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**How the U.S. Treasury
Should Auction Its Debt** (p. 3)

V. V. Chari
Robert J. Weber

**No Relief in Sight
for the U.S. Economy** (p. 13)

David E. Runkle

Federal Reserve Bank of Minneapolis

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Economic Advisory Board: Bruce D. Smith, Richard M. Todd

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Article Editor/Writers: Kathleen S. Rolfe, Martha L. Starr

Designer: Phil Swenson

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Typesetters: Jody Fahland, Correan M. Hanover

Circulation Assistant: Cheryl Vukelich

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Direct all comments and questions to

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Research Department

Federal Reserve Bank of Minneapolis

P.O. Box 291

Minneapolis, Minnesota 55480-0291

(612-340-2341 / FAX 612-340-2366).

In This Issue

Revenue Gains

In “How the U.S. Treasury Should Auction Its Debt” (p. 3), V. V. Chari and Robert J. Weber argue that the U.S. Treasury should use a more efficient procedure to auction its debt.

Under the current auction procedure, all bidders on Treasury securities whose bids are accepted pay the price they bid; that is, different winning bidders pay different prices. The main problem with this procedure is that it provides strong incentives for each potential bidder to try to find out what others are bidding. The process of information-gathering wastes resources which could be used for more generally productive purposes. The auction procedure also produces lower bids—less revenue—for the Treasury than might be offered otherwise.

These problems could be reduced considerably, Chari and Weber argue, if the Treasury switched to the one-price auction procedure which economic theory recommends. All winning bidders should pay the same price, which is that of the highest bid not accepted, or the price that just clears the market. A switch to this procedure would do more than save resources and produce revenue gains, Chari and Weber point out. As a side benefit, it would reduce the incentives traders now have to attempt to manipulate the securities market.

Growing Pains

In “No Relief in Sight for the U.S. Economy” (p. 13), David E. Runkle argues that the U.S. economy will continue to suffer growing pains for at least the next two years. He bases this outlook partly on the predictions of a statistical model developed and used by researchers here at the Minneapolis Federal Reserve Bank. That model quite accurately predicted the weakness at the start of the current U.S. recovery, and it now predicts no strengthening in 1993–94. Runkle also thinks that U.S. economic growth will necessarily be constrained for some time by problems among consumers, in the commercial real estate industry, and at all levels of government.

Arthur J. Rolnick
Editor