we are going to realize our potential, that we have in place the right public policies, and, on the one hand, I think that that requires that we continue with the fiscal discipline that the President started in 1993 and go toward a balanced budget.

But I think, similarly, it requires that we have appropriate public investment in education and training, technology, and the environment, and the other areas that, in the President's judgment and I think it is absolutely right, are essential if we are going to be competitive and productive 5, 10, 15, 20 years from now.

Mr. KANJORSKI. Thank you very much, Mr. Secretary.

Chairman LEACH. Thank you, Mr. Kanjorski.

Mr. Ehrlich.

Mr. EHRLICH. No questions.

Chairman LEACH. Mr. Cremeans.

Mr. CREMEANS. Thank you, Mr. Chairman.

Thank you, Mr. Rubin, for being here this morning, or this afternoon, and offering testimony. I only have at least one question, a statement, and then I will yield back the balance of my time.

You know, I have heard testimony from you this morning saying that the $4.9 trillion debt limit really needs to be raised to $5.5 trillion in order to avoid default on our government obligation. You alluded earlier, Mr. Rubin, to, or perhaps referenced, a remark to the effect that maybe a congressional committee or some other organization in which you led me to believe that you, yourself, may be puzzled about the $5.5 trillion.

For the record, do you agree that the $5.5 trillion figure is, in your opinion, the best estimate as to where we should raise this?

Secretary RUBIN. Well, the $5.5 trillion was the debt ceiling increase contained in the Republican budget resolution of last year, and it seemed when we analyzed the Republican budget resolution that their analysis was correct and that was a number that would protect us with respect to meeting our obligations for quite some period into the future, so we adopted their number.

Mr. CREMEANS. But you would agree, yes, that that is a figure that you would support?

Secretary RUBIN. I would support that number, yes.

Mr. CREMEANS. OK. You know, Mr. Rubin, let me, in all honesty—and let me be honest with you. You know, I like the idea of attaching budget constraints and entitlement reforms to debt ceiling legislation. The President, Members of the minority, and yourself are all favoring a so-called clean debt limit bill. Not only is there historical precedent for a loaded debt bill, but the most notable of which is the last one, which contained the largest tax increase in American history and played a role in getting me here today.

The budget constraints and entitlement reforms actually that the majority intends to add to this debt ceiling, I hope, will make future debt limit increases unnecessary, and that is my comment. Do you have a response to that?

Secretary RUBIN. Well, I guess the best response is that whether you put in place the President's balanced budget proposal—and it is actually two now, one that—well, one was scored by CBO. That was the one developed by Senator Daschle, but the President said he would sign it. Or you take the one that he proposed last Monday, which we have estimated by CBO procedures, although obviously it hasn't been submitted yet.

In either case, you are going to need an amount of additional debt ceiling room that is roughly the equivalent of that that you are going to need with the congressional majority's budget. That is why I say, it seemed to us a sensible thing to take the congressional majority's $5.5 trillion estimate in their budget resolution and endorse that.

As far as historical precedence is concerned, in 1993 there was no use of the debt ceiling, there was no need to—well, no need to. There was no use of the debt ceiling; there was no talk of default.

What you had was a budget that I think clearly made an enormous impact on fiscal responsibility and the fiscal position of this country adopted well before the debt ceiling would otherwise have been hit.

Furthermore, if you go back in time, I think that you will find that there has never been a period until now when there has been serious talk about using default as a method for attempting to accomplish a budgetary purpose, and I think that the leadership should be commended, and I really think they have been extremely constructive in the letter that they provided to the President on February 1 saying that they are committed to providing an increase in the debt ceiling without taking any measures that are not acceptable to the President and the Congress.

Mr. CREMEANS. Thank you, Mr. Rubin.

I yield back, Mr. Chairman, the balance of my time.

Chairman LEACH. Mr. Kennedy.

Mr. KENNEDY. Thank you, Mr. Chairman.

I want to just follow up on the point you just made, Mr. Secretary. You know, I thought at an earlier point in the hearing, Mr. Chairman, you mentioned the fact that there would be no question that the debt ceiling would, in fact, be raised and that we would not default on the debt of the country. That is the kind of language that I think people are looking for, and that is the kind of message that I think would avoid a lot of the angst and concern that people have had over this issue.

The trouble is, as you know, that while some responsible members of your party have voiced those sentiments, at the same time there have been these sort of fits and starts where other members come out, such as I saw a couple of weeks ago, Dick Armey saying that perhaps this wasn't going to be able to move forward, and then Mr. Archer also sent a letter indicating that he had certain measures he wanted to attach to the debt ceiling that perhaps would not have—in fact would certainly not have gotten past President Clinton.

So the question is really fundamentally whether or not you believe there is a real commitment by the Republican leadership and the members of the Republican Party to allow this issue to get behind us and your sense of whether or not this is an issue that, if we have differences, we are going to be able to work out, and that we are not going to try to attach this to a very controversial set of issues.

As Secretary Rubin just pointed out, in the past there has been no question that the debt ceiling has been attached to various issues. The difference was that those issues always had the support of a majority of the Members of the House and Senate. That is not true with some of the provisions that have been floated to attach this debt ceiling to.

So I wonder, Mr. Chairman, if you might want to comment on it first and then see what the Secretary has to say.

Chairman LEACH. Well, first, let me just say I am confident in the sincerity of the leadership position and that there will be a debt limit extension that will be acceptable to the executive branch.

Now, in terms of history, I think one has to be very careful. The only modest correction I would make to the gentleman is that there already has been an approach that was acceptable to the majority of both bodies, and we had a balanced budget that included a debt ceiling limit that was vetoed by the President.

So what is needed is either an approach acceptable to the majority of the body and the President or an approach that has two-thirds support of the body, and so that a veto can be overridden.

Clearly, in my judgment, my party has underestimated the constitutional power of the Presidency, and, in underestimating that constitutional power of the Presidency, there has been a belief that more might be achieved with a debt ceiling issue than perhaps has been the case.

But it has also been historical that debt ceilings have been tied to budget issues. The gentleman has voted on several, as have other members of the committee.

But it appears to me a certitude that accommodation will be reached in the debt ceiling later this month, possibly in the first few days of March, but perhaps the last days of this month. What is not 100 percent clear to date and what will take some negotiations over the next several weeks will be exactly the framework. But I don't think the Administration will be tested on that.

I would also say, just speaking personally, and it is my—if there is any view that this gentleman has, it is that the prolongation of this debate has unfortunately lessened the likelihood of a budget resolution and, I think, contributed to increased societal splintering, and that the final measure of the political system has been tested and found a bit wanting.

But that is just a personal view and may not be shared by other Members.

Mr. KENNEDY. Well, Mr. Chairman, in response, I would just like to say that there have been several times over the course of the last several years when I have mentioned to you that I thought that you stand up for what you think is right for the country. You have done it, I think, again in the remarks that you have just made, and I think it is a testament to your leadership that you can come out and deal with an issue that is this divisive in the straightforward manner that you just did, and I appreciate it.

I don't know, Mr. Secretary, if you want to add anything.

Secretary RUBIN. If I could just add one comment, Mr. Kennedy, it has certainly been true that the past debt ceiling increases have been associated with the budgets, but it is my impression, Mr. Chairman, having talked to former chairmen of budget committees as well as others that have been involved, that there has never been an effort to use default or the debt ceiling as a means for pressuring the President into signing a budget that he did not otherwise agree with, that instead what you had were a series of temporary increases rather than an attempt to use the threat of default as a mechanism for achieving a political, or a legislative, purpose.

Chairman LEACH. Let me respond briefly to the distinguished Secretary. I think, very explicitly, there are one or two instances where that did occur. I think the 1990 or 1991 timeframe was one.

But putting that aside, there is always the implicit understanding that debt ceilings had to come with the budget priorities of the Congress.

But in the 1980's it was very well understood, and this is one of the reasons, for example, that Republicans would largely have voted against debt ceilings in the 1980's, Democrats would largely have supported, was the understanding that the debt ceiling was designed to accommodate a magnitude of spending. Implicit here is coercion of Congress vis-a-vis the executive branch or the constitutional role of Congress vis-a-vis the executive branch.

But as all of us will recall, President Reagan articulated—more than any American President—discomfort with the social programming agenda. And yet he had to swallow that, as President of the United States, because of a majority in Congress that was a little bit of a different view, and he wanted also to pass somewhat increased defense spending.

So the combination for an increase in defense was an even greater increase on the social side, and then all of that was implicitly involved in the debt ceiling debate. And what the debt ceiling has provided, in my judgment, over time has been the discipline of some timing decisions that, unfortunately, have not taken place in precisely the right way, or precisely in an orderly way at this time.

Secretary RUBIN. I agree with part of what you said. I will just give you a slightly different impression.

I think what you said is correct, but at least my understanding of what happened in the past, you first had the budget debate; as you said, President Reagan had to accept certain things he didn't want; then the debt ceiling got attached to the budget bill. But I don't think there was ever a time when it was turned around the other way and a President was told, if you don't accept our version of the budget, then we will countenance possibly a default. And that is why, in 1990 I think it was, it was something like six short-term temporaries while the Administration and the Congress tried to work out I guess it was the budget and, I think, Gramm-Rudman at the same time.

Chairman LEACH. Well, there are cart-and-horse issues here, and maybe there has been a little different emphasis. But I would be very careful.

I mean, you know, it is always fair for a political critic to quote someone, and I have always found, in my life, the worst things are when they quote you accurately.

So it is true that you have some accurate quotes about the Speaker of the House. On the other hand, it is also true that the Congress, in the final measure, did not precipitate default and that the Congress, in the final measure, has kept trying to negotiate with the executive branch. So you have differences of judgment.

Mr. KENNEDY. Mr. Chairman.

Chairman LEACH. It is the gentleman's time, and I will allow him several additional minutes because the gentleman has entered into a debate that I have taken from that time.

Mr. KENNEDY. That is fine, Mr. Chairman. I appreciate that.

The only point I would make is that when you say that the Congress has not precipitated a default, the truth of the matter is that the only reason why it has avoided the default was because of the actions taken by the Secretary, which he has been so terribly criticized for, and I think very personally attacked even in this committee today, and I think that it is—he is attacked for the tactics that he employed to avoid the default, and yet he would have been even more attacked if he had allowed the country to go into default.

So while I appreciate the sentiment that you are trying to get across, which is one of some kind of conciliation here, I also think that it would be wrong to suggest that somehow this has been a complicity strategy of the Congress to go along with the Secretary in allowing the country to avoid default.

I would say that the Secretary has jumped through about 87 different hoops in order to make certain that the country avoided default, and now, as you point out, Mr. Chairman, when it has come to the reality—the Congress has come to the reality that this strategy of trying to jam the President is not going to work, there is an accommodation that I think in the last few days is starting to develop, and that I think is a very positive development and one that I think I certainly welcome, and it sounds like the Secretary welcomes as well.

Chairman LEACH. If the gentleman will yield for a second, his time, I am sorry to say, has basically expired.

Let me say, at the risk of being trite, this is kind of an analogy. I look at the debt ceiling and time constraints much the way you look at a college term paper. Often you don't do your work until the end. When they keep getting prolonged, the key thing is to have certitude. Once you have certitude of timing, the history of this Congress and the country has always been that they abided by that timing deadline.

We have certitude the Congress is going to abide. I personally wish we would have had a certitude at an earlier time period.

I cannot challenge and have never challenged the legality of the Secretary's steps.

Mr. Orton.

Mr. ORTON. Thank you, Mr. Chairman; and, Mr. Secretary, welcome. I appreciate your coming before the committee today.

I am somewhat surprised by the suggestion from some of my colleagues that there was perhaps some impropriety on the part of the Treasury Department in as early as June, considering alternatives to default. It would seem to me that it would be malfeasance in office not to consider alternatives to default.

Following the suggestion that it was not the Congress that precipitated the default, it is the Congress which sets the statutory limits, and it is the Congress' obligation to enact an extension of that limit in a timely manner or result in default, I would like to ask, is it your opinion, if in October of 1995 you had not postponed the auction and subsequently reduced the amount of securities auctioned in that auction, would it not have been the result that we would have exceeded the statutory debt limit and thereby been in statutory default?

Secretary RUBIN. There is no question. That is a factual matter, Mr. Orton. The answer is absolutely yes.

Mr. ORTON. Also in November, by November 15 you told this body that in fact we had hit the statutory limit and that if you did not exercise your obligations under the statute to conduct cash management transactions using civil service retirement funds, that in fact we would go into default.

If you had not replaced those securities within the Civil Service Fund with the long-term obligations and used those to avoid default, is it not your opinion that the country would have then defaulted at that point in time?

Secretary RUBIN. Yes, sir. Once again, this is not a matter of opinion. There was roughly a $25 billion interest payment due that date. Had we not taken the actions we took, we could not have the met that interest payment, and that would have constituted default.

Mr. ORTON. Is it not also correct that on at least two or three occasions in late November and early December, that Congress, the House of Representatives—specifically, the majority—attempted to enact legislation which would specifically limit and prohibit the types of cash management transactions that you were conducting to avoid default, and if in fact they had been successful in prohibiting those cash management transactions, that the country would have also gone into default at that point in time?

Mr. RUBIN. You are talking about the legislation introduced about a day before November 15?

Mr. ORTON. Yes.

Secretary RUBIN. Yes. Had that legislation been passed, I believe my recollection is, we would have been in immediate default on November 15.

Mr. ORTON. Is it not also correct that in 1986 there was specific statutory authority, to which you have referred, giving the Secretary of the Treasury the flexibility to disinvest specific trust funds to avoid default?

Secretary RUBIN. That is correct.

Mr. ORTON. And is it not true that previous Administrations have used similar types, not exactly the same cash management techniques, but suspension of reinvestment in trust funds and so on? In November of 1957 the Eisenhower Administration; in March of 1979 and June of 1980, the Carter Administration; in September of 1984, September of 1985, October of 1986, the Reagan Administration; in August of 1989, November of 1989 and November of 1990, the Bush Administration, the Secretaries of Treasury in each of those Administrations on those occasions have also used similar cash management techniques to avoid default?

Secretary RUBIN. Mr. Orton, other secretaries have used the various means to avoid default for a short period of time. As one of your colleagues pointed out earlier, the period of time during which this has had to have been done this time is unprecedented.

But it is true that other secretaries have had brief periods during which they have had to manage similar kinds of situations and take extraordinary measures to do so.

Mr. ORTON. Thank you, Mr. Secretary.

I would just commend you for your integrity and your actions in office to an individual default. I think it is the most irresponsible action that a Congress could even consider, to put at risk and jeopardy the full faith and credit of the United States Treasury Department to be used as a political chit in a negotiation.

That is irresponsible, we all should be embarrassed by it, it shouldn't happen again, and I would commend you for the job that you did in finding ways to avoid default.

I would hope that in fact we will do as the leadership has now stated we will do and pass an extension of the debt limit. I hope you will not be called upon again to find those legal mechanisms to avoid default. But I commend you for keeping us out of default. It would have been absolutely different, have been absolute disaster in this country and the world and worldwide, if the United States had defaulted.

And it was through no fault of the Congress that we did not default. It was your specific actions, your positive actions, taken to avoid default, and I commend you for it.

Secretary RUBIN. Thank you, Mr. Orton.

Chairman LEACH. Mr. Bentsen.

Mr. BENTSEN. Thank you, Mr. Chairman.

One of the advantages or disadvantages of being a junior Member is, you get to sit around and hear every other Member on the panel talk. Unfortunately, you don't get to engage in the same hit-and-run tactics as some of the other Members like to do.

Mr. Secretary, I was shocked to hear you say that the Republican budget that passed both Houses would actually add, I think, around $600 billion to the national debt. This is the same budget that my colleague from Wisconsin, my Republican colleague from Wisconsin, voted for and was talking about how they didn't want to add any more to the national debt. Did you say their budget would add $600 billion to the national debt?

Secretary RUBIN. It would add at least that, Mr. Bentsen. I think actually the aggregate deficit may be somewhat higher than that.

But in order to make allowances for the debt that would be generated by the Congressional majority budget, in their budget resolution they proposed an increase in the debt limit to $5.5 trillion.

Mr. BENTSEN. $600 to $700 billion in real money?

Secretary RUBIN. You are right about the $600 billion and the $5.5 trillion. I don't know if that would absorb all of the deficits. They need at least that much.

Mr. BENTSEN. I think it is important we make the record very clear.

Secretary RUBIN. I believe—if I may, I believe that was actually a number that was only supposed to—no, that number wouldn't even begin to absorb the full magnitude needed for a 7-year period.

Remember, you have to absorb your debt limit, not only your deficits, but also incoming investments to the trust funds. I believe that $600 billion would only be sufficient for about 2 years.

Mr. BENTSEN. So the Republican budget actually added in excess of $600 billion to the national debt.

Secretary RUBIN. Substantially in excess.

Mr. BENTSEN. We hear all this talk about how they don't want to add any more to the debt. We now find out that is not entirely accurate.

Secretary RUBIN. One thing one needs to remember, Mr. Bentsen—and you know this, I know—if we had a zero deficit, zero, we would still be adding to the national debt because of the need to invest incoming proceeds to the trust funds.

Mr. BENTSEN. Let me ask you very quickly, while it is not good to add to our children's and grandchildren's debt that they have to incur, would it equally not be as good to leave them with bad debt, debt that you had defaulted on?

Secretary RUBIN. I think that, as Chairman Greenspan has said and others have said, if we default once, we would create a question in international markets about our integrity with respect to our obligations that would affect this Nation for decades. I believe it would affect our creditworthiness, how it is perceived, the interest rates we pay, and it would be really a profoundly mistaken action to have taken with respect to the future of this country.

Mr. BENTSEN. About 2 weeks ago the long Treasury market lost almost a point, maybe in excess of a point, in 1 day. It was the same day, I think, that there was some discussion as to whether or not there would be an auction if a debt limit could be achieved.

The *New York Times* Business Section—which, regardless of what you think of their editorial position, the Business Section is generally well regarded in Wall Street and the markets throughout the world—alluded to the fact that that was because of the uncertainty over the projected auctions.

In addition, Treasury has said that your needs for this quarter are about $55 billion in needed auctions of medium and long-term debt.

The Congress, before it left for an extended recess a week or so ago—and I have a follow-up question for that—passed a convoluted measure which would allow you $29 billion of refinancing in order that you can send out March 16 Social Security checks.

My question to you is, in between the cash that you receive and of the $29 billion that you can refinance or raise, do you have an estimate as to how long before you have to have more money?

I presume you are going to have March 15—if I recall correctly, Treasuries pay only the 1st and 15th. You are going to have some needs coming up. Do you know what those are and when you will need them?

Secretary RUBIN. Well, we do, Mr. Bentsen, and we are still analyzing the full effects of both the legislation that was passed and the projected revenues and outlays of the Federal Government.

But as you know, the legislation, on its own terms, is such that the debt obviously is valid and remains outstanding on the 15th, but the debt limit remains at $4.9 trillion. So we will then have—and the debt comes back into the calculation for debt limit purposes.

So on the 15th, the debt outstanding will be substantially in excess of the debt limit. It will still be valid but substantially in excess of the debt limit. That will obviously substantially impede our ability to raise additional funds. So some time shortly thereafter, we will cease having adequate resources to meet the obligations of the United States. But I cannot give you an exact projection right now, though it is a matter we have been looking at very carefully.

Mr. BENTSEN. If the chairman will indulge me, I know it is late and I have stood up my wife and children for lunch, but I do have a couple more questions.

Are you aware, from your experience in working with businesses, American businesses here, of any business that would be facing a note payment or a debt payment in short order where the board of that business would decide to go on vacation or to take a leave or go to Hawaii, as opposed to calling a meeting and figuring out where they might be able to come up with $40 or $50 billion that they might need to make their note payment? Any business that is still in business today?

Secretary RUBIN. Well, let me say this, Mr. Bentsen. I do think it is absolutely imperative—I think I said this in my statement—that we put in place a long-term debt increase and that we could do it very, very quickly.

I think the steps that the Congress took at the end of last week, the Archer bill, the letter from leadership, were very constructive and very important steps.

But I agree with you, it is imperative that we get on with our work and get this thing done and get it done as quickly as possible.

Mr. BENTSEN. The Congress ought to be in session working on this, and unfortunately it is not.

I will close by just asking this question. I know you had a long discussion with the chairman about the attachment of legislation to the debt limit.

As I recall, the Gramm-Rudman-Hollings bill was attached to the debt limit in the Senate in 1985, and it was actually forced upon the House and the Administration by then the junior Senator from Texas, now the senior Senator, Senator Gramm. So it has been used by both sides in a partisan measure.

I think it is a mistake to use this partisan politics. Certainly Democrats are not here using this in partisan politics. If we wanted to be partisan about the debt limit, we would stand aside and let the Republicans force you into default, because we would then probably be in the majority for the next 100 years as a result of that.

But let me ask you this question, because there has been a lot of——

Secretary RUBIN. Mr. Bentsen, it is my understanding—and we can look into this and get back to you—that in 1985 President Reagan actually wanted Gramm-Rudman. So it was not forced upon him, I believe. We can check it out.

Mr. BENTSEN. Let me ask then, because there has been a lot of discussion with respect to the 1993 OBRA Act, the 1993 Budget Act. Are you aware of any measure that has been introduced in this Congress in your capacity as Treasury Secretary in the 104th Congress or any measure that has been put forth by the Republican leadership of this Congress which would repeal any portion of the 1993 Budget Act, other than the one portion which funded direct funds from the Social Security Tax Fund to Medicare, Part A, the Hospital Insurance Trust Fund?

Other than that, are you aware of any efforts by the Republican leadership to repeal the increase in the marginal tax rate, the 4 percent gas tax, or any of that? If not, why?

Secretary RUBIN. Mr. Bentsen, I can't answer the why question, but I don't believe there was anything in OBRA 1993 that was repealed in the ultimate reconciliation bill that went to the President. I think that is correct.

Mr. BENTSEN. So you are saying that the new leadership of this Congress, the Republican leadership, none of which voted for the 1993 bill, all of whom said that the bill would drive the country into a recession, none of them had put forth legislation to repeal all those things that they are against.

Do you think that is because they are using that to predicate their budget that they are putting forth now, that without the OBRA 1993 and the deficit reduction that occurred as a result of that, that their budget would not be in balance in 7 years, as they are advocating?

Secretary RUBIN. I can answer the factual question. I do not believe anything in the reconciliation bill repeals anything contained until OBRA 1993, which I think was an extraordinarily constructive piece of legislation. I can't speculate on motivation.

Mr. BENTSEN. Thank you.

Thank you for your indulgence, Mr. Chairman.

Chairman LEACH. Mrs. Maloney.

Mrs. MALONEY. Thank you, Mr. Chairman.

Secretary Rubin, do you need a debt limit increase? Do we need to increase our debt limit?

Secretary RUBIN. I think the Nation needs one, yes.

Mrs. MALONEY. Have you been able to achieve it?

Secretary RUBIN. Not to date.

Mrs. MALONEY. Why not?

Secretary RUBIN. Well, a debt limit increase can only be put in place by Congress. The Congress has thus far chosen not to adopt a clean or straightforward debt ceiling increase.

Mrs. MALONEY. Is it fair to say that it is because the Republican majority has tried to attach to the debt limit increase reductions in Medicare, in Medicaid, the environment, education, student loans, that we have not been able to come forward with a clean debt limit increase limit? They have tried to attach policies and programs to what should just be a clean debt limit bill? Is that not a fair statement?

Secretary RUBIN. It is absolutely correct that the Congress has not passed a clean or straightforward debt ceiling increase and that the reconciliation bill which was sent to the President was one that he felt was wrong for the future of this country, and he consequently vetoed it.

Mrs. MALONEY. And then they used the same tactics with the reconciliation bill. They attached many things to the reconciliation bill that the President didn't agree with—again, cutbacks in Medicare, Medicaid, education, the environment—and they took the extreme step of closing down the government for 21 days.

Secretary Rubin, you and I are from the same area of New York. I wonder if your office received as many phone calls as I did from people who couldn't get passports, business loans, people out of work who could not send their children back to school because they were out of work because of the government shutdown.

In fact, maybe you are aware of the conference in New York on economic development in Hungary, only no one could get a visa to come into our country. It was an international disgrace and a national disgrace.

So I think it is fair to say that the tactic of "My way or no way," "Winner take all," didn't work, and they did open up the government.

What has changed since then? Could you comment on the Gingrich letter and the Archer bill? Are those the two changes that have taken place?

Secretary RUBIN. Both of those events occurred Thursday of last week. As I said in my opening statement, I believe they were both very constructive, and I believe what we now need to do is put in place a long-term debt ceiling increase, one that would last for at least a year.

But I think we have entered a new and, I think, constructive and bipartisan phase of the debt limit debate which hopefully will lead to a conclusion to this debate in very short order.

Mrs. MALONEY. So possibly it is fair to say that maybe they got the message that default, coercion, blackmail didn't work, and that it is more responsible to work together in a bipartisan way to come up with some solutions.

We are both from the great State of New York, and, as you know, we have a very strong two-party system there. On all of our budget fights, there are disagreements, but there has never been a shutdown or a default or a threat or blackmail.

In our State, both parties sit down and they reach a conclusion, and I think this model should be followed on the Federal level, wouldn't you say?

Secretary RUBIN. Well, I think clearly the budget can only be resolved by the Administration and the Congress working together.

The President, as I said from the very beginning, is very much committed to achieving a balanced budget and has been ready, willing, and able to work. I think no President in history has been so personally involving himself toward that end.

Mrs. MALONEY. It reminds me of Stairmaster politics. First, the Republicans wanted a 7-year balanced budget. The President came forward with one. Then they demanded one with CBO numbers. The President came forward with one. But the minute he meets one of their demands, they raise the step and come up with another demand that impacts on the policies and his fundamental values.

Mr. Secretary, I would like to ask you, are there any examples from other countries who have defaulted on their debt that would give us some idea of what we could expect if the United States ever defaulted?

Secretary RUBIN. I believe, in this century at least, that the only countries that have defaulted on debt that is denominated in their own currency are countries that were either less developed countries or transitional—basically less developed countries, countries that are not in the same category as the United States would be as a major industrial nation.

I can tell you from having worked with a lot of countries as they faced the prospect of having to deal with default that it is an action that they all do everything possible to avoid, and it is precisely because of the consequences of default.

One reason why it would be so tragic if this country defaulted as a matter of political will, is because that would set an example to other nations in the world.

I think one of the real problems—we are not going to default, period; I am confident of that. But were we to default, we would be setting an example for the international marketplace which I think would have an effect on how other nations deal with the same situation, nations that unfortunately do not have the same resources that we do and therefore have to take measures that are extremely difficult to take in order to avoid default.

Mrs. MALONEY. Do you think if we defaulted the consequences would be lasting or temporary, would have a lasting effect on our credit rating?

Secretary RUBIN. I think any default, were it to occur—and it will not occur, I am confident of that—but were it to occur, would affect us for years and in fact decades to come.

Mrs. MALONEY. Well, I would like to thank you for everything you are doing and have done to avoid default.

Secretary RUBIN. Thank you.

Chairman LEACH. Mr. Jackson.

Mr. JACKSON. Let me take this opportunity first and foremost, Mr. Secretary, to thank you for the very prudent and very responsible way in which you have clearly handled this very difficult situation.

I do want to take exception to one thing that the gentleman from Texas, Mr. Bentsen, indicated earlier when he said that one of the most troubling aspects of being one of the minority Members and new members on this committee is that you are not able to really take the potshots and hit-and-runs at panelists.

I might add that, being the most minority Member on this committee, the problem from my perspective is that most questions that you would have asked earlier have been asked and answered.

So I want to just ask one question for you, Mr. Secretary, and I also want to take this opportunity to thank the majority for the assurances that they have given us that default is no longer a threat.

But, Mr. Secretary, my question to you is one that really is explanative for the American people, and that is if you could help us understand what the drastic impact of such an occurrence such as a default would be without a clean debt limit being passed, and, more specifically, attempts by this Congress to limit your ability in the future to use such legal devices as those that you did use to help the Nation avoid a default?

Secretary RUBIN. I think, Mr. Jackson, that default by our country would have at least three consequences of some very real significance.

One, I think once you create the question mark about your integrity with respect to meeting obligations, that affects how you are viewed in credit markets, not for years to come, but for decades to come. It creates an uncertainty, and when you have uncertainties, then markets will ask for premium interest rates, some premium.

I think that is a particularly serious problem when the country has difficult circumstances and when your reputation in credit markets are most important.

Finally—and all of which, by the way, would affect not only the interest rates of the Federal Government but the private sector as well. I think it pertains to the way the public sector handles debt would affect how you handle all American debt was perceived.

Finally is the consequence I mentioned before. If the largest economy in the world went into default as a matter of political will, I think that would affect creditworthiness around the world, as other, much less fortunate countries face excruciatingly difficult decisions that are involved in their staying out of default.

But, fortunately, I think that, though a very important issue to focus on, this will turn out to be academic. There is no question in my mind that we are not going to default.

Mr. JACKSON. Mr. Secretary, your response to attempts by this Congress to limit your ability to use such legal devices as you were required to do?

Secretary RUBIN. I think the statutory authority created by a Republican Senate and a Democratic House of Representatives and signed by President Reagan was very wise at the time.

What it did was, it provided an escape valve so that if we were at what would otherwise be a default time and the political circumstances were such that it looked like that couldn't be resolved, there was a mechanism to let some of the steam out of the system until things settled down and Congress and the Administration could function in a more orderly fashion and deal with the Nation's problems.

So I think that it is very important that those tools be kept in place for any future President, any future Secretary of the Treasury, whoever they may be and whatever party they may be, just as President Reagan felt when he signed them into law.

Mr. VENTO. If the gentleman will yield, I think that one reason this temporary measure that was passed, obviously the President signed it—did you draft that particular measure with regards to the Social Security check protection?

Secretary RUBIN. Did I draft it?

Mr. VENTO. Or were you involved in it? Was that the ideal piece of legislation, 15 days of avoiding default, or whatever the days were?

Secretary RUBIN. Well, I think, Mr. Vento, it was very useful, because I think what it will do is, it will give us time to do orderly financing instead of being crunched into a very short period of time.

Mr. VENTO. I don't have much time here, and I want to make certain, but I find that since you didn't draft it, there is some confusion about it, to say the least.

As I read the descriptive material on it, it suggested that it only covered Social Security checks. Obviously, money is fungible, I understand that. I am just suggesting that some of the same critics and others may be delivering to you the same sort of criticism.

In other words, it raises the debt ceiling or pays the checks, it doesn't raise the debt ceiling, and then it springs back in 15 days to the original. So this is obviously not ideal or very good. It helps in terms of relief, I appreciate that, but I just want to point out, it is hardly the ideal thing.

Secretary RUBIN. This is a very short-term deferral. It doesn't in any way change what needs to be done, which is to put in place an acceptable debt ceiling increase and do it very, very quickly. But I do think it was constructive, for the reasons I said before.

But you are right, it does not change the situation. It doesn't change what needs to be done. It just defers it for a very short period of time.

Mr. VENTO. I would just point out, Mr. Chairman, that the explanation that we had in one of our insight sheets that we get, a nonpartisan source of information, explained it completely different. This is an example. It had the intention of doing something. Intentions don't count. We are dealing here with real ceilings.

Furthermore, I think this opens up the avenue that if you wanted to say that something is being duplicitous, as you read that, the literal reading of it suggests that Social Security, obviously, the explanation on the floor and the legislative history is clear that you can take the money, do a variety of things.

I don't want to in any way limit you, but I am suggesting that this is less than an appropriate way. It is helpful, but there is obviously, I think, a lot of misunderstanding. That is why I referred to it as sort of a convoluted way of doing what we need to do in terms of getting a true debt ceiling raised over a longer period of time. I hope we can do that.

I thank the gentleman from Illinois, Mr. Jackson, for yielding me time.

Mr. JACKSON. Thank you, Mr. Vento.

I yield back the balance of my time, Mr. Chairman.

Chairman LEACH. Mr. Bachus.

Mr. BACHUS. I have got three technical questions, and if you want to answer them later in writing, that would be fine.

Chairman LEACH. I think maybe that is appropriate.

Mr. BACHUS. That would be fine. Let me tell you what they deal with. One deals with the Airport Fund. I just didn't know why the Airport Fund had been involved.

Secretary RUBIN. The Airport Fund?

Mr. BACHUS. Aren't we involved with——

Secretary RUBIN. I am sorry, the sale of the assets.

Mr. BACHUS. To the Airport Fund.

Secretary RUBIN. The statutory authority with respect to the assets we are selling, we would be happy to get back to you with an explanation.

Mr. BACHUS. The other one is when we transfer assets from Treasury specials, those Treasury specials have different maturity rates and interest rates. Does that create technical problems for you?

Secretary RUBIN. You are talking about when we replenish the Civil Service Fund?

Mr. BACHUS. Yes.

Secretary RUBIN. Yes. We will have to replenish the Civil Service Fund under the statute to exactly the same condition it would have been if we had not taken the action. Technically, that is a very difficult task, but it is one we can accomplish.

Mr. BACHUS. The third one was the ESF. You are only getting the cash assets and not the other assets of the ESF?

Secretary RUBIN. Yes.

Mr. BACHUS. I am going to ask you a question about that in writing.

Secretary RUBIN. OK, we would be glad to respond.

[The information referred to can be found on page 226 in the appendix.]

Chairman LEACH. Mr. Gonzalez.

Mr. GONZALEZ. Thank you, Mr. Chairman.

First I want to thank and commend Secretary Rubin for his forthright and very patient efforts to avert default.

The Secretary has acted prudently and clearly within the law, and his efforts have in fact saved the Congress from its own folly. What is left is for the majority, having now been through any number of rationalizations, to get on with the job of authorizing the debt limit increase necessary to protect the Nation's credit.

I want to also apologize to the Secretary for the behavior of those who have accused him falsely. I heard one claim that the whole debt limit crisis was a hoax and another say that the Secretary robbed the trust funds to prevent default.

These accusations and similar others I have heard today are untrue, unfounded, irresponsible, and, to me, embarrassing personally. I apologize to the Secretary for those accusations, which ought never to have been made in the first place and which I know my chairman does not support or condone.

Finally, Mr. Secretary, it is plain that we must pay our bills on time or suffer the consequences of impaired credit. It is incumbent upon us to act so that we can protect, and you can protect, our credit. It is time for responsible, adult action by the Congress.

If default occurs, the blame will lie with the Congress alone, which authorizes spending that the debt must finance. Today's hearings hopefully lay to rest the last of the fantasy notions that we need not act.

Again, I commend you, Mr. Secretary, for your patient and courageous actions in the face of unprecedented irresponsibility by the congressional majority. To be accused, as you have been, of improper acts is scandalous to me. But considering the source of the insults, I think you will see them as a badge of honor.

I thank you again.

Secretary RUBIN. Thank you, Mr. Gonzalez.

Chairman LEACH. Let me first remind the committee we have a very distinguished panel of private sector people coming to particularly put some of these issues in a long-term economic perspective, which is critical for our consideration.

But in concluding your appearance, Mr. Secretary, I would just like to note, we have heard a lot of voices at times raised this morning. I would like to underline a few points, some of which may reflect consensus of the Members.

First, there is a bipartisan agreement that default is off the table. The United States will not default on its obligations.

Second, the underlying problem facing the country which is symbolized in the debt ceiling debate is a continuing accumulation of debt as a result of budgets that have been out of balance.

Third, while it appears from the comments of my colleagues on both sides of the aisle this morning that there is a growing commitment in Congress to balance the budget in 7 years, strong differences remain on how to reach this balance.

We began last year with the executive branch advocating an approach that would have precipitated over $800 billion in more debt than the Republican alternative during this time period. But we begin this year with the President proposing a budgetary approach closer to the majority in Congress but one which involves a somewhat higher tax environment.

We are structurally, in other words, closer together than the rhetoric of both sides would indicate.

Fourth, as reflected in the views expressed this morning, there has been an unfortunate breakdown in the trust between the executive and legislative branches, which I believe imperils the capacity of government to function effectively.

Fifth, there remain questions about the Department of Treasury's commitment to make full disclosure, at least on a timely basis, of its contemplated actions on the debt ceiling and about the Administration's strategy of politicizing the Medicare issue, despite the unanticipated negative cash flow from the Medicare Trust Fund in 1995.

Sixth, the Congress needs to take another look at debt ceiling legislation to ensure that the options available to the Secretary of the Treasury are not a matter of dispute but are clear to all parties.

Seventh, it must be understood that, just as no Congress has ever precipitated default of the debt ceiling, the issue provides not only a philosophical framework for budgetary decisions in Congress but time constraints in which decisions should on an orderly basis be made.

