Joint Committee on Taxation
June 9, 1982
JCX-24-82

ADMINISTRATION PROPOSALS ON DEBT LIMIT AND DEBT MANAGEMENT

A. Increase in the Public Debt

Present law

The combined permanent and temporary debt limit is $1,079.8 billion, which is in effect through September 30, 1982. This limit is the combination of the permanent debt limit of $400 billion, which has no expiration date, and the temporary debt limit of $679.8 billion, which will expire after September 30, 1982.

Current debt situation

The outstanding public debt was $1,072.9 billion at the close of business on June 7, 1982. Treasury estimates, however, that the current debt limit, a cash balance of $6.6 billion, and income tax and other receipts this month will be sufficient for the financing needs of the Federal Government through most of June 1982. Treasury has indicated also that the increased debt limit should be passed by the third week of June, so that it may carry out present debt management plans to announce, auction and settle by June 30 on an issue of 4-year notes.

Administration proposal

The Administration is requesting that the public debt limit be increased by $195 billion over the present limit to $1,275 billion through fiscal year 1983. This level is consistent with the Administration's estimate of a $1,265 billion debt through fiscal year 1983, which was estimated for the April revision of the budget; $1,131.8 billion was the estimate of the level at the end of fiscal year 1982. Treasury has increased the estimate by $10 billion in order to raise the level of the operating cash balance from $15 to $20 billion and to provide a $5 billion allowance for contingencies. In recent years, the operating cash balance at the end of September has been greater than $20 billion, and Treasury's request seeks to recognize that experience in setting the public debt limit. An allowance for contingencies is needed in recognition of the uncertainties inherent in making debt limit projections 16 months into the future and the risks involved in the higher average monthly levels of receipts and expenditures with current budget totals.

The Administration has informed the Committee that it would need a debt ceiling of $1,106.5 billion through July 31, 1982, and $1,126.9 billion through August 31, 1982.

Senate budget resolution

In adopting a budget resolution (S. Con. Res. 92), the Senate specified the appropriate levels of the public debt at $1,144.2 billion through fiscal year 1982 and $1,292.3 billion through fiscal year 1983.

B. Rate of Interest Payable on U.S. Savings Bonds

Present law

The Secretary of the Treasury has discretionary authority to set the rate of interest on savings bonds and savings certificates within certain statutory limits. The Secretary, with the approval of the President, may increase the investment yield on any U.S. savings bond above the current rate in any six-month period by no more than 1 percentage point (annual rate compounded semiannually). The authority to make such increases was intended to enable the Secretary to increase the rate of interest above the statutory limit and to keep the rate competitive with comparable alternative yields.

Series EE savings bonds now yield 9 percent, compounded semi-annually, when the bonds are held to maturity, which is now an 8-year period. The yield on Series HH bonds is 8-1/2 percent; and these bonds have a maturity of 10 years, with the interest paid semiannually by check. The Secretary used his discretionary authority to put these rates into effect on May 1, 1981. He has not exercised this authority since then. Series EE and HH bonds are not marketable securities.

No person may purchase more than $15,000 in Series EE bonds, at issue price, in any one year. The limit on purchases of Series HH bonds is $20,000 per year.

Interest on Series EE savings bonds is deferred until the bonds are redeemed.

Administration proposal

The Administration proposes to remove statutory limits on interest rates on savings bonds. It has stated that it intends to use this authority as follows: People holding either new or old bonds for at least 5 years from the beginning of the new program would be assured that the return will be no less than 85 percent of the average return on 5-year Treasury marketables during their holding period. They also would be guaranteed a minimum rate, so that they will receive 85 percent of the average market yield on 5-year Treasury securities over the holding period, or the guaranteed minimum rate, whichever is higher.

C. 4-1/4 Percent Limit on Interest Rate on Bonds

Present law

Bonds are U.S. obligations that have a maturity when issued that is longer than 10 years. The rate of interest that may be paid on a bond may not exceed 4-1/4 percent, except that up to $70 billion in outstanding bonds with rates of interest above 4-1/4 percent may be held by the public. The exception for a specified amount of bonds--initially $10 billion--was enacted in 1971, and it applied to all bonds with rates above the ceiling. An amendment in 1973 applied the $10 billion limitation only to bonds held by the public; i.e., holdings of federal agencies and the Federal Reserve were not included. The last increase in the limit was enacted in October 1980, and it raised the limit to $70 billion.

Explanation of the Administration proposal

The proposal would repeal the provision in the Second Liberty Bond Act that limits the rate of interest on United States Bonds to 4-1/4 percent.