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 legislation, before Congress adjourns, to increase the public debt limit.

The present temporary debt limit of $925 billion will expire on February 28, 1981, and the debt limit will then revert to the permanent ceiling of $400 billion. Enactment of debt limit legislation prior to February 28 will thus be necessary to permit the Treasury to borrow to refund maturing securities and to pay the Government's other legal obligations.

Moreover, based on our present estimates, the existing limit of $925 billion will clearly not be enough to meet the Treasury's financing needs in February.

Our current estimates of the debt subject to limit, with our usual assumption of a constant $15 billion cash balance, but without any provision for contingencies, are as follows:

December 31, 1980	$928 billion
January 31, 1981	928
February 28, 1981	943

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Based on these estimates, the present $925 billion limit would need to be increased by $18 billion, to $943 billion through February. Also, to stay within the present debt limit in December and January the Treasury will need to reduce its cash balances below optimum levels and postpone borrowings until Congress acts on new debt limit legislation. Such postponements of borrowings could be very costly, since our cash balances are generally invested at interest rates equal to or higher than the rates paid on our borrowings and since postponed borrowings will result in later congestion in financial markets and possibly higher financing costs to the government. In view of the current highly volatile conditions in financial markets, we should make every effort to avoid adding to market uncertainties and to conduct the Government's financing activities in an orderly manner and with minimum market impact.

In addition, the Treasury, and the market, will need to begin planning in the middle of January for the Treasury's scheduled announcement on January 28 of the new Administration's first major quarterly refunding operation. The note and bond issues announced on January 28 would normally be auctioned in the first week of February so the securities may be issued by the refunding date of February 15. Consequently, even if the Treasury manages to stay with the present debt limit in January, the debt limit must be increased in January to permit the Treasury to conduct an efficient refunding operation at the lowest possible cost to the taxpayer.

The present $925 billion limit through February 28, 1981, was enacted by Congress on June 28, 1980, based on estimates provided by the Congressional Budget Office which were consistent with the First Budget Resolution for FY 1981, adopted by Congress on June 12, 1980. That resolution contained a recommended debt limit of $935.1 billion through September 30, 1981. However, the Second Budget Resolution, adopted by Congress on November 20, 1980, contained a recommended debt limit through September 30, 1981, of $978.6 billion, an increase of $43.5 billion from the debt estimate in the First Budget Resolution. While we have serious doubts as to whether the $978.6 billion limit will be adequate to accommodate proposed tax cuts, spending increases, and changes in economic conditions through September, we believe that our estimated $18 billion increase in the debt subject to limit for the first five months of the fiscal year is reasonably consistent with the $43.5 billion increase recommended by Congress in the Budget Resolution for the entire fiscal year.

In view of the current rapid growth in Federal debt and the difficulties in estimating debt levels, I would suggest that future debt limit legislation provide larger allowances for contingencies. As you know, the Treasury's debt limit requests to your Subcommittee have for many years included a standard allowance for contingencies of only $3 billion, so our current estimate of a $943 billion debt subject to limit on February 28, 1981, would normally be presented to your Subcommittee as a debt limit request of $946 billion. Yet, for example, the recent court settlement of the Penn Central payment, which was not anticipated in the FY 1981 Budget, was $2.1 billion. I believe the contingency allowance should be at least $6 billion under current circumstances, so a reasonable estimate of our February debt limit need would be $949 billion.

While the President's revised budget and debt limit recommendations for the fiscal year 1981 will not be available until January, it is recommended that the Senate agree to House Joint Resolution 636, which passed the House on November 21, 1980. This Resolution provides for an increase in the debt limit to $978.6 billion through September 30, 1981. Senate approval of this measure will avoid the need for further Congressional action during this session of Congress and will avoid the need for emergency action by Congress on debt limit legislation early next year.

A principal objective of this Administration is to help assure an orderly transition in January as the new Administration takes office. An essential part of that orderly transition is to assure that the finances of the government are in order as the new Administration assumes its responsibilities. It would be inappropriate, in my view, to expect the incoming Administration to appear before Congress in late January or early February to request emergency debt limit legislation based on the budget estimates submitted in January by the outgoing Administration. The new Administration should be permitted sufficient time to prepare its own budget and debt recommendations and to appear before Congress on that basis.

Also, if our current debt estimates through February turn out to be too low, for example, because of lower than expected economic growth and thus lower tax receipts, the new Congress might be required to act in January on emergency debt limit legislation to avoid a default on obligations of the United States.

In the circumstances, I urge your subcommittee's support for House Joint Resolution 636.

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