

**Statement of Alice M. Rivlin
Director, Congressional Budget Office
before the
Subcommittee on Taxation
and Debt Management
Senate Finance Committee
September 11, 1979**

Mr. Chairman and Members of the Committee, I am pleased to appear before you today to testify on the Treasury's request for an increase in the statutory debt limit. My statement will cover two principal topics:

- o The budget estimates for fiscal years 1979 and 1980 underlying the Second Concurrent Resolution on the Budget for Fiscal Year 1980, as reported by the Senate Budget Committee and now under consideration on the Senate floor; and
- o The budget outlook for fiscal years 1981 and 1982, using the Senate Budget Committee recommendations in the second budget resolution for 1980.

Budget Estimates for 1979 and 1980

The Senate Budget Committee's recommended unified budget deficit for fiscal year 1980 is \$28 billion. This is slightly below the \$29.9 billion deficit assumed for 1979. The Committee recommends a budget with outlays of \$542.7 billion, which represents a 9.4 percent increase over the \$495 billion projected for 1979. The receipt floor in the recommended resolution is \$514.7 billion, a 10.6 percent increase over the 1979 level (see Table 1).

The Committee's recommended deficit for 1980 of \$28 billion is \$5 billion higher than the first concurrent resolution deficit that was approved in May. Since that time, the Congressional Budget Office (CBO) has reestimated both spending and receipts. These reestimates, based on a new economic forecast and a comprehensive review of spending and receipt

TABLE 1. BUDGET TOTALS BY FUND GROUP: BY FISCAL YEAR, IN BILLIONS OF DOLLARS

	1979	1980
Receipts		
Federal funds	319.1	348.9
Trust funds	188.2	210.2
Interfund transactions	-41.0	-44.4
Total	466.3	514.7
Outlays		
Federal funds	363.2	387.9
Trust funds	174.0	199.2
Interfund transactions	-41.0	-44.4
Total	496.2	542.7
Surplus or Deficit (-)		
Federal funds	-44.1	-38.9
Trust funds	14.2	10.9
Total	-29.9	-28.0

SOURCE: Second Concurrent Resolution on the Budget, Fiscal Year 1980, prepared by the Senate Committee on the Budget, 96 Cong. 1 sess. (1979).

patterns, resulted in an increase in estimated spending of \$9 billion and an increase in receipts of \$3.7 billion. The major part of the spending increase shown in Table 2 is attributable to increases in benefit payments for social security, unemployment insurance, federal employee retirement, and food stamps. These increases are the result of the forecast of higher inflation and unemployment than assumed in the first concurrent resolution. On the

revenue side, the major reestimate--for the individual income tax--is based on recent Treasury collection data that shows individual income tax collections coming in much faster than previously anticipated.

TABLE 2. CBO REESTIMATES TO THE 1980 FIRST CONCURRENT RESOLUTION: IN BILLIONS OF DOLLARS

First Concurrent Resolution	532.0
Changes Caused by Reestimates	
Social security	1.7
Federal employee retirement	0.6
Unemployment insurance	2.3
Food stamps	0.5
Medicare and medicaid	0.9
Black lung disability trust fund	0.5
Education and training	0.5
Defense	2.5
Net interest	2.1
Agriculture	-3.1
Other	0.5
First Concurrent Resolution Reestimated	541.0

SOURCE: Congressional Budget Office.

It should be noted that the economic outlook remains very uncertain. If the economy in 1980 turns out to be weaker than forecast by CBO in July, the deficit could rise, perhaps substantially, above the \$28 billion contained in the Budget Committee recommendation. For example, if the average unemployment rate in calendar year 1980 were 1 percentage point higher than in the CBO forecast, the budget deficit for 1980 would automatically rise by about \$18 billion. Approximately \$6 billion of the increase would be

attributable to increased benefit payments for unemployment insurance, food stamps, and public assistance. About \$12 billion would be caused by lower receipts associated with lower income levels. This means that an average unemployment rate for 1980 of slightly above 8.3 percent (rather than 7.3 percent, as assumed in the Budget Committee recommendation) would increase the deficit to the \$40 to \$50 billion range. This deficit figure could be increased further if the Congress were to choose to enact spending or tax stimulus measures to counteract rising unemployment.

On the inflation front, for which the outlook remains very uncertain, an increase in the inflation rate would have small short-run effects on the deficit. Spending for indexed benefit programs would automatically increase somewhat, but the increase would be offset by higher revenues as inflation pushed taxpayers into higher income brackets.

Finally, interest rates can also affect the deficit. If short- and long-term rates for 1980 were to exceed the CBO forecast by 1 percentage point, the deficit would automatically increase by over \$1 billion because of higher outlays for interest on the public debt.

The Debt Ceiling

The temporary limit on the public debt that is scheduled to expire on September 30, 1979, is \$830 billion. This limit appears to be sufficient to accommodate the latest estimates for fiscal year 1979; there is little danger that the ceiling will be breached. The debt subject to limit in the Budget Committee recommendation for fiscal year 1980 is \$887.4 billion. This

represents an increase of about \$58 billion, and is approximately equal to the 1979 increase (see Table 3). Let me take a moment to discuss the components of the estimates. The unified budget deficit of \$28 billion for 1980 would be financed by borrowing from the public. In addition, the Treasury would issue debt securities that are subject to limit to trust funds that show surpluses and to certain agencies that operate insurance funds and currently show an excess of receipts over outlays. This combined trust fund-agency surplus is estimated to be \$14 billion.

