Joint Economic Committee Republicans
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Planned Gridlock: The Clinton Administration Plan to Block Debt Limit and Balanced Budget Legislation

The purpose of this report is to present the results of a Joint Economic Committee (JEC) investigation of the Clinton Administration's planning for the debt limit/budget impasse that began in November, 1995. This JEC investigation focuses on Treasury documents regarding the disinvestment of federal trust funds to circumvent the debt limit. On November 15, 1995, Treasury Secretary Robert Rubin announced his plan to disinvest the civil service trust fund and the G-fund of the government employee thrift plan to finesse the debt limit impasse between the President and Congress.

This 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 JEC Vice-Chairman Saxton. Their letter requested "copies of all the documents related to this decision-making process." Although the Administration attempted to withhold many documents and prevent public disclosure of important information, after repeated efforts the JEC finally was able to obtain most of the documents requested. Most of these documents and information had not been provided to any entity outside of the Clinton Administration. Between November 16, 1995 and September 6, 1996, the Clinton Administration has gone to extreme lengths to keep these documents from the committee.

The JEC investigation reveals several important facts about the way the Clinton Administration viewed the debt limit and, in conjunction with it, the balanced budget legislation. The documents obtained by the JEC show that Clinton Administration planning was not a hurried response to a suddenly unexpected problem, or even a developing one; but a carefully drawn out political and financial strategy that originated many months before the so-called debt limit crisis:

- Administration planning to enhance its ability to evade the debt limit began in April 1995. Internal Administration documents show that the basic ingredients of its plan to evade the debt limit were identified in a memo dated April 20, 1995, only a few months after the start of the 104th Congress.
- Internal Treasury Department documents show not only that this planning began very early, but was extremely comprehensive as well. Each financing option was exhaustively examined, and woven into a detailed plan to be implemented over the course of several months. For example, by mid-September, 1995, the Administration had projected the likely date each disinvestment option would be exercised depending on which scenario materialized. Later, attachments to these memos projected the effects of disinvestment and other options on cash balances and outstanding debt on a daily basis.
- Use of the Social Security and Medicare trust funds were apparently considered to evade the debt limit. Both Social Security and Medicare trust funds appear on an Administration strategy memo as late as November 8, 1995.

- Despite the exhaustive preparations undertaken by the Clinton Administration to render the debt limit meaningless, the White House and other Administration officials falsely stated that Congressional inaction on the debt limit by November 15, 1995 would cause a default with catastrophic financial repercussions. The fact that these statements were premeditated is proven by a set of White House talking points provided to the JEC only last month.

The Administration Plan to Circumvent the Debt Limit

Documents obtained by the JEC show that by April 20, 1995, the Administration had already identified trust funds as a source of financing during a protracted debt limit impasse. Other documents, including a June 27, 1995 Treasury memo and its attachments, confirm an extremely detailed plan to be implemented by the middle of November and continuing for several months thereafter. These documents reflect a very comprehensive strategy to disinvest the civil service retirement trust fund as well as a number of other funds; the major actions planned were announced almost exactly as scheduled in these early documents.

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 identified in a Treasury memo as early as April 20, 1995 as a way of managing the "debt limit impasse," and that this strategy was meticulously developed in other Administration documents.

Attachments to the June 27, 1995 Treasury memo outline two scenarios in which the Administration's disinvestment and other options could be implemented; a third scenario was apparently added later. Starting in mid-September, a series of steps were presented unfolding the Administration plan. For example, under Scenario I, $36 billion in civil service trust fund securities would be redeemed on November 13; Secretary Rubin announced a virtually identical action on November 15, 1995. The disinvestment of the G-Fund and a number of other options later implemented are also presented.[1]

Other attachments to this memo chart project cash and debt levels on a daily basis from the last week in October 1995 through February 1996. Each Administration financing option is projected for implementation on a particular date with the corresponding effects on cash balances and debt levels also shown. Projected cash and debt levels are posted for every day over the 17 week period whether or not a financing option is planned for that day.[2]

A November 8, 1995 Treasury memo is similar to the previous memo but includes additional options under the heading: "Measures for Consideration." Other funds are listed "To Pay Benefits," and "For General Purposes." ***Surprisingly, this list includes funds such as Social Security, Medicare, Military Retirement, Unemployment, and Disability***. The sale of gold is also listed as an option.[3]

