Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE 566-2041

FOR RELEASE ON DELIVERY
EXPECTED AT 2:00 P.M.
September 11, 1979

STATEMENT OF THE HONORABLE G. WILLIAM MILLER
SECRETARY OF THE TREASURY
BEFORE THE SUBCOMMITTEE ON TAXATION AND DEBT MANAGEMENT
OF THE SENATE COMMITTEE ON FINANCE

Mr. Chairman and Members of the Committee:

My purpose here today is to advise you of the need for an increase in the public debt limit, and to request an increase in the authority to issue long-term Treasury securities in the market. After discussing these specific debt management requirements, I would like to comment on the need to strengthen the process by which Congress establishes the debt limit.

Debt Limit

With regard to the debt limit, the present temporary limit of $830 billion will expire at the end of September, and the debt limit will then revert to the permanent ceiling of $400 billion. Prompt enactment of legislation is necessary to permit the Treasury to borrow to refund maturing securities and to pay the Government's other legal obligations.

Our current estimates of the amounts of debt subject to limit at the end of each month through the fiscal year 1980 are shown in the attached table. According to the table, the debt subject to limit will increase to $883 billion at the end of September 1980, assuming a $15 billion cash balance on that date. This estimate is consistent with the budget

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The amount of the debt subject to limit approved by Congress in the May 1979 Budget Resolution is $887 billion for the fiscal year ending September 30, 1980. Yet, since the Budget Resolution does not have the force of law, it will be necessary for Congress to enact a new debt limit bill before the Treasury can borrow the funds needed to finance the programs approved by Congress last May.

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Investors as well as dealers in Government securities base their day-to-day investment and market strategies on the expectation that the Treasury will offer and issue the new securities on schedule. Delayed action by Congress on the debt limit, therefore, adds to market uncertainties, and any such additional risk to investors is generally reflected in lower bids in the Treasury's auctions and consequently in higher costs to the taxpayer. To avoid this needless increase in the interest costs of financing the public debt, I strongly urge that Congressional action on the debt limit be completed as soon as possible.

I know that this Committee has made every effort in the past to assure timely action by Congress on the debt limit. Yet, the record of the past two years has not been good. During this period debt limit legislation was considered by

Congress four times. On three occasions action was not taken before the expiration date, and the Treasury was unable to borrow until the Congress acted two or three days later. Significant costs were incurred by the Treasury, and extraordinary measures were required to prevent the Government from going into default. The Treasury was required to suspend the sale of United States savings bonds, and people who depend upon social security checks and other Government payments suddenly realized that the Treasury simply cannot pay the Government's bills unless it is authorized to borrow the funds needed to finance the spending programs previously enacted by Congress.

You would agree, I trust, that it is essential that we do everything possible to restore the confidence of the American people in their government. Unfortunately, this objective has not been served by our recent experiences with debt limit legislation. Confidence in the management of the Government's finances was seriously undermined each time the debt limit was allowed to lapse and we must all work to avoid that outcome in this instance.

Bond Authority

I would like to turn now to our need for an increase in the Treasury's authority to issue long-term securities in the market without regard to the 4-1/4 percent statutory interest rate ceiling.

Under this Administration, the Treasury has emphasized debt extension as a primary objective of debt management, a policy which we believe to be fundamentally sound. This policy has caused a significant increase in the average maturity of the debt, reversing a prolonged slide which extended over more than 10 years. In mid-1965, the average maturity of the privately-held marketable debt was 5 years, 9 months. By January 1976, it had declined to 2 years, 5 months, because huge amounts of new cash were raised in the bill market and in short-term coupon securities. Since that time, despite the continuing large cash needs of the Federal Government, Treasury has succeeded in lengthening the debt to 3 years, 8 months currently.

Debt extension has been accomplished primarily through continued and enlarged offerings of long-term bonds in our mid-quarterly refundings as well as routine offerings of 15-year bonds in the first month of each quarter. These longer-term security offerings have contributed to a more balanced maturity structure of the debt, which will facilitate efficient debt management in the future. Also, these offerings have complemented the Administration's program to restrain inflation. By meeting some of the Government's new cash requirements in the bond market rather than the bill market, we have avoided adding to the liquidity of the economy at a time when excessive liquidity is being transmitted into increasing prices.

