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FACILITATING MANAGEMENT OF PUBLIC DEBT

AUGUST 22 (legislative day JUNE 12, 1980.—Ordered to be printed

Mr. LONG, from the Committee on Finance
submitted the following

REPORT

[To accompany H.R. 7478]

The Committee on Finance, to which was referred the bill (H.R. 7478) to facilitate the management of the public debt by increasing the ceiling on the investment yield on United States savings bonds to 8½ per centum and by increasing the amount of the bonds paying interest in excess of 4¼ per centum which may be outstanding, having considered the same, reports favorably thereon without amendment and recommends that the bill do pass.

I. SUMMARY

Under present law, the Secretary of the Treasury may increase the interest rate on U.S. savings bonds up to a rate of 7 percent a year, with the approval of the President.

H.R. 7478 would permit the Secretary to increase the interest rate as necessary, with the approval of the President, as long as the increase in any 6-month period does not exceed a rate of one percentage point a year.

The bill also increases the exception from the 4¼ percent interest rate limitation on long-term bonds from the present level of $50 billion to $54 billion through September 30, 1980, and to $70 billion beginning on October 1, 1980. Long-term bonds when issued have a maturity period greater than 10 years.

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II. EXPLANATION OF PROVISIONS

A. Elimination of Interest Rate Ceiling on Savings Bonds

Present law

The Secretary of the Treasury, with the approval of the President, may increase the investment yield on any new or outstanding U.S. savings bond up to an annual yield of 7 percent compounded semiannually.

This provision which was enacted in 1979 raised the ceiling on the interest rate from 6 percent to 7 percent. The Secretary was given the authority to raise the interest rate within that range, after obtaining the approval of the President, without seeking statutory approval for each change. Before that change, the Second Liberty Bond Act allowed the Secretary to increase the yield up to 6 percent.

The yield on savings bonds presently is 6½ percent if held for 5 years and 7 percent if held for 11 years. The yield on Series HH savings bonds presently is 6½ percent if held for 5 years.

Reasons for change

Since the last change in the statutory ceiling, which was enacted on April 2, 1979, interest rates on all forms of debt were subjected to extraordinary inflationary pressures. The prime interest rate, charged by banks to their customers with highest credit ratings, rose to 20 percent in April. All forms of debt felt the same pressure and all rates of interest rose to peaks not seen in recent decades. At the end of March, Treasury bills were issued at 16.5 percent for 3-month maturities and 15.7 percent for 6-month maturities.

Inflationary pressures on interest rates began much earlier than this year, and the effects were extensive throughout the money market. U.S. savings bonds began to feel the pressures two years ago. In June 1978, redemptions of savings bonds exceeded sales for the first time in a long period. The excess of redemptions over sales has continued despite the increase in savings bond yields in 1979, and in recent months, sales of new savings bonds have been $2 billion or more below the value of redeemed savings bonds.

During this period, there was improvement in the ability of savings and loan associations and analogous institutions to compete with the Treasury for funds that could be invested in savings bonds. This change was the result of allowing savings institutions and commercial banks to issue 6-month savings certificates with interest rates equal to the rates on the most recent Treasury 6-month bills. In addition, legislation was enacted this past Spring which phases out Regulation Q and its limitation on the interest rate available on passbook savings accounts.

The Treasury requested the authority to raise the interest rate on savings bonds administratively and without a ceiling in testimony at the committee's public hearings in April. At that time, the inflationary pressure on interest rates was very strong, and the request for administrative authority reflected an urgent need to keep up with market rates and stem the high rate of savings bond redemptions. Although inflationary pressures and interest rates have abated somewhat, both are increasing again, and the appropriate solution is to provide the Secretary with enough discretionary authority to meet the requirements of the market. Nevertheless, the committee does not believe that this authority should be available without constraint. Instead of imposing constraints by requiring periodic legislative increases in the interest rate, the committee decided to limit the amount of increase in yield that could be made in any 6-month period.

