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INCREASING THE DEBT LIMIT OF THE UNITED STATES AND PROVIDING FOR FEDERAL TAXATION OF FUTURE ISSUES OF OBLIGATIONS OF THE UNITED STATES AND ITS INSTRUMENTALITIES

FEBRUARY 13, 1941.—Ordered to be printed

Mr. BROWN, from the Committee on Finance, submitted the following

REPORT

[To accompany H. R. 2959]

The Committee on Finance, to whom was referred the bill (H. R. 2959) to increase the debt limit of the United States, provide for the Federal taxation of future issues of obligations of the United States and its instrumentalities, and for other purposes, having considered the same, report favorably thereon with amendments and recommend that the bill, as amended, do pass.

The bill is designed (*a*) to increase the public debt limit and eliminate the present partitions in that limit; (*b*) to give the Treasury greater and more flexible control over savings bonds as a medium of financing; (*c*) to authorize issuance of a new obligation called Treasury savings certificates in place of the war-savings certificates now authorized by law; and (*d*) to subject all Federal obligations issued in the future to Federal taxation by removing all privileges of exemption from such taxation which they now enjoy.

The amendments recommended by your committee are as follows:

On page 4, line 13, immediately following the period at the end of subsection (c), add the following:

> The limitation on the authority of the Postmaster General to prescribe the denominations of postal-savings stamps contained in the second paragraph of section 6 of the Act of June 25, 1910, as amended (U. S. C., title 39, sec. 756), is removed; and the Postmaster General is authorized, for the purposes of such section and to encourage and facilitate the accumulation of funds for the purchase of savings bonds and savings certificates, to prepare and issue postal-savings stamps in such denominations as he may prescribe.

This amendment, which would authorize the Postmaster General to issue postal-savings stamps in any denominations prescribed by him (at present he cannot issue such stamps in denominations of more than $1), is necessary in order that full utilization may be made of postal-savings stamps as a device to facilitate and encourage the accumulation by small investors of the minimum amount necessary to buy savings bonds or certificates. This amendment was recommended by the Treasury and Post Office Departments.

On page 5, in subsection (e), strike out all after "Department" in line 14 through the word "therefor" in line 16, and insert in lieu thereof the following:

and of the Postal Service, in connection with the handling of savings bonds savings certificates, and stamps or other means provided to evidence payment therefor, which sums may be used for additional employees or any other expenditure, wherever or in whatever class of post office incurred, in connection with such handling.

This amendment will merely give the Post Office Department authority to expend funds which the bill already authorizes the Treasury Department to advance to the Post Office Department in order that it may be in a position to perform the work which the bill imposes upon it in connection with the sale and other handling of savings bonds and savings certificates.

NEED FOR THE LEGISLATION

The 1942 Budget submitted to the Congress last month indicates that our contemplated national-defense program has now been increased to approximately $28,500,000,000 in appropriations, contract authorizations, and recommendations. It also indicates that the estimated expenditure programs will result in combined deficits for the fiscal years 1941 and 1942 of $15,400,000,000. The balance of the borrowing authority on January 31, 1941, was $1,123,000,000 under the general limitation, and $1,628,000,000 under the national-defense limitation. This combined total of $2,751,000,000 provides the Treasury with borrowing authority sufficient only for the next 4 months, and even in that period it would be restricted to short-term obligations for a larger part of its financing operations than seems advisable at this time.

The Secretary of the Treasury appeared before a subcommittee of your committee and testified that it would not be advisable to undertake the financing of the enlarged national-defense program through the issuance of short-term securities. Mr. Morgenthau pointed out that short-term securities are for the most part purchased by commercial banks, thereby causing a further increase in deposits. In order to avoid, as far as possible, encouraging such a result, he recommended that the Treasury be permitted to issue obligations more attractive to permanent investors outside of the banking system.

GENERAL EXPLANATION OF THE BILL

The bill amends the Second Liberty Bond Act, as amended, so as to limit the face amount of public-debt obligations issued under the authority of that act to an amount not to exceed in the aggregate $65,000,000,000 outstanding at any one time. It is believed that this increased limitation will amply cover the Treasury's present anticipated financing requirements for the current and ensuing fiscal year. The bill terminates the authority to issue $4,000,000,000 of short-term defense obligations provided in the First Revenue Act of 1940 and certain obsolete authority to issue debt obligations of a character which the Treasury does not need and which, therefore, should be eliminated from the statute books. The future borrowing authority fixed by this bill will be all-inclusive.