The prolongation of discourse on the debt ceiling has had the unfortunate effect of delaying and making less likely a budget compromise and accelerated difficulties accordingly. It is my hope that the airing of conflicting views this morning will, in the final measure, help to serve to advance resolution of these issues.

Let me just say with regard to your comments, I think they have been forward, very helpful, very straightforward, and very constructive to the process at this time. We thank you for your testimony.

Secretary RUBIN. Mr. Chairman, thank you.

Chairman LEACH. The committee will now recess for 2 minutes as our next group of witnesses are empaneled.

[Recess.]

Chairman LEACH. The committee will reconvene. Let me apologize to the panelists for keeping them a little bit later than they might have expected. Let me also say to the committee that this is an extraordinarily estimable group here. I have read the testimony in advance, and it is very important testimony.

In introducing the panel, let me say the first witness will be Mr. Rudolph Penner. Mr. Penner is managing director of the Barents Group of Peat Marwick in Washington. Prior to joining Peat Marwick, Mr. Penner was a senior fellow at the Urban Institute. He was director of the Congressional Budget Office.

Our second panelist is Dr. Mickey Levy. Dr. Levy currently holds the position of chief economist of the NationsBanc Capital Markets, Inc. Previous positions include chief economist at CRT Government Securities, Ltd.; research associate with the American Enterprise Institute; and economist with the Congressional Budget Office.

Our third panelist is Dr. William Poole. Dr. Poole is the Herbert H. Goldberger Professor of Economics at Brown University and serves on advisory panels for the Federal Reserve Bank in New York and the Federal Reserve Bank in Boston and the Congressional Budget Office.

Dr. Poole formerly served as a member of President Reagan's Council of Economic Advisors.

Why don't we begin with Dr. Penner.

STATEMENT OF RUDOLPH G. PENNER MANAGING DIRECTOR, BARENTS GROUP, KPMG PEAT MARWICK

Mr. PENNER. Thank you, Mr. Chairman, for this opportunity to testify.

I believe an increase in the debt limit should be enacted as quickly and as cleanly as possible. There is absolutely nothing to be gained from threatening the creditworthiness of the United States, while there is a great deal that could be lost.

An increase in interest rates and falling bond prices stemming from the failure to pay interest in a timely fashion, would cause a concomitant fall in the stock market at a very bad time in the history of the current business cycle. Economic recovery is becoming more and more fragile. It will not take much to tip the economy into recession.

No one knows what increase in interest rates would follow a delay in paying interest due on the public debt, but it is worth pointing out that each 1 percentage point increase in the rate would cost American taxpayers well over $200 billion cumulated over the following 7 years. That is about as much as the tax cut contained in the Balanced Budget Act. Even a small threat of default undoubtedly adds a significant amount to our interest bill.

Some see debt limit legislation as the only horse that can carry some needed deficit reduction. I am as strongly in favor of deficit reduction as anyone, but I think that it has to be passed on its own merits. The only way that it will be sustainable is if it is understood and accepted by a majority of the American people, and befuddling the debate by simultaneously talking about the threat of defaulting is not the way to enhance understanding of the merits of balancing the budget.

In the longer run, I would like to see us get rid of debt limit legislation altogether. It is completely illogical to enact tax and spending legislation that implies a certain deficit and a certain amount of borrowing by the U.S. Treasury and at the same time to have a piece of legislation on the books that prohibits that borrowing from taking place.

Tax and spending laws are the only appropriate mechanisms for controlling the size of the national debt. Debt limit legislation does not provide any independent source of fiscal discipline, yet debates over it are often time-consuming.

Historically, the debt limit has served largely as the vehicle for attaching extraneous legislation that would have difficulty being enacted on its own merits.

It is, in my view, very important to focus all our energies on the substance of the budget debate. Our country will face a fiscal crisis when baby boomers start to retire after 2010. Even if we succeed in balancing the budget in 2002, it will be difficult to keep it balanced for very long after that.

That is another way of saying that the fiscal measures debated during 1995 and early 1996, though extremely helpful, provide only a down payment on what will be required eventually to contend with this demographic problem.

The Bipartisan Commission on Entitlement and Tax Reform reported in 1994 that, given the policies and the economic and demographic assumptions in effect at that time, the budget deficit would exceed 10 percent of the GDP by 2020 and almost 20 percent of the GDP by 2030.

Such numbers are not thinkable. If the deficit rises toward those levels, and is combined with the net withdrawals from pension funds that are likely during the same time period, it is likely that U.S. net saving will become negative.

A country cannot grow at a decent pace without saving, and the economy is likely to go into a cumulative, accelerating decline. That makes the deficit problem much worse than the Commission's projections which assume continued growth.

At some point countries typically stop borrowing. They default on their debt in one of two ways: Either they default explicitly, or they begin to finance government by printing money. The latter is much more likely, and the resulting hyperinflation makes the debt worthless.

It is also not thinkable to avoid the situation solely by raising taxes in the 2020's. The Federal tax burden would almost have to double, and that would have a negative impact on economic growth as well. The bulk of the correction has to come on the spending side of the budget.

My testimony goes on to point out that the major problems come from Medicare and Medicaid. Social Security is a smaller burden but still a significant one when the demographics deteriorate.

I think, though, a really important point to end with this: The sooner we confront the fiscal implications of the demographic problem, the easier it will be. Every reduction in the deficit has a compounding beneficial impact.

For example, if the spending path of an entitlement program can be lowered by $1 for 7 years, the public debt will be reduced by more than $7 at the end of the period. Not only do we have to debt finance a cumulative $7 less in program spending, but we save on the interest bill and on the interest on the interest and so forth.

Given current interest rates, every reduction of $1 in a program expenditure payment saves roughly another 40 cents in interest at the end of 7 years.

As I noted above, the deficit cuts once contemplated by the Balanced Budget Act for fiscal years 1996 through 2002 represent only a down payment on the serious budget problem that lies ahead. It is highly disappointing to see the probability of that down payment fall so far. Perhaps the probability could rise again if we could focus public attention on the severity of the long-term budget outlook. A prolonged and confusing debate over the debt limit would only distract from that effort.

Thank you very much, Mr. Chairman.

[The prepared statement of Mr. Rudolph G. Penner can be found on page 183 in the appendix.]

Chairman LEACH. Dr. Levy.

STATEMENT OF MICKEY D. LEVY, CHIEF ECONOMIST, NATIONSBANC CAPITAL MARKETS, INC.

Mr. LEVY. Mr. Chairman and members of the committee, I appreciate the opportunity to present my views today.

Achieving fiscal responsibility and credibility, which should be your objectives, must not be lost in the political maneuvering that has entangled the Federal debt ceiling and budget policy issues.

I recognize that a meaningful compromise on fiscal policy is difficult precisely because it involves programmatic changes to key spending programs and not just artificial deficit targets. As a result, prompt programmatic change is crucial. The costs are rising.

Not just today but over the last 10 years, I think Washington has gotten too caught up in deficit bean-counting and the debt, while these are residuals that are determined by spending and tax structures.

I would like to make several key points today. First, the Federal debt ceiling has not been and will not be an effective economic mechanism for achieving fiscal responsibility, and is not a substitute for addressing the flawed structures of the spending programs that are the sources of the deficit spending and rising debt.

The diminishing clout of the debt ceiling in constraining deficits should not come as a surprise to any of us in light of the sharp increase in the share of Federal spending that is for entitlements.

Let us think about it: There is a blatant, logical inconsistency between open-ended entitlement programs in which legislation entitles qualified recipients to benefits, whether they are financed through taxation, borrowing, or debt monetization, and the legal debt ceiling.

Moreover, the government's debt counted toward the legal debt ceiling is an inadequate measure of the government's total financial obligations, particularly because it fails to recognize the government's unfunded liabilities generated by Social Security and the public pensions. These irreconcilable differences between the social contract implied by the open-ended entitlements and the legal debt ceiling result in the type of squabbles we have seen today.

Second, my assessment is that a default resulting from the failure to raise the debt ceiling would have a relatively minor and temporary disruptive impact on financial markets. This contrasts with many previous speakers today. It is because domestic and international financial participants fully recognize that default would stem from political game-playing and not economic fundamentals.

If the probability of default were taken seriously, heightened risk premium would already have pushed down the dollar and the stock market, and would have pushed up interest rates. This has not occurred.

Since the debt ceiling issue arose and the budget negotiations started to falter, interest rates have continued down, the stock market up, and the dollar has been firm.

Third, Washington policymakers tend to grossly overstate and misunderstand the impact of budget deficits on interest rates. The dramatic decline in interest rates in the last year has reflected primarily the significant slowdown in real economic growth and the subsequent subsiding inflationary expectations, while the prospect of deficit-cutting legislation has contributed only marginally to the rate reduction.

Deficits, more importantly, taxes and spending, do affect financial markets. However, I think it is key to point out that, looking forward, continued sluggish economic activity and improving inflation will push down interest rates further.

Hypothetically, if in fact the government were to temporarily default and rates shot up dramatically, like some people have said, it would provide a grand opportunity for a lot of savvy traders to make a tremendous amount of money, and rates could fall again.

My fourth point is that the unprecedented deficit spending in recent decades has been a result of rising outlays for entitlement programs, while taxes remained fairly constant as a percent of GDP.

Insofar as the mix of Federal spending has been increasingly toward entitlement programs, fewer resources have been allocated toward investment-oriented activity. In fact, the higher tax burdens and rising debt in recent decades have effectively financed a declining share of government purchases of goods and services and a rising share of transfer payments that are simply redistributed through the budget from taxpayers to beneficiaries.

In terms of the public's perception as well as economic performance, this increasingly distributional role of the Federal Government is as important as is the magnitude of the deficit spending. This trend will continue.

My fifth point is that the major economic problem facing the United States is not the budget deficit, per se, but rather the mix of deficit spending and the structure of the tax burden that combine to generate a misallocation of resources that suppresses national saving, discourages work and investment, and constrains economic growth and long-run standards of living.

Simply put, if you read through the annual report of a corporation and get to the end of the 100 page report and all it talked about was the deficit and the debt, wouldn't you ask the crucial question, What are they doing with the capital?

That is what needs to be discussed, rather than game playing about the debt ceiling. Again, the way in which you cut the deficit is crucially important, perhaps as important as the magnitude by which you cut it.

As an example, one of the primary reasons for the 1993 deficit-cutting package was to reduce the current account deficit. There is no question but that the 1993 deficit package did reduce the deficit, but it didn't achieve any of its objectives.

Consider the following: The lower deficit reduced the government's dissaving, but insofar as it was largely offset by higher taxes, which reduced private sector saving, it simply redistributed wealth and did not close the gap between national saving and national investment. Therefore, the current account deficit is higher than ever and we are borrowing more and more from abroad.

Once again, we have to consider very carefully how we are reducing the deficit and get away from the deficit bean counting game.

My sixth point is achieving fiscal responsibility and credibility necessarily requires slowing spending growth in non-means-tested entitlements which represent the bulk of entitlement spending.

The deficit targets in the budget debate, even for the separate categories like Medicare and Medicaid and food stamps, are less important than how we change the structure of those programs to put in place incentives to reduce existing disincentives. Once you change these structures, the saving will unfold.

So the deficit targets you are so concerned about merely provide a framework for changing the structural legislation.

Having said that, my seventh point is, once you achieve this fiscal responsibility, the political crutch provided by a legal debt ceiling has not contributed to fiscal reform and serves no economic purpose, causes probably more harm than good, and should be abolished.

Now, I am a fiscal conservative and would like for the government to restructure public policy and fiscal policy. But relying on the debt ceiling is ineffective.

My eighth point is, a credible deficit-cutting package based on slowing the growth of non-means-tested entitlements would not hurt the economy in the short run and would unambiguously be positive for long-run growth.

A cut in transfer payments, unlike a reduction in government purchases, only redistributes wealth. So its largest impact would be to change the mix of economic output; that is, reduce consumption, reduce demand and provision of medical services, and increase the Nation's output for investment, and reduce the trade and current account deficits. The long run impact of such reduced deficit spending is unambiguously positive.

My ninth point is tax reform should focus on the tax bias against saving that contributes to the long-run problem of the Nation's low rate of national saving, and avoid temporary tax cuts that only fuel consumption.

Republican and Democratic proposals do not represent tax reform. They shouldn't delay tax reform.

My tenth point is, the failure to include Social Security in the fiscal debate is a glaring omission. It only raises future costs and distortions to the program. It increases the magnitude of the corrective actions that will eventually be needed and exerts high costs on other spending programs as we attempt to achieve deficit targets.

In addition, with regard to Social Security, we all know that putting in place a fair change in Social Security takes at least a decade to implement. So the sooner the better.

My eleventh point is, an obvious component of a fiscally responsible deficit-cutting package is adjusting the COLAs on entitlements to reflect CPI's overstatement of inflation.

In fiscal 1995, about $450 billion of Federal outlays were indexed for inflation. Economists on both sides of the political aisle recognize that the CPI overstates inflation and, I might note, accentuates a lot of the undesirable and unintended wealth redistributions inherent in the programs.

Adjusting the COLAs by half a percent below the CPI would save over $100 billion over a 7-year projection period, and that half a percent is well within the estimates of the CPI's bias estimate.

My final point is the Federal Reserve's monetary policy cannot offset the economic effects of irresponsible fiscal policy. Monetary and fiscal policy are very different political tools with different economic effects. They are not substitutable. Therefore, I encourage Congress to pursue meaningful fiscal reform, and with the goal not just of achieving fiscal responsibility and credibility, but to create an environment conducive to long economic growth, job creation, and raising standards of living. That requires care in achieving deficit reduction. I simply note that the Congress' efforts must be conducted independently of the Federal Reserve's monetary policy.

Thank you.

Chairman LEACH. Well, thank you very much, Dr. Levy.

[The prepared statement of Mr. Mickey D. Levy can be found on page 194 in the appendix.]

Dr. Poole.

STATEMENT OF WILLIAM POOLE, HERBERT H. GOLDBERGER PROFESSOR OF ECONOMICS, BROWN UNIVERSITY

Mr. POOLE. Thank you, Mr. Chairman.

I am pleased to be here to contribute to this debate, to put in my 2 cents worth. My statement begins with some debt-limit issues, turns to related budget issues, and then goes back to the debt issues.

As a matter of accounting, as Mr. Penner has emphasized, the difference between government spending and government revenue must be financed by issuing debt to the general public or printing money, or some combination. Fortunately, no one has suggested that current budget issues could be resolved by printing money, so the government has, in fact, been issuing new debt to the public equal to the difference between spending and revenue. This fact is obscured by the intergovernmental transfers.

A number of government trust accounts hold securities issued by the Treasury. But these intergovernmental accounts, useful for a number of purposes, have no bearing whatsoever on this accounting identity that for the Federal Government as a whole, the difference between total spending and total revenue is financed by selling additional bonds to the public. So the thousands upon thousands of hours of time put in by the Congress and the Treasury and others on this issue in recent months has not affected by $1 the amount of debt in the hands of the public.

If the debt held by the public is not permitted to rise, and if revenue is determined by existing tax law, then enough spending must be cut to live within the existing revenues, short of printing money. If Congress and the Administration cannot agree on what spending to cut, then the Treasury must somehow decide which bills not to pay, or to defer paying. Treasury cannot write checks on an empty checking account.

The battle over the debt ceiling is not just a part of the overall budget battle, but is the same thing as the budget battle, given this accounting identity. It may seem politically convenient to argue over the debt ceiling rather than over revenue or spending, but I doubt that anyone's views on budget issues are much affected by putting the debate this way.

Now, on the surface it might appear that the Federal Government would be OK if it were to stop paying interest on its debt. Excluding interest, spending is now below revenue, and therefore, if we don't pay the current interest, there is enough current revenue to cover the current outlays for non-interest purposes. But, of course, this would decrease dramatically the value of the existing debt where the interest was not being paid.

Many financial institutions would be quickly insolvent if the value of their government debt declined dramatically, which means that the Federal Government would be immediately faced with huge demands to make good on deposit insurance. Of course, just starting to spin out a scenario like this shows how silly the whole exercise is. The Federal Government will not walk away from its debt, because the voters would demand that the government live up to its obligations.

Some people have talked about a temporary default, for, say, 2 weeks. That would resolve nothing. At the end of 2 weeks, the government would still have to sell bonds to finance the difference between its spending, including interest, and revenue. One way or another, Congress and the Administration must decide this year's spending and revenue and finance the difference, if any, with new debt.

Now, let me turn to the budget debate for just a moment. This debate started in earnest during the Reagan years. President Reagan spoke often and eloquently of the need for our society to trim government. And the budget deficit that arose in the early 1980's drew attention to the budget issues. President Reagan was successful in constraining growth in total spending, but he was not successful in rolling back spending in any significant way. More importantly, he was not successful in addressing the need for major structural reforms in Social Security and Medicare.

President Reagan was unsuccessful because the Congress in those days, including most Democrats and most Republicans, and the American voting public, were not prepared in the 1980's to face the reality of our budget situation. It is instructive to look closely at the Reagan budget for fiscal year 1986, which was perhaps the most complete and serious effort during those years to introduce fundamental reforms in spending programs.

This budget proposed spending reductions in numerous politically sensitive areas, including many affecting traditionally Republican constituencies. Reagan proposed reductions in subsidies to business, to upper-income groups, to agriculture, to Amtrak and to many others. He proposed reductions in Medicare and certain veterans' benefits, in retirement programs for military and civilian government employees; and there are a lot of political hotspots in all of the spending areas I have just mentioned.

I brought with me a photocopy of the *Washington Post* article on how that budget was received. It says, "President's Budget Meets Opposition on Capitol Hill. Democrats Attack Middle Class Cuts," and of course the budget went nowhere. But it is still true, I think, that this budget effort during that period was very worthwhile, because many of the ideas that we are talking about now were first raised during that period. And there are new proposals on the table reflecting equal political courage. This battle is a battle over budget priorities and the role of government in our society.

Our Nation will survive if fewer wasteful programs are cut than I would prefer. But the really big issue is Social Security and Medicare. Our society will truly be shaken to its foundations if we do not face this issue soon, before the great retirement begins.

At present, there are about 3.3 workers for each Social Security beneficiary. Just 5 years from now, that ratio will begin a rapid decline, reaching only 2.0 workers per beneficiary by 2030, according to the mid-range population estimates.

Financing existing Social Security and Medicare benefit schedules might require an addition to the payroll tax of 10 percent of the covered wage base as more and more and more retired workers will have to be supported by each member of the labor force. If we do not act to introduce structural, fundamental reforms on the spending side of those programs, within 25 years we face a generational conflict between retirees and workers totally unprecedented in our history.

We need to adjust the Social Security and Medicare programs to encourage later retirement and more efficient use of medical resources. This adjustment would have been easier if we had started 10 years ago, and easier yet if we had started 20 years ago, and all of those numbers were on the table back then.

The problem was known and it was discussed, but not addressed. The longer we wait, the more difficult this adjustment will be, and the greater the chance of very serious generational conflict.

The current budget debate includes proposals for revisions to Medicare that Congress would do more and the Administration would do less. Neither the Congress nor the Administration would address Social Security at this time.

Some future Congress and Administration will address Social Security, because the demographic facts cannot be brushed away. Much of the acrimony over the debt limit reflects the political pain of retirement policy issues.

I am very sympathetic to those who ask this question: If we cannot begin now by introducing what are really relatively minor reforms to Medicare, how will we ever be able to begin again before it is too late to tackle the even more difficult issues that surround Social Security?

Now let me get back to the debt limit. I understand the frustration of those in the Congress who want to begin to set our fiscal affairs on a sustainable, long-run path and are willing to hold up an increase in the debt limit until the Administration negotiates a satisfactory budget deal.

Nevertheless, I believe that the debt limit is the wrong place to force this confrontation. Despite our divisions, Americans share a strong bond on certain policy fundamentals, and fortunately so, for otherwise our government would be totally, completely chaotic, rather than just a little chaotic. The unwritten rules of political engagement do not include risking the credit of the U.S. Government.

Some argue that the market has reacted benignly whenever a threat of default was raised in recent months, and others attribute interest-rate increases—the little ones that we have seen from time to time—to the threat of default. But both of these views misread the evidence.

In fact, the evidence is absolutely clear, in my view, that the market has never assigned any significant probability to default. If default talk had changed views in the market, in the bond market, we would have seen a dramatic narrowing of the spread between high-quality corporate securities, not subject to default, and the Treasury securities, and we haven't seen any such thing. I have three examples in my statement which are there for the record and you can look at them if you are curious.

The debt-ceiling battle has certainly from time to time created some uncertainty in the markets, but the uncertainty has been about the general course of fiscal policy and how this debate over policy was going to come out, and not over default per se. The market simply does not believe that default can occur.

We should really be comforted by this finding, for it demonstrates that our Nation's finances are truly strong. Default is unthinkable, and the market believes that the political process will find a way somehow or other to service the debt. Neither political party will jump over that cliff.

I believe that the Congress should recognize that the public sentiment for honoring Federal Government obligations is overwhelming, and I think that it is clear that Congress does recognize that. The issue of default should be put behind us by a routine action to increase the debt limit whenever required for the government to pay its bills without interruption. No constructive purpose is served by forcing the Treasury to engage in strange financial gymnastics.

The debate over the debt limit has served the useful purpose of emphasizing just how important our budget issues are. Our disputes are over spending and taxes, though, and not over servicing the debt. It is time to put this phase of the political debate behind us.

Congress should pass and the President should sign a simple extension of the debt limit. But the larger budget issue must not be allowed to die. We must make some choices, and the sooner we make them, the better off we will be.

I offer this guarantee: If we do not begin to address these issues this year, we will have to face them next year and they will be more difficult. We are going to face budget issues indeed for the indefinite future, but the longer we wait, the more difficult the job is going to be.

Thank you.

[The prepared statement of Mr. William Poole can be found on page 188 in the appendix.]

Chairman LEACH. Well, thank you very much.

I think your last sentence capsulizes the problem we have heard.

Let me just ask a couple of questions. First, there are two parameters of statistics that really stick out from the testimony, beginning with you, Mr. Penner.

On page 2, you cite the Bipartisan Commission on Entitlements and Tax Reform, and you point out, and this is just a stunning thought: That within a generation, the budget deficit, unless we do something about it to change its current path, will exceed 10 percent of the gross domestic product. And a decade later, 30 percent.

And you also point out: Just because these figures have so—they are so large, they are so abstract, what are the consequences of that?

And you say that: U.S. savings will become on a net basis negative, and what that means is, the country, instead of growing at a decent pace, will actually go into an economic decline.

Those are extraordinary conclusions. And it sets one really in a position of saying, there are certain things you duck at one's peril as a public official. So I just would like you to flush out those thoughts, if you will?

And let me say, I mean from my perspective, it strikes me that if we look at the history of this country, particularly this century, we have won the great philosophical battles on market economies versus closed and structured economies. We have provided the great sacrifice in terms of political and strategic effort and we have defeated all of these "isms" of hate. But what this statistic says is that we have lost self-discipline internally, and the question then is can we leave the next century like we did the last? Are we going to be capable of that if this comes to pass?

Mr. PENNER. Well, there may be some who disagree with the details of the scenario I lay out, but I don't think anyone can disagree with the enormous deterioration we face in our fiscal status as the baby-boom retires. Economists aren't good at predicting things, but you don't have to predict much to know the severity of that crisis.

The people who will cause it have already been born; some of them are sitting right behind you on the lectern there. We know that we are going to face a very, very dire situation, and it isn't that far away, as you point out.

I am enormously frustrated that this situation does not get more attention in the current debate, does not get more attention in the press and so on. Because it would cast, I think, a whole different tone to the current debate.

As I said in my testimony, the debate this year has been about rather trivial changes in the path of spending and taxes relative to what will eventually be required. And as Bill Poole suggested, if we can't even get those minor changes in Medicare that have been debated this year, how are we going to contend with the situation that I lay out, which implies that Medicare and Medicaid, even if we find a way of controlling costs, will be taking 4 more percentage points of the GDP out there. Four percentage points, that is about 25 percent of our current tax burden. There is no way that we are going to solve it by raising taxes that much.

So it is indeed frustrating, Mr. Chairman, that these things that we know will happen if we do nothing are not getting more attention.

Chairman LEACH. Let me just turn quickly to Mr. Poole, or Dr. Poole.

The other statistic that we sometimes reference in political speeches, but I don't know if we really comprehend the magnitude of it. You point out that we have 3.3 working Americans for every retiree today, and that soon we will start a trend toward 2.0 to be reached, I think, in 2030, in 35 years. Can you, you know, indicate the magnitude of that, the economic consequence of that circumstance? Will we have interest—can we deal with that if interest on the national debt is greater than Medicare expenditures?

Mr. POOLE. The issue is not so much the national debt. We would have a problem even with no national debt, because the working people are providing the goods and services, the labor that produces the goods and services, the food, the housing, that the whole society is consuming. And if you don't have very many working people for the number of retired people, the working people are supporting a very large burden, and that is independent of whether you have a large inherited national debt at that time.

What has to be done is to reduce the demands of the retired people on the working people, and the only way that can be done is by having the retired people bear more of those costs themselves and retire later.

We should remember that the retirement age of 65 that we have become accustomed to was determined at a time when not very many people lived beyond 65. We have had these enormous medical advances and we have lots of good examples of very productive people well past age 65, including in this body, obviously, and there is no reason why the society as a whole shouldn't expect the normal working life to extend longer, and that is what we are going to have to have independent of whether we have got an inherited budget deficit or an inherited large debt at that time.

A large debt makes the problem more difficult because you have to raise taxes to service the debt, to pay the interest on the debt, and the higher and higher that tax rate, the greater and the greater is the disincentive for people to work and to provide capital, and the more difficult it is to deal with the issue.

So it is not just a deficit issue, it is not just a financial issue, but it is a matter of the number of people in the society at work supporting those at leisure.

Chairman LEACH. My time has expired.

Let me turn to Mr. Gonzalez.

Before doing that, though, I would like to ask unanimous consent to put a statement in the record by Professor Murray Weidenbaum who is, as most people know, a former CEA chairman.

[The prepared statement of Professor Murray Weidenbaum can be found on page 205 in the appendix.]

Mr. Gonzalez.

Mr. GONZALEZ. Thank you, Mr. Chairman.

I have just a sort of a theoretical question.

If the debt progresses on the geometric progressive basis and the other on an arithmetic, as obviously your statements indicate, what eventually is the solution or the method of meeting the future obligations?

Mr. POOLE. I guess, if you are addressing that to me, I guess I don't understand. What is growing at an arithmetic basis? The debt grows geometrically, and the interest compounds. What is it that is growing at an arithmetic basis?

Mr. GONZALEZ. Well, I guess you would say the ability to finance that debt. I guess that is the best way to put it.

Mr. POOLE. Well, the debt service comes out of the taxes that are levied on the economy, and the economy is growing, and that is why economic growth is critical to not resolving, but reducing the magnitude of the problem. If we not only end up with a large inherited debt and with this high dependency ratio because of all of the retired people, but in addition, we end up with a low growth or declining economy, which is the great danger of a very high tax burden that destroys incentives for people to work and to produce, then we are on a downward slide very quickly. In that case, what will happen is, there will be a default all right, not so much necessarily on the debt, but there will be a default on the Social Security obligations. Because what will happen is that the working people will simply say, we are not going to pay those taxes, we are going to—there is still more of us than there are of you, retired people, I will be one of those retired people and my kids will say, "we are not going to support you anymore, we are cutting taxes and cutting your benefits. And if you don't like it, too bad."

Mr. PENNER. They may, too, as I pointed out in my testimony, they may say, "sure, we will give you the benefits, but we can't borrow any more to do it, so we will print up money to do it." And that is what you see going on in many of the newly independent states.

Having recently worked in the Ukraine, it is just interesting to note what can happen under those circumstances. There was a time when the ruble was declared to be equal to the dollar. Now, 1,000 rubles in the Ukraine is equal to about half a cent. So you can see what 4,000 percent inflation a year can do to you.

I think that the threat of hyperinflation is the ultimate danger of a debt that continues to grow geometrically in excess of our income.

Mr. LEVY. Let me add a point; the situation that you have described is being approached now by Italy, Canada, and Belgium. All of them have total national debt outstanding greater than GDP. It is not surprising that Italy and Canada have major social and political turmoil, and that Canada has the highest inflation-adjusted interest rates among G–7 nations.

Once you get to that point, closing the deficit gap is not an arithmetic exercise, it is an economic exercise, because raising taxes can create disincentives. As an example, the 1993 tax increases can simply redistribute wealth from the private sector to the public sector.

I would like to embellish Rudy Penner's statement. It is not just the persistent deficit spending increases that are adding to the debt; it is the fact that the deficit spending is for transfer payments that primarily fuel consumption and not add to the Nation's long-term capacity to grow. Thereby, we are increasing the national debt and not increasing productive capacity. And from the debt counted toward the debt ceiling, unfunded liabilities of Social Security and other pensions already measure in the trillions of dollars for people who are already born.

Mr. GONZALEZ. Thank you very much. Very good.

Chairman LEACH. Mr. Vento.

Mr. VENTO. Thanks, Mr. Chairman.

Mr. Levy, I had raised this question, you notice, with the Secretary, from your material. I didn't know if you were glad that I read your material ahead or displeased that I actually took away some of your splash. But I thought we would both benefit from hearing the Secretary's response. But you know, your suggestion is of course that the market can differentiate between a true economic phenomena and a political one, and the suggestion that really because we would be different than, let's say, Argentina.

Mr. LEVY. Yes.

Mr. VENTO. That is your contention anyway. But of course we don't know. I mean, obviously, this is somewhat speculative, is it not?

Mr. LEVY. The fact that interest rates have come down, the dollar has firmed and the stock market has gone up since November, suggests that the market is not placing a high probability on default. It is, as Mr. Poole said, very rational. But yes, financial market participants are, are——

Mr. VENTO. Excuse me. I only have 5 minutes. But you really go beyond that and say, well, even if default did occur, it would be discounted, or did I misunderstand your—am I misstating your statement?

Mr. LEVY. No. My point is, if the government were to delay some interest payments, everybody, not just in the United States, but worldwide who looks the same data and all of the same speeches, would recognize exactly that it is due to political game-playing——

Mr. VENTO. I would hope they would realize that.

Mr. LEVY. And if interest rates were to spike up dramatically, like some people today have mentioned, I know a lot of traders who buy everything in sight and rates would come right back down.

Mr. VENTO. Let me just say, I think that all of the constituent parts for a healthy economy exist in Argentina too, but if they don't have their stuff together, you know, that is sort of they can't get their act together politically, then unfortunately, I think that it has an effect on the economy. I mean, I don't know, what is Moody's doing then? Is Moody's wrong about this, or are they premature, or are they overreacting?

Mr. LEVY. I don't have a clue what Moody's is doing or why they did what they did.

Mr. VENTO. Well, I talked to some of my corporate constituents and they felt the same way when Moody's gave them a bad rating.

Mr. LEVY. Well, simply put, there is no question that the costs of default outweigh any benefits.

Mr. VENTO. I just don't want to see anyone get any comfort from your statement, Dr. Levy, or any of the statements. I think that this should be off the table as our former CBO Director, Mr. Penner, has said, and I guess Mr. Poole, and I just want to make it clear, you know in my own mind's eye.

I just think that this is not the area to negotiate. Frankly, I mean I think very quickly what has happened here, I know with yours and Dr. Poole's statement, Dr. Levy, is that you evolved into a broader discussion with the budget, entitlements and so forth, and so on. Frankly, I am a little—I mean I understand—one of the suggestions—let me just move into in terms of one of the points you point out is the COLA. I agree.

I remember Gene McCarthy, my predecessor, saying we can't have, you know, this government or the economy on automatic pilot, that we need to reserve these judgments. Unfortunately, the models of the economists and all of the things that we do are inadequate that we ought to reclaim that. But isn't it true that as much as we have Social Security or some of the other programs on automatic pilot, don't we also have the, for instance, the changes in the tax rates on automatic pilot in terms of the adjustments that are made?

Wasn't that one of the phenomena that occurred during the 1980's that has, in fact, whatever your belief is, has in fact required us, in other words, things happen without us making any decisions on them. Unfortunately, this isn't as fine-a-tuned watch as some might like to believe.

Mr. LEVY. I think if it were a temporary default, everybody would recognize it as such. It would not drive up interest rates. If you look back to the last time Congress entangled the debt ceiling with the budget debate, in Fall 1993, rates were coming down——

Mr. VENTO. Well, Mr. Levy, I pointed out in the statement that I made that this has been like—this has been 90 days versus 3 days, or 3 or 4 days then.

Mr. LEVY. Go back to the late summer and fall of 1990, and it lasted nearly 2 months, with seven temporary extensions, and there was threat of default, and rates came down the whole time.

But I did put in the statement that I think the debt ceiling is a crutch and should be abolished, and default, even if it doesn't affect interest rates, has other costs that may not show up in interest rates.

Mr. VENTO. Mr. Penner, did you have any comment on my automatic pilot discussion?

Mr. PENNER. Well, I think you're exactly right, sir. When we indexed Social Security way back in the early 1970's, ironically many, including me, thought it was a money-saving measure. And I think it has turned out to be anything but.

Mr. VENTO. Gene McCarthy probably voted for it, too, Mr. Penner.

Mr. PENNER. You are right that—well, let me put it the other way. I do believe that the indexing of the whole system was a mistake, in part because the indices are so inaccurate, and that the Congress should make these kinds of changes in a discretionary fashion.

Mr. VENTO. There are, of course, Mr. Chairman and Members, automatic increases that go into effect, like interest on the debt, which of course are—you know, that greatly conflict with the debt ceiling itself. I mean, even if we did—I mean, if we didn't have it, we wouldn't—so I mean, there are these—I fail to see—I don't know whether in economics whether you treat transfer payments versus entitlement payments versus other types of dollars different in terms of how they affect us in terms of tax expenditures different than they how affect the bottom line.

My assumption was that we are actually, as we compared ourselves to Italy—incidentally, Italy has had a rather politically unstable environment for some 40 or 50 years, Dr. Levy. It isn't just the last couple of years. In fact, I think they are probably—they may be a little more volatile, but I think they have had some problems for some time.

But my observation would be that we actually, as a percentage of a gross national product have a smaller amount. Now we have a bigger gross national product, there is no model that we can follow that is exactly reflective, I would say, of our economy. So it is not any excuse.

It is certainly not my goal to—and I say most of us say we want to balance the budget, but how we do it in terms of where we are going? I have seen expressions here about what has happened and what hasn't happened in terms of spending. But I would just say this to each of you. I would say that fiscal deficit is a problem. So is a human deficit. So is not investing in people.

You talked about why we have so many people that are relying on the system on disability, and so forth, today, and I would point to education and training where people no longer can be brought back into the world of work and so they take the least common denominator and go toward that. They have to survive. And so our goal has to be, of course, to invest in people.

In fact, you would have a hard time pointing out whether there is a shortage of capital expenditures in this country. In terms of research, we need to do it. But the one thing that is lacking, and there is a lot of other withdrawal from the business cycle, and others are not making the investment today, and that is in people, investing in people. And fundamentally, that is one of our concerns in terms of what we are trying to do here.

And I think that if we did and were able to meet that challenge, we are going to be able to go a long way. That doesn't mean that every government expenditure in those areas is appropriate, but certainly as I look at the needs in my district and across the Nation, I think that we could balance the budget here and end up with far worse problems in terms of the Nation if we do not have the type of human investment that we need. I see it lacking in your statements. I don't see it reflected, and I think it should be reflected.

Thank you, Mr. Chairman.

Chairman LEACH. Mr. Bentsen.

Mr. BENTSEN. Thank you, Mr. Chairman.

Mr. Levy, I am familiar with your firm. In my former life, my firm actually did business with your firm, and you all were well-known, particularly in the Treasury market and your abilities there.

You have raised the issue, if I understand you correctly, that if there was a short-term default or nonpayment, that would be a political default, not an economic default. But if you have a train wreck, it may be because the conductor wasn't paying attention, or it may be because a car was on the track, but in the end you still have a wreck, and you have cars spread all over the place.

Wouldn't it be true, even in a temporary default that was for political reasons, that you would have escrows backing securities or $290 billion worth of municipal bonds, which are backed by Treasury escrows, that would at least technically be in default. Some would have payment problems if they held securities that actually were due to be paid and weren't paying.

Wouldn't you have problems with pension funds so that your clients, which have a prudence requirement, that they would have to divest of defaulted securities, that their indentures would not allow them to hold the faulted securities, and wouldn't you have a situation where you probably would have a lack of a secondary market or you would have an artificial secondary market?

Certainly, the price of Treasuries right now has gone up and it has gone up for economic reasons. But wouldn't we have a technical situation that would drive the price down in the lack of a secondary market?