Explanation of provision

The bill amends section 22(b)(3), the Second Liberty Bond Act, to authorize the Secretary of the Treasury, with the approval of the President, to increase the investment yield on any new or outstanding U.S. savings bond above the 5½ percent limit specified in section 22(b)(1). The Secretary is authorized to take this action without receiving prior congressional approval. In the context of an increase in the yield, the Secretary could apply the increase to all outstanding issues of U.S. savings bonds, as he has in the past, in order to preclude wholesale redemption of lower-yield savings bonds. This action would be undesirable even in the event all the proceeds from bond redemptions immediately were reinvested in new higher yield savings bonds. On the other hand, a decision to decrease the investment yield on new issues might not be extended to outstanding savings bonds, for example, certain bonds on which a minimum yield to maturity had been guaranteed. In that event, all savings bonds would not be on the same yield curve, because new issues would bear a lower investment yield.

The amendment also limits the amount of the increase in the yield to a rate of one percent per year, compounded semiannually, in any 6-month period. For example, the yield could increase by a rate of 2 percentage points in a year, but it would have to be in the form of one-half of one percentage point (0.5 percent) in each of four months during the year, e.g., January, April, July and October, or one percentage point (1.0 percent) in January and July. In practice, the Treasury is not expected to increase yields more frequently than once in 6 months.

The limitation on the increase in investment yield within a 6-month period is to apply to increases when the current yield would be 5½ percent or more. In the event that the current yield would be 5 percent, the Secretary could increase the yield to 6½ percent within any 6-month period and meet the requirements of this amendment, because the limitation applies to yield increases above the 5½ percent ceiling in section 22(b)(1).

Budget effect

The bill does not provide new budget authority because a permanent appropriation is in effect for the payment of interest on the public debt. This amendment simply establishes the conditions relating to administrative changes in the payment of interest on savings bonds.

With the present level of about $73 billion in outstanding U.S. savings bonds, an increase of one percentage point in the annual investment yield could increase accrued interest liabilities by $730 million in a 12-month period. Actual cash outlays would depend upon the rate of redemptions, the amount of accrued interest on redeemed bonds, and the alternative costs of borrowing money with other debt instruments.

B. Exception to Interest Rate Ceiling on Long-Term Bonds

Present law

Under the Second Liberty Bond Act, the Secretary of the Treasury has the general authority to issue long-term bonds, i.e., securities with maturities more than 10 years, at a rate of interest not to exceed 4¼ percent per year. Since 1971, however, exceptions to the interest rate ceiling have been enacted which now permit the issue to the public of up to $50 billion of bonds at interest rates in excess of the ceiling. As a result of the high interest rates prevailing in the long-term market in recent years, it has been possible lately to issue bonds only under the exception from the 4¼ percent interest rate ceiling.

Reasons for change

Under current statutory authority, the Treasury Department virtually has exhausted its authority under the exception to issue long-term bonds. In order to continue issuing these bonds, the Treasury Department requested a sufficiently large increase in the exception for long-term bond authority to meet its needs through fiscal year 1981. In addition to its desire to retain the position which it has developed during the past few years in the long-term market, the Treasury Department desires to have the ability to finance part of the debt with long-term issues because they have helped to reverse the shortening of the average maturity of the Federal debt. (At the end of May 1980, it was 3 years and 10 months as compared with 2 years and 5 months at the end of January 1976.) Lengthening the average maturity of the debt has reduced the relative portion of the debt which must be financed with shorter term maturities.

During the past several years, the committee has agreed to permit a slow shift to longer maturities in the public debt structure. While greater Federal participation in the longer maturity market tends to lengthen the average maturity of the public debt in the hands of the public, it also tends to increase the interest rate on private as well as Treasury long-term bonds. The committee, as a result, has increased this authority by an amount that was just enough to meet Treasury Department anticipated needs for the period ahead. The committee believes that this controlled approach has been successful in recent years.

Explanation of provision

The bill increases the authority of the Treasury Department to issue long-term bonds above the statutory ceiling in two steps.

In the first step, the Treasury Department is allowed to issue an additional $4 billion in long-term bonds through September 30, 1980. This increase in the limit to $54 billion is sufficient additional authority through the remainder of fiscal year 1980 for the Treasury Department to carry out its current debt management objectives.

After September 30, 1980, the exception to the issue of long-term bonds will increase to $70 billion. In testimony before the committee, the Treasury indicated that it intends to issue up to an additional $16 billion in bonds during fiscal year 1981. The estimate of the need for such authority reflects debt management and financing requirements as well as the experience of the Treasury during the past decade in finding a stable market willing to invest about $15 billion a year in long-term Treasury bonds.

Budget effect

This amendment will not create new budget authority, and it will not lead to an increase in outlays. The amendment will not result in an increase or decrease in revenues.

