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H. R. 251

To require the Secretary of the Treasury to issue a portion of the public debt in the form of obligations indexed for inflation.

IN THE HOUSE OF REPRESENTATIVES

JANUARY 5, 1993

Mr. NEAL of North Carolina introduced the following bill; which was referred to the Committee on Ways and Means

A BILL

To require the Secretary of the Treasury to issue a portion of the public debt in the form of obligations indexed for inflation.

1 *Be it enacted by the Senate and House of Representa-*
2 *tives of the United States of America in Congress assembled,*

3 **SECTION 1. SHORT TITLE.**

4 This Act may be cited as the “Monetary Policy and
5 Treasury Finance Enhancement Act of 1993”.

6 **SEC. 2. PURPOSES.**

7 The purposes of this Act are to facilitate the infer-
8 ence of inflation expectations by the Board of Governors
9 of the Federal Reserve System and by investors, to assist

1 the Board of Governors in reducing inflation, and, through
2 lower inflation, to contribute to lower interest rates.

3 **SEC. 3. ISSUANCE OF INDEXED OBLIGATIONS.**

4 (a) IN GENERAL.—Subchapter I of chapter 31 of title
5 31, United States Code, is amended by adding at the end
6 thereof the following new section:

7 **“§3114. Indexed Obligations**

8 “(a) MANDATORY ISSUANCES.—

9 “(1) IN GENERAL.—At least 10 percent of the
10 aggregate face amount of longer-term public debt
11 obligations issued during a fiscal year shall be in the
12 form of indexed obligations.

13 “(2) HIGHER REQUIREMENT IN CERTAIN
14 CASES.—If, as of the beginning of any fiscal year,
15 less than 10 percent of the aggregate face amount
16 of outstanding obligations issued under section 3102
17 and 3103 and having at least 5 years to maturity
18 are in the form of indexed obligations, the aggregate
19 face amount of longer-term public debt obligations
20 issued during such fiscal year which shall be in the
21 form of indexed obligations shall be at least the
22 greater of—

23 “(A) the amount required to be in such
24 form under paragraph (1), or

1 “(B) 2 percent of the aggregate face
2 amount of obligations issued under section
3 3102 and 3103 which, as of the beginning of
4 such fiscal year, are outstanding and have at
5 least 5 years to maturity.

6 The indexed face amount of an outstanding indexed
7 obligation shall be taken into account under this
8 subparagraph and subsection (c) (in lieu of its ac-
9 tual face amount) in determining the amount of in-
10 dexed obligations required or permitted to be issued.

11 “(3) LONGER-TERM PUBLIC DEBT OBLIGA-
12 TIONS.—For purposes of this subsection, the term
13 ‘longer-term public debt obligation’ means any obli-
14 gation issued under section 3102 or 3103 which ma-
15 tures at least 5 years after the date of issue.

16 “(b) DISCRETIONARY ISSUANCES.—

17 “(1) IN GENERAL.—The Secretary of the
18 Treasury may issue obligations under section 3102
19 or 3103 which mature at least 270 days but less
20 than 5 years after the date of issue in the form of
21 indexed obligations.

22 “(2) MINIMUM ISSUANCE IF DISCRETION EXER-
23 CISED.—The Secretary of the Treasury may exercise
24 the authority under this subsection only if at least
25 5 percent of the aggregate face amount of the obli-

1 gations referred to in paragraph (1) which are is-
2 sued during a fiscal year are in the form of indexed
3 obligations.

4 “(c) AGGREGATE LIMIT.—Not more than 50 percent
5 of the aggregate face amount of obligations issued under
6 section 3102 or 3103 which mature on any day shall be
7 in the form of indexed obligations.

8 “(d) INDEXED OBLIGATIONS.—For purposes of this
9 section—

10 “(1) IN GENERAL.—The term ‘indexed obliga-
11 tions’ means any obligation—

12 “(A) which has a redemption value at ma-
13 turity equal to its indexed face amount,

14 “(B) which has a face amount at issuance
15 of at least \$1,000 but not more than \$5,000,

16 “(C) which may not be redeemed before
17 maturity, and

18 “(D) the interest (if any) on which is pay-
19 able for any period on the basis of its indexed
20 face amount as of the beginning of such period.

21 “(2) INDEXED FACE AMOUNT.—The term ‘in-
22 dexed face amount’ means, as of any date, the sum
23 of—

24 “(A) the face amount of the obligation at
25 issuance, plus

1 “(B) such face amount multiplied by the
2 percentage by which—

3 “(i) the selected index for such date,
4 exceeds

5 “(ii) the selected index for the issue
6 date of the obligation.

7 “(3) SELECTED INDEX FOR DATE.—The se-
8 lected index for any date is the selected index for the
9 second calendar month preceding the calendar
10 month in which such date occurs. If the selected
11 index is not determined on a monthly basis, the Sec-
12 retary of the Treasury shall prescribe a rule for de-
13 termining the selected index for any date, and such
14 prescribed rule shall apply in lieu of the preceding
15 sentence.

16 “(4) SELECTED INDEX.—

17 “(A) IN GENERAL.—Except as provided in
18 subparagraph (B), the term ‘selected index’
19 means the CPI.

