Management of the Federal Debt:

Lengthening the Average Maturity by Funding More into Long Term Issues Would Be Realistic

By C. LOWELL HARRISS*

LEGAL RESTRAINTS on interest rates and permissible characteristics of United States debt obligations will reduce the ability of Treasury officials to obtain the best terms possible under market conditions as they develop. The persons responsible for marketing new issues of debt (including, of course, refundings) will have alternative opportunities which change constantly. The relative yields—the costs to taxpayers—will inevitably differ from time to time. So will the other results of borrowing.

The very wisest of judgments as to what would be best at any one time, say at mid-1982 when the passage of a new statute was under consideration, would soon become outdated. From month to month conditions might change only imperceptibly, but shifts of significant importance can also occur. Congressional processes cannot be expected to permit statutory revisions whenever economic conditions change.

Markets for debt of high quality are highly competitive. Differences in yields will reflect variations in conditions of supply and demand as they result from the myriad of factors which affect lenders and borrowers in this country and over the world. Lawmakers have tried to anticipate the future by legislating maximum interest rates and duration limits on federal issues. Such efforts presume a knowledge of the future which no one can possess. Congress may prescribe now. Doing so, however, will assure that Treasury actions later in conforming to those rules will sometimes fail to represent what is best at the time. In concluding that civil servants acting from month to month will do better if free from legislative dictates, one does not assert disrespect for elected officials. One does assert that conditions change more frequently than statutes will be revised.

There was a time when I believed that the Treasury could exert a construc-

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tive anticyclical force through debt management. By increasing or decreasing federal demands on one as against another portion of the market (long- versus short-term) relative supply-demand and interest-rate elements might be modified to benefit the economy. Today, humility and caution lead me to question the potentials. I question the possibilities of doing good rather than harm—over a not very long run. The realities of the world, taking account of the actual operations of markets, are too complex for any statutory restrictions to be helpful.

One condition, however, does command attention. Huge amounts of federal debt are permanent. Net debt reduction will be impossible in the foreseeable future. Therefore, the funding of more of the debt into long-term issues would reflect the underlying economic reality. Congressionally imposed restrictions on long-term borrowing—explicit or indirect—will obstruct movement toward a goal which would conform the debt structure a little more closely to the facts of American economic life. A deliberate policy of gradually lengthening the average of the debt would not necessarily involve large and disturbing alterations in the pattern of the debt structure. The cumulative results over, say, a decade could be more than insignificant.

An expression such as "conforming the debt to the reality of its permanence" admittedly lacks precision. "Churning" in the short-term market does not necessarily mean distortion of relative interest rates or serious avoidable costs of refinancing. Yet to some degree the results from massive short-term (highly liquid) debts will involve "artificial" elements; wasteful disturbances are inevitable, not necessarily on every turnover of short- and medium-term debt but on some occasions.

Almost any offering of long-term debt can be expected to bring forth criticism that "the Treasury will take funds away from the financing of housing and other long-term projects." Long-term interest rates, it will be said, are going to be higher; the change will produce injury that could be avoided. However, except for marginal effects that should be rather transitory, the net differences seem to me likely to be small. Much depends upon magnitudes relative to time. Some students of debt markets who are closer to operations than I may find grounds for predicting greater effects on long-run interest rates through the years. Is it not, however, the *total* of borrowings that are the dominant influences over time? Any concentration of borrowings in the short end of the market will tend to raise interest rates there and draw funds from the market for longer-term debt. Competition will operate.

Debt structure and debt management raise issues of the inflationary potential of federal financing. The subject calls for discriminating concern.

Recent discussions reflect increasing awareness of the crucial, as distinguished from the nonessential, elements of federal borrowing. A mass of short-term debt does not require "extra" money creation at times of refinancing. Yet we must recognize the likelihood of temptations; they may not always be resisted. One argument for lengthening the average maturity is that doing so will reduce the risk of the inflationary creation of money.

Celebrating a Classic's Centenary

HENRY GEORGE, the 19th century American economist and social philosopher, has done as much, perhaps, as any economist or other social scientist in graduate school to recruit students for the professional study of economics, sociology or one of the other social sciences. As Dr. Lancaster M. Greene, president of the Robert Schalkenbach Foundation, publisher of George's works, has written, George held that "'the great work of the present for every man, and every organization of men, who would improve social conditions, is the work of education—the propagation of ideas. It is only as it aids this that anything else can avail.'"[1]

Indeed, if George, like the 18th century American political and social philosopher, Thomas Jefferson, had written his own epitaph, it would have gone something like this: "He made men and women think about how to improve the conditions of social life." For George's greatest contribution was to prove that the status quo was not God-ordained or the inevitable result of some arcane "natural" order but the result of arrangements made by people that could be changed intelligently by rational decisions based on objective inquiry.

To stimulate that rational inquiry, George himself had a great deal to contribute. Some of the greatest minds of his and later times have testified to the debt they owed George for getting them to think about the problems of life and living and for suggesting their own contributions, ranging from the novelist, Leo Tolstoy; the poet, Edwin Markham; the playwright, George Bernard Shaw; to the philosophers Bertrand Russell and John Dewey.

George tended to belittle his own ideas or to hold that they were anticipated or to maintain that they were obvious to anyone who troubled to think about them. Only after studies like those of George R. Geiger and Charles Albro Barker has it been appreciated that George, like Adam Smith, John Stuart