C. Effective date

The provisions of H.R. 7478 will take effect on the date of enactment.

III. COSTS OF CARRYING OUT THE BILL AND VOTE OF THE COMMITTEE IN REPORTING H.R. 7478

Budget Effects

In compliance with paragraph 11(a) of Rule XXVI of the Standing Rules of the Senate, the following statement is made relative to the costs incurred in carrying out H.R. 7478.

The committee does not believe that the changes made by this bill facilitating management of the public debt will result in any costs, either in the current fiscal year or in any of the 5 fiscal years following that year. The Treasury Department agrees with this statement.

Vote of the Committee

In compliance with paragraph 7(c) of Rule XXVI of the Standing Rules of the Senate, the following statement is made relative to the vote by the committee on the motion to report the bill. H.R. 7478, was ordered favorably reported by a voice vote.

IV. REGULATORY IMPACT OF THE BILL AND OTHER MATTERS TO BE DISCUSSED UNDER SENATE RULES

Regulatory Impact

Pursuant to paragraph 11(b) of Rule XXVI of the Standing Rules of the Senate, the committee makes the following statement concerning the regulatory impact that might be incurred in carrying out the provisions of this bill.

A. *Numbers of individuals and businesses who would be regulated.*—The bill does not involve new or expanded regulation of individuals or businesses.

B. *Economic impact of regulation on individuals, consumers and businesses affected.*—Persons who purchase United States savings bonds, both Series EE and HH, will be able to receive investment yields that are competitive with the investment yields on alternative assets with comparable maturities.

C. *Impact of personal privacy.*—The bill has no impact on the personal privacy of taxpayers.

D. *Determination of the amount of paperwork.*—The bill does not increase or decrease the amount of paperwork required of those who hold U.S. bonds.

Consultation with Congressional Budget Office on Budget Estimates

In accordance with section 403 of the Budget Act, the committee advises that the Director of the Congressional Budget Office has examined the committee's budget estimates and agrees with the methodology used.

New Budget Authority

In compliance with section 308(a)(1) of the Budget Act, and after consultation with the Director of the Congressional Budget Office, the committee states that the bill does not provide any new budget authority.

Allocations of Budget Authority

The decisions of the committee that have been made for H.R. 7478 do not create new budget authority, and therefore no allocations were made.

Tax Expenditures

In compliance with section 308(a)(2) of the Budget Act with respect to tax expenditures, and after consultation with the Director of the Congressional Budget Office, the committee states that the bill does not provide new and increased tax expenditures.

V. CHANGES IN EXISTING LAW MADE BY THE BILL, AS REPORTED

In compliance with paragraph 12 of Rule XXVI of the Standing Rules of the Senate, changes in existing law made by the bill, as reported, are shown as follows (existing law proposed to be omitted is enclosed in black brackets, new matter is printed in italic, existing law in which no change is proposed is shown in roman):

SECOND LIBERTY BOND ACT

AN ACT To authorize an additional issue of bonds to meet expenditures for the national security and defense, and, for the purpose of assisting in the prosecution of the war, to extend additional credit to foreign Governments, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That the Secretary of the Treasury, with the approval of the President, is hereby authorized to borrow, from time to time, on the credit of the United States for the purposes of this Act, to provide for the purchase, redemption, or refunding, at or before maturity, of any outstanding bonds, notes, certificates of indebtedness, or Treasury bills of the United States, and to meet expenditures authorized for the national security and defense and other public purposes authorized by law, such sum or sums as in his judgment may be necessary, and to issue therefor bonds of the United States.

The bonds herein authorized shall be in such form or forms and denomination or denominations and subject to such terms and conditions of issue, conversion, redemption, maturities, payment, and rate of rates of interest, not exceeding four and one-quarter per centum per annum, and time or times of payment of interest, as the Secretary of the Treasury from time to time at or before the issue thereof may prescribe. Bonds authorized by this section may be issued from time to time to the public and to Government accounts at a rate or rates of interest exceeding 4¼ per centum per annum; except that bonds may not be issued under this section to the public, or sold by a Government account to the public, with a rate of interest exceeding 4¼ per centum per annum in an amount which would cause the face amount of bonds issued under this section then held by the public with rates of interest exceeding 4¼ per centum per annum to exceed [$50,000,000,000] *$54,000,000,000.**