Congress has increased the Treasury's authority to issue long-term securities without regard to the 4-1/4 percent ceiling a number of times in recent years, and in the debt limit act of April 2, 1979, it was increased from $32 billion to the current level of $40 billion. To meet our requirements over the next 12 months, the limit should be increased to $55 billion. While the timing and amounts of future bond issues will depend on prevailing market conditions, a $15 billion increase in the bond authority would permit the Treasury to continue its recent pattern of bond issues throughout fiscal year 1980.

Debt Limit Process

Mr. Chairman, I would now like to comment on the process by which the public debt limit is established.

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Moreover, as I indicated earlier in my statement, the statutory limitation on the public debt occasionally has interfered with the efficient financings of the Federal Government and has actually resulted in increased costs to the taxpayer.

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SUBJECT TO LIMITATION
FISCAL YEAR 1980
Based on: Budget Receipts of $514 Billion,
Budget Outlays of $543 Billion,
Unified Budget Deficit of $29 Billion,
Off-Budget Outlays of $12 Billion

($ Billions)

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September 28	15	823	826
October 31	15	833	836
November 30	15	843	846
December 31	15	844	847
1980			
January 31	15	840	843
February 29	15	855	858
March 31	15	862	865
April 30	15	861	864
May 30	15	876	879
June 30	15	860	863
July 31	15	869	872
August 29	15	877	880
September 30	15	883	886

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Department of the TREASURY NEWS

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STATEMENT OF THE HONORABLE G. WILLIAM MILLER
SECRETARY OF THE TREASURY
BEFORE THE SUBCOMMITTEE ON TAXATION AND DEBT MANAGEMENT
OF THE SENATE COMMITTEE ON FINANCE

Mr. Chairman and Members of the Committee:

My purpose here today is to advise you of the need for an increase in the public debt limit, and to request an increase in the authority to issue long-term Treasury securities in the market. After discussing these specific debt management requirements, I would like to comment on the need to strengthen the process by which Congress establishes the debt limit.

Debt Limit

With regard to the debt limit, the present temporary limit of $830 billion will expire at the end of September, and the debt limit will then revert to the permanent ceiling of $400 billion. Prompt enactment of legislation is necessary to permit the Treasury to borrow to refund maturing securities and to pay the Government's other legal obligations.

Our current estimates of the amounts of debt subject to limit at the end of each month through the fiscal year 1980 are shown in the attached table. According to the table, the debt subject to limit will increase to $883 billion at the end of September 1980, assuming a $15 billion cash balance on that date. This estimate is consistent with the budget

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estimates in the July 12 Mid-Session Review of the 1980 Budget and later revisions. The usual $3 billion margin for contingencies would raise this amount to $886 billion. Thus, the present debt limit of $830 billion should be increased by $56 billion to meet our financing requirements in fiscal 1980.

The amount of the debt subject to limit approved by Congress in the May 1979 Budget Resolution is $887 billion for the fiscal year ending September 30, 1980. Yet, since the Budget Resolution does not have the force of law, it will be necessary for Congress to enact a new debt limit bill before the Treasury can borrow the funds needed to finance the programs approved by Congress last May.

Early next week, the Treasury will announce offerings of 2-year and 4-year notes to refund $5.9 billion of obligations which mature on September 30 and perhaps to raise new cash. These new offerings will be scheduled to occur on or about September 25 and 26. Since September 30 is a Sunday the obligations maturing on September 30 cannot be paid off or refunded until Monday, October 1, at which time the present debt limit authority will have expired. Thus, without Congressional action on legislation to raise the temporary debt limit by September 24, we will be forced to postpone the 2-year and 4-year note offerings as delivery of the securities on October 1 could not be assured. Failure to offer these securities as scheduled could be disruptive of the Government securities market and costly to the Treasury.

Investors as well as dealers in Government securities base their day-to-day investment and market strategies on the expectation that the Treasury will offer and issue the new securities on schedule. Delayed action by Congress on the debt limit, therefore, adds to market uncertainties, and any such additional risk to investors is generally reflected in lower bids in the Treasury's auctions and consequently in higher costs to the taxpayer. To avoid this needless increase in the interest costs of financing the public debt, I strongly urge that Congressional action on the debt limit be completed as soon as possible.