Mr. LEVY. The answer is, nobody knows. My assessment is, it would only have a minor effect. It would be an absolute nightmare in terms of back-office operations. It could change spreads and affect the market. At pension funds, investment policy committees would have a difficult choice. But I don't think they would have any choice but to continue investing in U.S. Treasuries. It is the most liquid market in the world.

I am just making the simple point: There is no question that the United States is by far the wealthiest nation in the world and the strongest, so I think the impact would be temporary.

Mr. BENTSEN. But that there would be a payments problem that would occur, and certainly the investment committees of these funds or any other type of fund, they would have to go to their lawyers to get an interpretation. They would have to look at the bankruptcy code, they would have to look at a number of things, and in many cases, don't you think some would punt?

Mr. LEVY. It would be an extraordinarily inefficient and costly process to go through. But would it drive up interest rates? Not that much, and I think only temporarily.

Mr. BENTSEN. Let me ask you this: The request question of Moody's was raised, and I would give you two things to think about with that. One, I think Moody's does have to look at political risk, certainly in the municipal market they look at political risk, and political risk should be associated with Treasuries at this point in time.

In fact, if you look at their statements for the last 40 years or 50 years versus what they said 2 or 3 weeks ago, they went from saying that they would invest in Treasuries to obtain a Triple A rating, because there would never be a question of default. Three weeks ago they said, that question, the specter of a default has now been raised. So I think it is probably appropriate for Moody's to look at it.

Let me back that up by saying, my experience with Moody's, and Standard & Poor's as well, is while they are always looked at, at Treasury obligations as a full-faith and credit obligation, a general obligation of the U.S. Government backed by the taxing power of the U.S. Government, that they have not viewed debt of the U.S. Government subject to annual appropriation in the same manner, for the simple reason that it depends on one Congress to the next Congress on an annual basis as to whether or not they will follow through.

If you have looked at various lease obligations of the U.S. Government where the rating agencies have looked at them, they have been uncomfortable to assign that same triple A rating. Wouldn't you think possibly that Moody's is looking at this and possibly Standard and Poor's, and Fitch, and they are saying, perhaps now we are getting to a period where because the debt ceiling has become political, that it may now fall under that same category as annual appropriations?

Mr. LEVY. My answer is maybe, but maybe Moody's has reacted simply because they have been asked a lot of questions about it and feel like they have to say something, so they said the logical thing. It provided no value added to anybody's understanding of the issue.

Mr. BENTSEN. Mr. Chairman, if I might very quickly, I would ask Mr. Penner and anyone else, this is somewhat related.

We know over the last year there has been a major debate over the budget in Congress and there has been a major debate about Medicare and Medicaid, and there has been a war of semantics going on as to whether or not Medicare and Medicaid are being cut or whether or not food stamps are being cut.

The three of you all are trained economists; my question to you would be, and some say it is not a cut, it is a reduction in the rate of growth. I would argue that it is both.

Isn't it fair to say that if you are reducing the rate of growth in a program, whether it is Medicare or defense, below what the real rate of inflation would be as determined by their cost, that program's cost of goods and services and its customer base and the increase or decrease of its customer base, would that not be a cut?

Wouldn't that be a real cut? There might be a nominal increase, but if that increase is below the real rate of inflation for that program, is that not a cut under the laws of economics?

Mr. PENNER. Well, I don't find that particular semantic debate very useful in understanding what is going on. I think it is much more important to look at what the programmatic changes are and what the distribution of harm or benefits from those changes are.

To the degree that you reduce the value of the entitlement, it may be called a cut even though you have to spend more money to provide the same or reduced entitlements. There are different components of the changes that are being proposed. There is the increase in the premium; there is the reduction in the amount you pay providers. Now, the beneficiaries would not see the latter as a cut, obviously. The providers might see it as a cut.

But all of that I think pales, or should pale, in favor of actually studying the kind of programmatic changes that you are making, asking what their long-run effects are, and I think also asking whether they are sustainable. I think some of the problems I have with the Balanced Budget Act is that I wonder if some of the components are truly sustainable.

Mr. BENTSEN. Well, I don't disagree with your contention, and I have voted for cuts or reductions in growth, or whatever, myself. I guess I am just searching for the truth more, and I agree we need to look at these things in a long-term context. But we have been in this intense debate and it is the political side, not the economic or accounting side, which we tend to spend more time on the political side.

But I am really looking for an answer so that when I talk to my constituents, half of them think they are cuts, half of them think they are reductions in growth; and I just want to give them at least a reasonably honest academic answer. I am willing to say I voted for the Orton-Stenholm budget which gets us to a balanced budget in 7 years, and naturally, that is less debt to the Nation than the other budgets, and it cuts, in my opinion, Medicare and Medicaid, albeit less than the Republican budget. So that is where I am trying to get.

I agree with you on the question of sustainability, the question of what the impact is on beneficiaries and looking at the long-term view. But wouldn't you agree that if you only provide a nominal increase rather than a real increase to match the real rate of inflation, that that is a cut?

Mr. PENNER. Well, I would call it a real cut as opposed to a nominal cut. Yes, I think you would just have to be more careful with the language. But I wish the debate would turn to the actual programmatic changes that are being proposed here. I wish you could explain to your constituents just exactly what is going to happen to them, and then they could judge themselves how much pain or benefit that is going to cause.

Mr. BENTSEN. Well, few Americans have a complete understanding of the Federal budget process that you do as former CBO chief, but we do try and do that. And it is, it is complicated. But I just have a problem where some have on the one side used nominal figures, particularly on the Medicare/Medicaid side, but then they use real figures when they inflate their baseline, to inflate the level of the cuts they say they are achieving in their budget. It is kind of like past tense and present tense.

Our English teachers always told us you had to write in one tense and not more than one tense, and I think when you are discussing budgets, you need to either talk in terms of real or nominal, but not both, because that is sort of burning the candle at both ends.

Mr. PENNER. I will say that with regard to the baseline, I do believe that it is much more useful to have a baseline that looks at what is necessary to sustain programs in real terms and what is necessary to finance the entitlements that are on the books. I think it is very confusing to look at baselines that are constant in nominal terms.

Chairman LEACH. Dr. Poole wanted to respond.

Mr. POOLE. A quick comment on that.

I think the baseline idea is very sound, but it does depend, when you actually look at the numbers, depends importantly on how you convert nominal dollars to real; that is, the price indexes. I know that Congress has been addressing the issue about biases in the CPI and whether there is over-indexing in Social Security, and so forth. This problem is particularly acute in the medical area, medical services, because of the measurement biases, the problems of constructing price indexes. So whereas economists might say that for the overall CPI, that maybe there is the bias of a percentage point or one-and-a-half, you know, you get different estimates, a half, depending; but when you are talking about the medical area where it is so terribly difficult to define what you mean by real service in the first place, much less try to figure out what it really costs, the concept of what it is that you get in a hospital or a doctor's visit is just very, very difficult.

So that is why it seems to me in the arguments over Medicare particularly, relying on conventional definition of a real baseline is likely to be quite misleading, because the price deflators in the medical area are almost meaningless, almost meaningless.

Mr. BENTSEN. Well, I know my time is up, but both in terms of the indices as it relates to COLAs for some of these programs, but the medical care rate of inflation, or whatever the index is labeled, people have said they possibly overstate a point, or have a point, or something. What I have always wondered is that up or down, or is it up or down?

I mean, do we know? A lot of times it seems that it is just that they are overstating, but are they potentially understating as well?

Mr. POOLE. There is always a possibility for understatement, but that possibility arises primarily in economies where you have a lot of control intervention that causes the product to be degraded by the producer. But in our economy where most markets are pretty open and free and not subject to price controls, there is a tremendous amount of quality improvement going on all the time, and you see it every day, you know, in car batteries and tires, and this, that and the other thing, computers, medical services, the knowledge of the medical profession. And so what you get for a day in the hospital, which is the kind of thing that goes into the price index, a day in the hospital is a dramatically different service than what you got for a day in the hospital 10 years ago or 20 years ago, and how you make those adjustments, nobody knows.

Mr. BENTSEN. It is ironic, as you have more inference in the marketplace and apparently more competition in health care and greater innovation, technological innovation, prices go up rather than go down.

Mr. POOLE. No, but you see what is priced as a day in the hospital—let me give you a very specific example; cataract surgery. It used to be that for cataract surgery a person would spend a week in the hospital and that was very long and uncomfortable, and you would come out and you would wear these real thick glasses, maybe, remember those days? Or you may remember seeing people in that situation. So the total cost of treating the cataract problem involved all of those days in the hospital.

Now what is done is that a cataract can be handled on an outpatient basis, with an implanted lens, and it is entirely different. The cost of the half-day in the outpatient clinic, or wherever it was done, per hour, is far higher than per hour in the hospital the way this was done 25 years ago. But the cost of the cataract treatment itself is probably a lot lower, particularly if you take account of the difference in lost working time and so forth.

But there is no effort to put into the price index in the medical area the total cost of treating a particular disease or a particular problem. So the price indices are almost meaningless in this area.

Mr. BENTSEN. Thank you, Mr. Chairman.

Chairman LEACH. Mr. Vento.

Mr. VENTO. I wish all of the medical practices were as the cataract example. Unfortunately, I think the proliferation of what can be done to us to keep us going is running far ahead of what limitations or what is not necessary.

One of the questions that ran through Dr. Poole and Dr. Levy's comments were the savings rate and reduction in taxes, reduction in government expenditures, at least in a certain, in a quantitative way, I don't know about the qualitative differences that you have between what you are referring to. I wonder if they really exist in the economic world. But let me just say, there has been a lot of controversy over what the savings would be, that there are other factors that are external to what the tax rate is or treatment that there would be, for instance, within the context of tax policy transfers to avoid transfer, so it would not accumulate to a greater savings rate. So is this really something that is cultural and wound up with the type of economic security and well-being that we have here, as well as it is with tax policy?

All I am trying to suggest is, I don't want to get into a debate with you about it, but aren't there a lot of other factors that are involved than simply the simple rate of taxation and some of the factors that you are raising here, Dr. Poole?

There is a debate, at the very least, whether or not—I know that you are probably not in a position, but isn't there a debate concerning that particular rate of savings?

Mr. POOLE. I would say that there is no consensus on why the saving rate has declined in the last 10, 20 years.

Mr. VENTO. OK.

Mr. POOLE. There are many, many more hypotheses than there are data points.

Mr. VENTO. My point is, if you want to accomplish something, what you really do is hire the best guys that you can with Gucci shoes and go over to the Ways and Means Committee and sell their particular story. I think we ought to understand that probably isn't the area that we ought to—I think it ends up having a lot of other vectors that come out of there than sort of the single direction that has come out of this. Dr. Levy may have a different view.

Dr. Levy, did you want to go first or are you looking at Mr. Penner for the last word?

Mr. LEVY. No, there may be a whole host of issues, societal and demographic issues that affect the rate of national saving. But I do think taxes and the mix of deficit spending contribute significantly to our lower rate of saving. It is empirically very difficult to control for all of the variable demographic issues. But there is no question but that fiscal policy, and not just the deficit per se, but how we spend and the burden of taxes, has a decidedly negative impact on national saving, and that is why we have a wide gap between national saving and investment in the current account deficit.

Mr. VENTO. Well, it is a factor.

Dr. Penner, you have been through this particular discussion I imagine many times in your former role.

Mr. PENNER. Well, I agree that there are thousands of variables that affect the saving rate, but I do think a large portion of those variables involve public policy in one way or another.

I don't think you can generalize and simply say a tax cut would cause an increase in private savings; both economic theory and the empirical research are ambiguous on that matter. But there are things that could be done where economic theory is less ambiguous and—for example, a revenue-neutral tax reform, whatever you think of the flat tax, for example, if it were truly neutral, and that wouldn't be at a 17 percent rate, it would be like at a 21 percent rate, or something like that—there is very little doubt in my mind that it would increase saving quite substantially, and economic theory would suggest the same. In that case, the conclusion would not be ambiguous.

Mr. VENTO. Well, I don't know. I mean there are some cultural factors. If there is no taxation on interest or dividends, I don't know what that means—but I would just point out, Mr. Chairman, the same sort of thing holds true for interest rates and the demand for credit and how far interest rates would drop.

Also, I would suggest that since I have been here for 20 years, we have been cutting Social Security benefits, believe it or not. There are some efforts to expand them. That is, the Social Security retirement benefit and other types of benefits, we have not been expanding them.

There have been expansions of SSI, there have been changes in terms of Medicaid policy. But by and large, we have not done it. So every year you look, you will find that there are, in my recollection, is that we have modified many of the formulas and some of the changes that reduce benefits, such as the notch group or whatever.

It was right to do it, I don't mean to imply that what we did was wrong, I think it was the right thing to do. But I would just suggest that it isn't as though we are not responsive and have not been responsive.

In fact, Mr. Chairman, the last 1993 budget package that we passed cut the deficit over $500 billion. The package that we have before us put forth by the majority in this session over the next 5 years would cut the deficit about half that. About half that. So I would look at it not as a down payment, Mr. Chairman, but as an installment on what needs to be done. And I might say that this isn't the first group that has come to town that has suggested that therefore a balanced budget or that they want to—and I don't doubt their good intentions, I just question the way that we get there.

Thank you, Mr. Chairman.

Chairman LEACH. Thank you, Mr. Vento.

Let me bring this to a conclusion.

Mr. Vento had mentioned earlier to several of the panelists the problems with some other countries, including Italy. In my first meeting that I attended as part of this committee, a colorful former colleague of ours, Mr. Annunzio, railed against Arthur Burns for redlining. And as it worked out, he was complaining about redlining Italy.

It struck me that if you pull together all of the comments of this panel, that what you are suggesting is if we don't get a little greater fiscal discipline, we could, in effect, cause a redlining of the United States, at least in terms of making this country a place where internal investment and external lending might become substantially less attractive. And so it is a very serious long-term issue.

In any event, I want to thank all three panelists for very interesting perspectives, all of which provide what I think is probably the most important thing, and that is a context in the longer term of some of the shorter-term decisions that this body might be making.

Thank you very much.

The committee is adjourned.

[Whereupon, at 4:43 p.m., the hearing was adjourned.]

A P P E N D I X

February 8, 1996

Currency

News from the
Committee on Banking and Financial Services
U.S. House of Representatives
104th Congress
James A. Leach, Chairman

Opening Statement
By James A. Leach
Chairman, House Banking and Financial Services Committee
Hearing on Debt Ceiling
Feb. 8, 1996

The Committee will come to order.

This hearing is called to discuss the debt ceiling issue and receive recommendations on appropriate courses of Congressional action in the wake of the current budget impasse.

Let me begin by making it clear that while the committee can expect to hear today contentious concerns from various sides about actions taken or not taken over the past few months in budget negotiations, Congress is committed to the principle that there will be no default, not for one minute.

At issue this month is the establishment of the most appropriate methodology for lifting the debt ceiling, not whether the ceiling will be breached.

Default is not on the table.

As everyone is well aware, the United States has never defaulted on its debt. At the time of the formation of the United States, the debts from the Revolutionary War, from the states and from the government under the Articles of Confederation were assumed by a new nation. Nothing would be more irrational than to raise the specter of default by the government at any time.

Whatever the status of budget talks, this or any year, Congress has no choice but to ensure that default never occurs. Not only would default be costly to Americans through higher interest rates, but default would symbolize a government that cannot maintain its commitments, a government that cannot credibly govern.

Psychologically, there is a great distinction between defining the problem as a question of the appropriateness of raising the debt ceiling, about which many Americans may have doubts because it implies countenancing increased deficit financing, and the idea of defaulting on our country's obligations, which few Americans support because it means going back on our country's word. But what policy makers must recognize is that the two issues are synonymous and there is good reason no government can credibly countenance default.

It is simply not in the public interest to have the cost of government go up because of an escalation in cost of Treasury bills. Nor is it in the public interest to have the cost of certain private sector obligations such as adjustable rate mortgages which in many instances are tied to the Treasury bill interest rates go up in tandem with Treasury bonds.

The effects on stock as well as bond market turmoil that would be triggered by a federal default, cannot be underestimated. Markets depend on confidence and confidence is rooted in the notion of a stable government. Given the difficulties in reaching political accommodations in an increasingly diverse and polarized political system, the political parties and First and Second estates of government must understand that on certain issues consensus must be reached. Default is such an issue.

Nevertheless, while Congress has never in its history allowed default, few modern day legislators have pristinely supportive voting records on raising the debt ceiling, and no legislator who has been in Congress over the past few decades can say he or she supported only so-called "clean" debt ceiling approaches. Directly or indirectly, debt ceiling increases have generally been tied to budgetary precepts.

Over the last 10 years, for instance, the debt ceiling has been increased 17 times by Congress. Only seven times has this been accomplished through a "clean" bill and most of these have been short-term measures tied loosely to resolution of major budget issues. The majority of times debt ceiling increases have explicitly been tied to budget legislation.

A decade ago the trade-off demanded by a liberal Congress for voting to increase the debt ceiling demanded by a liberal Congress was acquiescence by the Reagan Administration in Congress' principal priority: greater percentage increases in domestic spending than in the defense budget. Indeed, the reason the national debt is such a problem today is that Reagan era deficits were, surprisingly, driven more by increases in spending than decreases in taxes. Federal spending as a percentage of GNP increased from 21.5 percent to 23.5 percent during the Reagan Administration while tax revenues basically remained level at

19.25 to 19.5 percent. Hence, Republicans believe that if the country is to reach a balanced budget without tax increases, we must reduce the size of government in relation to the whole economy, although not necessarily in relation to current governmental expenditures.

The background of today's circumstance is that the new majority in Congress has attempted to couple the debt ceiling issue with constraints on the growth of government and institute an inflation-adjusted freeze on spending. The old majority is crying foul. Like in the 1980s it insists on debt ceiling increases to accommodate federal spending growth well above the inflation rate.

One of the anecdotal vignettes that has more consequence to the Republican side than has been reflected in the press was the news conference held last November by the Vice President a week after President Clinton signed a bill committing the Executive Branch to forthright negotiation on a balanced budget scored by the Congressional Budget Office (CBO) by year's end.

A member of the press asked the Vice President whether the Administration would submit a balanced budget under CBO numbers. His startling reply was that it hadn't been decided. Later that day, President Clinton held an impromptu press conference to clarify the Administration intended to follow the law which the Vice President had hinted it might not. But the President went on in an attention-diverting way to charge that the real problem was the radical Republican freshmen.

The point is that instead of reaffirming the Administration's commitment to a position it had accepted or point out that the Vice President had simply erred in his press conference statements, the President chose to defend by attacking. The message wasn't lost on Capitol Hill: nor was the fact that the President refused to submit a balanced budget to Congress by year's end as envisioned by law.

There is, of course, a shared responsibility between the Executive and Legislative branches on the issues on the budget and debt ceiling, but in today's context, each branch has a different perspective.

The Executive argues that Congress has not offered an approach it can support and that Congress has used strong-arm tactics which included bringing parts of the government to a standstill. The President in his State of the Union Address even lectured those assembled "never, never" again to press the Executive to this extent.

The Congress, on the other hand, points out that last fall it passed and sent a balanced budget approach, including the lifting of the debt ceiling, to the Executive, which the President vetoed.

Subsequently, the President put the honor of the presidency on the line by affirming publicly and signing a bill obligating himself to the development of a balanced budget approach using common economic assumptions, i.e., CBO estimates, by the end of last year.

Only when it became clear that the word of the President, at least with regard to the budget negotiations, was not being kept did Republicans put pressure, perhaps mistakenly, on federal government operations. But it should be clear that just as the view of the Executive is that "never, never" should the government be shut down for lack of timely appropriations, it is the view of the majority in Congress that "always, always" should the President uphold the law and keep his word to the American people.

When the President commits to a balanced budget approach by a time certain it is not unreasonable for Congress to believe this commitment should and would be kept.

In this regard, subsequent reviews of documents and inside strategizing would appear to indicate that the White House had developed a strategy well in advance of a debt limit crisis to prolong confrontation with Congress. This strategy has had the effect of putting an element of instability into the economy and precipitated more than a little social splintering.

Here, let me point out some of the nuances involved in the politicizing of economics. Medicare is the foremost.

In 1993, the First Lady testified before Congress that the Administration favored capping annual Medicare spending increases at 6 to 7 percent; the Vice President in 1993 pointed out on national television that the Administration favored a 5.5 to 6 percent annual Medicare cap; and, in the background, Leon Panetta, in one of his last acts as House Budget Committee Chairman, proposed a 5.5 percent annual cap.

The Republican balanced budget vetoed last fall by the President capped Medicare annual increases at 6.4 percent. Based on revised CBO estimates, the Republicans subsequently proposed a 7.2 percent Medicare annual increase approach. Any neutral observer might ponder the fairness of Democrats charging that Medicare was being "gutted" when the Republicans offered higher Medicare spending levels than the First Lady, the Vice President and the President's Chief of Staff had earlier proposed.

Any neutral observer might also wonder where Treasury has been in advising the President and Congress on Medicare in recent months when it must have had an early glimpse that the Medicare Trust Fund was in worse shape than was publicly known until the revelations of last week. The surprise deficit incurred by the Medicare fund last year underscores the need for reform to ensure Medicare solvency, not politics to advance the fortunes of any politician or his or her party.

Here, it might be noted, I know of no economist -- conservative or liberal -- who has not suggested in recent years that the budget can never be controlled unless the entitlements system is reformed. If one is serious about controlling federal spending, and at the same time leaving adequate room for discretionary spending programs, such as education, entitlements must be disciplined.

In conclusion, let me stress that there will be more than a little truth to perspectives presented by both sides this morning, but the big picture is that the public has been ill-served by the political games that have been played.

The big picture is that the Republicans have a compelling case for budgetary restraint and modest entitlements reform. Likewise, Democrats have a credible case to insist that priorities in certain areas such as education should be reconsidered by the new majority.

The tragedy is that accommodation could and should have been achieved, with the discipline of the need to lift the debt ceiling supplying an effective time constraint.

Since that circumstance has not materialized, both parties now find themselves less able to compromise and more likely to delay critical budget issues until after the next election.

The debt ceiling will soon be lifted and default averted, but the real story will not relate to this event which will occur later this month, probably on February 29, Leap Year Day, but to the opportunity that has been lost.

What has been at issue is the thinness of the line between contemplating default and using the debt ceiling issue as a constructive opportunity to reach consensus on what realistically should be done in the legislative process.

The combination of Treasury tactics and an avalanche of partisan mischief and political apprehension in both parties, of Congressional miscalculation of the power of the Presidency and Executive branch misunderstanding that taxing and spending decisions are Constitutionally the principal province of Congress, has produced a stalemate making orderly long-term budget and debt management approaches unlikely to be adopted this year.

It is not a high moment for democratic governance.

Before turning our distinguished panel of members, I recognize the distinguished ranking member, Mr. Gonzalez, for his opening statement.

****

Contact: David Runkel
202-226-0471

Currency
News from the
Committee on Banking and Financial Services
U.S. House of Representatives
James A. Leach, Chairman
104th Congress

Closing Statement
By James A. Leach
Chairman, House Banking and Financial Services Committee
Hearing on Debt Ceiling

Feb. 8, 1996

We have heard a lot of voices, at times raised, during today's hearing and we have put on the record a variety of views.

In concluding this hearing, I would like to underline a few points.

First, there is bipartisan agreement that default is off the table. The United States will not default on its obligations.

Second, the underlying problem facing the county which is symbolized in the debt ceiling debate is the continued accumulation of debt as a result of budgets that are out of balance.

Third, while it appears, from the comments by my colleagues on both sides of the aisle, that there is a commitment in Congress to balance the budget in seven years, strong differences remain on how to reach balance.

Fourth, there has been an unfortunate breakdown in trust between the Executive and Legislative branches of government which imperils the capacity of government to function credibly.

Fifth, there remain questions about the Department of the Treasury's commitment to make full disclosure on a timely basis to the people of the United States of its contemplated actions on the debt ceiling and about the Administration's strategy of politicizing the Medicare issue despite the unanticipated negative cash flow in the Medicare Trust Fund in 1995.

Sixth, the Congress needs to take another look at debt ceiling legislation to ensure that the options available to the Secretary of the Treasury are not a matter of dispute, but are clear to all parties.

more

Seventh, it must be understood that just as no Congress has ever precipitated default, the debt ceiling issue provides not only a philosophical framework for budgetary decisions of Congress but time constraints in which decisions should on an orderly basis be made. The prolongation of discourse on the debt ceiling has had the unfortunate effect of delaying and making less likely a budget compromise and accelerating societal splintering. The political system has been tested and found wanting.

It is my hope that the airing of conflicting views during this hearing will serve to advance resolution of these issues.

The hearing is adjourned.

****

Contact: David Runkel
202-226-0471

Statement of

Representative Paul E. Kanjorski

Committee on Banking and Financial Services

February 8, 1996

Mr. Chairman, Members of the Committee, there are few more difficult jobs in Washington than the job of Secretary of the Treasury. No one likes a bill collector, and no one enjoys paying their bills. It is his job to do both. He holds the office everyone loves to hate.

We are fortunate in the United States to have an individual of Bob Rubin's quality and character in this important job.

Over the past several months Secretary Rubin has been the subject to a series of savage, unjustified, and politically-motivated attacks for fulfilling his obligation to faithfully execute the laws of the United States by paying its bills. Republican leaders in the House have even been so irresponsible as to suggest he should be impeached for carrying out the duties of his office. They conveniently ignore fact that the actions he has taken to protect the credit of the United States were based on a more solid legal foundation than the actions of his Republican predecessors, including Ronald Reagan's Treasury Secretary, Jim Baker.

Before we "kill the messenger," we should remind ourselves that the bills Secretary Rubin is paying this year are primarily the result of legal obligations incurred by previous administrations and previous Congresses. We must remember that:

- Under the leadership of President Clinton. Secretary Rubin and his predecessor Secretary Bentsen, the federal deficit will decline for four years in a row, the first time that has happened in decades.

- In real, inflation-adjusted, dollars, the deficits of the Clinton administration are dramatically smaller than those of either the Bush or Reagan administrations.

- As a percentage of GNP, the U.S. deficit is also smaller than the deficits of our major trading partners.

- Without the massive defense build-up and the excessive tax cuts for the rich of the 1980's, the budget would be balanced today.

In short, Secretary Rubin is being pilloried for paying debts incurred by others.

A hearing held by Banking Committee Democrats last week under the leadership of our colleague Charles Schumer gave dramatic evidence of the consequences for our government, our economy and our people if the United States defaults on its financial obligations for the first time in history.

At the Democratic hearing we were told:

• by Treasury Deputy Secretary Larry Summers that the United States would join Myanmar, Angola, Argentina, Venezuela, Brazil, Vietnam and Russia on the short list of nations that have defaulted on their own debt over the past quarter century.

• that default would endanger the delivery of Social Security and Medicare benefits to 43 million senior citizens; VA compensation and pensions to more than 3 million veterans, their widows and dependents; and could adversely and permanently affect the value of pensions to tens of millions more.

• that even a one minute default would significantly raise the cost of borrowing for U.S. taxpayers, state and local governments, businesses, homeowners, students, and everyone who buys a car. The cost of an adjustable rate mortgage on an average home, could increase by $600 to $1,200 a year. Our relatively healthy economy could end up in a tailspin. The credit of the United States is the standard against which **all other** credit is measured. When the government's credit costs increase, so do **everyone** else's credit costs.

• that the head of a major Wall Street investment house knows "*no one on Wall Street, sane or completely off their rocker, who thinks that defaulting on the debt is a good idea.*" (James Lebenthal, Chairman, Lebenthal & Co., January 30, 1996)

• that Ronald Reagan believes that, "*the full consequences of a default – or even the serious prospect of default – by the United States are impossible to predict and awesome to contemplate. Denigration of the full faith and credit of the United States would have substantial effects on the domestic financial markets and on the value of the dollar in exchange markets. The Nation can ill afford such a result.*" (letter to Senator Howard Baker, November 16, 1983)

• that Federal Reserve Chairman Alan Greenspan, former Chairman Paul Volker and six former Treasury Secretaries from both parties believe that default would have serious, adverse, long-term consequences and should be avoided at all costs. (Chairman Greenspan's letter to Chairman D'Amato, November 8, 1995; Chairman Volker's letter to President Clinton, October 26, 1995; former Treasury Secretaries' letter to Speaker Gingrich, November 9, 1995)

• that Moody's and the European Credit Rating Agency IBCA are reviewing the U.S. government's AAA credit rating, and that even the mere prospect of a default, even if it never occurs, might increase our borrowing costs. (Moody's statement, January 24, 1996; IBCA statement, January 25, 1996).

• that the cost to our government, and our economy, of a one-minute default, would undo **all** the good that either the Republican or Democratic seven-year balanced budget plans would achieve.

Mr. Chairman, in the words of our distinguished colleagues Marge Roukema and Amo Houghton, "*The full faith and credit of the United States must not be jeopardized.*" As Republican columnist William Safire, no allie of the Clinton administration, has written, default is "*a foolish and wrongheaded method of pressure. You don't play a game of chicken with the American dollar. ...anyone prepared to carry out the first national default is as crazy as Nero....*"

This is why, Mr. Chairman and Mr. Secretary, I am pleased to report that 200 Democratic House Members and Delegates, including every Democrat on the Banking Committee, have signed my letter to Speaker Gingrich asking him to schedule action on a clean debt ceiling increase as quickly as possible. The full text of our letter is attached to my testimony. In addition, approximately a dozen of our Republican colleagues including Chairman Leach, Chairman Roukema, Mr. Castle, Mr. Campbell and Mr. Fox, have signed similar letters to the Speaker.

Despite the scorn and ridicule heaped upon Members of Congress by the media, it is clear that a majority of the House of Representatives wants to do that which is right and honorable. We want to act responsibly by paying our debts. We support Secretary Rubin in his legal and moral obligation to avoid default. We should not allow extremist politicians to jeopardize the credit, the economy and the future of our nation.

PAUL E. KANJORSKI
11TH DISTRICT, PENNSYLVANIA
COMMITTEE ON BANKING AND FINANCIAL SERVICES
RANKING MEMBER
SUBCOMMITTEE ON CAPITAL MARKETS, SECURITIES AND GOVERNMENT SPONSORED ENTERPRISES
COMMITTEE ON GOVERNMENT REFORM AND OVERSIGHT
DEMOCRATIC WHIP-AT-LARGE

Congress of the United States
Washington, DC 20515–3811

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TOLL FREE HELP LINE
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January 31, 1996

The Honorable Newt Gingrich
Speaker
U.S. House of Representatives
Washington, DC 20515

Dear Mr. Speaker:

Over the course of more than two centuries the United States government has never once defaulted on its debt.

Both in times of unified government when one party controlled the entire government, and in times of divided government when different parties controlled the Executive and Legislative branches, default has been unthinkable because the long-term and short-term consequences for our credit rating and our economy are devastating.

If we do not act promptly on the debt ceiling we will put at risk Social Security and Medicare benefits, Veterans' compensation and pensions, and many other pension and benefit programs which tens of millions of Americans depend upon every day to make ends meet.

In order to calm the fears of the American people and the financial markets, as well as to protect the reputation, credit rating, and economy of the United States, we respectfully urge you to schedule consideration of a clean debt ceiling increase at the earliest possible moment.

Sincerely,

Paul E. Kanjorski David Bonior Barbara B. Kennelly

Sam Gibbons Richard A. Gephardt John P. Murtha

John Bryant Vic Fazio Rosa L. DeLauro

The Honorable Newt Gingrich
January 31, 1996

Bart Stupak [illegible] Bob Filner

Frank Mascara Cardiss Collins Eliot L. Engel

[illegible] Tom Bevill Michael R. McNulty

Tim Roemer George Miller Bill Hefner

Henry A. Waxman Martin Frost William L. Clay

Charlie Wilson Corrine Brown Robert T. Matsui

Ron Coleman Eva M. Clayton Eleanor H. Norton

Patrick Kennedy Alcee L. Hastings 123 Victor O. Frazer

Calvin Dooley Thomas M. Foglietta Pat Williams

The Honorable Newt Gingrich
January 31, 1996

Earl F. Hilliard | Norm Dicks | John Olver
[illegible] | Karen McCarthy | Neil Abercrombie
Esteban E. Torres | Carlos Romero Barceló | Lane Evans
Anna G. Eshoo | Owen Pickett | Nick Rahall
Chaka Fattah | Tim Holden | Ron Klink
Mike Doyle | Pete Stark | Robert Menendez
[illegible] Baldacci | Thomas M. [illegible] | Robert A. Underwood
Jerry F. Costello | Ron Wyden | Ray Thornton
Jim Barcia | Edward J. Markey | [illegible]

The Honorable Newt Gingrich
January 31, 1996

The Honorable Newt Gingrich
January 31, 1996

The Honorable Newt Gingrich
January 31, 1996

Norman Sisisky

Karen L. Thurman

Jane Harman

Maxine Waters

Corrine Brown

Henry B. Gonzalez

Bill K. Brewster

Blanche Lambert Lincoln

The Honorable Newt Gingrich
January 31, 1996

Bud Cramer

Marty Meehan

Rick Boucher

E de la Garza

Bill Richardson — Jerrold Nadler

Bart Gordon — Harry Johnston

Gerry Studds — Jim Oberstar

Frank Pallone Jr. — Jim Chapman

Major R. Owens — Alan Mollohan

George E. Brown Jr. — Pete Geren

Kweisi Mfume — Thomas Manton

Frank Tejeda — Craig Washington

[illegible] [illegible]

Nancy Pelosi Barney Frank

[illegible] [illegible]

Ed Pastor Chet Edwards

[illegible] [illegible]

Marcy Kaptur Lynn N. Rivers

[illegible] [illegible]

Carol B. Maloney Carrie P. Meek

22-450 96 – 5

Gary Ackerman

Joe Moakley

[illegible]

Henry A Waxman

Tony P. Hall

[illegible]

Jack Reed

Dick Durbin

Bill Richardson

[illegible]

[illegible]

[illegible]

[illegible]

[illegible]

[illegible]

David Skaggs

Signed Rep. Kanjorski's letter to Speaker Gingrich requesting a vote on a "clean" debt extension (200 Members)

Neil Abercrombie (HI)
Gary L. Ackerman (NY)
Robert E. Andrews (NJ)
Scotty Baesler (KY)
John Elias Baldacci (ME)
James A. Barcia (MI)
Thomas M. Barrett (WI)
Xavier Becerra (CA)
Anthony C. Beilenson (CA)
Ken Bentsen (TX)
Howard L. Berman (CA)
Tom Bevill (AL)
Sanford D. Bishop, Jr. (GA)
David E. Bonior (MI)
Robert A. Borski (PA)
Rick Boucher (VA)
Bill K. Brewster (OK)
Glen Browder (AL)
Corrine Brown (FL)
Sherrod Brown (OH)
George E. Brown, Jr. (CA)
John Bryant (TX)
Benjamin L. Cardin (MD)
Jim Chapman (TX)
William (Bill) Clay (MO)
Eva M. Clayton (NC)
Bob Clement (TN)
James E. Clyburn (SC)
Ronald D. Coleman (TX)
Cardiss Collins (IL)
Barbara-Rose Collins (MI)
Gary A. Condit (CA)
John Conyers, Jr. (MI)
Jerry F. Costello (IL)
William J. Coyne (PA)
Robert E. (Bud) Cramer, Jr. (AL)
Pat Danner (MO)
E de la Garza (TX)
Peter A. DeFazio (OR)
Rosa L. DeLauro (CT)
Ronald V. Dellums (CA)
Peter Deutsch (FL)
Norman D. Dicks (WA)
John D. Dingell (MI)
Julian C. Dixon (CA)
Lloyd Doggett (TX)
Calvin M. Dooley (CA)
Michael F. Doyle (PA)
Richard J. Durbin (IL)
Chet Edwards (TX)
Eliot L. Engel (NY)
Anna G. Eshoo (CA)
Lane Evans (IL)
Eni F.H. Faleomavaega (AS)
Sam Farr (CA)
Chaka Fattah (PA)
Vic Fazio (CA)
Cleo Fields (LA)
Bob Filner (CA)
Floyd H. Flake (NY)
Thomas M. Foglietta (PA)
Harold E. Ford (TN)
Barney Frank (MA)
Victor O. Frazer (VI)
Martin Frost (TX)
Elizabeth Furse (OR)
Sam Gejdenson (CT)
Richard A. Gephardt (MO)
Pete Geren (TX)
Sam Gibbons (FL)
Henry B. Gonzalez (TX)
Bart Gordon (TN)
Gene Green (TX)
Luis V. Gutierrez (IL)
Tony P. Hall (OH)
Lee H. Hamilton (IN)
Jane Harman (CA)
Alcee L. Hastings (FL)
W.G. (Bill) Hefner (NC)
Earl F. Hilliard (AL)
Maurice D. Hinchey (NY)
Tim Holden (PA)
Steny H. Hoyer (MD)
Sheila Jackson Lee (TX)
Jesse Jackson, Jr. (IL)
Andrew Jacobs, Jr. (IN)
William J. Jefferson (LA)
Tim Johnson (SD)
Eddie Bernice Johnson (TX)
Harry Johnston (FL)
Paul E. Kanjorski (PA)
Marcy Kaptur (OH)
Patrick J. Kennedy (RI)
Joseph P. Kennedy II (MA)
Barbara B. Kennelly (CT)
Dale E. Kildee (MI)
Gerald D. Kleczka (WI)
Ron Klink (PA)
John J. LaFalce (NY)
Tom Lantos (CA)
Sander M. Levin (MI)
John Lewis (GA)
Blanche Lambert Lincoln (AR)
William O. Lipinski (IL)
Zoe Lofgren (CA)
Nita M. Lowey (NY)
William P. Luther (MN)
Carolyn B. Maloney (NY)
Thomas J. Manton (NY)
Edward J. Markey (MA)
Matthew G. Martinez (CA)
Frank Mascara (PA)
Robert T. Matsui (CA)
Karen McCarthy (MO)
Jim McDermott (WA)
Paul McHale (PA)
Cynthia A. McKinney (GA)
Michael R. McNulty (NY)
Martin T. Meehan (MA)
Carrie P. Meek (FL)
Robert Menendez (NJ)
Kweisi Mfume (MD)
George Miller (CA)
David Minge (MN)
Patsy T. Mink (HI)
John Joseph Moakley (MA)
Alan B. Mollohan (WV)
G.V. (Sonny) Montgomery (MS)
James P. Moran (VA)
John P. Murtha (PA)
Jerrold Nadler (NY)
Richard E. Neal (MA)
Eleanor Holmes Norton (DC)
James L. Oberstar (MN)
David R. Obey (WI)
John W. Olver (MA)
Solomon P. Ortiz (TX)
Bill Orton (UT)
Major R. Owens (NY)
Frank Pallone, Jr. (NJ)
Ed Pastor (AZ)
Donald M. Payne (NJ)
L.F. Payne (VA)
Nancy Pelosi (CA)
Douglas "Pete" Peterson (FL)
Collin C. Peterson (MN)
Owen B. Pickett (VA)
Earl Pomeroy (ND)
Glenn Poshard (IL)
Nick J. Rahall, II (WV)
Charles B. Rangel (NY)
Jack Reed (RI)
Bill Richardson (NM)
Lynn N. Rivers (MI)
Tim Roemer (IN)
Carlos A. Romero-Barceló (PR)
Lucille Roybal-Allard (CA)
Bobby L. Rush (IL)
Martin Olav Sabo (MN)
Bernard Sanders (VT)
Thomas C. Sawyer (OH)
Patricia Schroeder (CO)
Charles E. Schumer (NY)
Robert C. Scott (VA)
José E. Serrano (NY)
Norman Sisisky (VA)
David E. Skaggs (CO)
Ike Skelton (MO)
Louise McIntosh Slaughter (NY)
John M. Spratt, Jr. (SC)
Fortney Pete Stark (CA)
Charles W. Stenholm (TX)
Louis Stokes (OH)
Gerry E. Studds (MA)
Bart Stupak (MI)
John S. Tanner (TN)
Frank Tejeda (TX)
Bennie G. Thompson (MS)
Ray Thornton (AR)
Karen L. Thurman (FL)
Esteban Edward Torres (CA)
Robert G. Torricelli (NJ)
Edolphus Towns (NY)
James A. Traficant, Jr. (OH)
Robert A. Underwood (GU)
Nydia M. Velázquez (NY)
Bruce F. Vento (MN)
Peter J. Visclosky (IN)
Harold L. Volkmer (MO)
Mike Ward (KY)
Maxine Waters (CA)
Melvin L. Watt (NC)
Henry A. Waxman (CA)
Pat Williams (MT)
Charles Wilson (TX)
Robert E. Wise, Jr. (WV)
Lynn C. Woolsey (CA)
Ron Wyden (OR)
Albert Russell Wynn (MD)
Sidney R. Yates (IL)

Statement of U.S. Representative Joe Kennedy
before the
House Committee on Banking and Financial Services
Thursday, February 8, 1996
2128 Rayburn House Office Building

Mr. Chairman:

Thank you for the opportunity to testify this morning on the need to pass a debt limit ceiling extension to keep the government from defaulting on its financial obligations. I appreciate your willingness to hear testimony on this subject.