The bonds herein authorized shall from time to time first be offered at not less than par as a popular loan, under such regulations, prescribed by the Secretary of the Treasury from time to time, as will in his opinion give the people of the United States as nearly as may be

* Effective on October 1, 1980, this figure will become $70,000,000,000.

an equal opportunity to participate therein, but he may make allotment in full upon applications for smaller amounts of bonds in advance of any date which he may set for the closing of subscriptions and may reject or reduce allotments upon later applications and applications for larger amounts, and may reject or reduce allotments upon applications from incorporated banks and trust companies for their own account and make allotment in full or large allotments to others, and may establish a graduated scale of allotments, and may from time to time adopt any or all of said methods, should any such action be deemed by him to be in the public interest: *Provided*, That such reduction or increase of allotments of such bonds shall be made under general rules to be prescribed by said Secretary and shall apply to all subscribers similarly situated. And any portion of the bonds so offered and not taken may be otherwise disposed of by the Secretary of the Treasury in such manner and at such price or prices, not less than par, as he may determine. The Secretary may make special arrangements for subscriptions at not less than par from persons in the military or naval forces of the United States, but any bonds issued to such persons shall be in all respects the same as other bonds of the same issue.

Notwithstanding the provisions of the foregoing paragraph, the Secretary of the Treasury may from time to time, when he deems it to be in the public interest, offer such bonds otherwise than as a popular loan and he may make allotments in full, or reject or reduce allotments upon any applications whether or not the offering was made as a popular loan.

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SEC. 22. (a) The Secretary of the Treasury, with the approval of the President, is authorized to issue, from time to time, through the Postal Service or otherwise, United States savings bonds and United States Treasury savings certificates, the proceeds of which shall be available to meet any public expenditures authorized by law, and to retire any outstanding obligations of the United States bearing interest or issued on a discount basis. The various issues and series of the savings bonds and the savings certificates shall be in such forms, shall be offered in such amounts, subject to the limitation imposed by section 21 of this Act, as amended, and shall be issued in such manner and subject to such terms and conditions consistent with subsections (b), (c), and (d) hereof, and including any restrictions on their transfer, as the Secretary of the Treasury may from time to time prescribe.

(b)(1) Savings bonds and savings certificates may be issued on an interest-bearing basis, on a discount basis, or on a combination interest-bearing and discount basis and shall mature, in the case of bonds, not more than twenty years, and in the case of certificates, not more than ten years, from the date as of which issued. Such bonds and certificates may be sold at such price or prices, and redeemed before maturity upon such terms and conditions as the Secretary of the Treasury may prescribe: *Provided*, That the interest rate on, and the issue price of, savings bonds and savings certificates and the terms upon which they may be redeemed shall be such as to afford an investment yield not in excess of 5½ per centum per annum compounded semiannually. The denominations of savings bonds and of savings certificates shall be such as the Secretary of the Treasury may from time to time determine and shall be expressed in terms of their maturity value. The Secretary of the Treasury is authorized by regulation to fix the amount of savings bonds and savings certificates issued in any one year that may be held by any one person at any one time. The investment yield on series E savings bonds shall in no case be less than 4 per centum per annum compounded semiannually for the period beginning on the first day of the calendar month following the date of issuance (or, beginning on October 1, 1976, if later) and ending on the last day of the calendar month preceding the date of redemption.

(2) The Secretary of the Treasury, with the approval of the President, is authorized to provide by regulations:

(A) That owners of series E and H savings bonds may, at their option, retain the bonds after maturity, or after any period beyond maturity during which such bonds have earned interest, and continue to earn interest upon them at rates which are consistent with the provisions of paragraph (1).

(B) That series E and H savings bonds on which the rates of interest have been fixed prior to such regulations will earn interest at higher rates which are consistent with the provisions of paragraph (1).

[(3) The Secretary of the Treasury, with the approval of the President, may increase the investment yield on any United States savings bonds above the 5½ per centum limitation contained in paragraph (1) so long as such yield does not exceed 7 per centum per annum compounded semiannually.]

(3) The Secretary of the Treasury, with the approval of the President, may fix the investment yield on any United States savings bond at a yield which is above the 5½ per centum limitation contained in paragraph (1). The aggregate of the increases in investment yield which may take effect during any 6-month period pursuant to the preceding sentence for any United States savings bonds may not exceed 1 per centum per annum compounded semiannually.

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