I know that this Committee has made every effort in the past to assure timely action by Congress on the debt limit. Yet, the record of the past two years has not been good. During this period debt limit legislation was considered by

Congress four times. On three occasions action was not taken before the expiration date, and the Treasury was unable to borrow until the Congress acted two or three days later. Significant costs were incurred by the Treasury, and extraordinary measures were required to prevent the Government from going into default. The Treasury was required to suspend the sale of United States savings bonds, and people who depend upon social security checks and other Government payments suddenly realized that the Treasury simply cannot pay the Government's bills unless it is authorized to borrow the funds needed to finance the spending programs previously enacted by Congress.

You would agree, I trust, that it is essential that we do everything possible to restore the confidence of the American people in their government. Unfortunately, this objective has not been served by our recent experiences with debt limit legislation. Confidence in the management of the Government's finances was seriously undermined each time the debt limit was allowed to lapse and we must all work to avoid that outcome in this instance.

Bond Authority

I would like to turn now to our need for an increase in the Treasury's authority to issue long-term securities in the market without regard to the 4-1/4 percent statutory interest rate ceiling.

Under this Administration, the Treasury has emphasized debt extension as a primary objective of debt management, a policy which we believe to be fundamentally sound. This policy has caused a significant increase in the average maturity of the debt, reversing a prolonged slide which extended over more than 10 years. In mid-1965, the average maturity of the privately-held marketable debt was 5 years, 9 months. By January 1976, it had declined to 2 years, 5 months, because huge amounts of new cash were raised in the bill market and in short-term coupon securities. Since that time, despite the continuing large cash needs of the Federal Government, Treasury has succeeded in lengthening the debt to 3 years, 8 months currently.

Debt extension has been accomplished primarily through continued and enlarged offerings of long-term bonds in our mid-quarterly refundings as well as routine offerings of 15-year bonds in the first month of each quarter. These longer-term security offerings have contributed to a more balanced maturity structure of the debt, which will facilitate efficient debt management in the future. Also, these offerings have complemented the Administration's program to restrain inflation. By meeting some of the Government's new cash requirements in the bond market rather than the bill market, we have avoided adding to the liquidity of the economy at a time when excessive liquidity is being transmitted into increasing prices.

Congress has increased the Treasury's authority to issue long-term securities without regard to the 4-1/4 percent ceiling a number of times in recent years, and in the debt limit act of April 2, 1979, it was increased from $32 billion to the current level of $40 billion. To meet our requirements over the next 12 months, the limit should be increased to $55 billion. While the timing and amounts of future bond issues will depend on prevailing market conditions, a $15 billion increase in the bond authority would permit the Treasury to continue its recent pattern of bond issues throughout fiscal year 1980.

Debt Limit Process

Mr. Chairman, I would now like to comment on the process by which the public debt limit is established.

It is well recognized that the present statutory debt limit is not an effective way for Congress to control the debt. In fact, the present debt limit process may actually divert public attention from the real issue -- control over the Federal budget. The increase in the debt each year is simply the result of earlier decisions by Congress on the amounts of Federal spending and taxation. Consequently, the only way to control the debt is through firm control over the Federal budget. In this regard, the Congressional Budget Act of 1974 greatly improved Congressional budget procedures and provided a more effective means of controlling the debt. That Act requires concurrent resolutions of Congress on the appropriate levels of budget outlays, receipts, and public debt. This new budget process thus assures that Congress will face up each year to the public debt consequences of its decisions on taxes and expenditures.

Moreover, as I indicated earlier in my statement, the statutory limitation on the public debt occasionally has interfered with the efficient financings of the Federal Government and has actually resulted in increased costs to the taxpayer.

Accordingly, the public debt would be more effectively controlled and more efficiently managed by tying the debt limit to the new Congressional budget process. I hope that we can work together to devise an acceptable way to do this. I understand that considerable progress has been made in recent months by members of Congress who have dedicated considerable time and effort to this purpose.

I applaud these efforts and I pledge my full support to secure enactment of this important reform in the management of our nation's finances.

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Attachment

ESTIMATED
PUBLIC DEBT
SUBJECT TO LIMITATION
FISCAL YEAR 1980
Based on: Budget Receipts of $514 Billion,
Budget Outlays of $543 Billion,
Unified Budget Deficit of $29 Billion,
Off-Budget Outlays of $12 Billion

($ Billions)

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