TABLE 3. DEBT SUBJECT TO LIMIT: BY FISCAL YEAR, IN BILLIONS OF DOLLARS

	1979	1980
Budget Deficit	29.9	28.0
Trust Fund and Agency Investment	18.0	14.0
Deficit of Off-Budget Federal Entities	12.0	16.0
Total to be Financed	59.9	58.0
Means of Financing (other than borrowing) and Other Adjustments	-3.2	--
Increase in Debt Subject to Limit	56.7	58.0
Debt Subject to Limit (beginning of year)	772.7	829.4
Debt Subject to Limit (end of year)	829.4	887.4

SOURCE: Second Concurrent Resolution on the Budget, Fiscal Year 1980, prepared by the Senate Committee on the Budget, 96 Cong. 1 sess. (1979), and the Congressional Budget Office.

The off-budget deficit also increases the borrowing requirements of the Treasury. The off-budget deficit assumed in the Committee recommendation for fiscal year 1980 is \$16 billion. Most of this deficit is attributable to the credit activities of the Federal Financing Bank. CBO has generally supported bringing the activities of off-budget entities on budget so that the unified budget would fully reflect spending by the federal government. In particular, we have advocated changing the budgetary recording of agency transactions with the Federal Financing Bank so that those transactions are reflected in the agency budgets.

The total amount to be financed in the recommended resolution is \$58 billion. When this is added to the estimated debt at the end of fiscal year 1979, it brings the total debt subject to limit by the end of fiscal year 1980 to \$887.4 billion.

The Budget Outlook for 1981 and 1982

CBO has long advocated the inclusion of multiyear targets in annual budget resolutions. In the absence of these targets, the short-run consequences of legislative actions tend to overwhelm the longer-range considerations. Even as early as the spring of 1979, decisions on 1980 budget totals were severely restricted by decisions that had already been made. Consequently, it has been very difficult to exert control over budget totals in the near term.

The Public Debt Limit Act of 1979, approved in April, contained an historic provision requiring the Senate Budget Committee to report a

multiyear budget resolution for fiscal years 1981 and 1982, along with the first budget resolution for 1980. That provision resulted in the debate and passage of a multiyear budget for 1980-1982 in the Senate in the spring.

The Senate Budget Committee has continued the precedent set in the first budget resolution and recommended budget targets for 1981 and 1982 in their recommendations for the 1980 second budget resolution. The 1981 and 1982 recommendations represent a proposed budget plan or multiyear target rather than a simple extrapolation of the 1980 recommendation. For example, the outyear recommendation assumes a phasedown of general revenue sharing starting in 1981, funding for welfare reform starting in 1982, and an infusion of budget authority for energy initiatives in 1982. On the receipts side, the revenue target for 1982 assumes a \$55 billion tax cut.

The recommended targets result in budget surpluses of \$15.0 billion in 1981 and \$25.6 billion in 1982 (see Table 4). The surpluses would decrease the need for new borrowing in 1981 and 1982; the public debt, however, would still increase (albeit by decreasing amounts) under the recommended targets because of the need to finance off-budget deficits and to issue securities to trust funds that will be in surplus (see Table 5).

To summarize, the Budget Committee recommendation for 1980 would require an increase in the temporary debt limit from \$830 billion to \$887.4 billion, assuming an expiration date of September 30, 1980. This increase in the public debt limit would be approximately equal to the increase for 1979. The recommended budgets for 1981 and 1982, however,

TABLE 4. BUDGET TOTALS BY FUND GROUP: BY FISCAL YEAR, IN BILLIONS OF DOLLARS

	1981	1982
Receipts		
Federal funds	409.5	432.3
Trust funds	241.2	277.8
Interfund transactions	-47.1	-51.7
Total	603.6	658.4
Outlays		
Federal funds	413.1	437.0
Trust funds	222.6	247.5
Interfund transactions	-47.1	-51.7
Total	588.6	632.8
Surplus or Deficit (-)		
Federal funds	-3.6	-4.4
Trust funds	18.6	30.3
Total	15.0	25.6

SOURCE: Second Concurrent Resolution on the Budget, Fiscal Year 1980, prepared by the Senate Committee on the Budget, 96 Cong. 1 sess. (1979).

TABLE 5. DEBT SUBJECT TO LIMIT: BY FISCAL YEAR, IN BILLIONS OF DOLLARS

	1981	1982
Budget Surplus	-15.0	-25.6
Trust Fund and Agency Investment	21.8	28.8
Deficit of Off-Budget Federal Entities	12.0	12.0
Total to be Financed	18.8	15.2
Increase in Debt Subject to Limit	18.8	15.2
Debt Subject to Limit (beginning of year)	887.4	906.2
Debt Subject to Limit (end of year)	906.2	921.4

SOURCE: Second Concurrent Resolution on the Budget, Fiscal Year 1980, prepared by the Senate Committee on the Budget, 96 Cong. 1 sess. (1979), and the Congressional Budget Office.

would result in much smaller future increases. By 1982, the public debt as a percent of GNP would decline to 27.6 percent, compared with 32.7 percent for 1979.

This concludes my statement. I would be happy to answer any questions the Committee might have.

