113808 110334

UNITED STATES GENERAL ACCOUNTING OFFICE
WASHINGTON, D.C. 20548

FOR RELEASE ON DELIVERY
EXPECTED AT 10:00 A.M.
TUESDAY, SEPTEMBER 11, 1979

STATEMENT OF
ELMER B. STAATS
COMPTROLLER GENERAL OF THE UNITED STATES

BEFORE THE
HOUSE COMMITTEE ON WAYS AND MEANS HSE 04100

ON

THE GENERAL ACCOUNTING OFFICE'S REPORT: [A NEW
APPROACH TO THE PUBLIC DEBT LEGISLATION
SHOULD BE CONSIDERED]

110334

Mr. Chairman and Members of the Committee:

We are pleased to be here to discuss with you our recent report on adverse effects that occurred when the temporary ceiling on the public debt expired in August 1978 and April 1979. The report also discusses the Treasury's limited ability to cope with this problem if it occurs again for longer than a few days.

The potential for adverse effects has long been recognized by the Congress. In our report, we have attempted to place a price tag on past actions that were necessary to deal with the delays in increasing the debt ceiling. At the committee's request, the report also discusses the very serious consequences that could develop from a potential, though unlikely , Government default which could result from future congressional delays in acting on the public debt ceiling legislation. Our report recommends an approach to public debt legislation that I discussed when I testified before the Subcommittee on The Rules CWO 00001

~~006964~~/110334
Testimony

and Organization of the House, Committee on Rules in May of last year.

COST FROM PAST CEILING EXPIRATIONS

The congressionally mandated ceiling on the public debt now amounts to $830 billion. This includes a permanent level of $400 billion and a temporary level of $430 billion. As you know, the temporary ceiling is authorized for a specified period of time. Congressional action is required to extend the temporary ceiling before it expires; otherwise, the ceiling reverts to the permanent level which is insufficient to allow the Treasury to borrow money to refund the maturing debt AGC00038 as well as to pay other legal obligations of the Government. The current temporary ceiling expires on September 30, 1979.

In August 1978 and April 1979, the Congress did not complete legislative action to extend the temporary ceiling until after the ceiling had reverted to the permanent level for 3 and 2 days, respectively. Although these reversions were not an attempt on Congress' part to repudiate a part of the public debt and were for relatively short periods, they caused undesirable conditions which increased the Government's operating costs substantially. For example:

--Auctions of securities to raise about $22.7 billion had to be delayed for several days. This action resulted in the Treasury paying between $4 million and $11 million more in interest to borrow the same amount of money.

--Federal money in interest-bearing accounts of commercial banks had to be withdrawn by the Treasury. Because interest rates on funds in the accounts were greater than the interest rate the Treasury would have paid to borrow in the open market, the Treasury lost between $51,000 and $66,000 in interest income on the withdrawals.

--Sales of Government savings bonds had to be suspended for several days. This action resulted in the Treasury incurring about $17,000 in additional operating costs, but more importantly, investors may have been confused about the suspensions.

The reversions also created conditions that were costly to the public. For example, various public and other trust funds managed by the Government could not be issued interest-bearing securities for cash the Treasury had used. As a result, the funds failed to earn about $1.8 million in interest income to which they were entitled.

Finally, the reversions caused the Treasury to use the exchange stabilization fund to circumvent the intent of the public debt ceiling. Accounting entries were made to redeem about $2.7 billion in Government securities held by the fund without actually transferring cash to the fund. The Treasury then borrowed $2.6 billion from the Federal Reserve System. After the ceiling was increased, the Treasury again recorded the Government's debt in the fund. The transaction was handled in such a way that the fund lost about $1.3 million in interest income. The Treasury also initiated action to use other Government trust funds to circumvent the ceiling, but the former secretary of the Treasury decided against this.

POTENTIAL EFFECTS OF LONGER FUTURE DELAYS

The Government has never defaulted on any of its securities because cash has been available to redeem them upon maturity or demand. It is unlikely that the Congress would intentionally delay action on public debt legislation long enough for a default to result. Nonetheless, the possibility exists and the committee asked us to explore it along with the possible adverse effects that could result.

The economic conditions at the time the temporary ceiling expires affect the length of time that would transpire before the Government would default. Thus, in our report we address the conditions that are expected to be present when the temporary ceiling expires on September 30.

In July, 1979, the Treasury estimated that it will have about $15 billion in cash on September 30. Treasury officials believe that this amount, plus estimated collections, will be sufficient to meet projected cash needs through October 3. To operate beyond that date, however, the Treasury would have to take emergency action to raise the cash needed to refund maturing securities and to pay the deficit from current operations. Treasury officials say that, in dealing with congressional delays on debt ceiling legislation in the future, they will not take action that would circumvent the existing ceiling.

Without circumventing the ceiling on the public debt, the Treasury can take only limited emergency action. One major action being considered is to borrow up to the established debt ceiling before the temporary ceiling expires on September 30. This action, if taken, would provide about $8.5 billion in additional cash, but would cost about $9.4 million for only a few days' cash supply. Although the Treasury could offset this cost by investing the borrowed cash in interest-bearing bank accounts, it is doubtful that the entire amount could be invested in such a short time.

After the Treasury's cash is depleted--whether in 3 days or slightly longer--a default on Government obligations would become a reality as both federal reserve and commercial banks would stop cashing Government checks. A default would have a devastating effect on the economy and the public welfare, preventing the payment of such things as salaries and pensions of some of the Nation's work force.

Our report details the types of undesirable conditions that would develop from a default. The potential for such conditions, incidentally, has been recognized in several reports on public debt legislation issued since 1967 by this committee and the Senate Committee on Finance.

RECOMMENDATIONS TO SOLVE THE PROBLEM

We believe that the adverse effects discussed in our report are related to the Congress' present approach in enacting temporary increases to the public debt ceiling. Accordingly, we are making two recommendations to the Congress.

One is to make the current amount of the temporary ceiling a permanent ceiling and consider any future substantive increases permanent unless definite prospects exist in the near future to reduce the debt. This action would not require any changes to present legislation procedures, and it would eliminate specific problems that currently develop when the temporary ceiling expires. Also, the action would recognize the reality of the size of the public debt that will be with us for years to come.

The other recommendation is to develop an approach to adjust the ceiling that would take advantage of the Congressional Budget and Impoundment Control Act of 1974. A debt ceiling bill could be considered by the Congress simultaneously with its consideration of the second budget resolution, or the debt ceiling bill could be considered immediately following completion of action on the budget resolution. Either approach would allow the debt legislation to retain its separate identity and become a public law upon approval by the President. As mentioned in our report, the Treasury has proposed that the debt ceiling legislation be considered simultaneously with the second budget resolution. This approach has the advantage of eliminating the dual consideration of the issues involved in adjusting the debt limit and retaining a debt limit in the budget resolution. We endorsed this approach in May 1978 during testimony before the Subcommittee on the Rules and Organization of the House, Committee on Rules.

As pointed out in my May 1978 testimony, an approach similar to the one the Treasury has proposed could be accomplished through changes in both House and Senate Rules. The change could allow the two measures to be considered either in tandem or consecutively beginning with the second budget resolution. The suggested approach could be further facilitated if jurisdiction over the debt limit were assigned to the Committees on the Budget of the House and Senate, but that would not appear to be essential.

\- - - -

Mr. Chairman, this concludes my prepared statement. We shall be happy to answer any questions that you or other members of the committee may have.