Furthermore, any suggestion that final legal clearance for the disinvestment had only just occurred shortly before the disinvestment decision was announced on November 15 does not mean extensive legal research and decisions had not been undertaken many months in advance. Treasury documents show that legal analysis of the issues involved began during the summer of 1995, and included Treasury and Justice Department attorneys. For example, Treasury documents show that by August 28, 1995, Justice Department attorneys were to be brought in "to meet with Treasury technical staff to learn the mechanics of investing and disinvesting trust fund receipts."[4] Any notion that a three or four month legal resolution of these issues occurred only just before the disinvestment announcement is simply not credible.

An October 20, 1995 memo reports a later Treasury meeting with Justice Department attorneys ***"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..."*** [5] From these references this planning clearly had a political dimension, but it is not known whether any of those on the Task Force, for example, were civil servants improperly used for political purposes.

Moreover, it appears that labor union allies were kept better informed of the Administration plans than was the Congress. For example, an October 30, 1995 Treasury memo to top officials provides talking points on G-Fund disinvestment to **"union representatives," informing them about a letter about to be sent to the Congressional leadership**. In addition, it appears that at least one major union had been advised of a debt limit standoff by Administration officials during the summer of 1995.[6] Of course, the government employee unions strongly supported Administration efforts to hold out against the debt limit-balanced budget legislation as long as possible.

Despite these detailed preparations, Clinton Administration officials created the misleading impression that inaction on the debt limit could lead to default and catastrophic economic consequences. According to a public Treasury report: "Suggestions that there are easy ways for Treasury to manage through a debt limit crisis are both mistaken and misguided. To address just a few of the examples: FFB's borrowing capacity has already been used; the trust funds can be disinvested only to pay benefits...."[7] However, less than a month later the Treasury announced that the civil service retirement trust fund would be disinvested in an amount that clearly exceeded benefit payments. Furthermore, the internal Treasury planning memos indicate that trust funds would be used for general purposes, and not limited to benefit payments, and that the Federal Financing Bank (FFB) held assets that could also be utilized.

As American Enterprise Institute (AEI) economist John Makin pointed out last December:

"The Secretary has put forward a lot of dark hints and half-truths regarding the possibility of a default on interest payments on U.S. government securities. The truth is that the U.S. Treasury is not going to default on those or any other interest payments, and Secretary Rubin knows it. Instead of admitting this publicly, he has chosen to play along with the threats coming out of the Clinton White House that the budget battle could lead to a default....Despite the best efforts of Secretary Rubin and other White House spokesmen to panic the financial markets--budget director Alice Rivlin actually stated publicly that the bond markets *should* weaken--they succeeded only in panicking foreign investors...."[8]

While high ranking Clinton officials in the Treasury, OMB, and elsewhere were publicly raising a misleading impression of default risk, Clinton officials had been privately preparing detailed disinvestment plans. In fact, several of these memos were directed to the highest levels in the Treasury Department and elsewhere in the Administration, so there is simply no credible way for these officials to claim they were unaware of the disinvestment planning.

Creating A Default Hoax

Other Administration officials outside the Treasury Department also knew that default last November was not going to happen, with or without a debt limit increase. With no real substantive possibility of default, the documents suggest that the real purpose of the default scare was partisan politics. The evidence shows that the Administration fashioned a partisan political weapon by pretending the debt limit impasse would cause a default in mid-November 1995. Leading administration officials either fostered or stood by and tolerated the political campaign based on disinformation about imminent default. These statements misled the press and the American people about the true situation regarding the debt limit. The documents also indicate that the default hoax was part of a larger administration political strategy.

In fairness to the Treasury Department, while it played an important role in the misinformation campaign and associated censorship of documents requested by the JEC, it is clear that others in the Administration played a major role. The June 27, 1995 memo makes clear that the activities associated with the debt limit strategy were to be closely coordinated with other Administration officials.[9]

The available evidence suggests that the political origins of the default hoax most likely did not originate 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 to evade the debt limit for at least four months.

Administration documents clearly show that anyone with access to this information had to know that inaction on the debt limit would lead to disinvestment, not default. What has been unclear until recently is whether these false statements about default were a result of confusion, or whether they were deliberate and premeditated.

