



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON, D. C. 20551

ALAN GREENSPAN
CHAIRMAN

March 4, 2002

The Honorable Christopher Cox
House of Representatives
Washington, D.C. 20515

Dear Congressman:

Thank you for the opportunity to comment on issues pertaining to the federal debt ceiling.

As I indicated at Wednesday's monetary policy hearing, I believe that the statutory ceiling on federal debt does not serve a useful purpose. If the Congress judges that it is necessary to retain a debt ceiling, I believe that the ceiling should be applied to federal debt held by the public and not to intra-governmental holdings of Treasury debt. Intra-governmental debt holdings are unrelated to economically valid measures of the federal budget position and have no effect on the degree of credit market pressures or the level of interest rates.

But even debt held by the public is a problematic ceiling. By legislating entitlement programs, authorizing other federal spending, and establishing federal revenue programs, the Congress effectively has already legislated a debt ceiling. In other words, given macroeconomic conditions, the structure of federal tax and spending programs essentially determines the federal budget deficit and thus, apart from any changes in the Treasury's cash balance, the required increase in federal debt outstanding to finance that deficit. To enact a separate debt ceiling inconsistent with the increase in debt required to finance the deficit is to legislate contradictory law.

I hope these comments are helpful. Please let me know if I can be of further assistance.

Sincerely,
A handwritten signature in black ink, appearing to read "Alan Greenspan".