the use of prices to allocate economic resources. Yet the Congress persists in flying in the face of these fundamental principles by imposing various kinds of price controls, particularly in the area of the operation of our capital markets. In view of the dramatic developments in our capital markets in recent weeks I wish to present two illustrations of the generalizations that I have been expressing:

The first is the limitation on the level of interest coupons that may be paid by the Treasury on Government bonds with maturities in excess of 5 years. The recent extension of permissible maturities on notes to 7 years is only a token recognition of market realities. Of course, this limitation is only on the issue of new bonds and has no effect on yields of secondhand bonds. Therefore, I can think of no valid or sensible economic basis for imposing price controls on Government securities. All that such restraints accomplish is to limit the flexibility of the Treasury, produce distortions in the money and capital markets, and end by costing the taxpayer more to finance our debt. Of course, it is such rigid ties that distort the effective functioning of our money and capital markets.

Another area that for decades has represented a shameful practice that has impaired the credibility of congressional competence in economic matters has been the curious legislation known as the debt ceiling. The presumed advantage of the debt ceiling is to impose a brake on rising levels of Federal Government expenditures.

But it is the Congress which has and does exercise the power of making appropriations. This provides the fundamental determinant of the levels of spending. It is Congress also which has determined the level and structure of taxation and therefore of revenues for a given level of economic activity. The net result of decisions on expenditures and revenues by the Congress determines whether there will be a deficit or surplus in the budget. And it is the accumulated deficit or surplus that determines the level of the Federal debt.

Thus having established the revenue levels and the spending levels, Congress has already determined what debt levels will be. Therefore, to have another set of policies determining what debt levels shall be is to involve from time to time administration in difficulties and embarrassments and makes the Congress itself guilty of inconsistency. But more importantly again from the practical standpoint of the operation of our money and capital markets the practical impact, you have two impacts of the debt ceiling. One is obviously that it is a convenient political device for causing embarrassments to any administration and, second, from an economic standpoint it introduces increased uncertainties in the market for U.S. Government securities, as well as by restricting Treasury financing flexibility and therefore the debt ceiling limits themselves undoubtedly—I said "may" in my written statement, but I will say undoubtedly contribute to higher interest costs on U.S. Government securities and therefore these debt ceiling rituals are likely to have consequences the opposite of those intended.

There is another strange misunderstanding in connection with public and private debt that needs some clarification. Attempts to limit the growth of Federal debt by the debt ceiling provisions reflect a presumption that Government debt has a questionable economic function to perform. But again since it is Congress that determines appropriations and therefore the patterns of expenditures of Federal spending,