Last September, I introduced legislation to increase the debt limit ceiling from its current rate of $5 trillion to $5.5 trillion, without any additional riders, to keep the federal government from defaulting on its financial obligations.

After the so-called "train wreck" experience of September and October, 1995, where the courageous and creative actions of Treasury Secretary Rubin kept the government from default, and while the House Republican leadership had continued to avoid this issue, I then introduced a House resolution calling for the consideration of my legislation.

Then, two weeks ago I filed a discharge petition -- Number 8 -- to bring a clean debt ceiling bill to the House floor for a vote. The petition gathered 173 signatures in five legislative days, what some long-time observers of Congress consider to be a near record.

I wish the discharge petition were not necessary, but it became the sole remaining option for those Members like myself committed to balancing the federal budget, but at the same time maintaining the financial integrity of the Nation.

In my view, and the view of many others, the House Republican leadership's unwillingness to address and resolve this matter honestly and forthrightly is a crass and cynical political maneuver that is simply shameful and irresponsible.

It seems this is a game of "stick it to the President."

First they claimed he didn't support a balanced budget.

The President did.

Then they said a balanced budget in 7 years. First the President said 10, then he agreed to 7 years.

Then they said balanced budget in 7 years using CBO numbers. President Clinton agreed to a balanced budget in 7 years using CBO numbers, and he submitted a budget that according to CBO balances in 7 years.

Now, they say, "we won't extend the debt ceiling unless we include our special interest agenda items."

That is wrong. That is political gamesmanship. You simply do not play politics with the financial integrity and reputation of the United States. Period.

Those seeking to play political games with the debt ceiling have stolen a page from Thelma and Louise -- they'll drive the economy and the American public over the edge of a cliff just to avoid a difficult situation.

But at whose expense?

Our children, who won't be able to afford a college loan.

Working people, who won't be able to get a mortgage to buy a home, or a loan to buy a car.

Senior citizens on fixed incomes, who won't be able to live their retired years in dignity.

Investors here at home and throughout the world who will forever remain unwilling to invest in the financial instruments of the United States.

This kind of mismanagement and "government by crisis," where continuing resolutions and temporary debt extensions replace the legislative process of compromise and consensus is creating real chaos and havoc in my State of Massachusetts and in the local Boston area.

For example, in countless communities across the Nation, including in my own backyard, local school boards are sitting down and negotiating contracts with elementary, junior high and high school teachers. They are making important hiring decisions that will effect every student in a classroom, and an important influence on those decisions is the amount of federal resources for Chapter I programs, including science and math programs.

Because of the uncertainty of this fiscal year's Education funding -- the most recent Continuing Resolution funding the government until March 15, 1996 makes a 25 percent cut in federal aid to education -- my school boards are making these decisions in the complete dark.

The Boston metropolitan area is a leading community in the area of school reform, from offering parents the option of public school choice, magnet schools, and the School-to-Work program. But the Congress has yet to finish consideration of the Labor-HHS Appropriations funding measure, which includes federal aid to education, to fund programs for the year which began on October, 1, 1995.

Left to depending on the uncertainty of the Continuing Resolution, local school districts are left in the lurch, with no direction from Washington. In short, when Congress delays, dithers and dallies, students suffer the consequences.

The collective impact of neglect and indifference from the Congress' inability to make final decisions on education funding will likely have a drastic and serious effect.

We must stop this games playing, pass a balanced budget, and end the senseless nonsense of threatening to default on the national debt.

A debt default after the March 15th deadline would jam millions of ordinary Americans, through:

** holding up the issue of April Social Security checks,

** holding up the issue of veterans benefits checks,

** holding up the issue of paychecks to active military personnel, including the pay to our troops serving in Bosnia,

** raising interest rates immediately by at least 1 percentage point on all consumer debt, bank loans and home mortgages with variable interest rates. For millions of homeowners, default would mean an immediate increase in a monthly mortgage of $1200 per year -- this would more than offset the tax cut the Republicans are talking about.

For every 1 percent increase in interest rates, this would cause additional borrowing of 150 billion dollars by the federal government over seven years -- more than the federal government spends on aid to education!

This is not rhetoric -- it is reality. Moody's and Standard & Poor do not think this is some cruel joke. These internationally recognized financial grading services know the reality and realize the consequences of a default.

Those who choose to play political games with the debt ceiling should come back through the looking glass where the rational world lives.

To borrow a line from that infomercial on late night television: "Stop the insanity." Pass a clean debt limit bill.

OPENING STATEMENT
REP. JOHN J. LaFALCE

Banking Committee Hearing On Debt Limit
February 8, 1996

The commitment of the United States of America to honor its debt obligations is the linchpin of our economic being as a nation. Indeed, the commitment of our nation to pay its debts is fundamental to our reputation and integrity on the world stage. Perhaps that is why most analysts and observers around the world have refused to take the threat of default seriously. **It simply couldn't happen, was their reasoning.** Let's hope they are right.

A default would be felt first by those expecting to receive Social Security and Medicare payments, veterans benefits and military pay. But beyond this, a default would seriously impact the vast majority of Americans. With the government unable to pay its debt obligations, all holders of Treasury securities, including pension funds and money market funds, would no longer receive the principal and interest payments they are owed. The asset value of these funds would decline, threatening the economic security of millions of middle-class Americans who own Treasury securities indirectly through pension funds and money market funds.

The government's inability to make payments on Treasury securities would have a domino effect across the economy when payments are not received, with potentially dangerous results. Because the pricing of many loans and other debt securities is closely linked to the price of Treasuries, a default would cause interest rates on mortgages and many types of consumer loans to increase. Likewise a default would cause an increase in the rates that state and local governments would be required to pay on their debt securities, as well as an increase in the rates that private corporations would have to pay on their debt instruments.

A default would cause investors to demand higher interest rates on Treasury securities, increasing interest payments on the government's debt. Instability in foreign currency and stock markets caused by a default could seriously impact economic growth in this country. Finally, a default would cause the U.S. to join the ranks of Vietnam, Angola, Brazil, Venezuela, and Russia -- countries that have defaulted on debt issued in their own currencies.

There has been extensive criticism of Secretary Rubin by my Republican colleagues for allegedly not been truthful in telling Congress that he had legal options for avoiding a default. There can be no question that Secretary Rubin made absolutely clear that the Administration was strongly in favor of a clean debt limit increase and would have much preferred <u>not</u> to have to take extraordinary actions to avoid default. Any suggestion that

Secretary Rubin preferred taking these extraordinary measures to having a clean debt ceiling increase, or considered taking such measures as "business of usual," is absurd and the record makes that quite clear. However, when there was doubt that a clean debt ceiling bill would not be forthcoming from Congress, the Secretary of the Treasury had an obligation to make contingency plans and had clear legal authority to take the actions he took ultimately to avoid a default. Indeed, if the Secretary had not taken such actions to avoid default, his judgement would have been questioned.

Some Republicans are now advancing the alternative argument that Secretary Rubin doesn't need a debt ceiling increase at all -- he can just continue to find ways to avoid a default. **So, is this a Republican proposal? What actions would the Republicans suggest? Do Republicans advocate that retirement funds continue to be disinvested or that gold reserves be sold, or that tax refund checks be delayed as an alternative to raising the debt ceiling?** The Treasury Secretary has rejected further options for financing the government after those he announced to the Speaker on January 22. He is calling on Congress yet again to fulfill its obligation and pass a clean debt ceiling increase. The Republicans seem to be engaging in politically convenient double speak, designed only to confuse the electorate and obfuscate the real issues.

It should be clear to all concerned that the Republicans' tactic of using the debt ceiling issue as political leverage to resolve the budget debate has been resoundingly unsuccessful. The budget debate is of vital importance to the American people. It reflects the different approaches and priorities of the two parties and deserves to be fully debated on its merits. **But the credit rating of our government, the financial security of our people, and the integrity of the United States around the world simply cannot be held hostage in a budget debate. The cost of default to our nation and its citizens would completely overwhelm any benefits the Republicans may claim would result from getting their way on a particular budget issue.**

The valid debate on budget issues gets drowned out in the crisis atmosphere surrounding the debt ceiling. The blackmail tactics of certain Republicans trying to link these two issues only serves to demean and undermine those more reasonable members of their party who are trying to conduct an honest debate on the budget. I hope that more reasonable voices will prevail in the future.

STATEMENT OF REPRESENTATIVE JIM SAXTON
VICE-CHAIRMAN
JOINT ECONOMIC COMMITTEE

BEFORE THE HOUSE BANKING COMMITTEE
FEBRUARY 8, 1996

CHAIRMAN LEACH AND MEMBERS OF THE BANKING COMMITTEE, THANK YOU FOR THE OPPORTUNITY TO APPEAR BEFORE YOU THIS MORNING.

THE PURPOSE OF MY APPEARANCE TODAY IS TO SUMMARIZE THE INTERIM RESULTS OF A JOINT ECONOMIC COMMITTEE (JEC) INVESTIGATION OF THE TREASURY DEPARTMENT. THIS JEC INVESTIGATION FOCUSES ON TREASURY DOCUMENTS REGARDING THE DISINVESTMENT OF FEDERAL TRUST FUNDS TO CIRCUMVENT THE DEBT LIMIT.

OUR INQUIRY INTO THE DISINVESTMENT AND DEBT LIMIT ISSUES WAS INITIATED ON NOVEMBER 17, 1995 BY A LETTER TO SECRETARY RUBIN CO-SIGNED BY MAJORITY LEADER ARMEY AND MYSELF. OUR LETTER REQUESTED, AND I QUOTE, "COPIES OF ALL THE DOCUMENTS RELATED TO THIS DECISION-MAKING PROCESS." THOUGH THE ADMINISTRATION HAS STILL NOT PROVIDED ALL THE DOCUMENTS COVERED BY OUR REQUEST, WE DO HAVE ENOUGH INFORMATION TO DRAW SEVERAL CONCLUSIONS.

IN FACT, TREASURY AND OTHER ADMINISTRATION OFFICIALS HAVE

GONE OUT OF THEIR WAY TO KEEP INFORMATION FROM US. I WILL GET TO THAT SHORTLY, BUT NOW LET ME GET RIGHT TO THE CRUX OF THE ISSUE. THE AMERICAN PEOPLE AND THE CONGRESS WERE MISLED ON THE MATTER OF A NOVEMBER DEFAULT.

1. THE DEFAULT HOAX: MISLEADING THE AMERICAN PEOPLE AND CONGRESS

FIRST, AVAILABLE DOCUMENTS SHOW THAT BY JUNE 27, 1995, THE ADMINISTRATION HAD IDENTIFIED TRUST FUNDS AS A SOURCE OF FINANCING DURING A PROTRACTED DEBT LIMIT IMPASSE. THESE DOCUMENTS REFLECT A VERY DETAILED PLAN TO DISINVEST THE CIVIL SERVICE RETIREMENT TRUST FUND AS WELL AS A NUMBER OF OTHER FUNDS, SOME OF WHICH HAVE SINCE BEEN ANNOUNCED.

THE INTERNAL TREASURY DOCUMENTS SHOW THAT INACTION BY CONGRESS WHEN THE DEBT LIMIT WAS REACHED IN NOVEMBER 1995 WOULD NOT TRIGGER DEFAULT. THOSE IN POSSESSION OF THE INFORMATION CONTAINED IN THESE DOCUMENTS KNEW THAT DISINVESTMENT OF TRUST FUNDS, NOT DEFAULT, WOULD BE THE CONSEQUENCE OF A DEBT LIMIT IMPASSE. IT IS AN INDISPUTABLE FACT THAT DISINVESTMENT OF THE TRUST FUNDS WAS LISTED IN A TREASURY MEMO AS EARLY AS JUNE 27 AS A WAY

OF MANAGING THE DEBT LIMIT.

NONETHELESS, A NUMBER OF HIGH RANKING CLINTON ADMINISTRATION OFFICIALS CREATED THE MISLEADING IMPRESSION THAT INACTION ON THE DEBT LIMIT COULD LEAD TO DEFAULT AND CATASTROPHIC ECONOMIC CONSEQUENCES. FOR EXAMPLE, ON SEPTEMBER 13, 1995 THE *L.A.TIMES* REPORTED, AND I QUOTE, "TREASURY SECRETARY RUBIN HAS WARNED THAT A FISCAL DISASTER COULD OCCUR UNLESS THE DEBT CEILING IS RAISED BY NOVEMBER 15." HOWEVER, THE TREASURY MEMOS CLEARLY SHOW THAT ANYONE WITH ACCESS TO THIS INFORMATION HAD TO KNOW THAT INACTION ON THE DEBT LIMIT WOULD LEAD TO DISINVESTMENT, NOT DEFAULT.

AND SO, WHILE HIGH RANKING CLINTON OFFICIALS IN THE TREASURY DEPARTMENT AND ELSEWHERE WERE PUBLICLY RAISING A MISLEADING IMPRESSION OF DEFAULT RISK, PRIVATELY CLINTON OFFICIALS HAD BEEN PREPARING DETAILED DISINVESTMENT PLANS. IN FACT, SEVERAL OF THESE MEMOS WERE DIRECTED TO SECRETARY RUBIN AND UNDER SECRETARY HAWKE, SO THERE IS SIMPLY NO CREDIBLE WAY FOR THEM TO CLAIM THEY WERE UNAWARE OF THE DISINVESTMENT PLANNING.

ONE HIGH TREASURY OFFICIAL WAS ASKED AT A PRESS CONFERENCE IF HE HAD BEEN CRYING WOLF ABOUT DEFAULT.

HE EXPLAINED THAT LEGAL CLEARANCE FOR THE DISINVESTMENT HAD ONLY JUST OCCURRED SHORTLY BEFORE THE DECISION WAS ANNOUNCED. HOWEVER, THE TREASURY DOCUMENTS SHOW THAT LEGAL ANALYSIS OF THE ISSUES INVOLVED BEGAN LAST SUMMER. THE NOTION THAT A 3 OR 4 MONTH LEGAL RESOLUTION OF THESE ISSUES OCCURRED ONLY JUST BEFORE THE DISINVESTMENT ANNOUNCEMENT IS SIMPLY NOT CREDIBLE.

MOREOVER, THIS DEFAULT HOAX WAS WIELDED AS A SHARP PARTISAN WEAPON AGAINST ADMINISTRATION OPPONENTS. LEADING ADMINISTRATION OFFICIALS EITHER FOSTERED OR STOOD BY AND TOLERATED THE POLITICAL DISINFORMATION CAMPAIGN BASED ON THE DEFAULT HOAX. THEY MISLED THE PRESS, AND THE AMERICAN PEOPLE, AND CREATED NERVOUS MARKETS IN THIS COUNTRY AS WELL AS AROUND THE WORLD.

2. DEFAULT HOAX NOT CONFINED TO TREASURY DEPARTMENT OFFICIALS

SECOND, THE EVIDENCE SUGGESTS THAT THE DEFAULT HOAX WAS PART OF A LARGER ADMINISTRATION POLITICAL STRATEGY. LIKE TREASURY OFFICIALS, OTHER ADMINISTRATION OFFICIALS ALSO KNEW THAT DEFAULT LAST NOVEMBER WAS NOT GOING TO HAPPEN.

WITH NO REAL SUBSTANTIVE POSSIBILITY OF DEFAULT, THE

DOCUMENTS SUGGEST THAT THE REAL PURPOSE OF THE DEFAULT SCARE WAS PARTISAN POLITICS.

I WOULD ADD IN FAIRNESS TO SECRETARY RUBIN THAT WHILE HE IS RESPONSIBLE FOR HIS PART IN THE DEFAULT HOAX AND ASSOCIATED CENSORSHIP OF DOCUMENTS, WHICH I WILL GET TO IN A MOMENT, IT IS CLEAR THAT OTHERS IN THE ADMINISTRATION PLAYED A MAJOR ROLE. THE JUNE 27 MEMO MAKES CLEAR THAT THE ACTIVITIES ASSOCIATED WITH THE DEBT LIMIT STRATEGY WERE TO BE CLOSELY COORDINATED WITH OTHER ADMINISTRATION OFFICIALS.

THE POLITICAL ORIGINS OF THE DEFAULT HOAX MAY NOT HAVE ORIGINATED IN THE TREASURY DEPARTMENT, BUT IN THE WHITE HOUSE. WHITE HOUSE OFFICIALS PARTICIPATED IN PERPETUATING THE DEFAULT HOAX IN A SERIES OF INFLAMMATORY STATEMENTS. FOR EXAMPLE, LEON PANETTA SAID OF REPUBLICANS, THEY ..."WILL SEND A BUDGET TO THE PRESIDENT OF THE UNITED STATES, INCLUDING A DEBT CEILING, AND THAT IF HE DOESN'T SIGN THAT, THEY'LL LET THE COUNTRY GO TO HELL AND BASICALLY DEFAULT ON ITS DEBT." BUT WHEN PANETTA SAID THIS THE ADMINISTRATION HAD ALREADY BEEN PLANNING TO USE THE TRUST FUNDS FOR 4 MONTHS.

IT IS INCONCEIVABLE THAT THE TOP OFFICIALS INVOLVED IN THE BUDGET AND DEBT LIMIT ISSUES WERE KEPT IN THE DARK ABOUT THE TREASURY'S DISINVESTMENT PLANS. THUS THE DISINGENUOUS ATTEMPTS TO HYPE THE DEFAULT HOAX DESPITE THE DISINVESTMENT PLANS REACHED INTO HIGH LEVELS OF THE WHITE HOUSE, NOT JUST THE TREASURY DEPARTMENT.

AN ADMINISTRATION SPOKESMAN HAS CONFIRMED IN A RECENT PRESS ACCOUNT (2/2/96 WASHINGTON TIMES) THAT TOP ADMINISTRATION OFFICIALS IN THE WHITE HOUSE AND OTHER OFFICES OUTSIDE OF THE TREASURY WERE INVOLVED IN THE DEBT LIMIT DECISIONS, AND THAT THESE DECISIONS WERE RELATED TO POLITICS. HE ALSO ADDED, "OBVIOUSLY THE DEBT LIMIT GOT WRAPPED UP IN THE BUDGET DEBATE, WHICH WAS POLITICAL. THE PRESIDENT IS VERY CONCERNED ABOUT DEALING WITH THIS AND OTHER BUDGET ISSUES AT THE SAME TIME." THE DEFAULT RUSE WAS USED IN CONCERT BY A VARIETY OF CLINTON ADMINISTRATION OFFICIALS IN A WAY THAT SUGGESTS SOME DEGREE OF COORDINATION, AS CALLED FOR IN THE JUNE 27 TREASURY MEMO.

3. TREASURY EFFORT TO CONCEAL INFORMATION

THE INFORMATION THAT I HAVE LAID OUT THIS FAR WAS EXTREMELY

DIFFICULT TO OBTAIN. IT IS QUITE OBVIOUS THAT OFFICIALS AT TREASURY DID NOT WANT US TO HAVE IT.

FOR OVER TWO MONTHS, THE TREASURY DEPARTMENT ATTEMPTED TO WITHHOLD INFORMATION FROM CONGRESS BY VARIOUS DELAYING TACTICS AND EXTENSIVE CENSORSHIP OF DOCUMENTS. FOR EXAMPLE, A JUNE 27, 1995 MEMO OF THE KIND TARGETED BY OUR INVESTIGATION WAS PROVIDED ONLY AFTER MORE THAN A MONTH OF DELAY. AND, WHEN WE FINALLY RECEIVED IT, 90 PERCENT OF THE MEMO AND ITS ATTACHMENTS WERE DELETED, INCLUDING THE TEXT OF ENTIRE PAGES. OF 10 PAGES, THE TEXT OF 7 WERE ENTIRELY DELETED BEFORE PROVIDING THEM TO THE JEC. IT IS IMPOSSIBLE TO REGARD THIS KIND OF A RESPONSE AS ANYTHING OTHER THAN AN ATTEMPT TO CONCEAL INFORMATION.

PERHAPS THE TREASURY DEPARTMENT WILL ATTEMPT TO EXCUSE THIS INEXCUSABLE OBSTRUCTION OF OUR INQUIRY BY PRETENDING THAT THERE WAS A MISUNDERSTANDING ABOUT THE NATURE OF OUR REQUEST, OR THAT WE DID NOT REQUEST ALL MATERIAL RELATED TO THE DECISION-MAKING PROCESS. HOWEVER, OUR REQUEST SPECIFICALLY COVERED “ALL” DOCUMENTS.

FOR EXAMPLE, THERE IS NO DISPUTE BETWEEN THE JEC AND TREASURY

THAT THE JUNE 27 MEMO WAS COVERED BY OUR REQUEST. HOWEVER, IN PROVIDING THIS DOCUMENT, THE TREASURY CENSORED WELL OVER 90 PERCENT OF ITS CONTENTS.

HOW COULD ANYONE ARGUE WITH A STRAIGHT FACE THAT THIS IS A LEGITIMATE RESPONSE TO OUR REQUEST? IT IS VERY DISTURBING THAT THE U.S. TREASURY WOULD RESORT TO SUCH TACTICS IN DEALING WITH AN INFORMATION REQUEST. PERHAPS THE TREASURY DEPARTMENT DOESN'T THINK THE AMERICAN PEOPLE HAVE A RIGHT TO KNOW HOW THEIR AFFAIRS ARE BEING CONDUCTED IN WASHINGTON.

WE RECEIVED THE UNCENSORED VERSION OF THE JUNE 27 MEMO AND SEVERAL OTHER DOCUMENTS ONLY AFTER JEC STAFF CALLED TREASURY'S BLUFF AND REQUESTED A MEETING TO REVIEW THE UNCENSORED DOCUMENTS IN THE ORIGINAL. THIS REVIEW OF DOCUMENTS, WHICH INCLUDED THE PARTICIPATION OF STAFF FROM OTHER COMMITTEES, ESTABLISHED THAT THERE WAS NO JUSTIFICATION FOR THE CENSORSHIP OF THE TREASURY DOCUMENTS. THOUGH WE FINALLY RECEIVED THESE DOCUMENTS ON JANUARY 24, WE STILL HAVE NOT RECEIVED ALL THE DOCUMENTS COVERED UNDER OUR REQUEST.

IRONICALLY, YESTERDAY AFTERNOON TREASURY HAD DELIVERED TO US

ADDITIONAL DOCUMENTS -- VOLUMES OF THEM. IT IS OBVIOUS THAT THEY WERE WITHHELD UNTIL THE LAST MINUTE SO AS TO MAKE IT IMPOSSIBLE FOR US TO REVIEW AND UNDERSTAND THEM BEFORE TODAY'S HEARING.

IN ADDITION, I WOULD LIKE TO ACKNOWLEDGE THE IMPORTANT ASSISTANCE OF SUBCOMMITTEE CHAIRMAN SPENCER BACHUS, WHO SENT ANOTHER DOCUMENT REQUEST TO SECRETARY RUBIN, HELD SEVERAL MEETINGS WITH TREASURY OFFICIALS, AND THUS HELPED PRY THESE DOCUMENTS LOOSE.

UNFORTUNATELY, THE TREASURY HAS REFUSED TO PROVIDE OTHER ADMINISTRATION DOCUMENTS ON DEBT LIMIT PLANNING CONTAINED IN THE TREASURY FILES, BUT ORIGINATING OUTSIDE THE TREASURY DEPARTMENT. IN REFUSING TO PROVIDE THESE DOCUMENTS, THE TREASURY DEPARTMENT BUT PROMISED TO PROVIDE US NOTICE OF ANY SUCH DOCUMENTS FOR REFERENCE TO THE WHITE HOUSE OR OTHER ORIGINAL SOURCES IN THE ADMINISTRATION, SUCH AS OMB. IN NEARLY THREE MONTHS OF WAITING, WE HAVE RECEIVED NOT ONE SUCH NOTICE.

I WOULD LIKE TO USE THIS OPPORTUNITY TO CALL ON SECRETARY RUBIN TO IMMEDIATELY RELEASE THESE DOCUMENTS TO THE JEC WITHOUT FURTHER DELAY. FURTHER EFFORTS TO WITHHOLD RELEVANT

INFORMATION CAN ONLY REINFORCE THE CONCLUSION THAT THE TREASURY DEPARTMENT IS INTENT ON KEEPING ALL OF THIS INFORMATION FROM CONGRESS, THE PRESS, AND THE PUBLIC AS LONG AS POSSIBLE.

THANK YOU.

JOINT ECONOMIC COMMITTEE

CONGRESS OF THE UNITED STATES

Jim Saxton, New Jersey
Vice-Chairman
Thomas W. Ewing, Illinois
Jack Quinn, New York
Donald A. Manzullo, Illinois
Mark Sanford, South Carolina
Mac Thornberry, Texas

House Republican Members
1537 Longworth Building
Washington, DC 20515
Phone: 202-226-3234
Fax: 202-226-3980

December 6, 1995

Dear Republican Colleague:

I would like to bring to your attention an article in the November 18 issue of *The Economist* that illustrates Treasury Secretary Robert Rubin's attempt to scare the American public into believing that the U.S. government would default. As the article points out, the Administration's default argument was misleading from the start.

The House Republican Members of the Joint Economic Committee recently issued two reports entitled "The Clinton Administration's Debt Limit Charade" (Parts One and Two). These reports highlight the recent events surrounding the debt limit, and the Administration's attempt to exploit this issue for partisan political advantage. To obtain copies of these reports, please contact the JEC at x6-0603.

Sincerely,

Jim Saxton
Vice-Chairman

The Economist November 18, 1995

The debt ceiling

Humbled prophet

WASHINGTON, DC

DOOMSDAY is a grave event. One does not simply reschedule it, therefore, without a good explanation. On November 15th—the supposed day of reckoning for America's debt—Robert Rubin, America's treasury secretary, laboured mightily to provide one. He was being sincere all along, you see, when he talked of a possible calamitous default on the federal government's debts; when he implored Republicans in Congress to raise the $4.9 trillion debt ceiling by that date, or else. It was only by a minor miracle, Mr Rubin explained, that his Treasury Department had been able, temporarily, to avert disaster. And if Congress did not relent, the dread day would still come, probably sometime in early January.

Armageddon-san

Financial markets reacted to the revised timing just as they had to the original one. They ignored it. Most bond traders know what Mr Rubin and his Republican tormentors have known all along: that the Treasury is sitting on a pile of trust-fund assets that could enable it, if necessary, to hold out right through to the 1996 elections.

The federal government administers about 160 trust funds, with well over $1 trillion in assets, including the funds for Social Security and Medicare. Most of these are, strictly, off limits. The two exceptions are a pair of retirement funds for federal employees. In normal times, these two funds (like all the others) hold their assets in the form of special government bonds which, though they cannot be sold to the public, count officially as federal debt. By replacing these bonds with unofficial IOUs, the Treasury Department can magically free some room beneath the debt ceiling, allowing it to borrow more money from bond markets.

On November 15th, Mr Rubin did exactly that. First, he drained all $21.5 billion from the so-called G-Fund, a voluntary pension plan for federal employees. He then authorised the Treasury to tap the Civil Service Retirement (CSR) fund, for a further $39.8 billion. These two actions freed up enough cash to make a $25 billion interest payment on the government's debts, and to cover its other debt operations for the rest of the year. After that, Mr Rubin claims, a genuine cash crunch will occur. But since the CSR fund is still sitting on another $300 billion in assets, this seems an empty threat.

Even if Congress continues to play games with the debt ceiling, a default will occur only if someone successfully challenged Mr Rubin's authority over the retirement funds. This is unlikely. For a start, few parties have an interest in doing battle. Republicans would take the blame if they succeeded in triggering a default. And federal employees would be unaffected by the Treasury's shenanigans: by law, all their assets must be replaced, with interest, once the cash crunch has passed.

In any event, a legal challenge would be on shaky ground. In 1986, after a similar cash panic, Congress explicitly granted authority over the two funds to the treasury secretary to help him pay off debts. And although Mr Rubin would have to issue a series of bizarre technical rulings to continue tapping the CSR fund, there does not appear to be any legal obstacle to his doing so.

So Americans need not worry that their government will default, or that it will be prevented from borrowing more. They do, however, face a fate that may be almost as horrible: someday, the mountain of debt might actually have to be repaid.

JOINT ECONOMIC COMMITTEE

CONGRESS OF THE UNITED STATES

ECONOMIC UPDATE

J. Saxton M.C.

INSIDE MAIL

1537 Longworth House Office Building, Washington, DC 20515 Phone: 202-226-3234

January 1996

Update on JEC Investigation of Treasury Debt Limit Documents

- The JEC investigation has succeeded in obtaining a number of documents from the Treasury Department regarding Administration plans to circumvent the debt limit. Unfortunately, these documents were only provided in a heavily redacted (censored) form. The Treasury Department was informed that this massive redaction of documents was unacceptable, and a meeting was sought to review the redacted material in an unredacted form. This meeting occurred January 19, with JEC staff accompanied by other committee staff.

- This review of the documents confirms our initial view that a Treasury plan to circumvent the debt limit was made last June. Several conclusions can be drawn from the material in our possession. (For a 20 page packet containing these documents, please contact the JEC at 226-3234.)

- Administration statements raising default as an outcome of inaction on the debt limit were false. Treasury officials had methodically assembled a detailed plan to evade the debt limit, and render it moot at least in the short run. Although we believe the legality of at least some of these options was dubious, in the view of the Treasury, they had sufficient means of circumventing the debt limit.

- The Administration was planning for a budget deadlock starting last June. This suggests that the Administration was not bargaining in good faith during the budget negotiations, and was maneuvering for gridlock, not closure.

- Among the options considered for use during the budget standoff were the following trust funds: social security, Medicare, disability, military retirement, and most of the other major trust funds.

- To avoid making the above information public, the Treasury Department engaged in an effort to censor documents and withhold information from Congress without any justification.

- The JEC investigation focuses on Treasury planning leading up to the November vetoes by President Clinton. It is our view that the issue of default as it was used last fall was a political fabrication. This investigation has no bearing on current or future policy decisions since up-to-date information is not available.

This material was presented at a Joint Economic Committee Briefing on Wednesday, January 24, 1996.

Joint Economic Committee

Congress of the United States

House Republican Members

PRESS RELEASE

104th Congress

House Republican Members

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Vice-Chairman
Thomas Ewing, Illinois
Jack Quinn, New York
Donald Manzullo, Illinois
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FOR IMMEDIATE RELEASE January 19, 1996

SAXTON REPORT CALLS FOR FULL DISCLOSURE OF ADMINISTRATION DEBT LIMIT DOCUMENTS

Today Joint Economic Committee Vice-Chairman Jim Saxton released a JEC report on a JEC investigation of Treasury Secretary Robert Rubin's circumvention of the debt limit using federal retirement trust funds. This study, entitled ***The Clinton Debt Limit and Budget Charade – Part III***, reveals for the first time the existence of extensive U.S. Treasury plans to evade the debt limit using these trust funds that were carefully prepared by June 27, 1995, more than four months before President Clinton's vetoes of the CR and debt limit increase on November 13. The JEC report is based on the results of a November 17, 1995 document request co-signed by Majority Leader Dick Armey and Vice-Chairman Saxton.

The Administration plans in these documents laid the groundwork for the prolonged budget standoff currently underway. Furthermore, the Treasury documents reveal that even the resources of the Social Security trust fund were considered to fund the evasion of the debt limit.

"This JEC report reveals for the first time the careful planning undertaken by the Clinton Administration for budget gridlock," said JEC Vice-Chairman Jim Saxton. "While making loud and disingenuous warnings of imminent default, the Administration had already made careful plans for raiding the trust funds in the event the debt limit was not increased," he continued. "The default issue was phony from the start, and the Treasury documents show that the Administration was even considering tapping into Social Security to finance its budget standoff," Saxton concluded.

According to the JEC report, internal memos to Treasury Secretary Robert Rubin and other executive branch political appointees, although heavily censored to conceal most of their activities from the Congress, press, and public, reveal that last June the Treasury Department set out a time table for evading the debt limit in early or mid-November, almost certainly in close collaboration with the White House and other Administration agencies.

In a letter sent to Treasury Secretary Rubin, Vice-Chairman Saxton also asked him to comply fully with the Congressional inquiry by releasing all the relevant documents and explain why material in documents covered under the request was deleted: in fact, in some of these documents entire pages were deleted completely. These massive deletions raise obvious concerns about what information is being concealed, and continues an Administration pattern of failing to provide requested material in response to Congressional inquiry.