20 “(B) ANOTHER INDEX MAY BE USED.—If
21 the Secretary of the Treasury and the Chair-
22 man of the Board of Governors of the Federal
23 Reserve System—

24 “(i) agree that the use of the CPI for
25 purposes of paragraph (2) is unsatisfactory

1 and that the use of another index would be
2 more satisfactory for such purposes, and

3 “(ii) submit a report to Congress
4 jointly recommending the use of such other
5 index,

6 the term ‘selected index’ means such other
7 index.

8 “(C) CHANGES IN INDEX.—The selected
9 index applicable to any indexed obligation shall
10 be such index as of the date of issue of such ob-
11 ligation, and such index shall be determined,
12 with respect to such obligation, without regard
13 to changes in its structure or computation after
14 such date.

15 “(5) CPI.—The term ‘CPI’ means the
16 Consumer Price Index for all urban consumers pub-
17 lished by the Department of Labor.

18 “(e) TERMS AND CONDITIONS.—Indexed obligations
19 may be offered for sale on a competitive or other basis
20 under such regulations and upon such terms and condi-
21 tions as the Secretary of the Treasury may prescribe. The
22 Secretary shall provide that such obligations shall be avail-
23 able for purchase by individuals both directly from the De-
24 partment of the Treasury and through Federal Reserve
25 System facilities.

1 “(f) CONSULTATION WITH FEDERAL RESERVE.—
2 The Secretary of the Treasury shall consult with the
3 Chairman of the Board of Governors of the Federal Re-
4 serve System in determining the amounts, maturities, and
5 timing of issuances of indexed obligations under this sec-
6 tion. The Secretary shall maintain appropriate records of
7 all recommendations received from the Chairman in such
8 consultations.

9 “(g) CONSIDERATIONS.—In determining the
10 amounts, maturities, and timing of issuances of indexed
11 obligations under this section, the Secretary of the Treas-
12 ury shall—

13 “(1) attribute reasonable benefits to improve-
14 ments in monetary management resulting from the
15 issuance of indexed obligations, including reasonable
16 estimates for reduced interests costs on obligations
17 that are not indexed obligations arising from better
18 inflation control and from smaller budget deficits as
19 a consequence of improved economic stabilization,
20 and

21 “(2) assure liquidity and pricing reliability in
22 indexed obligations and the competitiveness of such
23 obligations with nonindexed obligations issued under
24 section 3102 and 3103 with comparable maturities,
25 including assuring that each issue of interest-bearing

1 indexed obligations is of an amount sufficient to per-
2 mit the right to receive interest on such obligations
3 to be traded separately from the underlying obliga-
4 tions.

5 The Secretary shall periodically announce expected issu-
6 ance and maturity dates of issues of indexed obligations
7 and the expected proportion of the total obligations issued
8 under sections 3102 and 3103 having those maturity dates
9 which are expected to be indexed obligations. Such an-
10 nouncements shall precede expected issuance dates by at
11 least 1 year.

12 “(h) MONITORING.—The Secretary of the Treasury
13 shall monitor the ownership and trading activity of in-
14 dexed and nonindexed obligations issued under section
15 3102 or 3103 having the same maturity dates for pur-
16 poses of assuring liquidity and pricing reliability with re-
17 spect to indexed obligations.

18 “(i) REPORTS.—Not later than 2 years after the date
19 of the enactment of this section, and not later than the
20 close of each 2-year period thereafter, the Secretary of the
21 Treasury shall submit to the Congress a report on the pro-
22 gram established under this section. No report shall be
23 required under this subsection for any period after the
24 10th year after the date of the enactment of this section.”.

1 (b) PROCEDURE.—Subsection (a) of section 3121 of
2 such title 31 is amended by striking “and” at the end of
3 paragraph (6), by redesignating paragraph (7) as para-
4 graph (8), and by inserting after paragraph (6) the follow-
5 ing new paragraph:

6 “(7) whether the obligation is to be issued as
7 an indexed obligation; and”.

8 (c) CLERICAL AMENDMENT.—The table of sections
9 for subchapter I of chapter 31 of title 31 of such Code
10 is amended by adding at the end thereof the following new
11 item:

“3114. Indexed obligations.”.

12 (d) EFFECTIVE DATE.—The amendments made by
13 this section shall apply to fiscal years beginning after the
14 date of the enactment of this Act.

15 (e) TAXATION.—It is the intent of the Congress
16 that—

17 (1) except for changes to minimize any Federal
18 income tax incentives or disincentives to acquiring
19 indexed obligations as compared to nonindexed obli-
20 gations, Federal income tax changes which affect
21 nonindexed obligations should apply to the fullest ex-
22 tent feasible to indexed obligations, and

23 (2) there should be symmetrical treatment ap-
24 plied to increases and decreases in the indexed face
25 amount of an indexed obligation such that, for ex-

1 ample, if increases in the indexed face amount of an
2 obligation are includible in gross income as ordinary
3 income, decreases in the indexed face amount of an
4 obligation should be allowable as a deduction as an
5 ordinary loss.

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