CONGRESS OF THE UNITED STATES

JOINT ECONOMIC COMMITTEE

CHAIRMAN JIM SAXTON

PRESS RELEASE

For Immediate Release
August 1, 2001

Press Release #107-36
Contact: Christopher Frenze
Executive Director
(202) 225-3923

FEDERAL DEBT DECLINE POSES POLICY CHALLENGES

-- Decline In Availability Of Treasury Securities Has Broad Implications --

WASHINGTON, D.C. – A potentially large reduction in the amount of outstanding Treasury securities in coming years has important implications for the financial markets, monetary policy, tax and budget policy and other aspects of the economy, according to a new study released today by Joint Economic Committee (JEC) Chairman Jim Saxton. The new JEC study, *Federal Debt: Market Structure and Economic Uses For U.S. Treasury Debt Securities*, examines the history, composition, management, economic uses, and recent trends in Treasury debt.

"Despite upcoming changes in budget and debt projections, Treasury net debt still will be in decline over the next decade," Saxton said. "As Chairman Greenspan and others have suggested, a significant reduction in the availability of Treasury securities could be problematic for many reasons. Treasury securities are used for the conduct of monetary policy, to benchmark other market interest rates, reserves of financial institutions and pension funds, and for many other purposes.

"The depth of the Treasury market must be sufficient to enable these risk-free securities to be most efficiently employed for a variety of public and private economic uses. Over the next ten years large budget surpluses, even if somewhat lower than earlier projected, will still be sufficient to sharply reduce the availability of outstanding Treasury securities.

"Unfortunately, there are few good alternatives to Treasury securities. Our first Treasury Secretary, Alexander Hamilton, foresaw the potential of these securities and established principles of federal debt policy that remain in use today. These risk-free federal securities promote market liquidity and efficiency, and in moderation thus work to lower the interest costs of other borrowers in the private sector.

"In coming years, policy makers will have to address the potential problem of a declining availability of Treasury securities, and the research of the Federal Reserve has already identified a number of concerns. The financial implications of this shrinkage include not only important domestic economic policy issues, but those of international economic policy as well. For example, recently the International Monetary Fund (IMF) published a paper entitled, *Financial Implications of the Shrinking Supply of U.S. Treasury Securities.* More research on this subject is needed and will be conducted by the JEC and other research organizations," Saxton concluded.

For a copy of the study on *Federal Debt: Market Structure and Economic Uses For U.S. Treasury Debt Securities*, please visit our website at www.house.gov/jec.

###