According to Saxton, "Treasury Secretary Robert Rubin risks appearing as someone who has something to hide." As an article in *The Economist*, as well as a JEC report, pointed out last November, Secretary Rubin knew all along that no default would occur. The default scare was a charade from the start.

"I call on Secretary Rubin to release all documents covered by our request to the press and the public," Saxton said. "There can be no legitimate reason to conceal this information from the press and the public," he concluded.

A complete copy of the report is attached (5 pages).

Congress of the United States
House of Representatives
Washington, DC 20515

November 17, 1995

The Honorable Robert E. Rubin
The Secretary of the Treasury
Department of the Treasury
1500 Pennsylvania Avenue NW
Washington, D.C. 20220

Dear Mr. Secretary:

The recent use of thrift plan and civil service retirement funds to finance federal government activities raises a number of important issues. Since this action essentially circumvents the debt limit as well as the constitutional role of Congress to authorize federal borrowing, members of Congress have an interest in knowing how this decision was made. We would appreciate your cooperation in answering several questions we have about this matter.

When during the last 12 months did the Treasury staff first examine the options available to avoid the debt limit? After Treasury staff had completed examining the available options, when were its conclusions first shared with the White House or OMB staff? We would also like to request copies of all the documents related to this decision-making process so that the Congress can have a better understanding of how these decisions were made.

Thank you for your cooperation. If your staff has any questions about this request, please contact Christopher Frenze of the Joint Economic Committee staff at 225-3923. A response to this letter by November 22, 1995 would be appreciated.

Sincerely,

Dick Armey
Majority Leader

Jim Saxton
Vice-Chairman
Joint Economic Committee

Joint Economic Committee

Congress of the United States

Jim Saxton, New Jersey
Vice-Chairman
Thomas W. Ewing, Illinois
Jack Quinn, New York
Donald A. Manzullo, Illinois
Mark Sanford, South Carolina
Mac Thornberry, Texas

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January 17, 1996

The Honorable Robert E. Rubin
Secretary of the Treasury
Department of the Treasury
1500 Pennsylvania Avenue, NW
Washington, DC 20220

Dear Mr. Secretary:

Majority Leader Dick Armey and I wrote to you on November 17, 1995 asking for all documents relating to the decision making process that led to your decision to disinvest $61.3 billion dollars from the Civil Service Retirement Trust Fund and the Thrift Savings Fund. We initiated this investigation because we were concerned these actions would essentially circumvent the debt limit as well as the constitutional role of Congress to authorize federal borrowing.

Since then, the Treasury's response has raised our concerns. In addition to the long delay in receiving materials, there are a number of problems with the response to the November 17, 1995 letter of inquiry. Of the records disclosed so far, most of the relevant documents are heavily redacted. Your letters have stated that redactions would solely be for the purpose of deleting irrelevant material, but the redactions are particularly heavy in areas that discuss the decision making process, which was expressly the focus of our inquiry.

Furthermore, while many documents appear to be redacted, only some of the affected documents have been marked as "redacted." This is disturbing, as it makes it difficult or impossible to know what documents have been altered and therefore are missing text from the original document. Redacting usually entails striking out words with a marker, to indicate where words have been deleted, but your office has blanked out sentences, paragraphs, and even entire pages of text. By redacting phrases and even whole pages of text in documents clearly related to the debt limit, documents and information clearly covered by our request have been rendered meaningless.

The third issue of concern is the decision not to comply with our request with respect to all documents from third parties, even if they relate to our request, but to refer them to the original party with a so-called notice of referral to my staff. After nearly two months, we have not received any notices, and since there are references to third party correspondence, we know that such documents exist. All three of these problems together make it very difficult to view your response as a good faith effort to respond to our inquiry.

As you recall, we specifically requested all documents related to the decision making process leading up to the disinvestment of the two trust funds on November 15, 1995. The Treasury's first response was woefully inadequate: two memos dated a few days before the disinvestment decision. In the face of such an obviously non-responsive document production, we instructed our staff to meet with your staff and explain that this response was less than forthcoming.

In the meeting between Treasury department officials and my staff, the Treasury representatives claimed that there really were very few documents and assured us that any such documents could be easily rounded up and the request complied with as promptly as possible. Your staff then asked for examples of what we were interested in so as to help them respond to the request. For instance, my staff specifically requested all background or decision memos that you as Treasury Secretary relied on in your decision making process. My staff clearly and repeatedly explained that we wanted all of the documents relevant to the decision making process, which should be fairly easy to understand, but also enumerated a list of examples -- **while making it very clear that the examples were by way of example and the request for all documents should not be limited in any way to just those examples.**

These examples in no way should be interpreted as a reason to limit your response, as we have made it clear that we want all information regarding the decision making process leading to the November 15, 1995 decision in favor of the trust fund divestment option. Please communicate to those providing documents and those reviewing documents that all of the relevant documents must be provided for a full and proper review.

The second response after the meeting failed to produce almost all of the examples that were requested. By way of example only, these include the prior Treasury legal opinions regarding options for Treasury to avoid default; preliminary determinations regarding the current situation which you publicly referred to before November 10, 1995; all communications regarding the debt limit with the White House, other Administration offices, and the Federal Reserve; any determination that some options to avoid default would not or should not be chosen; and, background or decision memos used in the decision making process. The Treasury has yet to respond fully to any of these requests, and we find it hard to believe why after almost two months your office has not properly responded to our request.

The third delivery, over a month after our request, was so full of redactions that any reasonable, neutral party would have to conclude that Treasury staff appears to have redacted information that was clearly relevant to the issue of the debt limit. For instance a number of documents were redacted immediately following the words "debt limit:" and were redacted not by striking out the words, but by deleting them entirely. In most cases, this redaction of text from official documents was not even accompanied by any signal or indication that information had been deleted.

I am seriously concerned about these redactions, and would ask that you make available for my staff's review all of the documents during a meeting at your premises at 10:00 a.m. on January 19, 1996. It is necessary to review all of the documents **to determine which documents were redacted without any indication of such redactions and to determine whether the redacted information is truly not relevant to our inquiry.** At this time my staff could also meet with those responsible for redacting the documents so we can discuss with them the criteria they used in determining what material to redact. If any more relevant information is discovered in the redacted documents, we will make copies at that time. One document in particular, a June 27 memo from Darcy Bradbury, is clearly relevant to our request, so I would ask that you make a complete copy of all versions of that memo available at the January 19, 1996 meeting.

At the meeting we would also like to discuss your request to keep the relevant documents confidential. These documents appear to be official and public records (not containing any information regarding national security or confidential information), and we are not convinced that your request is a reasonable one. We would be glad to offer the opportunity to further explain your request at the January 19 meeting.

Sincerely,

Jim Saxton

Jim Saxton
Vice-Chairman
Joint Economic Committee

Joint Economic Committee

Congress of the United States

House Republican Members

PRESS RELEASE

104th Congress

House Republican Members

Jim Saxton, New Jersey
Vice-Chairman

Thomas Ewing, Illinois

Jack Quinn, New York

Donald Manzullo, Illinois

Mark Sanford, South Carolina

Mac Thornberry, Texas

Christopher Frenze
Chief Economist
to the Vice-Chairman

Contact: Gary Gallant
202-225-4765

Joint Economic Committee
House Republican Members
1537 Longworth H.O.B.
Washington, DC 20515
Phone: 202-226-3234
Fax: 202-226-3950

FOR IMMEDIATE RELEASE February 1, 1996

INTERNAL TREASURY DOCUMENTS REVEAL ADMINISTRATION DEBT LIMIT CHARADE

Today Vice-Chairman Jim Saxton of the Joint Economic Committee released newly available documents raising more contradictions about Administration plans to evade the debt limit last November. Two memos to Treasury General Counsel Ed Knight reveal that legal planning for the rationale used to disinvest the trust funds began last summer. The extended period between summer and November 15 provided at least 10 weeks to review the legal status of various Administration options. This contradicts the impression left at Secretary Rubin's November 15 press conference that the legal judgements regarding trust fund disinvestment were made at the last moment, and that his previous default warnings should be viewed in that context.

"These internal Treasury documents show that the legal work on trust fund disinvestment was underway for months before the disinvestment decision was announced," Mr. Saxton observed. "It is obvious from these and other documents made available, that extensive legal research justifying the Secretary's actions was prepared well in advance," he continued. "This provides further confirmation of other documents showing detailed secret planning to circumvent the debt limit, even as Secretary Rubin and Leon Panetta were crying wolf for public consumption about default. These documents reveal the breadth and depth of the Administration's disinformation campaign on the default issue last fall, when they knew there would be no default," he concluded.

A third memo also discloses the fact that the Treasury's Debt Limit Task Force was not limited to debt management issues. It was also used, according to the memo to Treasury General Counsel Ed Knight, to develop "political strategies during the debt limit impasse."

"This memo confirms the fact that the Administration's default hoax was part of a political strategy," Saxton noted. "As I have said publicly before, the default issue was a phony from the start. These documents show the political nature of what they were attempting to do," he said. It is not known whether career civil service personnel had any role in these activities.

Saxton's release of the Treasury documents marks a new phase of an ongoing JEC investigation sparked by a letter of inquiry co-signed with Majority Leader Dick Armey. The Treasury documents were withheld for weeks, and when finally provided were in a heavily censored form, with entire pages deleted without justification. Despite a Treasury commitment to notify the JEC of any relevant documents from the White House and other agencies, no such notifications have occurred.

"Once again I call upon the Administration to release all documents covered by our request to the press and the public. The continued effort to withhold Administration documents from Congress is simply unacceptable, and raises serious questions about what information is being concealed," Saxton concluded.

Attached are the three newly released documents (three total pages).

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

August 25, 1995

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OUTSIDE THE LEGAL DIVISION

INFORMATION

MEMORANDUM FOR EDWARD S. KNIGHT
GENERAL COUNSEL

FROM: JOHN E. BOWMAN JB
ASSISTANT GENERAL COUNSEL
(BANKING AND FINANCE)

SUBJECT: Weekly Report -- Office of the Assistant General Counsel for Banking and Finance, August 21, through August 25, 1995

*-- Debt Limit: Researched issues regarding whether language modified in the Smith legislation would violate the takings clause of the Constitution. (Bowman, McInerney, Rutledge, Gould). Attended your meeting with attorneys from the Justice Department Office of Legal Counsel (OLC); scheduled a meeting (Monday, August 28, at 11:00 a.m.) for OLC attorneys to meet with Treasury technical staff to learn the mechanics of investing and disinvesting trust fund receipts. (Bieger)

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

September 1, 1995

FOR LIMITED DISTRIBUTION AND NOT FOR DISTRIBUTION OUTSIDE THE LEGAL DIVISION

INFORMATION

MEMORANDUM FOR EDWARD S. KNIGHT
GENERAL COUNSEL

FROM: JOHN E. BOWMAN
ASSISTANT GENERAL COUNSEL
(BANKING AND FINANCE)

SUBJECT: Weekly Report -- Office of the Assistant General Counsel for Banking and Finance, August 28, through September 1, 1995

*-- Debt Limit: Continued research on various options raised by the Deputy Assistant Secretary (Federal Finance) for raising cash during a debt limit impasse. (Bieger, King) Researched and are preparing a memorandum on whether language modified in the Smith legislation would violate the takings clause of the Constitution. (Bowman, Rutledge, Gould) Met with attorneys from the Department of Justice for briefing on various operational issues related to the investment/disinvestment of the various governmental trust funds. (Bieger, King)

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

October 20, 1995

FOR LIMITED DISTRIBUTION AND NOT FOR DISTRIBUTION OUTSIDE THE LEGAL DIVISION

INFORMATION

MEMORANDUM FOR EDWARD S. KNIGHT
GENERAL COUNSEL

FROM: JOHN E. BOWMAN JB
ASSISTANT GENERAL COUNSEL
(BANKING AND FINANCE)

SUBJECT: Weekly Report -- Office of the Assistant General Counsel for Banking and Finance, October 16 through October 20, 1995

*-- Debt Limit: Attended your meeting with representatives of the Justice Department's Office of Legal Counsel to update OLC on the latest political developments relating to the debt limit and to discuss uses of various trust funds during a debt limit impasse; continued to attend the daily meetings of Treasury's Debt Limit Task Force for developing Treasury's cash management and political strategies during a debt limit impasse; continued to review and offer comments on revisions to the memorandum being prepared by the Assistant General Counsel (International Affairs) for the Secretary on uses of the ESF during a debt limit impasse. (Bowman, Bieger)

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

June 27, 1995

MEMORANDUM FOR SECRETARY RUBIN
DEPUTY SECRETARY NEWMAN

THROUGH: Under Secretary Hawke

FROM: Darcy Bradbury
Deputy Assistant Secretary (Federal Finance)

SUBJECT: Debt Limit

SUMMARY:

The current $4.9 trillion debt limit will only be sufficient until early this fall. We are currently developing a strategy to request an increase and to manage the U.S. Government's finances if an increase is not passed promptly.

DISCUSSION:

- There are a number of actions that have been taken in the past to manage cash balances, outstanding debt, and trust fund investments in nonmarketable Treasuries when there is not prompt action to increase the debt limit. If it seems appropriate, the following steps could be taken in 1995.
- We will approach current $4.9 trillion debt limit in September. We should be able to avoid the limit by disrupting usual auction schedules and carrying lower cash balances.
- By October we may need to leave some monies uninvested in certain trust funds. This will decrease nonmarketable debt outstanding, so we can sell debt to public to raise cash. The first choice would be a fund that has overnight investments and has existing statutory restoration of lost interest when the debt limit is raised.
- By late October/early November, it will be difficult to fund Social Security benefits unless some funds in the Social Security trust fund are left uninvested.
- While similar actions have been taken by previous Secretaries, the legal and policy issues are not crystal clear.
- Treasury cash forecasts are not precise this far in advance.

Attachment: Outline of Debt Limit Strategy

Outline of Debt Limit Strategy

I. **Phase I: Setting the Stage**

  A. Notification of Congress of need and issues

    1. Letter from Secretary

  B. Background briefings for Congressional Staff

    1. By Treasury staff
    2. By bipartisan former Treasury staff

  C. Background briefings for media

II. **Phase II: Nearing the Limit**

  A. Notification of Congress of impending actions

    1. Letter from Secretary

  B. Public comments to market participants and media

    1. Amending auction announcements
    2. August quarterly refunding press conference

  C. Notifications to trust funds of potential actions

III. **Phase III: Managing at the Limit**

  A. Interruptions of regular auction schedules (Sept)
  B. Not investing incremental trust fund receipts (Oct)
  C. Reducing investments in certain funds to create capacity to issue debt to public so as to raise cash (Oct)
  D. Reducing investments in certain trust funds to make payments related to those trust funds (Nov)

IV. **Close project management throughout phases**

  A. Ongoing briefings and centralized message

    1. To Administration officials
    2. To Congressional members and staff
    3. To media
    4. To market participants

  B. Close monitoring of cash flows

  C. Ongoing analyses of legal issues

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Scenario I

Week of September 18	-Begin reducing bill auctions
	-Memo to Secretary requesting approval to disinvest ESF
October 16	-Issue 10-day cash management bill
October 17	-Notice to banks of possible call on compensating balances
October 23	-Warning to Congress of possible suspension of sale of Savings Bonds, SLGs and foreign add-ons
October 27	-Notice to Congress of upcoming inability to reinvest G-Fund
	-Notice to Congress of possible inability to invest trust fund receipts
	-Notice to Executive Director of Federal Employees Retirement System of upcoming inability to reinvest G-Fund
	-Notice to public trustees of Social Security and other trust funds of possible inability to invest receipts
October 31	-Call in compensating balances
	-Begin not reinvesting G-Fund
November 1	-Suspend sale of Savings Bonds, SLGs and foreign add-ons
November 3	-Issue $18.0 billion 27-day cash management bills
November 9	-Notice to Congress of upcoming redemption from CSRF
November 13	-Redeem $36.0 billion securities from CSRF (amount equal to 12 months' benefits payments)
November 15	-Issue $20.0 billion 36-day cash management bills
November 30	-Redeem $18.0 billion cash management bills

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December 1	-Repo out $15.0 billion FFB assets
	-Issue $15.0 billion 20-day cash management bills
December 21	-Redeem $35.0 billion cash management bills
December 28	-Reduce auction of weekly bills by $10.0 billion
December 29	-Do not reinvest $14.5 billion interest payment to CSRF

Scenario I

	Cash*	Debt*	Adjustments	Cash Effect	Debt Effect	Adj. cash	Adj. debt
10/26	14.7	4,897.6				14.7	4,897.6
10/27	14.6	4,899.1				14.6	4,899.1
10/30	15.5	4,898.0				15.5	4,898.0
10/31	20.6	4,912.8	call in comp. balances; don't invest GFnd	2.3	(21.0)	22.9	4,891.8
11/1	12.9	4,907.1				15.2	4,886.1
11/2	18.5	4,912.0	don't allow foreign add-ons in auction	(0.3)	(0.3)	20.5	4,890.7
11/3	0.8	4,900.1	cash mgt bill	18.0	18.0	20.8	4,896.8
11/6'	(1.8)	4,900.8				18.2	4,897.5
11/7	(4.7)	4,903.0				15.3	4,899.7
11/8	(6.4)	4,901.4				13.6	4,898.1
11/9	(2.5)	4,902.0	don't allow foreign add-ons in auction	(0.3)	(0.3)	17.2	4,898.4
11/10	(2.7)	4,902.1				17.0	4,898.5
11/13	(2.9)	4,904.4	disinvest 12 months CSRF		(36.0)	16.8	4,864.8
11/14	(0.2)	4,905.9				19.5	4,866.3
11/15	(26.8)	4,912.1	cash mgt bill; no foreign add-ons	18.8	18.8	11.7	4,891.3
11/16	(18.6)	4,915.6	don't allow foreign add-ons in auction	(0.3)	(0.3)	19.6	4,894.5
11/17	(19.0)	4,915.1				19.2	4,894.0
11/20	(18.7)	4,915.7				19.5	4,894.6
11/21	(18.9)	4,916.4				19.3	4,895.3
11/22	(20.5)	4,917.9				17.7	4,896.8
11/23	(20.5)	4,917.9				17.7	4,896.8
11/24	(16.2)	4,922.2	don't allow foreign add-ons in auction	(0.3)	(0.3)	21.7	4,900.8
11/27	(15.0)	4,921.1				22.9	4,899.7
11/28	(14.9)	4,923.8				23.0	4,902.4
11/29	(14.4)	4,926.1				23.5	4,904.7
11/30	(4.4)	4,942.2	cash mgt bill matures; no foreign add-ons	(19.3)	(19.3)	14.2	4,901.5
			Effect of suspension of Savings Bonds and SLGs for month	(2.1)	(2.1)	12.1	4,899.4

*Forecast as of 9/29/95

10/04/95DLSTRAT.WK4

Scenario I

	Cash*	Debt*	Adjustments	Cash Effect	Debt Effect	Adj. cash	Adj. debt
12/1	(31.5)	4,926.7	cash mgt bill; FFB asset sale	30.0	15.0	15.0	4,898.9
12/4	(33.2)	4,927.2				13.3	4,899.4
12/5	(38.8)	4,928.3				9.7	4,900.5
12/6	(38.5)	4,924.3				8.0	4,896.5
12/7	(36.5)	4,920.7	don't allow foreign add-ons in auction	(0.3)	(0.3)	9.7	4,892.6
12/8	(36.9)	4,923.0				9.3	4,894.9
12/11	(35.7)	4,923.6				10.5	4,895.5
12/12	(35.1)	4,925.7				11.1	4,897.6
12/13	(35.0)	4,927.2				11.2	4,899.1
12/14	(31.1)	4,929.9	don't allow foreign add-ons in auction	(0.3)	(0.3)	14.8	4,901.5
12/15	(23.7)	4,928.9				22.2	4,900.5
12/18	4.0	4,928.5				49.9	4,900.1
12/19	7.4	4,929.5				53.3	4,901.1
12/20	8.5	4,930.8				64.4	4,902.4
12/21	11.5	4,933.7	cash mgt bill matures; no foreign add-ons	(35.3)	(35.3)	22.1	4,870.0
12/22	11.8	4,935.2				22.4	4,871.5
12/25	11.8	4,935.2				22.4	4,871.5
12/26	14.2	4,936.7				24.8	4,873.0
12/27	16.6	4,939.9				27.2	4,876.2
12/28	19.6	4,942.5	reduce bill auction; no foreign add-ons	(10.3)	(10.3)	19.9	4,868.5
12/29	21.4	4,987.7	don't invest CSRF interest payment		(14.5)	21.7	4,899.2
			Effect of suspension of Savings Bonds and SLGs for month	(2.2)	(2.2)	19.5	4,897.0

*Forecast as of 9/29/95

10/04/95DLSTRAT.WK4

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Scenario II

Week of September 18	-Begin reducing bill auctions
	-Memo to Secretary requesting approval to disinvest ESF
October 16	-Issue 10-day cash management bill
October 17	-Notice to banks of possible call on compensating balances
October 23	-Warning to Congress of possible suspension of sale of Savings Bonds, SLGs and foreign add-ons
October 27	-Notice to Congress of possible inability to invest trust fund receipts
	-Notice to public trustees of Social Security and other trust funds of possible inability to invest receipts
October 30	-Notice to Congress of upcoming redemption from CSRF
October 31	-Call in compensating balances
	-Redeem $36.0 billion securities from CSRF (amount equal to 12 months' benefits payments)
November 1	-Suspend sale of Savings Bonds, SLGs and foreign add-ons
November 3	-Issue $15 billion 48-day cash management bill
November 13	-Notice to Congress of upcoming inability to reinvest G-Fund
	-Notice to Executive Director of Federal Employees Retirement System of upcoming inability to reinvest G-Fund
November 15	-Issue $18.0 billion 15-day cash management bill
	-Begin not reinvesting G-Fund
November 30	-Redeem $18.0 billion cash management bills

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December 1	-Repo out $15.0 billion FFB assets
	-Issue $15.0 billion 20-day cash management bill
December 21	-Redeem $30.0 billion cash management bills
December 28	-Reduce auction of weekly bills by $10.0 billion
December 29	-Do not reinvest $14.5 billion interest payment to CSRF

Scenario II

	Cash*	Debt*	Adjustments	Cash Effect	Debt Effect	Adj. cash	Adj. debt
10/26	14.7	4,897.6				14.7	4,897.6
10/27	14.6	4,899.1				14.6	4,899.1
10/30	15.5	4,898.0				15.5	4,898.0
10/31	20.6	4,912.8	call in comp. blncs; disinvst 12 mos CSRF	2.3	(36.0)	22.9	4,876.8
11/1	12.9	4,907.1				15.2	4,871.1
11/2	18.5	4,912.0	don't allow foreign add-ons in auction	(0.3)	(0.3)	20.5	4,875.7
11/3	0.8	4,900.1	cash mgt. bill	15.0	15.0	17.8	4,878.8
11/6	(1.8)	4,900.8				15.2	4,879.5
11/7	(4.7)	4,903.0				12.3	4,881.7
11/8	(6.4)	4,901.4				10.6	4,880.1
11/9	(2.5)	4,902.0	don't allow foreign add-ons in auction	(0.3)	(0.3)	14.2	4,880.4
11/10	(2.7)	4,902.1				14.0	4,880.5
11/13	(2.9)	4,904.4				13.8	4,882.8
11/14	(0.2)	4,905.9				16.5	4,884.3
11/15	(26.8)	4,912.1	cash mgt bill; don't invst GFd; no add-on	16.8	(4.2)	6.7	4,886.3
11/16	(18.6)	4,915.6	don't allow foreign add-ons in auction	(0.3)	(0.3)	14.6	4,889.5
11/17	(19.0)	4,915.1				14.2	4,889.0
11/20	(18.7)	4,915.7				14.5	4,889.6
11/21	(18.9)	4,916.4				14.3	4,890.3
11/22	(20.5)	4,917.9				12.7	4,891.8
11/23	(20.5)	4,917.9				12.7	4,891.8
11/24	(16.2)	4,922.2	don't allow foreign add-ons in auction	(0.3)	(0.3)	16.7	4,896.8
11/27	(15.0)	4,921.1				17.9	4,894.7
11/28	(14.9)	4,923.8				18.0	4,897.4
11/29	(14.4)	4,926.1				18.5	4,899.7
11/30	(4.4)	4,942.2	cash mgt bill matures; no add-ons	(19.3)	(19.3)	9.2	4,896.5
			Effect of suspension of Savings Bonds and SLGs for month	(2.1)	(2.1)	7.1	4,894.4

*Forecast as of 9/29/95

10/04/95DLSTRAT2.WK4

Scenario II

	Cash*	Debt*	Adjustments	Cash Effect	Debt Effect	Adj. cash	Adj. debt
12/1	(31.5)	4,926.7	cash mgt. bill; FFB asset sale	30.0	15.0	10.0	4,893.9
12/4	(33.2)	4,927.2				8.3	4,894.4
12/5	(36.8)	4,928.3				4.7	4,896.5
12/6	(38.5)	4,924.3				3.0	4,891.5
12/7	(36.5)	4,920.7	don't allow foreign add-ons in auction	(0.3)	(0.3)	4.7	4,887.6
12/8	(36.9)	4,923.0				4.3	4,889.9
12/11	(35.7)	4,923.6				5.5	4,890.5
12/12	(35.1)	4,925.7				6.1	4,892.6
12/13	(35.0)	4,927.2				6.2	4,894.1
12/14	(31.1)	4,929.9	don't allow foreign add-ons in auction	(0.3)	(0.3)	9.8	4,896.5
12/15	(23.7)	4,928.9				17.2	4,895.5
12/18	4.0	4,928.5				44.9	4,895.1
12/19	7.4	4,929.5				48.3	4,896.1
12/20	8.5	4,930.8				49.4	4,897.4
12/21	11.5	4,933.7	cash mgt bill matures; no add-ons	(30.3)	(30.3)	22.1	4,870.0
12/22	11.8	4,935.2				22.4	4,871.5
12/25	11.8	4,935.2				22.4	4,871.6
12/26	14.2	4,936.7				24.8	4,873.0
12/27	16.8	4,939.9				27.2	4,876.2
12/28	19.6	4,942.5	reduce weekly bill auction; no add-ons	(10.3)	(10.3)	19.9	4,868.6
12/29	21.4	4,987.7	don't invest CSRF interest payment		(14.5)	21.7	4,899.2
			Effect of suspension of Savings Bonds and SLGs for month	(2.2)	(2.2)	19.5	4,897.0

*Forecast as of 9/29/95

10/04/95DLSTRAT2.WK4

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220
November 8, 1995

MEMORANDUM FOR SECRETARY RUBIN

FROM: Darcy Bradbury DB
Roger Anderson RA

SUBJECT: Debt Limit Contingency Plans

SUMMARY:

Attached is a brief summary of the measures for consideration and an update of a possible scenario. Tomorrow Jerry Hawke, Ed Knight and we are prepared to meet with you to discuss the measures in detail. Other staff with particular expertise in specific measures will join us as appropriate. At this time we have not prepared final, written analyses of the legal and policy issues for each item. Sylvia Mathews suggested we send this summary to you in anticipation of tomorrow's discussion.

ATTACHMENTS

cc: Jerry Hawke
Ed Knight
Sylvia Mathews

Measures for Consideration

Measure	Amount	Comment
Not reinvest assets of G-Fund	$21.5 billion	
Not reinvest other overnight rollovers		
BIF	$1.4 billion	
SAIF	$1.3 billion	
Postal Service	$1.5 billion	Variable
Disinvest Civil Service Retirement and Disability Fund		
-in amount equal to X months' benefits	$3 billion per month	
-December 31 interest payment	$14.5 billion	
-*in toto*	$350 billion	
Not invest new receipts of trust funds	$3-10 billion a day	Variable
Sell FFB assets		
-to trust funds		
-to public		
RTC	$13 billion	
Agriculture	$27 billion	
Other	$44.3 billion	Varying quality
Disinvest Exchange Stabilization Fund		
Dollar portion	$3 billion	
Yen portion	$10 billion	
Mark portion	$6.9 billion	
Peso swap equivalent	$12.2 billion	May be attractive to Fed

Disinvest other trust funds
- -to pay benefits
- -for general purposes

Major Funds' Holdings	
Social Security	$448 billion
Medicare	$130 billion
Military Retirement	$113 billion
Unemployment	$47 billion
Disability	$35 billion
Highway	$18.5 billion
Railroad	$14.4 billion
Airports	$14 billion
Supplementary medical	$11 billion
Other	$38 billion

Sell gold -to trust funds -to Fed -to public	$11.1 billion, at market	Awkward and disruptive

Office of Federal Finance
November 8, 1995

DRAFT-November 8, 1995-
INTERNAL USE ONLY

Scenario III
(Assumes no temporary)

October 17	-Announce cut in 10/23 bill auction to $6.0 billion
	-Suspend sale of foreign add-ons
	-Suspend sale of SLGS
November 1	-Announce quarterly refunding
November 2-8	-Call in compensating balances
November 3	-Issue $14.0 billion cash management bills -$8.0 billion maturing 1/25 -$6.0 billion maturing 12/21
November 6	-Postpone auctions of 3- and 10- year notes
November 8	-Postpone auction of 52-week bills
November 13	-Statutory notice to Congress of upcoming inability to invest G-Fund fully
	-Notice to Executive Director of Federal Employees Retirement System of upcoming inability to reinvest G-Fund
	-Statutory notice to Congress of upcoming inability to invest CSRF fully
	-Announce $25.0 billion cash management bills
November 14	-Auction $25.0 billion cash management bills
November 15	-Begin not reinvesting G-Fund fully
	-Redeem $36.0 billion securities from CSRF (amount equal to 12 months' benefits payments)
	-Suspend sale of Savings Bonds

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	-Issue $25.0 billion 36-day cash management bills (12/21 maturity)
November 29	-Announce $5.0 billion cash management bills
November 30	-Notice to Congress of sale of FFB assets
	-Auction $5.0 billion cash management bills
December 1	-Sell $12.0 billion FFB assets
	-Issue $5.0 billion 27-day cash management bills (12/28 maturity)
December 15	-New $12.0 billion FFB loan
December 21	-Redeem $31.0 billion cash management bills
December 28	-Redeem $5.0 billion cash management bills
	-Notice to Congress of upcoming noninvestment of CSRF interest payment
	-Announce $8.0 billion cash management bill
December 29	-Do not reinvest $14.5 billion interest payment to CSRF
	-Auction $8.0 billion cash management bill
	-Announce $5.0 billion cash management bill
January 2	-Issue $8.0 billion 16-day cash management bill (1/18 maturity)
	-Auction $5.0 billion cash management bill
	-Begin not investing trust fund receipts fully
January 3	-Issue $5.0 billion 22-day cash management bill (1/25 maturity)
January 16	-Announce cut in 1/22 auction of $15.0 billion

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INTERNAL USE ONLY

January 18	-Redeem $8.0 billion cash management bills
January 22	-Reduce auction of weekly bills by $15.0 billion
January 25	-Redeem $13.0 billion cash management bills

Scenario III** 11/08/95

	Cash*	Debt*	Adjustments	Cash Effect	Debt Effect	Adj. cash	Adj. debt	DL Margin
11/7	5.0	4,897.4				5.0	4,897.4	2.6
11/8	2.7	4,895.7	call in comp balances	1.7		4.4	4,895.7	4.3
11/9	5.2	4,895.5				6.9	4,895.5	4.5
11/10	4.5	4,895.4				6.2	4,895.4	4.6
11/13	5.4	4,897.9				7.1	4,897.9	2.1
11/14	6.7	4,899.3				8.4	4,899.3	0.7
11/15	(20.4)	4,904.5	cash mgt bill; disinvst G-Fund; redeem CSRF	25.5	(31.9)	6.8	4,872.6	***
11/16	(12.9)	4,907.2				14.3	4,875.3	***
11/17	(13.0)	4,906.7				14.2	4,874.8	***
11/20	(12.7)	4,907.2				14.6	4,876.3	***
11/21	(13.3)	4,907.8				13.9	4,876.9	***
11/22	(15.3)	4,909.3				11.9	4,877.4	***
11/23	(15.3)	4,909.3				11.9	4,877.4	***
11/24	(10.5)	4,914.1				16.7	4,882.2	***
11/27	(9.7)	4,913.0				17.5	4,881.1	***
11/28	(9.0)	4,915.5				18.2	4,883.6	***
11/29	(8.4)	4,917.7				18.8	4,885.8	***
11/30	(3.2)	4,932.8				24.0	4,900.9	***
			Effect of suspension of Savings Bonds and SLGs for month	(2.1)	(2.1)	21.9	4,898.8	***

*11/08/95 forecast

**Reflects all actions announced

***Trust funds to be invested to limit

	Cash*	Debt*	Adjustments	Cash Effect	Debt Effect	Adj. cash	Adj. debt	DL Margin
12/1	(31.3)	4,918.9	cash mgt bills; FFB asset sale	17.0	5.0	10.8	4,889.9	***
12/4	(32.7)	4,919.4				9.4	4,890.4	***
12/5	(35.9)	4,920.5				6.2	4,891.5	***
12/6	(37.5)	4,917.2				4.6	4,888.2	***
12/7	(34.5)	4,915.4	no foreign add-ons	(0.3)	(0.3)	7.3	4,886.1	***
12/8	(35.1)	4,917.7				6.7	4,888.4	***
12/11	(33.8)	4,918.3				8.0	4,889.0	***
12/12	(33.4)	4,920.5				8.4	4,891.2	***
12/13	(33.4)	4,921.9				8.4	4,892.6	***
12/14	(27.8)	4,926.1	no foreign add-ons	(0.5)	(0.5)	13.5	4,896.3	***
12/15	(20.4)	4,925.1	new FFB loan	(12.0)		8.9	4,895.3	***
12/18	5.2	4,924.7				34.5	4,894.9	***
12/19	8.8	4,925.8				38.1	4,896.0	***
12/20	9.1	4,927.1				38.4	4,897.3	***
12/21	12.5	4,930.3	cash mgt bills mature; no add-ons	(31.3)	(31.3)	10.5	4,869.2	***
12/22	12.5	4,931.8				10.5	4,870.7	***
12/25	12.5	4,931.8				10.5	4,870.7	***
12/26	15.1	4,933.4				13.1	4,872.3	***
12/27	18.0	4,936.6				16.0	4,875.5	***
12/28	21.1	4,939.5	cash mgt bill matures; no add-ons	(5.3)	(5.3)	13.8	4,873.1	***
12/29	22.6	4,960.8	don't invest CSRF interest payment		(14.5)	16.3	4,899.9	***
			Effect of suspension of Savings Bonds and SLGs for month	(2.2)	(2.2)	13.1	4,897.7	***

*11/08/95 forecast

**Reflects all actions announced

***Trust funds to be invested to limit

Scenario III** 11/08/95

	Cash*	Debt*	Adjustments	Cash Effect	Debt Effect	Adj. cash	Adj. debt	DL Margin
1/1	22.6	4,980.8				13.1	4,897.7	***
1/2	21.9	4,985.2	cmb; don't invest receipts; no add-ons	6.8	(3.2)	19.2	4,896.9	***
1/3	10.7	4,978.6	cash mgt bill	5.0	5.0	13.0	4,897.3	***
1/4	8.4	4,978.2	no foreign add-ons	(0.4)	(0.4)	10.3	4,896.5	***
1/5	8.0	4,979.0				9.9	4,897.3	***
1/8	8.9	4,975.6	reinvest some receipts		3.0	10.8	4,896.9	***
1/9	8.9	4,973.1				10.8	4,894.4	***
1/10	9.0	4,974.9				10.9	4,896.2	***
1/11	11.2	4,977.1	no foreign add-ons	(0.8)	(0.8)	12.3	4,897.6	***
1/12	10.3	4,977.0				11.4	4,897.5	***
1/15	10.3	4,977.0				11.4	4,897.5	***
1/16	12.4	4,971.7				13.5	4,892.2	***
1/17	20.1	4,974.5				21.2	4,895.0	***
1/18	23.5	4,977.5	cmb matures; no add-ons	(8.4)	(8.4)	16.2	4,889.6	***
1/19	28.6	4,979.6				21.3	4,891.7	***
1/22	34.7	4,981.6				27.4	4,893.7	***
1/23	38.8	4,984.3				31.5	4,896.4	***
1/24	39.1	4,985.8				31.8	4,897.9	***
1/25	50.6	4,997.4	cmbs mature; reduce bill auction; no add-ons	(28.4)	(28.4)	14.9	4,881.1	***
1/26	49.8	4,998.7				14.1	4,882.4	***
1/29	51.1	5,001.0				16.4	4,884.7	***
1/30	51.6	5,000.2				15.9	4,883.9	***
1/31	52.2	5,009.5	no add-ons	(1.2)	(1.2)	15.3	4,892.0	***
			Effect of suspension of Savings Bonds and SLGs for month	(2.2)	(2.2)	13.1	4,889.8	***

*11/08/95 forecast

**Reflects all actions announced

***Trust funds to be invested to limit

ONE HUNDRED FOURTH CONGRESS

Congress of the United States

House of Representatives

COMMITTEE ON GOVERNMENT REFORM AND OVERSIGHT
2157 RAYBURN HOUSE OFFICE BUILDING
WASHINGTON, DC 20515–6143

Statement of the Honorable John L. Mica
Chairman, Civil Service Subcommittee
Committees on Government Reform and Oversight

Hearing of the Committee on Banking and Financial Services
February 8, 1996

Thank you, Mr. Chairman. I welcome your Committee's efforts to examine the Clinton Administration's management of the federal debt. I believe the administration's actions in disinvesting the Civil Service Retirement and Disability Trust Fund and stopping routine reinvesting of federal employees' contributions to the G-Fund borders on the illegal and, at least, is a breach of trust. This administration broke faith with federal employees and annuitants. This fiscal mismanagement represents the ultimate failure of this nation to bring its finances and its indebtedness in order.