The JEC has obtained a set of White House talking points intended to guide Administration officials in their public statements. This document proves that White House and other Administration officials were encouraged to falsely state that if the debt limit is not increased by mid-November, the world will be faced with the spectacle of the United States defaulting on its obligations for the first and only time in history.[10] The White House has provided the JEC with this document on the condition that it not be publicly released. While the JEC will honor this condition, any interested parties may also wish to request that the White House provide them with this document, as well as other White House and Treasury documents on this subject.

The same Administration that had successfully endeavored for many months to render the debt limit meaningless now was using it as a partisan weapon to raise fears of financial disaster. It is clear that the top officials involved in the budget and debt limit issues were aware of the Treasury's disinvestment plans. Thus the disingenuous attempts to create an atmosphere of default despite the fact that disinvestment options had been planned at high levels of the White House, not just the Treasury Department. The June 27, 1995 Treasury memo stresses close coordination and briefing of other Administration officials, and other documents which can't be revealed show that the White House was very much involved.

An Administration spokesman has confirmed in a press account (2/2/96 *Washington Times*) that top Administration officials in the White House and other offices outside of the Treasury Department 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.

Treasury Effort To Conceal Information

The information presented here was extremely difficult to obtain. It is quite obvious that officials at the White House and Treasury Department did not want the committee to gain access to it.

For over two months, the Treasury Department had withheld information from Congress by various delaying tactics and extensive censorship of documents. For example, the June 27, 1995 memo of the kind expressly targeted by our investigation was provided only after more than a month of delay. And, when it finally arrived, over 90 percent of the memo and its attachments were deleted, including the text of entire pages. Of ten pages, the text of seven pages 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, as noted above, in providing this document, the Treasury censored well over 90 percent of its contents. It is impossible to view this as a legitimate response to the request. It is very disturbing that the U.S. Treasury would resort to such tactics in dealing with an information request, obviously borne of a desire to conceal information from the public.

The JEC received the uncensored version of the June 27 memo and several other documents only after JEC staff 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. The JEC finally received these documents on January 24, some other documents were still withheld. A large delivery of documents was made on the eve of Secretary Rubin's appearance at a committee hearing several weeks later. Other documents have dribbled in and after considerable and repeated delays, finally even the White House complied with the committee request.

Conclusion

The Administration documents obtained by the JEC show that the Administration began planning for gridlock on budget policy began soon after the start of the 104th Congress. The expectation was that budget changes producing a balanced budget would be bundled with the debt limit, and that disagreement on budget policy between Congress and the Administration would result in a standoff, or what the Administration referred to as a "debt limit impasse." One major objective of the Administration's planning was to create a situation in which its resistance to the balanced budget legislation could be sustained as long as possible. The result was a detailed "debt limit strategy" that effectively rendered the debt limit constraint meaningless in mid-November, 1995.

However, having achieved this objective through its planning in private, the Administration proceeded to publicly maintain that a disagreement to raise the debt limit in mid-November 1995 would lead to default. At this time it was unclear whether the default scare was being heightened by inadvertent random statements by Administration officials, or by deliberately false statements raising fears of default. The White House talking points recently obtained by the JEC establishes that the official White House line was to falsely heighten the default scare in public statements directed at the media and the American people.

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Endnotes

1. Memorandum from Darcy Bradbury to Treasury Secretary Robert Rubin, Department of the Treasury, June 27, 1995.

2. *Ibid.*

3. Memorandum from Darcy Bradbury to Treasury Secretary Robert Rubin, Department of the Treasury, November 8, 1995.

4. Memorandum from John Bowman to General Counsel Edward Knight, Department of the Treasury, August 25, 1995.

5. Memorandum from John Bowman to General Counsel Edward Knight, Department of the Treasury, October 20, 1995.

6. Memorandum from Penny Rostrow to Larry Summers, et. al., Department of the Treasury, October 30, 1995.

7. Department of the Treasury Report, "The Debt Limit," October 12, 1995.

8. Makin, John. "Where's The Debt Default?" American Enterprise Institute, December 1995.

9. Memorandum from Darcy Bradbury to Treasury Secretary Robert Rubin, Department of the Treasury, June 27, 1995.

10. Contact the White House to obtain a copy of this document. The JEC cannot publicly release this document due to White House conditions.