PHILADELPHIA -- You might think that an outfit in hock to the tune of nearly $4 trillion would try to do a bit of economizing.

But not the U.S. Treasury.

The Treasury is wasting tens of billions of tax dollars by paying higher interest rates than it needs to pay when it borrows. The silliness is evident in last week's "refunding" by the Treasury. This is one of four weeks each year when the government must pay off billions of dollars worth of maturing securities by auctioning off even larger chunks of IOUs.

The Treasury has sold $36 billion in notes and bonds, in addition to its usual weekly sale of $23.3 billion in three-month and six-month bills.

The interest the Treasury is paying to borrow this $59 billion ranges from 3.2 percent on the three-month bills to 7.29 percent on 30-year bonds.

Your average person, being unsophisticated about finance, would choose to pay lower rates. The Treasury chooses to pay the higher rates on much of the money it borrows.

Last week, for example, the Treasury sold $15 billion in three-year notes, on which it (we taxpayers, actually) will pay 6.69 percent annual interest. It borrowed $11 billion for 10 years, on which we will pay 6.49 percent interest. And it borrowed $10 billion for 30 years, on which we will pay interest of 7.29 percent, or $729 million each year until August 2022.

If the Treasury had borrowed the $10 billion for three years instead of 30, we taxpayers would be paying about $470 million a year in interest, a savings of about $780 million over the next three years.

Campbell R. Harvey, a finance professor at Duke University's Fuqua School of Business, is one of several expert observers who think the Treasury is foolish in the way it finances the nation's debt.

If the Treasury merely reduced its reliance on long-term debt, by switching $150 billion a year of its borrowing from long-term bonds and notes to short-term Treasury bills, it could save $12 billion a year in interest expense, Harvey calculates.

This would translate into lower rates on home-mortgage loans, thus stimulating sales and construction of houses. It also would spur business investment, because businesses focus on long-term interest rates when deciding on new investments. The lower the cost of borrowing, the more projects businesses are likely to undertake.

In all, Harvey estimates, a 1 percentage-point drop in long-term interest rates would cause the nation's economic activity to grow by an extra 0.8 percent, or $40 billion a year.

David Wyss, chief financial economist at DRI/McGraw-Hill, the
Lexington, Mass., consulting firm, thinks Harvey's estimate of increased economic activity is probably a little high. But he estimates that such a move by the Treasury could result in 50,000 more homes being built each year and an increase of $15 billion or so in economic activity.
* Over the last 15 years, the Treasury has lengthened the average maturity of its borrowing. In 1977, the Treasury's securities had an average maturity of three years. Now the average maturity is about six years.
* Since interest rates normally rise with the length of a security's term, this means the Treasury has been financing an ever larger part of its debt with high-rate securities, moving away from lower-rate, shorter-term securities.
* Wyss said that if the Treasury had kept the average maturity of its debt at three years, interest on the federal debt this year would be about half the $200 billion we will pay. That, in turn, would cut the budget deficit by about 25 percent.
* The Treasury's strategy makes as much sense as a home buyer passing up 8 percent mortgage money to use a credit card that charges 18 percent.

The risk in switching some borrowing from long- to short-term is that if inflation and short-term interest rates spurt up, federal borrowing costs could shoot up. But the Treasury and the Federal Reserve Board keep telling the public they are determined to keep inflation low, which should keep interest rates from rising much.
* "Maybe the Treasury really believes inflation is going to go up," Harvey said. "If they really believe it's going to be lower, they've got to be moving to shorter maturities. It would make their policies much more credible."

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