Treasury Secretary Rubin has stretched language in Title 5 beyond the breaking point to rationalize this Administration's unprecedented raid on the Civil Service Retirement and Disability Fund. Section 8348(k)(2) clearly prohibits the Secretary from disinvesting more than is necessary to make authorized payments from the Fund during a "debt issuance suspension period."

The purpose of that language is clear: Congress wanted to protect the retirement funds on which our federal employees and annuitants depend. As then-Senator from Tennessee Al Gore stated, the statute was intended to "preserve the sanctity of those contributions that these employees have made toward their retirement" by making them "usable only for the payment of civil service retirement and disability benefits."

To achieve Senator Gore's objective, Congress enacted strict limits on the Secretary's authority to disinvest that Fund. Secretary Rubin has broken faith with that objective by arbitrarily setting the length of the "debt issuance suspension period." First, he set it at one year. Later, he extended it to fourteen months. The longer the period, of course, the more he can rob from the Fund, and the longer the Clinton Administration can avoid getting runaway federal spending under control. Until we get spending under control, we will face recurring crises in managing the growth of our federal debt.

The bitter irony of all this, Mr. Chairman, is that even after all of this skullduggery, Secretary Rubin had the gall recently to say that without a higher debt ceiling he wouldn't be able to pay civil service retirement benefits in March. Let me repeat, Mr. Chairman. The law says Secretary Rubin can only disinvest the Civil Service Retirement and Disability Fund to pay retirement benefits. The Secretary disinvested. But he still says he won't have the money to pay civil service retirement benefits! Where did all that money go? Down the federal spending rathole, that's where!

When I assumed responsibility over the federal retirement system, I was shocked to discover that the Civil Service retirement trust funds carried an unfunded liability of $540 billion. The General Accounting Office is completing a review of more than 50 federal retirement systems. That review should be a wake up call that huge unfunded obligations exist in nearly every retirement program.

Not only are there multibillion dollar underfunded liabilities, but the so-called "assets" of federal employees' retirement "trust funds" have been replaced with "nonmarketable government securities." So, Mr. Chairman, these funds have been depleted of real assets and replaced by an accumulation of IOUs.

As a result of these past practices, taxpayers shell out billions of dollars in annual retirement costs, and last year paid $24 billion in interest on trust funds' IOUs. So we created incredible unfunded liabilities, stole trust funds, pay huge amounts of interest on missing trust money, and now rob the final pickings of the retirement fund carcass. This is a national disgrace.

Our true national debt is understated by more than one trillion dollars because the unfunded liabilities in our civil service, military, and other retirement systems are kept off the books. Now comes the ultimate insult, which is the President's strategy to divert public attention from the debt issue by telling senior citizens that he would be forced to stop Social Security payments. Unfortunately, this Administration believes it can legislate, appropriate, and extend the indebtedness of the nation in spite of the Constitution and the Congress. This fiscal irresponsibility in managing the future obligations of American taxpayers must end.

By obscuring the real costs of retirement and misusing these funds, we understate the full costs to the taxpayers of every federal employee on the payroll by about thirty percent. These real costs are concealed from today's taxpayers in a fiscal footnote to the Office of Personnel Management's accounts. In 1986, the Federal Employees Retirement System (FERS) was created to fix growing retirement fund problems. FERS established a Thrift Savings Plan (TSP) keeping employees' contributions outside of the budget. By taking these contributions out of the budget -- not merely calling them off-budget -- Congress intended to safeguard at least a portion of these retirement funds.

This safeguard was intended to prevent the very manipulations that we have witnessed over the past few months. Now, as we look into the status of the G Fund in the Thrift Savings Plan, we find that old bad habits still prevail. The G Fund has become merely another bundle of cash for an insatiable federal spending appetite.

Secretary of the Treasury Rubin has bastardized reinvestment of this fund to the tune of $21.8 billion. Altogether, the civil service retirement funds have provided a slush fund to the tune of 61 billion dollars. The Secretary of the Treasury has illegitimately used these funds to evade the debt ceiling that the Congress has imposed, by law. How much lower can the Executive Branch of our government stoop to avoid fiscal responsibility?

The ultimate insult to taxpayers and retirees is the shameless robbing of the last shreds of cash flow from the federal retirement system.

This whole exercise pursued by the Administration in the name of managing fiscal resources is really hidden debt. The Secretary of the Treasury may be moving numbers on ledgers, erasing interest-bearing debt, and replacing it with IOUs, but our obligations to federal employees and retirees cannot be evaporated with computer keystrokes.

We will have to restore every cent he has stolen.

We will have to pay interest on every dime that he has hidden through fiscal gimmickry.

We will have to redeem every dollar of our obligations to the people who worked long and hard in the public service.

Unfortunately, this Administration's legacy will be more debt, more red ink, and more robbing Peter to pay Paul.

During his State of the Union address, President Clinton asserted, "We should also protect existing pension plans. Two years ago, with bipartisan support, we protected the pensions of eight million working people and stabilized the pensions of 32 million more. Congress should not let companies endanger their workers' pension funds." President Clinton condemned private sector misuse of pension funds and meanwhile, back at the federal ranch, Trail Boss Rubin was raiding the last cash at the federal retirement corral. Unfortunately, only private citizens can go to jail if they abuse or misuse employee pension funds.

When private employers attempt to invest surpluses in their pension accounts, the Secretary of Labor, tells them, "Hands off." If they try to use the funds, even to create new jobs, he threatens criminal prosecution.

One employer that the Secretary of Labor should speak to real soon is the Secretary of the Treasury. He needs to hear the message, loud and clear: "Hands off federal employees' pensions. Payroll deductions from federal employees should never again be used to finance this administration's deficit spending."

Since the Secretary of Labor is not likely to deliver that message, it is especially important that this Congress send the signal in the clearest possible terms.

We should be providing more protection for our underfunded government system than private employers are required to provide for their overfunded systems. Instead, we are providing less.

I applaud the Chairman of the Ways and Means Committee for proposing that we fence off federal employees' pensions from these financial shenanigans. I supported his initiative, and will support any other positive action to protect federal employees' pension funds.

Finally, I recommend that Congress act now to move these funds into real assets and investments. At the very least, we can require that the Thrift Savings Board to start moving into marketable securities rather than nonmarketable bookkeeping entries. Federal employees deserve something more tangible than a bookkeeping entry when they are ready to retire.

EMBARGOED FOR RELEASE AT 9:30 A.M. E.D.T.
FEBRUARY 8, 1996

Statement of Secretary Robert E. Rubin
United States Department of the Treasury
before the House Committee on Banking and Financial Services
February 8, 1996

Mr. Chairman, I appreciate this opportunity to testify before you and the other distinguished Members of your Committee.

In the last week, the debt limit discussion has proceeded in a welcomed spirit of bipartisan cooperation. On February 1, Majority Leader Dole, Speaker Gingrich and Majority Leader Armey wrote the President. They committed to passing mutually acceptable legislation, by February 29th, to increase the debt limit to ensure the United States continues to meet its obligations. The same day, Congress passed legislation to authorize Treasury temporarily to borrow $29 billion outside the debt limit. This bill, H.R. 2924, will enable us to deal with the March 1st crunch date of benefit payments. It was adopted with the support of the Congressional Minority, which has urged action on the debt limit throughout this process. President Clinton signed that bill into law this morning.

Now Congress and the President must agree on legislation that addresses the debt limit problem on a long-term basis. By ensuring that America can meet its obligations, we will protect the holders of government securities, Social Security recipients, and other federal beneficiaries from any additional risk. It's clearly time to get this job done.

Since my last appearance before the Committee, much has changed. We have reached, in my view, a common understanding of how important it is to protect the creditworthiness of the United States, a vital national asset that must never be tarnished by anyone for any reason. It is now time that comity replace conflict, and the debate over the debt limit be drawn to a close.

Last December, I testified before this Committee about actions I had taken and anticipated taking to protect America's creditworthiness absent adoption of a clean debt limit increase. I will only briefly review that history today, and then turn to more current issues.

In July, 1995, our Administration began asking Congress to adopt a clean debt limit bill. Our communications on this matter were consistent and clear. I said,

First, default is unthinkable.

Second, the United States will not default because, in the final analysis, Congress will fulfill its responsibilities and pass acceptable debt limit legislation.

Third, if Congress did not adopt such legislation, Treasury would be forced to use extraordinary means -- subject to resolving legal and practical problems -- to avoid default, although I cautioned there were costs attached to all such actions.

Fourth, that I would notify Congress before taking any extraordinary actions to ensure the United States government remained under the debt limit and was able to finance its operations.

Fifth, passage of a clean bill will permit the debate on the budget to proceed on its own terms, unencumbered by risks to the nation's credit.

Because the debt limit was not increased last Fall, it was necessary for me to take actions to ensure we had cash and credit to meet obligations. In October, we cut the size of a Treasury auction and, in November, we delayed others. On October 18th, we stopped issuing what are called "SLGS" -- securities that state and local governments use to lower their debt service burdens. Early in November, Treasury called in nearly $2.5 billion in "compensating balances" from a number of large financial institutions.

Then, on November 15th, I was forced to invoke statutory authority provided to Treasury Secretaries by Congress during the Reagan Administration. November 15th was the date when we would have been out of debt limit room and out of cash, and unable to meet all of our financial obligations. We were on the eve of default.

Counsel always advised me that this decision with respect to the application of the statute could only be made in the context of the facts which existed on the eve of default. It was only at that time that I was able to determine that we could replace $39.8 billion in securities from the Civil Service Retirement and Disability Fund and $21.4 billion in securities from the so-called "G-Fund" with non-interest bearing cash credits.

As I said to the Committee in December, workers and retirees are fully protected by the statutes that authorized those actions. The asset value of the funds has not been diminished by one nickel, and the statutes provide for full and automatic restoration of unpaid interest.

Finally, on December 29th, despite all the previous actions, Treasury did not have sufficient debt ceiling room to issue securities to the Civil Service Retirement and Disability Fund to allow the fund to invest its $14 billion semi-annual interest payment. As I told the Committee last year, the suspension of the investment, as authorized by statute, made it possible to continue financing operations through January and until the middle of February 1996.

Each action I mentioned was necessary because a debt limit increase was not at hand. Each action fit my criteria of only employing those means that were legal, practical and prudent.

Every one of them was driven by my responsibility as Treasury Secretary to protect the full faith and credit of the United States, and only by that concern.

And as I said, in the case of the Civil Service Retirement and Disability Fund action on November 15th, counsel advised that decision could only be made in the context of the facts that existed on the eve of default.

As we entered the New Year, Treasury continued to examine other options, if needed, that would permit regular government financing to go forward. As I promised this Committee, once we determined whether further legal, prudent and practical options were available to us, we would report our findings to Congress and the American people.

On January 22, I made good on that commitment. I announced that by February 29th or March 1st, absent enactment of a straightforward debt limit increase, we would not be able to meet obligations. I further said that there were only three remaining options available -- consistent with what was legal, prudent and practical -- that could be exercised by February 15th in order to pay obligations due on that date. These actions, approved by our Department's Office of General Counsel and the Justice Department's Office of Legal Counsel, include:

- Suspending the reinvestment of the approximately $3.9 billion of dollar denominated Treasury securities held by the Exchange Stabilization Fund, an action that several prior Treasury Secretaries have taken.

- Amending my November 15 determination on the length of the debt issuance suspension period to fourteen months, thus permitting the redemption of approximately $6.4 billion in additional Treasury debt held by the Civil Service Retirement and Disability Fund, and its replacement with a cash credit. And, I must point out, I must base the final decision on an application of the statute to the facts which exist at the time of the determination.

- And, finally, exchanging approximately $9.0 billion of assets in the portfolio of the Federal Financing Bank for an equivalent amount of Treasury securities held by certain government trust funds. A swap between the Treasury and the FFB will then let us cancel those Treasury securities. This action is authorized by statute.

Following these steps, and without legislation by Congress, there are no additional legal and prudent measures I can take to meet obligations. We reached that conclusion after considering and rejecting other actions because they failed to meet our criteria of doing what was right to avoid default.

I will not delay mailing tax refunds owed the American people. I will not sell the nation's gold. I cannot go beyond the $9.0 billion in asset exchanges with the Federal Financing Bank. There are legal, practical and prudential arguments supporting each of these decisions.

Delaying tax refunds would hurt more than 70 million Americans who depend on those refunds. It still would provide only a short-term deferral of the problem, because we could not and would not hold their money forever.

Secretary Baker considered and dismissed selling gold in 1985 and said: "It would undercut confidence here and abroad based on the widespread belief that the gold reserve is the foundation of our financial system, and because Congress clearly has the power to prevent a default by assuming its responsibility with respect to the debt limit." Similar arguments prevail today.

I do not have legal authority to divest any of the other 189 government trust funds for debt management purposes, only the G-Fund and the Civil Service Fund. In addition, the President took Social Security off the table. As to the balance of the FFB assets, I have been advised by counsel that the FFB assets we have identified are the only FFB assets that can be legally sold to the trust funds in a manner that reduces the amount of debt outstanding that is subject to the debt limit.

In any case, resorting to any of these measures is no way for a great nation to manage its financial affairs. That is why the commitment of the Leadership to move acceptable debt limit legislation by February 29th, and the enactment of the Archer bill, which allows for orderly financing and relieves anxieties about government's ability to make payments, is so important.

The conclusive answer is right before us. The Congress should pass a debt limit increase for at least one year to separate this issue from the budget debate and get it out beyond the election. That would end the risk both for our credit and for federal beneficiaries, and I think it is important that we do exactly that.

This debate began last year when some said that default was an acceptable price for getting the version of the budget they preferred enacted into law. That kind of comment isn't being heard any more. That is because, I believe, people have a better understanding of what is at stake. In that sense, much has been accomplished during this difficult period.

A nation's financial reputation is an invaluable asset; its creditworthiness is a sacred trust. Our reputation has enormous practical importance for our country; it should not be called into question, it ought not be subject to uncertainty for any purpose. We must honor interest and principal obligations, and we need to protect the trust of Social Security recipients, veterans, indigent children, active duty military personnel, civilian employees and government contractors -- indeed, everyone who counts on the full faith and credit of the United States.

National leaders regardless of party have always acted to protect our creditworthiness.

In my December testimony, I read affirmations of this principle from Alan Greenspan, Paul Volcker, two Republican and four Democratic former Treasury Secretaries, and comments from the major international rating agencies. These quotes are in the record, and I shall not repeat them. Protecting the nation's credit is a bipartisan, indeed, a non-partisan, tradition.

More than a decade ago, President Reagan urged Congress to adopt an increase in the debt limit. In a letter he wrote to then Majority Leader Howard Baker, he gave voice to sentiments I share today.

He said, "This country now possesses the strongest credit in the world. The full consequences of default -- or even the prospect of default -- by the United States are impossible to predict and awesome to contemplate. Denigration of the full faith and credit of the United States would have substantial effects on the domestic financial markets and on the value of the dollar in exchange markets. The nation can ill afford to allow such a result."

Throughout this process, it has been my view that the Secretary of the Treasury must act -- doing what is clearly legal and within the bounds of prudence -- to protect the creditworthiness of the United States. We did what we needed to do to avoid default. We communicated our intentions to Congress clearly and well in advance. Upon reaching the end of our options, we reported that to Congress as well.

We have now reached a new and, I hope, concluding chapter in the debt limit debate. Congress has taken steps to protect this very important symbol of our economy, our nation's creditworthiness. I look forward to working with you, all of you, so that we may make good on the Leaders' commitment, to pass and sign debt limit legislation acceptable to the President and Congress, and then return to the hard but important work of balancing the budget and raising the living standards of our people.

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ON RAISING THE DEBT LIMIT

STATEMENT OF

RUDOLPH G. PENNER
MANAGING DIRECTOR
BARENTS GROUP
KPMG PEAT MARWICK

BEFORE THE
COMMITTEE ON BANKING AND FINANCIAL SERVICES
U. S. HOUSE OF REPRESENTATIVES
FEBRUARY 8, 1996

The views expressed in this testimony are those of the author and do not necessarily reflect the views of the management or employees of the Barents Group or KPMG Peat Marwick.

Mr. Chairman, members of the committee, thank you for the opportunity to testify.[1]

I believe that an increase in the debt limit should be enacted as quickly and as cleanly as possible. There is absolutely nothing to be gained from threatening the creditworthiness of the government of the United States while there is a great deal that could be lost. An increase in interest rates and fall in bond prices stemming from a failure to pay interest in a timely fashion would cause a concomitant fall in the stock market at a very bad time in the history of the current business cycle. The economic recovery is becoming more and more fragile. It will not take much to tip it into recession.

No one knows what increase in interest rates would follow a delay in paying interest due on the public debt, but it is worth pointing out that each one percentage point increase in the rate would cost American taxpayers well over $200 billion cumulated over the following seven years. That is about as much as the tax cut contained in the Balanced Budget Act. Even a small threat of default undoubtedly adds a significant amount to our interest bill.

Some see debt limit legislation as the only horse that can carry some needed deficit reduction. I am as strongly in favor of deficit reduction as anyone, but I think that it has to be passed on its own merits. The only way that it will be sustainable is if it is understood and accepted by a majority of the American people, and befuddling the debate by simultaneously talking about the threat of defaulting is not the way to enhance understanding of the merits of balancing the budget.

In the longer run, I would like to see us get rid of debt limit legislation altogether. It is completely illogical to enact tax and spending legislation that implies a certain deficit and a certain amount of borrowing by the U.S. Treasury, and at the same time, to have a piece of legislation on

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[1] **The views expressed in this testimony are those of the author and do not necessarily reflect the views of the officers or employees of the Barents Group or KPMG Peat Marwick.**

the books that prohibits that borrowing from taking place. Tax and spending laws are the only appropriate mechanisms for controlling the size of the national debt. Debt limit legislation does not provide any independent source of fiscal discipline. Yet, debates over it are often time-consuming. Historically, the debt limit has served largely as a vehicle for attaching extraneous legislation that would have difficulty being enacted on its own merits.

It is, in my view, very important to focus all our energies on the substance of the budget debate. Our country faces a fiscal crisis when baby boomers start to retire after 2010. Even if we succeed in balancing the budget in 2002, it will be difficult to keep it balanced for very long after that. That is another way of saying that the fiscal measures debated during 1995 and early 1996, although extremely helpful, provide only a down payment on what will be required eventually to contend with this demographic problem.

The Bipartisan Commission on Entitlement and Tax Reform, reported in 1994, that given the policies and economic and demographic assumptions in effect at that time, the budget deficit would exceed 10 percent of the GDP by 2020 and would be almost 20 percent of the GDP by 2030.[2] Such numbers are not thinkable. If the deficit rises toward those levels and is combined with the net withdrawals from pension funds that are likely during the same time period, it is likely that U.S. net saving will become negative. A country cannot grow at a decent pace without saving and the economy is likely to go into a cumulative, accelerating decline. That makes the deficit problem much worse than in the Commission projections which assume continued growth. At some point countries typically stop borrowing. They default on their debt one of two ways. Either they default explicitly or they begin to finance government by printing money. The latter is much more likely and the resulting hyperinflation makes the debt worthless.

[2] That compares to a deficit equal to 2.3 percent in fiscal 1995.

It is also not thinkable to avoid the situation solely by raising taxes in the 2020s. The Federal tax burden would almost have to double and that would also have a negative impact on economic growth.[3] The bulk of the correction has to come on the spending side of the budget.

On the spending side, the main problem involves the two largest health programs in the budget, namely, Medicare and Medicaid. The Entitlement Commission sees these two programs absorbing almost four percentage points more of the GDP between 1993 and 2030, even if cost growth for each group of beneficiaries of a certain age is lowered to the rate of growth of GDP. In other words, the increase in the burden is due largely to the aging of the population. If per capita costs rise as they did in the early 1990s, almost eight additional points of the GDP will be absorbed by these two programs over the same period. The state of the Hospital Insurance trust fund is not, for a variety of reasons, a very good indicator of the financial health of the program, but it is, nevertheless, disheartening to see it go into a surprising deficit in fiscal 1995 long before we have to confront any demographic problem.

By comparison, social security imposes a smaller relative burden, but it is still substantial. Its share of GDP will probably go up almost 2 percentage points by 2030.

The sooner we confront the fiscal implications of the demographic problem, the easier it will be. Every reduction of the deficit has a compounding beneficial impact. For example, if the spending path of an entitlement program can be lowered by one dollar for seven years, the public debt will be reduced more than seven dollars at the end of the period. Not only do we have to debt finance a cumulative seven dollars less in program spending, but we save on the interest bill and on the interest on the interest. Given current interest rates, every reduction of a dollar in a program expenditure path saves roughly another 40 cents in interest at the end of seven years.

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[3] The necessary tax increase would be much less if it came sooner, because the interest bill is responsible for about half the deficit problem in 2030. If earlier deficits could be lowered, it would have a compounding beneficial impact on the interest bill and the required tax increase. Nevertheless, such a tax increase would still be too large to be contemplated if American attitudes toward tax increases remain as they are today.

As I noted above, the deficit cuts, once contemplated by the Balanced Budget Act for fiscal years 1996 through 2002, represented only a down payment on the serious budget problem that lies ahead. It is highly disappointing to see the probability of that down payment fall so far. Perhaps, the probability could rise again if we could focus public attention on the severity of the long-term budget outlook. A prolonged and confusing debate over the debt limit would only distract from that effort.

STATEMENT

by
William Poole
Herbert H. Goldberger Professor of Economics
Brown University

Before the
Committee on Banking and Financial Services
of the
United States House of Representatives

8 February 1996

STATEMENT

Mr. Chairman, I am pleased to be here today to discuss the issue of raising the debt ceiling on borrowing by the U.S. Treasury. My statement begins with debt-limit issues, turns to related budget issues, and then returns to the debt limit issue once again.

Debt and the Debt Limit

As a matter of accounting, the difference between government spending and government revenue must be financed by some combination of issuing new debt to the general public and printing money. Fortunately, no one has suggested that current budget issues could be resolved by printing money beyond normal Federal Reserve practice, and so the government has in fact been issuing new debt to the public equal to the difference between spending and revenue. This fact is obscured by intergovernmental transfers; a number of government trust accounts hold securities issued by the Treasury. However, these intergovernmental accounts, though useful for a number of purposes, have no bearing on the accounting identity that for the federal government as a whole the difference between total spending and total revenue is financed by selling additional bonds to the public. The thousands upon thousands of hours of time devoted by Congress, the Treasury, and others to the debt limit issue have not affected by one dollar the amount of debt the government has sold to the general public.

If the debt held by the public is not permitted to rise, and if revenue is determined by existing tax law, then enough spending must be cut to live within existing revenue, short of printing money to pay bills. If the Congress and Administration cannot agree on what spending to cut, then the Treasury must somehow decide what bills not to pay, or to defer paying. The Treasury cannot write checks on an empty checking account.

The battle over the debt ceiling is not just a *part* of the overall budget battle, but is the *same thing* as the budget battle, given the accounting identity linking debt issuance to the difference between spending and revenue. It may seem politically convenient to argue over the debt ceiling rather than over revenue and spending, but I doubt that anyone's views on budget issues are much affected by putting the debate this way.

On the surface, it might appear that the federal government would be O.K. if it were to stop paying interest on its debt. Excluding interest, spending is below revenue at this time. But, of course, many financial institutions would be insolvent if the value of government debt went to zero, which means that the federal government would immediately be faced with huge demands to make good on deposit insurance. Just starting to spin out a scenario such as this shows how silly the exercise is. The federal government won't walk away from its debt because the voters would demand that the government live up to its obligations.

What about a temporary default for, say, two weeks? A temporary default would resolve nothing. At the end of the two weeks, the government would still have to sell bonds to finance the difference between spending — including interest if the default were not to continue — and revenue. One way or another, Congress and the Administration must decide this year's spending and revenue, and finance the difference (if any) with new debt.

The Budget Debate

The U.S. budget debate started in earnest during the Reagan years. President Reagan spoke often and eloquently of the need for our society to trim government, and the budget deficit that arose in the early 1980s drew much additional attention to budget issues. President Reagan was successful in constraining growth in total spending, but he was not successful in rolling back spending in any significant way. More importantly, he was not successful in addressing the need for major structural reforms in Social Security and Medicare.

President Reagan was unsuccessful because Congress — including most Democrats and most Republicans — and the American voting public were not prepared in the 1980s to face the reality of our budget situation. It is instructive to look closely at the Reagan budget for Fiscal Year 1986, which was perhaps the most complete and serious effort during the Reagan years to introduce fundamental reforms in spending programs. This budget proposed spending reductions in numerous politically sensitive areas, including many affecting traditionally Republican constituencies. Reagan proposed reductions in subsidies to business, to upper-income groups, to agriculture, to Amtrak, and to others. He proposed reductions in Medicare, in certain veterans' programs, in retirement programs for military and civilian government employees, and on and on.

The FY1986 budget was a courageous one, but it went nowhere at the time. Nevertheless, many of the budget issues raised during the Reagan years are now attracting serious attention, and new proposals reflecting equal political courage are on the table. The current budget battle is a battle over priorities and the role of government in our society.

Our nation will survive if fewer wasteful programs are cut than I would prefer. But the really big issue is Social Security and Medicare; our society will be shaken to its foundations if we do not face this issue soon, before the Great Retirement begins. At present, there are about 3.3 workers for each Social Security beneficiary. Just five years from now that ratio will begin a rapid decline, reaching only 2.0 workers per beneficiary by 2030, according to intermediate population estimates. Financing existing Social Security and Medicare benefit schedules might require an addition to the payroll tax of 10 percent of the covered wage base as more and more retired workers will have to be supported by each member of the labor force.[1] If we do not act, within 25 years we face a generational conflict between retirees and workers totally unprecedented in our history.

We need to adjust the Social Security and Medicare programs to encourage later retirement and more efficient use of medical resources. The adjustment would have been easier if we had started 10 years ago, and easier yet if we had started 20 years ago. The longer we wait, the more difficult the adjustment will be, and the greater the chance of serious generational conflict.

The current budget debate includes proposals for revisions to Medicare; the Congress would do more, and the Administration would do less. Neither Congress nor Administration would address Social Security at this time. Some future Congress and Administration *will* address Social Security, because the demographic facts cannot be brushed away. Much of the acrimony over the debt limit reflects the political pain of retirement policy issues. I am very sympathetic to those who ask this question: "If we cannot begin now by introducing reforms to Medicare, how will we ever be able to begin again, before it is too late, to tackle the even more difficult issues that surround Social Security?"

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[1] This estimate is from the *1995 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Disability Insurance Trust Funds*. Table III.C1 shows a combined Social Security and Medicare surplus of 0.29 percent of GDP in 1995. Under intermediate projections, in 2030 the combined surplus has become a deficit of 3.63 percent of GDP; the swing from surplus to deficit amounts to 3.89 percent of GDP (0.29 percent plus 3.63 percent). In Table III.C2, under the intermediate projection, the taxable payroll will be 0.389 of GDP in 2030. Thus, we can express the swing from surplus to deficit in Social Security and Medicare combined as either 3.89 percent of GDP or 10 percent of the payroll taxable under these programs.

The Debt Limit Once Again

I understand the frustrations of those in the Congress who want to begin to set our fiscal affairs on a sustainable long-run path, and who are willing to hold up an increase in the debt limit until the Administration negotiates a satisfactory budget deal. Nevertheless, I believe that the debt limit is the wrong place to force a confrontation. Despite our divisions, Americans share a strong bond on certain policy fundamentals, and fortunately so for otherwise government would be totally chaotic. The unwritten rules of political engagement do not include risking the credit of the United States Government.

Some argue that the market has reacted benignly whenever threat of default was raised in recent months; others attribute increases in interest rates to the threat of default. Both misread the evidence. In fact, the evidence is clear that the market has never assigned any significant probability to default. If default talk had changed views in the bond market, we would have seen a dramatic narrowing of the spread between high-quality corporate securities and Treasury securities. We haven't seen any such thing.

Consider three examples.[2]

- On Monday, 25 September 1995, *The Wall Street Journal* carried this headline: "Gingrich's Threat Spooks Bond Investors." The *Journal* article said that the threat was unveiled the previous Thursday. On Wednesday, the 30-year Treasury bond closed at 6.46 percent, and on Thursday rose to 6.56 percent. At the same time the long Treasury bond yield was rising by 10 basis points, Aaa corporate bonds were rising by 8 basis points; the spread between the two narrowed by 2 basis points, which is a trivial amount. Changes in the spread of this amount are common, and mean nothing.

- On 10 November 1995 *The Wall Street Journal* quoted White House spokesman Mike McCurry as saying the previous day that, "default is becoming increasingly likely."

[2] Kevin Jewell and Chris Tachiki dug out these examples for me; I appreciate their help.

The day of McCurry's statement the 30-year bond yield rose by four basis points, and the spread with Aaa bonds narrowed by a mere one basis point.

- On Friday, 5 January 1996, *The Wall Street Journal* ran a headline saying, "GOP's Threat Against Rubin Roils Markets." The stock market fell and the 30-year bond yield rose from 5.96 percent to 6.03 percent. However, the spread with Aaa corporates stayed constant at 75 basis points.

Clearly, the debt-ceiling battle has from time to time created uncertainty in the markets, but the uncertainty has been about the general course of the fiscal policy debate and not over default per se. The market simply does not believe that default can occur. We should be comforted by this finding, for it demonstrates that our nation's finances are truly strong. Default is unthinkable, and the market believes that the political process will find a way, somehow or other, to service the debt. Neither political party will in fact jump over that cliff. I believe that Congress should recognize that public sentiment for honoring our federal government obligations is overwhelming, and that the issue of default should be put behind us by routine action to increase the debt limit whenever required for the government to pay its bills without interruption. No constructive purpose is served by forcing the Treasury to engage in strange financial gymnastics.

Concluding Remarks

The debate over the debt limit has served the useful purpose of emphasizing just how important our budget issues are. But our disputes are over spending and taxes, and not over servicing the debt. It is time to put this phase of the political debate behind us; Congress should pass and the President should sign a simple extension of the debt limit.

The larger budget issue must not be allowed to die. We must make some choices and the sooner we make them the better off we will be. I offer this guarantee: if we do not begin to address these issues this year, we will have to face them next year. Indeed, we will face budget issues for the indefinite future, but the longer we wait to act, the more difficult the job will be.

PERSPECTIVES ON THE FEDERAL DEBT CEILING AND BUDGET POLICY

by

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Prepared for
Committee on Banking and Financial Services
U.S. House of Representatives

February 8, 1996

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Mr. Chairman and members of the committee, I appreciate the opportunity to present my views on the debt ceiling and budgetary policy. Achieving fiscal responsibility and establishing credibility--the primary objectives of fiscal policymakers--must not be lost in the political maneuvering that has entangled the federal debt ceiling and budget policy issues. Nor should the fiscal debate be overwhelmed by the urge to balance the budget by whatever means possible: in terms of creating an environment conducive to sustained economic expansion, job creation, and rising standards of living, the way in which deficit spending is reduced is more important than the magnitude of the deficit reduction. I recognize that reaching a compromise that constitutes meaningful fiscal reform is difficult precisely because it must involve programmatic changes to key spending programs and not just the establishment of artificial deficit targets. The economics and arithmetic of the federal budget clearly suggest that any meaningful fiscal reform must address the structural flaws in key entitlement programs that have been the source of rapid government spending growth and high deficits, and a wide array of economic distortions and arbitrary wealth redistributions. In light of demographic trends, the size and fiscal burdens of these programs will accelerate in coming decades. As a result, programmatic change is crucial: the costs of delay and the magnitude of the necessary corrective action are only mounting. Reform can be achieved by slowing the growth in federal outlays, still allowing for increases in inflation-adjusted terms. Political grandstanding on the debt ceiling and threat of default is unnecessary, diverts attention from the underlying sources of the fiscal problems, and reduces the policymakers' credibility.

The views expressed in this testimony are those of the author and do not necessarily reflect the views of the management or employees of NationsBank or NationsBanc Capital Markets, Inc.

1. **The federal debt ceiling is not an effective economic mechanism for achieving fiscal responsibility and is not a substitute for addressing the flawed structures of the spending programs that are the sources of deficit spending and rising debt.** In recent years, the legal debt ceiling has been raised as necessary to reflect deficit spending and the need to borrow to finance the rising debt, but it has not been sufficient to inhibit the growth in federal spending, budget deficits, or government debt. The diminishing clout of the debt ceiling in constraining deficit spending should not come as a surprise, in light of the sharp increase in the share of federal spending for entitlements and the shrinking share of spending for appropriations. Entitlement spending has risen from less than 30 percent of total federal spending and 6 percent of GDP in the mid-1960s to 55 percent of federal outlays and over 12 percent of GDP in 1995. ***There is a logical inconsistency between open-ended entitlement programs in which legislation entitles qualified recipients to benefits, whether financed through taxation, borrowing, or debt monetization, and the legal debt ceiling.*** Moreover, the government's debt counted toward the legal debt ceiling is an inadequate measure of the government's financial obligations, particularly because it fails to reflect the government's unfunded liabilities generated by social security and other public pensions. The irreconcilable differences between the social contracts embodied in the ever-growing entitlements and the legal debt ceiling have resulted in periodic and predictable games of political "chicken" that have failed to force a resolution of the fiscal dilemma and have only eroded the policymakers' credibility.

2. **My assessment is that a "default" resulting from failure to raise the debt ceiling would have a relatively minor and temporary disruptive impact on financial markets, insofar as domestic and international market participants recognize that the default would stem from political maneuvering and not economic fundamentals; nevertheless, playing political games with the full faith and credit of the U.S. government is unnecessary and irresponsible.** If the probability of economic default were taken seriously, heightened risk-premia would have pushed down the U.S. dollar and stock market and pushed up interest rates. That has not occurred: since the budget negotiations began to stumble in December 1995, the U.S. dollar has appreciated, the stock market has continued to rise and interest rates have receded further. Financial market participants at home and abroad clearly distinguish between a default based on deteriorating economic fundamentals or misguided inflationary policies, like in Mexico, and the possibility of a politically-driven, temporary delay in U.S. government debt service.

Even if the expected disruption is minor and temporary, it makes little sense to threaten default. Nobody really knows precisely the full cost of a "default," even if such an event did not push up interest rates. The temporary disruptions in government activities (including debt issuance) have reduced the efficient provision of certain government services, creating an unhealthy environment of uncertainty. Since December 1995, these impacts have unnecessarily dampened economic performance. Political maneuvering involving the debt ceiling is an inconsistent and ineffective approach to achieving fiscal responsibility. The resulting loss of credibility reduces the flexibility of fiscal policymakers. Remember, the U.S. remains the world's largest debtor, and it does not pay to unnecessarily upset its current and future creditors.

3. **Washington policymakers tend to overstate and misunderstand the impact of budget deficits on interest rates; the dramatic decline in interest rates in the last year has reflected primarily the sharp slowdown in economic growth and subsiding inflation expectations, while the prospects of a deficit-cutting package have contributed only marginally to rate reduction.** The level and term structure of interest rates is determined primarily by real economic performance and inflationary expectations and the market's associated assessment of the Federal Reserve's monetary policy. Historically, the empirical link between deficits and interest rates has been significantly smaller than commonly perceived; nevertheless, deficits are the natural "whipping boy" of financial markets when interest rates are rising. Fiscal policy affects financial asset prices through its impact on real economic performance and expected rates of return on investment. Therefore, the mix of federal spending and the allocative effects of the tax structure do have a significant impact on interest rates, the stock market, and the U.S. dollar. Certainly, meaningful movement toward fiscal responsibility would reduce risk premia in interest rates. However, the magnitude of that effect would be small relative to cyclical trends in economic performance and the outlook for inflation.

