Domestic Credit by Richard Freeman

The Treasury's debt bubble

Schroder and other banks are the only ones benefiting from the financing stresses under way.

The U.S. Treasury, whose debt has proven so lucrative to the investment houses that market it, will now have to pay even higher yields on its paper, or it will be unable to finance the national deficit. This prospect was arrogantly stated Aug. 25 by Bill Griggs, one of the economists at the New York branch of Schroder, the British bank that gained its notoriety when the Schröder family helped finance Adolf Hitler. According to Griggs, "the Treasury has been giving 14 to 14½ percent yields on its Treasury bills. This is not high enough. The Treasury will have to pay more. It's going to have to pay the piper. It's going to do its financing on our terms, or it won't get money to refinance its deficit."

Griggs's confidence that the Treasury will accede to his firm's demands is built on the fact that the United States is so massively indebted that refinancing problems would mean an immediate crisis.

The outstanding Treasury debt as of the end of July was $978 billion, and it is growing by a multiple of interest-rate costs and new debt requirements. For example, the 10-month interest repayment on the federal government debt for the fiscal year 1981 federal budget—that is from Oct. 1, 1980 through July 30 of this year—was $79 billion, or $7.9 billion per month.

At this rate, by the end of FY 1981, the total interest payment on the debt will amount to $94.8 billion.

The amount of total U.S. government debt outstanding at the start of 1981 was $930 billion. The average maturity on this debt is 3.8 years, meaning that in 3.8 years, the total value of the debt will be refinanced or rolled over once.

Therefore, in 1981, $244.7 billion of this old outstanding debt had to be taken to market for refinancing, which is $61.8 billion per quarter.

As for the 1981 new debt financing, according to David Jones, of Aubrey, Lanston, in the first quarter of 1981, the Treasury incurred $39 billion in new debt financing; in the second quarter, the Treasury paid down or contracted debt by $1.4 billion—the tax payments facilitated the debt paydown; in the third quarter, the new debt financing will total $15 to $17 billion; and in the fourth quarter, new Treasury debt financing will reach $33 billion.

It can therefore be seen that for calender year 1981, the combined total of already incurred and projected new debt will be $86.4 billion, of which approximately one-quarter is caused by Volcker's high interest rates.

Given that the refinancing of old debt in 1981 works out to $61.8 billion per quarter, the last quarter of 1981 will see the Treasury go to market for $94.8 billion in financing and refinancing needs.

The effect of Volcker's high interest rates on this mountain of debt can be adduced from the fact that, since he pulled his first credit tightening on the Columbus Day weekend of October 1979, there have been 22 months of new and higher interest rates.

Since the average maturity of Treasury debt is 40 weeks, then $^{11}/_{20}$ or 55 percent of the outstanding mass of nearly $1 trillion U.S. Treasury debt has been refinanced at higher interest rates.

This can be seen in the skyrocketing of the interest on the U.S. government debt. For the first 10 months of fiscal year 1981, the total interest on the U.S. government debt was $79.762 billion. If the interest continues at the rate of $7.97 billion per month, when fiscal year 1981 ends Sept. 30, the total interest on U.S. government debt will be $95.7 billion, exactly the range *EIR* predicted in February. Moreover, this will represent 14.4 percent of projected total 1981 fiscal year budget expenditures of $664.5 billion.

Not only does this wreck the national finances, but it represents a tremendous boon to the banks that make markets in this debt.

These include Salomon Brothers, which is now owned by the Oppenheimer Anglo-American interests; Aubrey, Lanston; A. G. Becker, which is merged with the Warburg banking group of London and Hamburg; Merrill, Lynch and Goldman, Sachs, which have traditional ties to London. These investment banks have marketed a lot of the Treasury debt to the investment trusts, or *fondi*, of the old European families, whose fortunes center on London.

With such leverage over the U.S. Treasury debt, it is not to be wondered that Schroder Bank thinks it can dictate yield terms to the U.S. Treasury.