

Senator PERCY. Mr. Chairman, I yield with an expression of appreciation to our two expert witnesses this morning who have given us some new insight into the remarkable report.

Chairman PROXMIRE. Thank you.

Well, now I want to get back, Mr. Capron, to the question I was asking about the debt.

It seems to me one of the interesting consequences of this is we not only reduce the debt by \$60 billion, but we reduce service on the debt. Maybe not. But if you are going to net these things out and cut back the debt to \$265 billion, obviously you might argue at the same time—I do not know; I have not had a chance to study this thoroughly enough. Maybe you gentlemen can enlighten me on this—that the \$14 billion service charge could also be cut back by \$2.5 to \$3 billion since, after all, you should be reporting the interest paid on a debt that you consider outstanding, not the interest paid to yourself. Is this correct?

Mr. CAPRON. Yes, I think it is. The interest that is now credited to the trust fund accounts is purely a bookkeeping charge. It does not increase or decrease, or affect at all the obligation that the Federal Government has, for example, to pay social security benefits as they have been legislated by the Congress.

Chairman PROXMIRE. So here is another target—

Mr. CAPRON. They are going to be paid, and whether you fix the books by crediting some interest each year from the General Treasury to the trust fund account which has no meaning except as a bookkeeping entry—it does not mean that that trust fund is any sounder, it seems to me, one way or another. And I would agree with you that if you move in the direction suggested by the Budget Concepts Commission and report the debt held by the public as the debt, that a re-examination of this question of internal interest bookkeeping transactions would be very appropriate.

Chairman PROXMIRE. So that, No. 1, you cut the debt; No. 2, you reduce the deficit by a very substantial amount—as I say, somewhere between \$2 and \$3 billion.

Under the new concept, then, we could conceivably run a deficit in the sense that we were taking in less than we were payout out, but not increase the national debt because the trust funds are buying the deficit, could be buying the deficit depending on the status of the trust funds and their capacity to invest. If the social security fund and the highway fund can pick up the deficit, then even though we are running a deficit, it does not reflect itself in an increased national debt.

Mr. CAPRON. Well, of course, this will—

Mr. STEIN. Well, by the same definition, if you show a smaller debt, you will also be showing a smaller deficit.

Chairman PROXMIRE. Because you are including the trust funds.

Mr. STEIN. That is right. So that you—

Chairman PROXMIRE. There is no element, no free money that is not invested in Federal obligations in trust funds.

Mr. STEIN. I think that is true. Maybe there is a little.

Mr. CAPRON. Only some relatively small cash balances, I believe.

Chairman PROXMIRE. Not enough to make any difference. OK.

Mr. STEIN. Of course, the characteristic you have pointed to has been true of both the cash consolidated budget and the national income accounts, also. I think it would be better to avoid saying we