The recent financial market impact of the stalled budget negotiations and threat of default would have been far different in an environment of strong economic growth that pushed up real interest rates and inflation expectations. But that has not been the case. ***Looking forward, continued sluggish economic growth and the favorable trend in inflation will generate further interest rate declines.*** The U.S. dollar is expected to continue to strengthen, reflecting the favorable fundamentals in the U.S. and the recognition by Japanese and German policymakers of the need for weaker currencies. The stock market will remain strong as long as business efficiencies and economic expansion generate acceptable gains in corporate profits. However, a continued rise in financial asset prices is no excuse for ignoring the need for fiscal reform.

4. **The unprecedented deficit spending in recent decades has been a result of rising outlays for entitlement programs, while taxes have remained fairly constant as a percent of GDP.** As the mix of federal spending has shifted toward a rising share for entitlements, a declining share of spending has been allocated for investment-oriented activity. This trend highlights the changing role of the government's budget in allocating national resources. The higher tax burdens and rising debt in recent decades effectively have financed a gradually ***declining*** amount of real government purchases. Thus, the government's direct absorption of national resources is shrinking. At the same time, a sharply rising amount of real transfer payments distributed primarily through entitlement programs is directly financing consumption by their beneficiaries. ***In terms of public perception as well as economic performance, this increasingly distributional role of the federal budget is as important as the magnitude of deficit spending:*** witness the many households that are not direct beneficiaries of transfer payments who claim they are paying higher taxes and getting less (directly) in return.

5. **The major economic problem facing the U.S. is not the budget deficit *per se*, but rather the mix of deficit spending and the structure of the tax burden that combine to generate a misallocation of national resources that suppresses national saving, discourages work and investment, and constrains economic growth and long-run standards of living.** The tax bias against saving and the deficit spending for consumption-oriented entitlements generates the lowest rate of saving among major industrialized nations. The wide gap between national saving and investment causes the huge current account deficit which must be financed by international capital flows. ***Contrary to common perception, simply reducing the budget deficit does not necessarily reduce the current account imbalance: the outcome depends on how the deficit reduction impacts national saving and investment.*** Witness the Clinton Administration's 1993 deficit cutting package: because it relied so much on tax increases, it failed to achieve one of its primary objectives of shrinking the current account deficit because the reduced government dissaving was largely offset by lower private sector saving, leaving national saving virtually unchanged. The result was simply a wealth redistribution from the private to the public sector. Attempts to reduce

the trade and current account imbalances through trade negotiations, without shrinking the gap between national saving and investment, are similarly fruitless. Lowering the current account (and trade) deficit requires a credible reduction (or reallocation) of government spending and/or tax reform that raises net national saving. A reduction in the current account (and trade) deficit may or may not raise the U.S. dollar; the outcome depends on whether or not these changes enhance expected rates of return on dollar-denominated assets.

The change in the mix of deficit spending toward consumption-oriented entitlements at the expense of investment-oriented activities generates a wide array of distortions and disincentives: the structure of many transfer payment programs discourages work, a fact well understood in the current Congress, while Medicare, Medicaid, and associated tax incentives have raised the demand and provision of medical services. The list goes on. Suppressing saving and allocating national resources away from investment lowers long-run economic growth and standards of living. Some argue that the U.S. federal tax burden is lower than in other industrialized nations, and its social welfare subsidies less. They are. But the economic burdens of following misguided policy benchmarks are enormous: witness the dismal economic performance and double-digit unemployment rates throughout Europe.

6. **Achieving fiscal responsibility and credibility necessarily requires slowing the spending growth for nonmeans-tested entitlements by changing the structure of key programs consistent with announced deficit targets. The deficit targets are of secondary importance to enacting the required programmatic changes.** Because open-ended entitlements comprise such a large and rising portion of outlays, their growth must be slowed through changes in their structures. Medicare reform must involve incentives that reduce the demand for unnecessary medical services and improve the efficiency of their provision, and not rely on government-determined spending caps and price controls. Medicaid must rely more on competition among providers while meeting the reasonable needs of patients; this likely involves transforming the program from a federally managed, open-ended entitlement to a decentralized program funded by flexible block grants from the federal government. Welfare reform must include financial incentives to work.

Deficit targets without programmatic changes are bound to fail and only reduce credibility. Insofar as outlays for entitlement programs are affected by demographic trends, economic performance, inflation, and other factors, actual spending may deviate from projections. ***Therefore, it is the legislated reforms designed to achieve savings, eliminate structural flaws, and introduce economic incentives and efficiencies into these programs, rather than deficit targets, that are crucially important to fiscal responsibility.*** The rough deficit targets provide only a framework for evaluating the types of programmatic changes.

7. **The political crutch provided by the legal debt ceiling has not contributed to fiscal reform, serves no economic purpose, perhaps causes more harm than good, and should be abolished.** Since the legal federal debt ceiling is only a ***reflection*** of deficit spending and the rise in debt, a successful restructuring of the programs that generate the deficit spending obviate the need for the debt ceiling. The budget process requires Congress to vote on the size of the deficit. The impetus for fiscal responsibility must come from Congress; I doubt that the debt ceiling induces much fiscal responsibility. In fact, cynically speaking, the debt ceiling may even be a platform for mischievous fiscal policy and misguided political compromise.

8. **A credible deficit-cutting package based primarily on slowing spending growth in nonmeans-tested entitlements would not significantly depress cyclical economic activity in the short run, contrary to standard demand-driven macroeconomic models, and would be positive for long-run growth.** The positive impact on long-run economic growth is widely recognized; although estimates are uncertain, the cumulative rise in standards of living is substantial. The debate about the short-run effect of deficit reduction is biased by standard macromodels that incorrectly rely nearly exclusively on deficits to measure fiscal thrust--and assume that all deficit reduction reduces national wealth and is restrictive--while largely ignoring the mix of deficit reduction and the potential positive impact of enhanced credibility.

A cut in transfer payments, unlike a reduction in government purchases, only redistributes wealth, so its largest impact would be to change the mix of economic output, rather than dampen the aggregate level. Temporarily, consumption and medical services output would be reduced, as the disposable incomes of beneficiaries are reduced by the slower growth in transfers. However, the change in the allocation of national resources and lower interest rates would raise national wealth, generating stronger growth in investment, healthier housing activity, and a reduction in the net export deficit. Reduction of current economic disincentives and heightened credibility would limit short-run disruptions.

9. **Tax reform should focus on the tax bias against saving that contributes to the long-run problem of the low rate of national saving, and avoid temporary tax cuts that only fuel consumption.** The tax cut proposals included in Congress's and the Administration's budget plans are not tax reform. Providing tax credits for child education effectively subsidizes investment in human capital, a desirable objective, while adjusting capital gains taxation for inflation is also desirable. However, Congress must avoid politically motivated, temporary tax cuts. They dilute the deficit impact of proposed spending cuts, tend to accentuate the current fiscal policy bias in favor of consumption, and do little to raise long-run standards of living. Optimally, tax reform should seek to simplify the current system and adopt a stable, predictable tax code that eliminates undesirable distortions, including the biases against work, saving and investment. Incremental changes must not divert attention from the need for true reform. A cash-flow, consumption-based tax with a graduated, progressive rate structure and appropriate exclusions for low-income households holds the most promise.

10. **Failure to include social security in the fiscal debate is a glaring omission: it only raises the eventual costs and distortions of the program, increases the magnitude of the corrective actions that eventually will be required to ensure financial stability of the program, and exerts a high cost on all other spending programs.** Outlays for social security continue to rise rapidly and will remain a major factor contributing to the increase in future federal spending. Its benefits and taxing structures discourage work and generate significant distortions in labor markets. It generates arbitrary and undesirable redistributions of wealth. And despite its size, social security fails to address the financial needs of certain pockets of elderly, while being overly generous to others. It is widely recognized that corrective action is necessary to ensure social security's long-run financial stability, and that changes must be implemented with long leads to be fair and allow older workers time to plan for retirement. Excluding social security from the fiscal bargaining table only raises the eventual costs of reform and forces policymakers to extract larger savings from the remaining programs.

11. **An obvious component of a fiscally responsible deficit-cutting package is adjusting the cost of living adjustments (COLAs) on entitlement programs to reflect the CPI's overstatement of inflation.** There is widespread agreement that the CPI overstates inflation, but some uncertainty about the magnitude. It has been estimated that the overindexation of social security alone has cumulatively raised federal debt $200 billion. In fiscal year 1995, spending on government programs indexed for inflation constituted over $450 billion, nearly one-third of total government outlays. Not surprisingly, these programs have been some of the fastest growing, and their spending shares of federal outlays and GDP are projected to continue to rise. Not only is the inflation measurement bias extremely costly, and threatening the long-run financial stability of social security and other public retirement programs, it also generates unintended, arbitrary wealth redistributions. It increases the real purchasing power of beneficiaries while taxpayers may be incurring declining real wages, and accentuates the redistribution of wealth from future generations to current retirees.

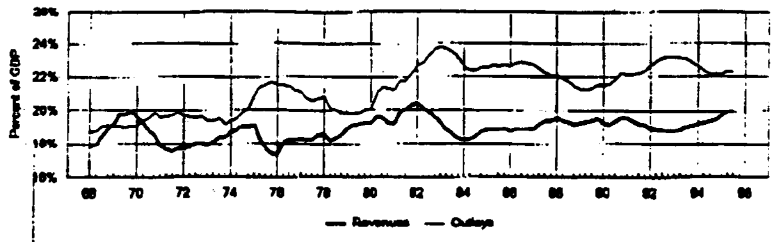
Adjusting the COLAs on retirement programs by 0.5 percentage points below CPI inflation would save over $100 billion over the seven year projection period (the savings would be cumulative). This adjustment would be well within estimates of the CPI's inflation bias and would be efficient and fair. Again, delaying this adjustment only raises the magnitude of future reform required and reduces the flexibility to compromise.

12. **The Federal Reserve's monetary policy cannot offset the economic effects of irresponsible fiscal policy: they are very different instruments with different economic effects, and are not substitutable.** Fiscal policy determines the allocation of national resources between the public and private sectors and influences long-run potential output by altering incentives to consume, save and invest. Fiscal policy is not capable of generating a permanent shift in aggregate demand. Accommodative monetary policy is incapable of enhancing long-run productivity or output, and only generates higher inflation that interrupts economic expansion. Attempts to change the policy mix to achieve a desired level of economic output require that the magnitude and timing of the economic responses to fiscal and monetary policies be well understood: they are not. I encourage Congress to pursue fiscal reform in an attempt to create an environment conducive to sustained economic growth, job creation, and

rising standards of living, and simply note that its efforts necessarily must be conducted independently of the Fed's monetary policy.

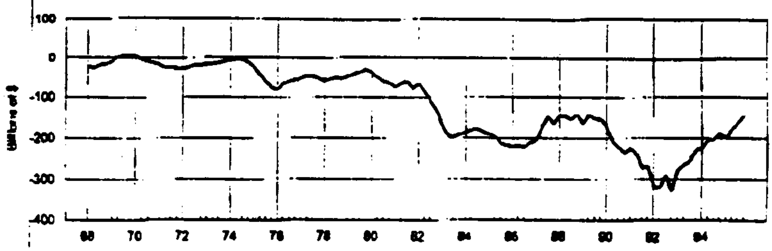
GOVERNMENT FINANCING TRENDS

Federal Spending and Tax Receipts



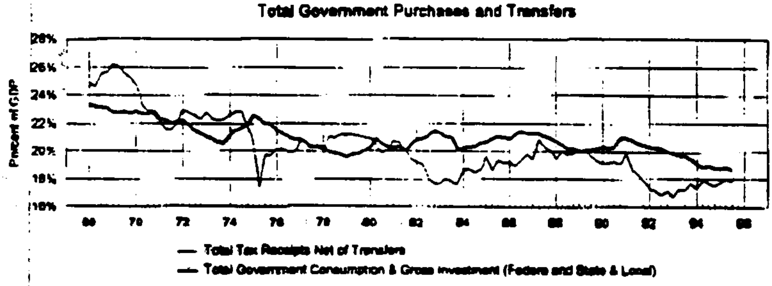
Four Quarter Moving Averages

Federal Budget Deficit



Four Quarter Sum

Total Government Purchases and Transfers



NationsBanc Capital Markets, Inc.

THE CASE FOR RAPID DEFICIT REDUCTION

by Murray Weidenbaum

A Statement Prepared for the
Committee on Banking
U.S. House of Representatives
Washington, DC, February 8, 1996

This statement is designed to make the case for large and rapid reductions in federal government deficit spending and also to show that the planned degree of fiscal austerity will not be an excessive depressant on the American economy.

Because of adverse historical experience, we must acknowledge that many observers find it hard to take the concern very seriously — that the deficit will be cut too much or too quickly. I am referring to the phenomenon of 14 consecutive federal budget deficits of triple digit magnitude, measured in billions of dollars. And those awful fiscal results have occurred despite several versions of the Gramm-Rudman-Hollings law as well as the more recent budget "summits."

The Need for Deficit Reduction

But let us make the optimistic assumption that the current attempt to balance the budget will be more successful. In that light, it is useful to begin with an analytical justification for a major new effort to eliminate the annual amount of federal deficit financing. At the outset, let me commit fiscal heresy. To this economist, deficit financing per se is not sinful. Like private enterprises, governments can borrow to make useful investments with an attractive future payoff.

Murray Weidenbaum is chairman of the Center for the Study of American Business and Mallinckrodt Distinguished University Professor at Washington University in St. Louis.

On occasion, the federal government actually does so. Many in my generation benefited from the post-World War II GI Bill. The government's outlays for our education helped us to achieve careers in which our added incomes generated tax payments that more than repaid the government's original investment.

Alas, such examples of effective federal investment outlays are very rare. Most public works projects barely show a favorable benefit-cost ratio even when an unrealistically low cost of capital is used in the estimation process. In fact, virtually the entire increase in federal outlays since 1980 has been in the form of consumption-type spending — aside from interest on the national debt. Thus, *the budget deficit has become a powerful mechanism for converting private saving into publicly supported consumption*.

For a nation with our abysmally low saving and investment rates, those deficits are a serious economic concern. For the skeptical, I note the strong and positive correlation between investment and economic growth. It is not a transient or ephemeral relationship. It held over the 30 year period 1962-1991 and for the large group of member nations of the Organization for Economic Cooperation and Development, which comprises the major industrialized economies. The data clearly reveal that, over this long period, the United States was low on both scores — investment and economic growth.

Under these circumstances, large reductions in the budget deficit would seem to be beneficial. *Moving to a lower deficit fosters economic growth by making more funds available for private investment and doing so at the expense of consumption.* The Congressional Budget Office makes the same point in somewhat more restrained prose: "The progressive elimination of the federal government's competition for funds in private capital markets would lower interest rates and slightly increase the potential growth of the economy over the next decade."

The Specifics of Deficit Reduction

Let us turn to specifics. The Republican leadership of Congress wants to eliminate the deficit in the fiscal year 2002 by reducing federal spending by the cumulative amount of $1,247 billion. That is a substantial sum. The cynic would assume that the small cuts would be made now and the large cuts later. Surprise of surprises, that is one aspect of the fiscal plan that both Democrats and Republicans can quickly agree upon.

Federal outlays are planned to be reduced by $41 billion from the baseline budget of the Congressional Budget Office for fiscal year 1996 and by $79 billion in 1997. Nobody believes that our $7 trillion economy is so frail that cuts of these modest proportions (one percent of GDP or less) will bring it crashing down. In later years, the budget cuts become much more substantial, reaching $278 billion in fiscal 2001 and $348 billion in 2002. As shown in Table 1, those reductions are equivalent to 2.9% and 3.5% of projected gross domestic product, respectively.

We have to understand the nature of federal fiscal arithmetic. Like the stage magician's trick, those cuts are bigger on the inside than on the outside. This is, in the face of reductions totaling $1,247 billion over the period 1996-2002, total federal spending is expected to rise — from $1,518 billion in fiscal 1995 to $1,876 billion in the year 2002. That increase more than offsets expected inflation. To cite authority, Ronald Reagan was fond of saying, *we're really not cutting federal spending; we're only trying to slow down the growth rate.*

Table 1

Deficit Reduction and the U.S. Economy, 1996-2002
(dollars in billions)

Category	1996	1997	1998	1999	2000	2001	2002
GDP	$7,385	$7,764	$8,165	$8,587	$9,052	$9,497	$9,986
Deficit reduction	$41	$79	$117	$167	$218	$278	$348
Percent	.006	.010	.014	.019	.024	.029	.035
Total federal spending	$1,417	$1,475	$1,546	$1,618	$1,697	$1,789	$1,883

Source: Congressional Budget Office

Table 2

Planned Congressional Reductions in Federal Spending, 1996-2002
(in billions of dollars)

Category	1996	1997	1998	1999	2000	2001	2002
Discretionary Programs:							
Freeze	8	9	12	35	55	75	96
Additional saving	10	20	27	25	20	24	25
Subtotal	18	29	39	60	75	99	121
Entitlements, etc.:							
Medicare	8	18	26	37	50	59	71
Medicaid	4	8	16	24	33	43	54
Other	10	19	25	26	29	30	36
Subtotal	22	45	67	87	112	132	161
Interest	1	5	11	20	31	47	66
Total	41	79	117	167	218	278	348

Source: Congressional Budget Office

The great bulk of the identified budget cuts occurs in transfer payments which are virtually pure consumption (see Table 2). The rest of the reductions are not identified and are likely to be widely distributed across the various spending programs. But it is easy to see where most of the cuts will occur — consumption outlays, which dominate the budget. In 1992, the civilian investment outlays of the federal government were estimated at only $83 billion out of a total of $1,381 billion.

By focusing on cutting federal consumption, the proposed reductions in deficit financing clearly respond to the widespread concern about inadequate saving and investment.

Economic Impacts of Deficit Reduction

If historical experience is any guide, the result of lower deficits should be an increase in private investment and hence in long-term economic growth. If that is a hanging offense in the eyes of the defenders of big government, so be it.

As in the case of any major change, attention needs to be given to the transition. The increased pace of fiscal restraint (the increase in the size of the budget cuts) rises to $50-70 billion a year around the turn of the century. At most, that is the equivalent of a bad, but not disastrous, year in housing or automobile sales. Those are magnitudes that should be readily handled in what will then likely be a $9-10 trillion dollar economy.

In any event, the Federal Reserve System will not be idle. *There is an especial advantage of the planned reductions: The Fed can anticipate them.* Surely, our central bank possesses a substantial arsenal of monetary policy instruments to help stabilize the economy during the transition.

Political Economy Aspects

A word of warning on taking long-term projections at face value, whether they are prepared in the government or in the private sector. Multi-year government policies are rarely carried out without substantial modification. The task of economic stabilization in the next seven years may be less than it appears to be because the schedule of cuts is backloaded — and for good reason. The further out in time we go, the more flexibility is available to policy makers because the fiscal reach of past commitments becomes less important.

Nevertheless, a cynic might apply a substantial discount to the further out budget reductions. As progress is achieved in deficit reduction, the urgency to complete the task may be diminished. Pressure groups pushing for larger government programs may reassert their political power, especially as public attention is shifted from balancing the budget to some newer priority. The political attractiveness of government spending is almost always very high. After all, *every dollar the government spends winds up as a dollar of income to somebody. That is precisely why an ambitious effort to curb federal spending becomes so difficult when you go from the general to the specific.*

There may be another, less generous reason for making light of the argument for restraining the efforts to restrain the growth of federal spending. Many of the same people who express their great concern about the economic viability of the proposed budget cuts are offended by the proposed increases in military outlays. In fact, they have advocated very sharp declines in military spending and have assured us that the economy can adjust to that eventuality quite readily. That juxtaposition of positions is strange because a substantial scholarly literature demonstrates the fact that military purchases have a more substantial impact (a higher "multiplier") than the transfer payments they replace.

Perhaps, then, the real hostility to the budget plans does not relate to their macroeconomic effects at all. Rather, that opposition arises from a different set of priorities, motivated by a different set of value judgments — specifically by the belief that the national welfare will be enhanced if a larger share of our resources is devoted to the civilian programs of government and less to national security.

Although some of us may disagree with that alternate set of priorities, it is altogether proper to advocate them. We must wonder whether the shyness in doing so directly stems from the awareness that this alternate set of budget priorities runs counter to the expressed will of the majority of voters.

As I tell my students, a cynical explanation carries you a long way in Washington and in public policymaking generally.

FEDERAL RETIREMENT THRIFT INVESTMENT BOARD
1250 H Street, NW Washington, DC 20005

THRIFT SAVINGS PLAN

February 14, 1996

The Honorable James A. Leach **BY HAND**
Chairman
Committee on Banking and Financial Services
U.S. House of Representatives
2129 Rayburn House Office Building
Washington, D.C. 20515-6050

Dear Mr. Chairman:

I am writing to respond to erroneous statements made to the House Committee on Banking and Financial Services during a public hearing on February 8, 1996, regarding the Government Securities Investment (G) Fund administered by the Federal Retirement Thrift Investment Board. As the managing fiduciary of the Board, I am obliged to address these misstatements lest they cause confusion or alarm to the two million Thrift Savings Plan participants with investments in the G Fund.

I have been advised that your Committee rules allow for the addition of material to the hearing record by unanimous consent and that requests should be filed with both the Chairman and the Ranking Member. Enclosed is material that I ask be included in the record. Your consideration of this request is appreciated.

A similar letter is being sent to the Ranking Member of the Committee.

Sincerely,

Roger W. Mehle

Roger W. Mehle
Executive Director

Enclosures

STATEMENT OF THE HONORABLE ROGER W. MEHLE
EXECUTIVE DIRECTOR
FEDERAL RETIREMENT THRIFT INVESTMENT BOARD
SUBMITTED FOR THE HEARING RECORD
OF THE
HOUSE COMMITTEE ON BANKING AND FINANCIAL SERVICES
FEBRUARY 14, 1996

My name is Roger Mehle. I am the Executive Director of the Federal Retirement Thrift Investment Board, and, as such, the managing fiduciary of the Thrift Savings Plan for Federal employees (TSP). On behalf of myself and the other statutory fiduciaries who serve as members of the Board, I appreciate the opportunity to provide this statement for the record.

The TSP is a retirement savings and investment plan similar to 401(k) plans available to private sector workers. It was enacted into law with bipartisan congressional cooperation and support as part of the Federal Employees' Retirement System Act of 1986.

The Nature of G Fund Securities; Original Vulnerability of G Fund Balances to Non-Investment Because of the Debt Limit.

The TSP offers its participants three investment choices, including the Government Securities Investment Fund, known as the G Fund. G Fund investments, by law, consist only of special Treasury securities issued directly to the G Fund, 5 U.S.C. §§ 8438(b)(1)(A), (e). These securities are similar to those issued to the Social Security trust funds and other Federal trust funds. See, e.g., 42 U.S.C. § 401(d) (Social Security trust funds); 5 U.S.C. § 8348(d) (Civil Service trust fund). Through individual participants' accounts, however, G Fund securities are owned, in effect, by the more than two million individuals who have chosen this investment.

Like all Treasury securities, those issued to the G Fund are subject to the limitations on Federal indebtedness periodically enacted by Congress. Thus, if purchases of additional Treasury securities were scheduled by the G Fund (with its daily contributions) when the debt limit ceiling had been reached, the purchases could not be made and those contributions would necesarily remain uninvested. Any funds uninvested would not earn interest; the greater the amount uninvested, the greater would be the earnings foregone. (At present, the G Fund balance of 22 billion dollars earns about 3.5 million dollars per day for participants invested in it.)

Congress Resolved the Possibility of Lost G Fund Earnings.

In May 1987, soon after creation of the TSP, a Democratic Congress and a Republican President recognized this anomaly and remedied it by enacting the Thrift Savings Fund Investment Act of

Indeed, the reason the Treasury issues securities (other than to refinance maturing securities) is because the amount of expenditures authorized by Congress is greater than the amount of taxes collected, i.e., there is a deficit, and the money to pay the difference must accordingly be borrowed. Mr. Mica's statement that Federal employees' payroll deductions (for G Fund contributions) should "never again be used to finance . . . deficit spending" is especially confusing in this context; as noted, this is exactly what the Treasury is expected to use the proceeds from sale of its securities for.*)

Thus it can properly be said -- and it should come as no surprise -- that the Treasury spends the money that it receives from the sales of its securities to fulfill the purposes of government, pursuant to appropriations made by Congress. This is no different from what happens to the proceeds of any debt securities sales, whether the issuer is an individual, a corporation, a municipal entity, or, through the Treasury, the United States of America. No TSP contributions made to the G Fund have been "stolen" or "robbed" by the Treasury; no contributions are "missing", nor have any contributions to the G Fund been used as a "slush fund". But, by the same token, the contributions have not gone into a physical vault or strongbox somewhere; they have financed spending authorized by Congress.

Treasury Has Always Repaid G Fund Securities When Due with Interest; Its Periodic Inability to Invest G Fund Balances on Account With It Was Resolved by Congress and is Harmless.

The essential bargain of any borrower, the repayment of the borrowed funds when due with interest, has always been met by the Treasury to the G Fund (and to every other security holder of the United States throughout its history). Even when, four times in the past, the Treasury has been prohibited by the debt limit from issuing its securities to the G Fund, it has recognized the legal requirement to make whole the interest on the uninvested G Fund balances still on account with it, and, when permitted by a debt ceiling increase, has promptly paid it. It will do so again when the current debt limit is increased.

Moreover, due to the statutorily guaranteed "make-whole" of the interest otherwise foregone, the G Fund continues to accrue interest in the identical amounts as if the prescribed securities had indeed been issued to the G Fund. Thus individual participants' G Fund balances are (and will continue to be) exactly

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* If there were a budget surplus, i.e., the amount of taxes collected were greater than the amount of Federal expenditures, proceeds from the required sale of special Treasury obligations to the G Fund (and to other trust funds) would be used to pay off maturing marketable debt.

the same from day to day as if the G Fund were fully invested in Treasury securities. TSP loan and withdrawal disbursements are completely unaffected with regard to their timing and amounts.

The Special Treasury Securities Purchased by the G Fund May be Tailored in Amounts and Maturities to the Exact Needs of the G Fund; That They May Not be Bought or Sold in the Open Marketplace is a Matter of No Practical Importance.

The Treasury securities held by the G Fund are not "marketable", i.e., they are not negotiable or transferable (except to the Treasury itself). 31 C.F.R. § 356.2. In this characteristic, they are like obligations held by the Social Security trust funds and other Federal trust funds, and they are also like U.S. Savings Bonds. These special instruments, despite Mr. Mica's notion that they are not "real assets", are every bit as much full faith and credit obligations of the United States as are Treasury marketable securities. (No one would reasonably contend that the 182 billion dollars of U.S. Savings Bonds outstanding are not "real assets" because they can not be sold to others, but must be redeemed by the Treasury.)

Furthermore, the ability of the G Fund to deal with the Treasury directly is of great benefit to TSP participants; rather than being required to pay dealer mark-ups and commissions, along with the skewed prices associated with transacting billions of dollars in purchases and sales in the market, the TSP can meet volume and maturity requirements of the G Fund frictionlessly and instantly by direct dealing with the Treasury. Moreover, should a sale of G Fund holdings before their maturity be indicated, the Treasury will buy them back at a market price. (The G Fund is currently invested entirely in daily maturities.) Requiring the G Fund to buy and sell its enormous holdings of Treasury securities only in the open market would be exceedingly costly to G Fund participants and would gain them nothing of value in return.

All Treasury Marketable Securities Are Issued in Book-entry Form.

The Treasury securities Congress authorized for purchase by the G Fund are book-entry securities, i.e., there is no "definitive" piece of paper or engraved certificate furnished to evidence their ownership, a practice now largely outmoded in securities markets worldwide. Mr. Mica stated, however, that "Federal employees deserve something more tangible than a book-keeping entry", while advocating an (undesirable) requirement that the G Fund be allowed to buy only Treasury marketable securities. These concepts are incompatible, since all Treasury marketable securities have been issued only in book-entry form for many years. See 31 C.F.R. § 356.5. Book-entry marketable securities, like the book-entry nonmarketable securities of the G Fund, are, however, no less full faith and credit obligations of the United States because of the method of their registration.

Repeal of the G Fund "Make-Whole" Provision Would Undo the Curative Legislation Congress Passed in 1987, And Subject G Fund Participants to Genuine Losses During Debt Limit Impasses.

The House of Representatives has recently passed two legislative proposals -- H.R. 2586 and H.R. 2621 -- that would unnecessarily repeal the essential "make-whole" protection of G Fund earnings. The confusing statements made about the G Fund at this Committee's recent hearing only underscore the continuing need to preserve the "make-whole" protection and to insulate the G Fund from debt limit politics.

At every opportunity, I have advised the Congress that, with the "make-whole" protection, G Fund investments are safe. In that regard, I am attaching copies of my recent letters to Mr. Mica (as Chairman of the House Civil Service Subcommittee), to the Chairman of the House Committee on Ways and Means, and to Speaker Gingrich. I ask that they too be included in the record of this Committee's hearing.

I urge this Committee, on behalf of two million G Fund investors, to take every possible action to affirm the essential "make-whole" protection in current law, so that Federal employees' retirement savings will not be jeopardized during any future debt limit impasses.

FEDERAL RETIREMENT THRIFT INVESTMENT BOARD
1250 H Street, NW Washington, DC 20005

THRIFT SAVINGS PLAN

January 24, 1996

The Honorable Newt Gingrich
Speaker of the House
of Representatives
Washington, D.C. 20515-6501

BY HAND

Dear Mr. Speaker:

I am the Executive Director of the Federal Retirement Thrift Investment Board, the Federal agency charged with administration of the Thrift Savings Plan (TSP) for Federal employees. On behalf of the Board, I am writing to urge that the House of Representatives preserve the existing statutory "make-whole" protection for the Government Securities Investment (G) Fund of the TSP during periods when Treasury securities cannot be issued due to the statutory debt limit.

If new legislation to increase the debt limit ceiling needlessly seeks to remove that protection, as did previous bills -- H.R. 2586 and H.R. 2621 -- passed by the House (but not enacted into law), the Board will strongly oppose it.

I hope I can prevail upon you to appreciate the seriousness of the threat to the integrity of Federal employees' retirement investments that a repeal of the "make-whole" provision would create. For example, in the absence of the provision, the current debt limit impasse would have cost Federal employees collectively <u>$130 million</u> of retirement funds in foregone interest to date. Notwithstanding that the previous bills required the Secretary of the Treasury to issue securities to the G Fund if his not doing so were to conserve debt issuance authority, the "make-whole" provision will <u>still</u> be required for those inevitable times when the Secretary is simply unable to issue securities to the G Fund because the debt ceiling has otherwise been reached.

Should a repeal of the "make-whole" provision be enacted, I will have a fiduciary duty to advise 2 million TSP participants that they should reconsider their G Fund investments -- now standing at $22 billion -- in light of Congress' refusal to ensure the continued earnings ability of their retirement savings during completely unrelated political conflicts over the debt limit. As you might imagine, this would not be a welcome message to Federal employees.

I wrote detailed letters to the appropriate committee leaders (see enclosures) when the previous legislation was being considered in the House, and I am sending letters similar to this one to other leaders of the House and Senate today.

Sincerely,

Roger W. Mehle

Roger W. Mehle
Executive Director

Enclosures

FEDERAL RETIREMENT THRIFT INVESTMENT BOARD
1250 H Street, NW Washington, DC 20005

THRIFT SAVINGS PLAN

November 8, 1995

The Honorable John L. Mica
Chairman, Subcommittee on
Civil Service
U.S. House of Representatives
Washington, DC 20515

BY HAND

Dear Mr. Chairman:

I have reviewed H.R. 2586 which provides for a temporary extension of the Federal debt limit. The proposed legislation provides for the repeal, inter alia, of 5 U.S.C. § 8438(g), which was enacted on May 22, 1987, to prevent harming Federal employees with investments in the Thrift Savings Plan's G Fund. It was foreseen at that time that, during periods of constraint on the issuance of Treasury securities brought about by the debt limit, the moneys of Federal employees in the G Fund would irretrievably lose interest (since they could not be invested) but for this carefully drafted, bipartisan "make-whole" provision. (The enclosed letter from former Executive Director Francis Cavanaugh forwarded the proposed legislation (not included) to Congress in April 1987, and it was quickly enacted.)

A repeal of this provision at this time would cost Federal employees invested in the G Fund more than $3.5 million per day of debt limit constraint, an amount that, once lost, will never be recaptured. That Federal employees' retirement funds might be thus diminished is a matter of great concern to me and my fellow fiduciaries, as I am sure it is to you.

All of the provisions of the proposed legislation can be enacted without harm to Federal employees' retirement funds except for the repeal of § 8438(g) (and its administrative concomitant, § 8438(h)). That is, the purpose of the proposed draft legislation can be fully met, as set forth in its accompanying two-page explanation, with the deletion of the words ", and subsections (g) and (h) of section 8438 of such title" on page 6, lines 7 and 8. (The other provisions to be repealed pertain to the Civil Service trust fund; because that fund is not owned by employees directly, their ultimate benefit levels as derived therefrom are unaffected.)

If the bill were passed in its present form, the fiduciaries of the Thrift Savings Plan would be obligated to point out the needless and costly removal by Congress of a protection for Federal employees intended to prevent debt limit politics from impairing the integrity of their retirement funds. (The "make-whole" provision of § 8438(g) has been employed on four separate occasions in the past to restore interest otherwise lost to Federal employees from debt limit hiatuses.)

I have sent a similar letter to Senator Ted Stevens, who chairs the Senate Committee with jurisdiction over the Thrift Savings Plan. I am asking your and his cooperation in preventing any repeal of § 8438(g) in order to safeguard Federal employees' retirement moneys and ensure their confidence in the G Fund, which, at $21.5 billion currently, comprises approximately 2/3 of total Thrift Savings Plan investments.

Sincerely,

Roger W. Mehle

Roger W. Mehle
Executive Director

Enclosure

FEDERAL RETIREMENT
THRIFT INVESTMENT BOARD
Benjamin Franklin Station, P.O. Box 511
Washington, DC 20044

April 30, 1987

Dear Mr. Speaker:

The Federal Retirement Thrift Investment Board respectfully submits the enclosed draft bill to prevent the loss of interest earnings to federal employees in the Thrift Savings Plan (Plan) which would otherwise result from a temporary suspension of the authority of the Secretary of the Treasury to issue public debt obligations to the Plan.

The Federal Employees' Retirement System Act of 1986 (5 U.S.C. 8401-8479) established a tax-deferred Thrift Savings Plan for federal employees. Effective April 1, 1987, all government and employee contributions to the Plan must be invested in Treasury securities issued to the Government Securities Investment Fund (GSIF) of the Plan. Since such securities, like other Treasury debt issues, are subject to the statutory limit on the amount of public debt outstanding, the Secretary will be unable to issue such securities to the GSIF after May 15 unless Congress acts on debt limit legislation by that date.

The present temporary public debt limit of $2.3 trillion is due to expire on May 15, 1987, on which date the debt limit will revert to the permanent statutory ceiling of $2.1 trillion.

We understand that the Treasury Department advised Congress today, in testimony before the House Ways and Means Committee that the Department expects to have sufficient cash on May 15 so that an increase in the debt ceiling would not be necessary until May 28. Nevertheless, beginning May 16 the Treasury will be unable to issue any securities subject to the debt limit, including securities issued to the GSIF. Thus, if Congress does not act on debt limit legislation prior to May 16, the GSIF will lose interest; there is no authority for the Treasury to pay such interest at a later date to make up for such losses.

The proposed legislation would provide the same treatment to the Thrift Savings Plan as is now provided by law (P.L. 99-509) to the Civil Service Retirement Fund. This treatment requires the Treasury to make up any loss of earnings to the Fund created by a suspension of Treasury borrowing authority.

Although the bill seeks parity of treatment with the Civil Service Retirement Fund, it is important to note that the Thrift Savings Plan is different from the Civil Service Retirement System (CSRS) in that the Thrift Savings Plan is a wholly voluntary, defined contribution plan; whereas CSRS is a mandatory, defined benefit plan. CSRS plan benefits do not depend directly on the amount of the Fund's interest earnings. The employer-employee contributions to the Thrift Savings Plan, although held in the custody of the Treasury Department, actually belong to the individual employees. Accordingly, Congress intended that the Thrift Investment Board be a financially independent agency and exempted the Board from the appropriations process, the budget, and the controls of the Executive Office of the President which apply to other federal agencies. Yet, perhaps inadvertently, Congress did not insulate the Board or the Plan from the constraints of the public debt limit.

The Board believes that obligations issued to the GSIF should clearly be exempt from the public debt limit constraints. Yet, in view of the urgent need for timely legislative action before May 15, we are requesting only that the Plan be accorded the same treatment as the Civil Service Retirement Fund.

Federal employees have been urged to deposit their funds in the Thrift Savings Plan upon the representation that such funds will be safely invested in government securities with a guaranteed rate of return based on a prescribed statutory interest rate formula. The Board has an obligation to federal employees to make every effort to see that this commitment is honored. Now, at the very beginning of the Plan, it is especially important that there be no question as to the integrity of the government's representation as to such investments. In order to prevent unnecessary fear and confusion on this point, we urge Congress to act on the enclosed bill as soon as possible and before any suspension of Treasury borrowing authority occurs.

We are sending a similar letter to the President of the Senate. Copies have been sent to the Director of the Office of Management and Budget.

Sincerely,

Francis X. Cavanaugh
Executive Director

The Honorable Jim Wright
Speaker of the House of
Representatives
Washington, D.C. 20515

Enclosure

Summary of the Bill

The purpose of the bill is to ensure that the federal employees' Thrift Savings Plan (Plan) does not suffer a loss of earnings in its Government Securities Investment Fund in the event of a temporary suspension of borrowing authority of the United States Treasury Department, due to the statutory public debt limit.

The bill provides that, in the event the Secretary of the Treasury suspends additional issuance of Treasury securities to the Government Securities Investment Fund because such issuance would exceed the debt limit, immediately upon lifting of the borrowing suspension, the Secretary of the Treasury shall issue securities to the Plan at interest rates and maturities which will replicate the obligations that would have been held by the Plan if the suspension had not occurred. This "make-whole" relief will include the payment of any interest the Plan loses as a result of the suspension. Both the obligations and the interest will be determined in accordance with the daily investment decisions made by the Federal Retirement Thrift Investment Board during the suspension period which would have been effective were it not for the suspension.

The treatment accorded to the Plan by the bill is similar to that accorded to the Civil Service Retirement and Disability Fund in Section 6002 of the Omnibus Budget Reconciliation Act of 1986, except that the bill recognizes the statutory responsibility of the Executive Director (5 U.S.C. 8438 (f)(2)(A)), rather than the Secretary of the Treasury, to determine the amounts and maturities of the investments in the Government Securities Investment Fund.

FEDERAL RETIREMENT THRIFT INVESTMENT BOARD
1250 H Street, NW Washington, DC 20005

THRIFT SAVINGS PLAN

December 11, 1995

The Honorable Bill Archer
Chairman
Committee on Ways and Means
U.S. House of Representatives
Washington, D.C. 20515

BY HAND

Dear Chairman Archer:

I have recently reviewed a copy of H.R. 2621, entitled "A Bill to Enforce the Public Debt Limit and to Protect the Social Security Trust Funds and Other Federal Trust Funds and Accounts Invested in Public Debt Obligations." On behalf of the Federal Retirement Thrift Investment Board, I must object to section 2 of the bill to the extent of its proposed repeal of the Thrift Savings Plan's G Fund "make-whole" provision, 5 U.S.C. § 8438(g). I understand that the bill is scheduled for House floor action on Tuesday, December 12 (i.e., tomorrow).

In pertinent part, H.R. 2621 is identical to H.R. 2586, about which I wrote to Chairman Mica on November 8, 1995. (A copy of my November 8 letter is enclosed.) As such, H.R. 2621 is equally objectionable to the Federal Retirement Thrift Investment Board, inasmuch as it too threatens the integrity of Federal employees' investments in the Thrift Savings Plan's G Fund by repealing the G Fund "make-whole" provision.

Notwithstanding the mandate to the Treasury of section 1(a)(1)(B) of H.R. 2621 not to "refrain from the investment in public debt obligations of amounts in [the G Fund]", the "make-whole" provision will still be required for those times when the Treasury is simply unable to issue securities to the G Fund because the debt limit ceiling has otherwise been reached. (Please see my November 8 letter for further details of the Board's objections to the repeal of § 8438(g).)

I have sent a similar letter to Congressman Gibbons, the Ranking Member of your committee.

Sincerely,

Roger W. Mehle

Roger W. Mehle
Executive Director

Enclosure

cc: The Honorable John L. Mica (w/o enclosure)
The Honorable James P. Moran, Jr. (w/o enclosure)

Congress of the United States
Washington, DC 20515

February 1, 1996

The Honorable William J. Clinton
The White House
Washington, DC 20500

Dear Mr. President,

As you know, the long-term fiscal security of the United States is a primary concern to the Republican congressional majority. That is why we worked to produce a balanced budget and why we recognize the need to act on legislation on the debt ceiling. In your State of the Union address, you emphasized that authority to raise the debt limit is needed by the beginning of March.

Your administration has communicated to us that action must be taken by February 29 to ensure there is no default and no delay in Social Security payments. Congressional Republicans are committed to act by this date, in a manner acceptable to both you and the Congress, in order to guarantee the government does not default on its obligations.

Sincerely,

Bob Dole
Senate Majority Leader

Newt Gingrich
Speaker of the House

Richard Armey
House Majority Leader

DEPARTMENT OF THE TREASURY
WASHINGTON

ASSISTANT SECRETARY

February 26, 1996

The Honorable Spencer T. Bachus, III
Chairman
Subcommittee on General Oversight and Investigations
Committee on Banking and Financial Services
U.S. House of Representatives
Washington, D.C. 20515

Dear Mr. Chairman:

Secretary Rubin has asked me to respond to your February 13th letter. In order to make our responses as clear as possible, I have set forth your questions and our responses together.

Question:

1. In actions proposed for February 15, 1996, involving the Federal Financing Bank, you propose to sell TVA and Postal Service assets to the Civil Service Retirement and Disability Fund and the Airport and Airways Fund.

a. Why is it necessary to involve the Airport Fund?

Response:

We have not used the Airport and Airways Fund in any action we have taken to avoid exceeding the debt limit. We considered using it, as was reflected in the draft legal opinion reviewed by your staff, but ultimately decided that it was not necessary to do so.

Question:

b. Are there any documents relating to this decision that you have not provided us? If so, please provide them.

Response:

We will be providing under separate cover copies of any documents related to the decision making process involving the exchange of Federal Financing Bank (FFB) assets.

Question:

2. You propose to exchange TVA and Postal Service securities held by the FFB for Treasury Specials held by the Civil Service Retirement Fund and the Airport Fund.

a. Please explain the mechanics involved in ensuring that neither the FFB nor the trust funds will be damaged in such an exchange?

Response:

Treasury used a valuation model to ensure the equivalence in value of the FFB assets transferred to the Civil Service Retirement and Disability Fund (CSRDF) and the Treasury securities transferred by CSRDF to the FFB. An independent financial advisory firm, Public Resources Advisory Group (PRAG), was retained to review the model and economic conclusions on behalf of CSRDF. PRAG certified to CSRDF the reasonableness of the model and concluded that the assets CSRDF received were equivalent in value to those transferred to the FFB.

The process, our model, our conclusions and PRAG's certificate are among the documents we are providing to you under separate cover.

Question:

b. Are there any documents relating to this exchange that you have not provided us? If so, please provide them.

Response:

We will be providing under separate cover copies of any documents related to the decision making process involving the exchange of FFB assets with CSRDF.

Question:

3. You propose to discontinue investing the cash assets held by the Exchange Stabilization Fund in securities.

a. What are the current assets of the ESF?

Response:

Enclosed is a copy of a summary of the balance sheet of the Exchange Stabilization Fund (ESF), as of December 31, 1995. Since then, the dollar assets of the ESF have increased to approximately $3.9 billion.

Question:

b. Why have you ruled out using any remaining assets for debt management purposes?

Response:

The action the Secretary authorized on February 15 is the suspension of the investment of the dollar-denominated assets of the ESF in Treasury securities. Any further action would have involved swapping the ESF's holdings of yen and marks into dollars, which then would not have been invested. Such a swap would have involved additional procedural complications and the participation of third parties. We were not sure we could accomplish that, and we were also concerned about impairing our ability to defend the dollar.

Question:

c. Please explain whether the decision not to use other ESF assets was based upon "legal" or "prudential" concerns?

Response:

The answer to the previous question explains our concerns.

Question:

d. Are there any documents relating to this decision that you have not provided us? If so, please provide them.

Response:

We will be providing under separate cover copies of any documents related to the decision making process involved in suspending the investment of the Treasury securities held by the ESF.

Question:

4. You propose to use the Federal Financing Bank as a means of managing the public debt.

a. What is the total amount of FFB debt obligations held by the Treasury?

Response:

After the transactions consummated last week, Treasury now holds approximately $54 billion of FFB debt.

Question:

b. Is there any explicit statutory prohibition restricting Treasury from directly exchanging the FFB debt obligations held by Treasury for Treasury Specials held by the Trust funds?

Response:

There is no explicit statutory prohibition restricting Treasury from the exchange described above. There is also no clear legal authority for such an exchange.

Question:

c. Why should the $15 billion limit contained in Section 9(a) be seen as a limit on the transfer of FFB debt rather than as simply a limitation upon the amount of FFB debt that can be issued irrespective of agency debt purchases by the FFB under Section 9(b)?

Response:

The Treasury does not believe that Section 9(a) of the FFB Act limits the ability of the Treasury to sell outstanding FFB debt held by Treasury. The FFB has utilized its authority to borrow from the Secretary of the Treasury under Section 9(b) of the FFB Act solely to fund the FFB's purchase of agency debt and agency guaranteed debt. The FFB has not borrowed under its Section 9(b) authority for any other purpose.

Question:

d. Why should Section 9(d) of the FFB act not be construed as specifically permitting such transfers from Treasury to the trust funds as it is contained in a wholly separate provision?

Response:

Section 9(d) of the FFB Act provides:

> (d) Obligations of the Bank [FFB] issued pursuant to this section shall be lawful investments, and may be accepted as security for all fiduciary, trust, and public funds, the investment or deposit of which shall be under the authority or control of the United States, the District of Columbia, the Commonwealth of Puerto Rico, or any territory or possession of the United States, or any agency or instrumentality of any of the foregoing, or any officer or officers thereof.

As stated, Section 9(d) makes FFB obligations issued under Section 9 *eligible* for purchase by a variety of funds under the control of a variety of governmental entities. It does not by its terms authorize any particular type of transaction.

Question:

e. Is it necessary that the organic statute creating a particular agency to provide specific authority before the debt of such agency can be held by Trust funds? If so, why? Have there been any instances in the past when agency debt has been held by federal Trust Funds without having specific authority in the statute creating the agency?

Response:

No. Government trust funds have a range of authority as to the type of agency debt they can purchase. We are not aware of any instance when agency debt has been held by federal trust funds without having any specific authority in the statute creating the agency.

Question:

5. In a January 25, 1996, Washington Post story, a "senior" Treasury official indicated that the first effects of the debt ceiling would be felt on March 1, 1996, when $30 billion of Social Security and other benefit payments would come due. (This was prior to the recent action taken by Congress to accommodate for the March 1 benefit payments.) In 1985, under Secretary James Baker, the Treasury was faced with a similar debt ceiling limitation and conflicting legal duties requiring it both to invest payroll receipts held by the trust funds in Treasury securities and the requirement that beneficiaries receive payments on a timely basis. Recognizing that the Treasury was forced to choose between harming the trust funds or harming beneficiaries, Secretary Baker chose to ensure that beneficiaries would receive their checks on a timely basis. The GAO determined that this was not an unreasonable choice in light of the circumstances.

a. Why did the Treasury reject this option relating to the March 1, 1996 payments?

b. Was this decision based upon "legal" concerns or "prudential" ones? Please explain.

c. Have there been any intervening legal changes since 1985 that would make this impracticable?

Response:

The Administration's position with regard to Social Security and the debt limit has been stated on a number of occasions. Most recently, Congresswoman Marge Roukema raised a similar question of Secretary Rubin in the December 13 hearing of the House Banking Committee. Attached for your information is the letter in response to that question from Under Secretary John D. Hawke, Jr.

The letter makes a number of points:

-- Both the President and the Secretary of the Treasury have stated that the Secretary has no authority to redeem securities from the Social Security fund for any purpose other than to assure the payment of benefits.

-- The Treasury Department agrees with Congress's understanding of existing law on this subject, as described in the synopsis of S. 1470 placed in the December 15, *Congressional Record* by Chairman Roth, which states in relevant part, "... the Secretary of the Treasury and other Federal officials are not authorized to use Social Security and Medicare funds for debt management purposes."

Further:

-- Disinvestment of assets of the Social Security funds in amounts equal to the benefit payments due in a particular month, followed by the issuance of new marketable debt for cash, would not assure that all benefit checks would be paid on the dates they were presented for payment if the debt ceiling were reached and default were imminent. Under current procedures, the Federal Reserve, as Treasury's fiscal agent, will not pay any checks presented for payment on a given day unless Treasury's account contains funds sufficient to pay all checks presented for payment the same day. In the absence of sufficient cash to assure the payment of all such obligations, it is possible that payment of beneficiaries' checks would be delayed.

Question:

6. It appears that previous Treasury Departments rejected certain options that could have freed up room under the debt ceiling because the options would have made a "mockery" of the debt ceiling state and, therefore, Congress' Constitutional authority over the debt.

a. Did the Treasury Department reject any options during 1995 or 1996 on the grounds that they would make a "mockery" of the debt ceiling or otherwise infringe on Congress' Constitutional authority?

Response:

The Treasury has been at all times mindful and observant of Congress's authority and its obligations as they relate to the debt ceiling. As is expressed in the five legal opinions provided the Congress addressing the actions taken by the Treasury, Treasury believes that none of those actions infringes upon the authority of Congress. We refer you to those opinions for a more detailed response.

Question:

b. Has the Treasury Department taken any steps or proposed to take any steps that were rejected by previous Treasury Departments because those Administrations concluded such actions would infringe on Congress' Constitutional authority?

Response:

No.

Question:

c. Neither the Treasury General Counsel opinion nor the OLC opinion relating to the November 15, 1995, actions mention any concerns relating to preservation of Congressional authority over the public debt in construing the ambiguous statutory language discussed in those opinions. Were such concerns ever discussed by Treasury or Justice legal staff? If they were, why were they not reflected in the legal opinions?

Response:

The November 15, 1995 actions were taken pursuant to explicit statutory authority provided the Secretary of the Treasury by the Congress in 1986 and 1987. We have reviewed the legislative history from 1986 and 1987, as is reflected in the opinions. In fact, the opinions rely on such legislative history in coming to their conclusions that the Secretary's actions have been clearly legal.

Question:

d. Are there any documents reflecting legal analysis that reflect such Constitutional concerns relating to the statutes construed in these opinions? If these have not previously been provided, please do so.

Response:

We have provided or will be providing under separate cover copies of all legal analyses of the Secretary's November 15, December 29 and February 15 actions.

Question:

7. It is my understanding that employee unions or other groups were notified of the Treasury decision to tap the Civil Service Retirement and Disability Fund and the G-Fund.

When were such employee groups first notified, informally or otherwise, by the Administration that Treasury was considering tapping either the Civil Service Retirement and Disability Fund or the Thrift Savings Fund?

Response:

The Treasury first informed employee unions and other groups that the Secretary was considering using the CSRDF and the G-Fund for debt limit purposes in late October, *after* Treasury began briefing members of Congress. These groups were notified of the Secretary's decision actually to take such actions on November 15th--shortly after the decision was made. Following is the sequence of events:

On October 27, 1995, Treasury representatives called union representatives and other groups to discuss possible use of the Secretary of the Treasury's statutory powers to stop investing the CSRDF and the G-Fund to avoid exceeding the debt limit.

On November 3, 1995, Treasury representatives and others met with federal employees groups to explain the debt limit problem and to discuss various options, including the potential use of the CSRDF and the G-Fund, to avoid default.

On November 9, 1995, Treasury faxed to employee union representatives a copy of Secretary Rubin's October 31, 1995 letter to the Congressional leadership indicating that he might need to take actions, including using the CSRDF and the G-Fund.

On November 15, Treasury officials contacted employee union representatives and other groups via conference call to notify them of the Secretary's determination of a debt issuance suspension period and his decision to use the CSRDF and the G-Fund.

Question:

8. Finally, some have questioned whether it was simple coincidence that the first parties predicted to feel the effects of reaching the debt ceiling were Social Security and

other similar beneficiaries when it was announced in January that the Treasury had exhausted all "legal" and "prudent" options to manage the debt.

a. Did you possess any discretion in determining the time at which you would reach exhaustion of all "legal" and "prudent" options?

Response:

Once we had determined what options were both legal and prudent, we knew approximately how much debt limit room those options would create. It was simply a matter of looking at our cash and debt projections to determine approximately how long such debt limit room would last.

In fact, in his January 22 letter to Congress, the Secretary wrote that "either February 29 or March 1 is the date on which Treasury will no longer be able to fulfill all of its financial obligations without legislation increasing the statutory debt limit." Absent the passage of Pub. L. No. 104-103, Treasury might have defaulted on outstanding debt on February 29. In that case, debtholders, not trust fund beneficiaries, would have been the first parties to suffer.

Because of statutory benefit payment dates, a large percentage of the payments that Treasury must make each month are made at the beginning of the month. We make approximately $55 billion in payments during the first five business days of each month. Therefore, Treasury needs cash at the beginning of every month, which is normally satisfied through the issuance of debt. As a result, at a time when debt limit headroom is tight, it is quite likely that the debt limit might be reached at the beginning of the month.

Question:

b. Did any "political" considerations play any role in the determination of the time in which you would reach exhaustion of all such options?

Response:

Once we had determined what options were both legal and prudent, we knew approximately how much debt limit room those options would create. It was simply a matter of looking at our cash and debt projections to determine approximately how long such debt limit room would last.

Question:

c. When determining the time at which you would reach "exhaustion" of your "legal" and "prudent" options, did you confer with any other Administration officials in regard to such timing?

Response:

Once we had determined what options were both legal and prudent, we knew approximately how much debt limit room those options would create. It was simply a matter of looking at our cash and debt projections to determine approximately how long such debt limit room would last.

The President is, of course, very concerned about the country's credit standing, and it is only natural for the Secretary to keep him and his staff informed of the Secretary's deliberations. In fact, it is very much the normal course. For example, the letter that Secretary Baker sent to Congress on October 22, 1985 explicitly mentioned President Reagan's concurrence in Secretary Baker's decision not to sell the nation's gold.

Question:

d. Was the timing of the "exhaustion" of such options ever changed (either delayed or expedited) due to a request from other Administration officials?

Response:

No.

With respect to the third agency documents mentioned in your letter, because those documents are not Treasury documents, Treasury cannot produce them. We have provided copies of those documents to the other agencies and asked them to provide the responsive documents directly to the Joint Economic Committee.

We appreciate this opportunity to work with you to ensure full understanding of Treasury's debt limit actions.

Sincerely,

Linda L. Robertson

Linda L. Robertson
Assistant Secretary
(Legislative Affairs and
Public Liaison)

Balance Sheet of the Exchange Stabilization Fund -- December 31, 1995

ASSETS		
Special Drawing Rights	$11,114,512,880.22	
Dollars	$2,950,709,059.03	
German marks	$6,895,860,459.59	
Japanese yen	$10,077,607,127.36	
Mexican Pesos	$11,393,046,106.54	
Total Assets		$42,431,735,632.74
LIABILITIES		
Special Drawing Rights Certificates	$10,168,000,000.00	
Special Drawing Rights Allocations	$7,283,077,261.54	
Accrued Charges Payable on SDR Allocations	$51,883,561.95	
Total Liabilities	$17,502,960,823.49	
CAPITAL		
Remaining Appropriated Capital	$200,000,000.00	
Retained Earnings	$24,728,774,809.25	
Total Capital	$24,928,774,809.25	
Total Liabilities and Capital		$42,431,735,632.74

DEPARTMENT OF THE TREASURY
WASHINGTON

UNDER SECRETARY

January 31, 1996

The Honorable Marge Roukema
U. S. House of Representatives
Washington, D.C. 20515

Dear Marge:

Secretary Rubin has asked me to respond to a question that you raised during the December 13, 1995 House Banking Committee hearing on the debt limit. You asked the Secretary to provide you with the Department's opinion concerning the authority of the Secretary to use Social Security trust funds to manage the debt limit impasse.

As the Secretary indicated at the hearing, the longstanding position of the Treasury Department has been that the Secretary may disinvest funds invested in the Social Security trust funds only to assure the payment of benefits to beneficiaries of the funds. The Treasury Department agrees with Congress' understanding of existing law on this subject, as described in the synopsis of S. 1470 placed in the December 15, 1995 Congressional Record by Chairman Roth, which states in relevant part, "... the Secretary of the Treasury and other Federal officials are not authorized to use Social Security and Medicare funds for debt management purposes."

I have enclosed the portion of the Record that contains this language. As you will observe, the Record also contains a letter from me to Chairman Roth that reiterates the position of the Department on this subject. In addition, I have enclosed a copy of another letter, dated December 20, 1995, from me to Chairman Roth that also restates the Department's position.

We appreciate the opportunity to restate our position with respect to this matter. If you require further information from us, please let me know.

Sincerely yours,

John D. Hawke, Jr.
Under Secretary of the Treasury
for Domestic Finance

Enclosures

to treatment requirement will apply on or after the first continuing disability review occurring after enactment.

3. Entitlement of stepchildren to Social Security dependent benefits

Present Law

Generally a child, including a stepchild, under age 18 (or under age 19 in the case of an individual attending elementary or secondary school full-time) may be entitled to receive Social Security benefits as the dependent child of a worker when the worker retires, becomes disabled, or dies.

A stepchild is deemed dependent on a stepparent if he/she lives with the stepparent or receives one-half of his/her support from the stepparent. Social Security dependent benefits continue to be paid to a stepchild after the child's natural parent and the stepparent divorce. Continuation of those benefits after divorce may reduce the amount available for payment to other children entitled to receive Social Security Dependent benefits based on the worker's record.

Reason for Change

Under current law children who are entitled on a worker's record may be unnecessarily penalized by the entitlement of a stepchild who has other means of support. This change would result in the payment of benefits only to stepchildren who are truly dependent on the stepparent for their support, and only as long as the natural parent and stepparent are married.

Proposed Change

Social Security dependents' benefits are payable to a stepchild only when the stepparent provides at least 50 percent of the stepchild's support upon application for benefits. A stepchild is eligible for survivors' benefits upon the death of a stepparent if the stepparent provided at least 50 percent of the stepchild's support immediately preceding death.

In addition, a stepchild's Social Security benefits based on the work record of his/her stepparent are terminated the month following the divorce of the child's natural parent and stepparent. The stepparent must also notify the Social Security Administration of the divorce and the Social Security Administration is required to notify annually those potentially affected by this provision.

Effective Date

The proposal is generally effective three months after date of enactment for new entitlement of stepchildren to benefits and for divorces finalized after that period.

4. SSDI revolving fund for continuing disability reviews

Present Law

The administrative costs of conducting continuing disability reviews (CDRs) of individuals receiving Social Security disability benefits are provided through an appropriation of trust fund monies, and are considered discretionary spending subject to the domestic discretionary spending cap of the Budget Enforcement Act.

Reason for Change

Limited administrative resources have prevented the Social Security Administration from keeping up with CDRs, which estimates that for every $1 spent conducting CDRs, $6 are saved in benefits that would otherwise be paid to individuals who are no longer disabled. The Social Security Administration estimates that the failure to perform timely CDRs between 1990 and 1995 will cost the SSDI Trust Fund $2.3 billion by 1999. The proposed revolving fund would be a source of non-appropriated administrative resources to finance CDRs, enabling SSA to perform this essential program-integrity work.

Proposed Change

A revolving fund is established in the Social Security Disability Insurance (SSDI) Trust Fund as a source of non-appropriated administrative funds to finance Social Security CDRs. At the start of each fiscal year, the revolving fund will be credited with an amount equal to the estimated present value of savings to the SSDI and Medicare trust funds achieved as a result of CDRs of beneficiaries conducted in the prior fiscal year—except for the first year, during which $300 million will be credited. These amounts will be calculated by the Social Security Administration's Chief Actuary, with appropriate adjustments made annually in subsequent years. Amounts credited to the revolving fund are available for all expenditures related to conducting CDRs by the Social Security Administration and appropriate State agencies.

In addition, the position of Chief Actuary in the Social Security Administration is established in law.

Effective Date

The revolving fund is effective for fiscal years beginning after September 30, 1996, and sunsets September 30, 2005.

5. Protection of Social Security and Medicare trust funds

Present Law

The various authorizing statutes of the major Federal trust funds require that any program income not needed to meet current expenditures be invested in interest-bearing obligations of the United States or in obligations guaranteed as to both principal and interest by the United States. The vast majority of these securities are "special issue" non-marketable obligations of the United States. Virtually the entire amount of securities held by the Federal trust funds is considered Federal debt subject to the statutory debt limit.

Reason for Change

Since late October, the total amount of the public debt obligations has been very close to the public debt limit. This has given rise to concerns that the Social Security and Medicare Trust Funds might be under invested or disinvested for debt management purposes. While the Administration has stated that it would not take such action, the Committee concluded that it was desirable to make clear in law that these funds could not be used for debt management purposes. In clarifying this, the Committee does not intend that the legislation authorize conduct in contravention of any other applicable provision of law, such as the public debt limit.

The Committee seeks to assure that, to the maximum extent possible under the statutory debt limit, the Secretary of the Treasury and other Federal officials shall invest and disinvest Social Security and Medicare trust funds solely for the purposes of accounting for the income and disbursements of these programs. The Committee further intends that the investments of the trust funds are made timely, in accordance with the normal investment practices of the Treasury, and are not drawn down prematurely for the purposes of avoiding limitations on the public debt or to make room under the statutory debt limit for the Secretary of the Treasury to issue new debt obligations in order to cover other expenditures of the Government.

Proposed Change

The legislation codifies Congress' understanding of present law that the Secretary of the Treasury and other Federal officials are not authorized to use Social Security and Medicare funds for debt management purposes. Specifically, the Secretary of the Treasury and other Federal officials are required not to delay or otherwise underinvest incoming receipts to the Social Security and Medicare trust funds. They are also required not to sell, redeem or otherwise disinvest securities, obligations or other assets of these trust funds except when necessary to provide for the payment of benefits and administrative expenses of the cash benefit programs. The Committee intends that these requirements be carried out to the maximum extent possible under the statutory debt limit. The legislation applies to the following trust funds:

1. Federal Old-Age and Survivors Insurance (OASI) Trust Fund;
2. Federal Disability Insurance (DI) Trust Fund;
3. Federal Hospital Insurance (HI) Trust Fund; and
4. Federal Supplementary Medical Insurance (SMI) Trust Fund.

Effective Date

The proposal is effective upon date of enactment.

BUDGET EFFECTS OF THE BILL

According to preliminary estimates of the Congressional Budget office, the legislation will reduce mandatory spending by $300 million over seven years (FY 1996-2002) and by $2.7 billion over ten years (FY 1996-2005).

MISCELLANEOUS

Attached is a letter from John D. Hawke, Jr., Under Secretary of the Treasury for Domestic Finance, providing comments on the proposal to protect the Social Security and Medicare trust funds as originally introduced. The legislation reported by the Committee includes a modification of this proposal tu address these concerns.

DEPARTMENT OF THE TREASURY,
Washington, DC, December 15, 1995.

Hon. WILLIAM V. ROTH, Jr.
Chairman, Senate Finance Committee
U.S. Senate, Washington, DC.

DEAR MR. CHAIRMAN: Our comments have been requested with respect to the provisions of Section 6 of S. 1470, the "Senior Citizens' Freedom to Work Act of 1995." This section of the bill is intended to provide protections to the Social Security and Medicare trust funds at times when the public debt limit might otherwise cause certain adverse consequences with respect tu those funds.

The Administration shares the objective of protecting the beneficiaries of these funds. As you know, both the President and the Secretary of the Treasury have stated that the Secretary has no authority to redeem securities from the Social Security fund for any purpose other than to assure the payment of benefits. The same principle would apply as well to the other 178 trust funds that are not subject to the Secretary's express debt management powers.

Section 6 would do the following:

It would require that all revenues received or held by these funds be invested in public debt obligations, "notwithstanding any other provision of law." Thus, it would effectively create an exception to the debt limit to permit the investment of incoming receipts of these funds.

It would forbid the "disinvestment"—that is, the redemption prior to maturity—of securities held by the funds if a purpose thereof were "to reduce the amount of outstanding public debt obligations."

It would allow Treasury to disinvest the funds and to issue corresponding new public debt, "notwithstanding the public debt limit," to the extent necessary to raise cash to pay benefits to fund beneficiaries.

The provision of Section 6 would, however, have serious adverse consequences, and would present certain practical problems that could frustrate or impede the realization of its objectives:

First, the continued investment of new fund receipts, notwithstanding the debt limit, would cause outstanding Treasury debt to exceed the debt limit in an ever increasing amount. This would prohibit Treasury from issuing any other new Treasury debt. Even the rollover of maturing debt would be precluded so long as outstanding debt remained over the debt limit. As a consequence we would face imminent default on all other outstanding obligations.

Because no other new debt could be issued, the bill would also remove Treasury's ability to raise cash to pay benefits from other trust funds, even after a disinvestment of securities held by such funds.

Second, while the bill intends to protect the ability to make payments to fund beneficiaries at times when the debt limit would otherwise preclude such payments, as a practical matter it cannot be assured that the protected payments could actually be made, given the current methods of paying government obligations.

The Federal Reserve's current procedure, when government checks are presented for payment, is to give immediate credit to the presenting bank. Incoming checks are not actually sorted for several days after presentment. There is not presently in place any operational capability that would permit a distinction to be made between protected benefit checks and all other checks being presented for payment.

While the bill would require the Secretary to institute procedures to assure that the protected benefits are paid when due, we estimate that it would take a minimum of three months, and perhaps longer, to institute the changes in the payments system necessary to provide this assurance.

Finally, the protected payment procedures prescribed by this legislation would only be triggered when we were in, or on the brink of, default.

Since the country has never in its history experienced a default, it is impossible to determine whether or to what extent it would be possible for Treasury to sell new debt to the public to make the protected payments.

In such a situation, all other payment obligations of the United States would either be in default or would be "queued up" for payment as cash became available.

We would be pleased to work with the Committee to try to develop legislative language that would carry out the objectives that we share, while avoiding the adverse consequences we see flowing from the language in the current bill.

We continue to believe, however, that the most effective and certain means for assuring that the interests of beneficiaries of Social Security and Medicare—as well as all other trust funds—are fully protected, is promptly to enact a clean permanent increase in the debt limit.

Sincerely,

JOHN D. HAWKE, Jr.,
Under Secretary of the Treasury for Domestic Finance.

THE BAD DEBT BOX SCORE

Mr. HELMS. Mr. President, as of the close of business yesterday, December 14, the Federal debt stood at $4,989,708,393,241.14, a little more than $10 billion shy of the $5 trillion mark, which the Federal debt will exceed in a few weeks.

On a per capita basis, every man, woman, and child in America owes $18,941.02 as his or her share of that debt.

THE LAUTENBERG AMENDMENT

Mr. SIMPSON. Mr. President, earlier today, Senator LAUTENBERG responded to a statement I made yesterday regarding the so-called Lautenberg amendment.

In defending this abused program, which has made a farce of the Refugee Act, my friend and colleague claimed that the beneficiaries "have to prove a credible fear" of persecution before they qualify.

Yet, in fact, these people do not have to prove a credible fear of persecution; rather all they have to do is assert a fear of discrimination. Discrimination, Mr. President, is not persecution; and asserting a fear is not proving it. All other refugees in the world who are coming to this country are required to prove a "well-founded fear of persecution."

Senator LAUTENBERG responded to the reports of criminals using this program to enter the United States by saying it wasn't designed to "allow criminals to enter." He said it is the responsibility of the INS and the State Department to prevent criminals from using the program.

I would remind my good friend that when the INS tried its level best to effectively screen these people, representatives of "the groups" went directly to Moscow to insist upon lower standards. Do not blame the Justice and the State Departments alone for this fiasco. "The groups" and their skilled lobbyists created this one from whole cloth.

Senator LAUTENBERG said he was surprised to hear me refer to Russia as our "best friend." Perhaps best friend was a bit of an overstatement, but they are certainly among our friends, and certainly this administration and this President as well as the previous administration have gone out of their way to cultivate friendly relations with that country. Whether it is a best friend or a good friend, there is certainly no justification whatever—at this present day—for some blanket "presumption" of "refugeeness" for any of their citizens who happen to belong to one of several religious groups, some of whose members have been subject to discrimination or even persecution in the past.

However, the most astounding thing the Senator from New Jersey said was that the program ought to be extended for another year. Even if we cut this off today, there are 100,000 of these beneficiaries of the Lautenberg amendment already "in the pipeline." That means that even without an extension we will have 35,000 entering every year for the next 3 years.

I can only reply to my friend that he should read again the article I placed into the CONGRESSIONAL RECORD yesterday, and I respectfully recommend that he should talk to the Immigration Service about the current traffic from Moscow regarding this program.

How can any of us support a program where only one-half of 1 percent of those applying now could qualify as a "refugee" under the American and the international law definition of "refugee"? We make a mockery of the law if we do so.

Why should the American taxpayer provide our severely limited refugee aid for these persons, who are actually regular "immigrants," not "refugees."

These "asserters" are not even required to prove a well-founded fear of persecution, so we have absolutely no assurance that they are, in fact, refugees. And more importantly please recall that when they do receive permission to enter the United States, they take months, even sometimes more than a year, to decide whether or not they really want to come here.

About 40,000 of them who are authorized to come here are lingering in the former Soviet Union, weighing their options. They are clearly in no hurry. That is what an immigrant ordinarily does—to calmly, and without urging, weigh all the pluses and minuses of staying or going to the United States. A true refugee does not have any possible luxury of such a lengthy, deliberative process. After all they are required to be "fleeing" or have a "well founded fear" of persecution.

Again, I urge the conferees on the State Department reauthorization bill to insist upon the Senate provisions and not continue this misused program any longer.

RETIREMENT OF LEE M. NACKMAN

Mr. SIMPSON. Mr. President, I appreciate the opportunity to take a few brief moments of the Senate's time to acknowledge the impending retirement of Mr. Lee M. Nackman from Federal service.

For nearly 10 years, Mr. Nackman has served as the Director of the Los Angeles VA Outpatient Clinic. During his tenure, he has taken his clinic from substandard basement quarters to a $40 million, state-of-the-art, ambulatory care center in the heart of downtown Los Angeles.

The constituency served by the clinic brings to it a myriad of medical and psychosocial problems. Many of the veterans care for are homeless, living on the streets literally within sight of Los Angeles' City Hall. In large measure because of his leadership, each of the veterans cared by the clinic is treated with the dignity and respect they have earned through service to their country. This is a difficult patient population, yet Lee Nackman has assured that it is one that is well served by the Department of Veterans Affairs health care system.

Mr. President, on January 3, 1996, Mr. Nackman is ending a distinguished 35-year career of service to America's veterans. He began as a pharmacy intern at the Manhattan VA Medical Center upon completion of his B.S. degree from Columbia University. While working as a pharmacy resident at what is now the West Los Angeles VA Medical

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C.

DEPUTY SECRETARY

December 20, 1995

Hon. William V. Roth, Jr.
Chairman
Senate Finance Committee
United States Senate
Washington, D.C. 20510

Dear Mr. Chairman:

We are pleased to have had the opportunity to work with you and the staff of the Finance Committee with regard to the provisions of section 6 of S.1470, relating to the protection of the Social Security and Medicare trust funds.

With the changes described in my earlier letter to you, and with the synopsis that you placed in the Congressional Record making clear that section 6 does not require any investments relating to these funds in excess of the statutory debt limit, we fully support enactment of these provisions in their present form. The Administration welcomes the codification of its position that the Treasury may not use the Social Security and Medicare trust funds for any purpose other than to assure the payment of benefits.

As we made clear during our discussions with the staff, we would not support section 6 if it were broadened to include other trust funds. In light of Secretary Rubin's recent testimony before the House Banking Committee, in which he stated that the trust funds can only be disinvested for the purpose of paying benefits, we do not think any broadening of section 6 is warranted.

We would also strongly oppose any effort, in the consideration of S.1470 or otherwise, to repeal the prudent and reasonable debt management tools that were given to the Secretary of the Treasury in 1986 and 1987 in the laws governing the Civil Service Retirement and Disability Trust Fund and the Government Securities Investment Fund. This authority not only provides the Secretary with an essential means of avoiding a default, while fully protecting the interests of these two funds.

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but it also protects Treasury's ability to continue investing receipts of the Social Security and Medicare funds at times when there would otherwise be inadequate debt limit leeway.

Sincerely,

John D. Hawke, Jr.
Under Secretary of the Treasury
for Domestic Finance

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