In view of the enlarged financing program facing the Treasury Department, it is desirable that it have greater flexibility in the types of securities which may be offered to meet the requirements of various classes of investors. Therefore, this bill further amends the Second Liberty Bond Act so as to broaden the authority under which United States savings bonds are issued and to provide for a new class of security to be called Treasury savings certificates. The statutory limit on the term for which savings bonds may be issued would continue to be 20 years, as at the present, while a limitation of 10 years would be placed on the Treasury savings certificates. It would also provide that both classes of securities may be issued on an interest-bearing basis, on a discount basis, or on a combination interest-bearing and discount basis, and that the Secretary of the Treasury may fix by regulation the amount of savings bonds and savings certificates which may be held by any one person at any one time.

In addition, the Treasury would be authorized to issue stamps or provide other means to evidence payments for savings bonds and savings certificates, and to provide for the exchange of savings certificates for savings bonds. This would permit the Treasury to carry on a program encouraging more popular participation in defense financing and to offer securities of a character which should facilitate and promote thrift and savings.

Insofar as Federal taxation of Federal securities is concerned, the bill removes the tax-exemption privilege by providing that all obligations issued in the future by the United States and its agencies and instrumentalities (except Territories, possessions, and the District of Columbia) shall be subject to Federal taxes to the same extent as private obligations.

The bill makes no change in existing law with respect to the taxation of Federal securities by the States and their political subdivisions nor does it affect in any way the taxable status of obligations of States, municipalities, and other local governmental agencies.

It will remove, however, all privileges of exemption from Federal taxation not only from direct obligations of the United States but also from all obligations issued by the various Federal corporations, instrumentalities, and agencies. While the elimination of the Federal tax-exemption privilege will apply to all future issues of Federal obligations, securities issued solely to replace those issued prior to the effective date of the act which have been lost or destroyed, or securities issued in different denominations in exchange for securities issued prior to such effective date and bearing the same maturity and interest rate, will have the same tax-exemption status as the securities replaced or exchanged. On the other hand, any refunding obligations issued subsequent to the effective date of the act would be fully subjected to Federal taxes under the provisions of the bill.

Your committee feel that it is particularly appropriate that this step should be taken in connection with the financing of the national-defense program. All should be called upon to share in the enormous task of supplying the revenue necessary to finance this program. It becomes urgent therefore, from an equitable point of view, that no subscribers to any given class of securities should receive preferential treatment. This result is impossible if some securities are issued with tax-exemption privileges which are worth little or nothing to the poorer classes of subscribers, but which are worth a great deal to those in the higher income brackets. Preferential treatment to this latter class is incompatible with democratic methods of financing the defense program and should be removed.

Your committee strongly recommend prompt consideration and action on this important legislation. Two factors particularly support this recommendation: (1) As the Treasury is rapidly approaching the limit of its borrowing authority, it is becoming daily more restricted in the flexibility of its financing operations, and flexibility is essential to the successful operation of the vast financial program necessary to arm and defend the United States and guarantee its national security in the world of today; (2) as large amounts of long-term Federal obligations mature on March 15, 1941, it is important that the present legislation be enacted before that date.

DETAILED ANALYSIS OF THE BILL

Section 1: This section merely gives the bill a short title.

Section 2: This section amends section 21 of the Second Liberty Bond Act, as amended, and also terminates certain authority to issue obligations.

In its present form section 21 is made up of subsections (a) and (b). Subsection (a) limits to $45,000,000,000 face value, the amount of bonds, certificates of indebtedness, Treasury bills, and notes issued under the Second Liberty Bond Act, as amended, or under section 6 of the First Liberty Bond Act, as amended, which may be outstanding at one time. Subsection (b), which was added by section 302 of the Revenue Act of 1940, authorizes the issuance, under the Second Liberty Bond Act, as amended, of not to exceed $4,000,000,000 of "national-defense series" obligations.

The combined limitation of $49,000,000,000 established by section 21 is not all-inclusive. At the present time direct obligations may be issued under the following provisions of law:

(1) Sections 1 (bonds), 5 (certificates of indebtedness and bills), 6 (war-savings certificates), 18 (notes), 21 (b) (certificates of indebtedness, bills, and notes), and 22 (savings bonds) of the Second Liberty Bond Act, as amended.

(2) Section 6 of the First Liberty Bond Act, as amended (certificates of indebtedness).

(3) Section 32 of the act of June 13, 1898 (certificates of indebtedness).

The $49,000,000,000 limit applies to all of the above except war-savings certificates issued under section 6 of the Second Liberty Bond Act, as amended (of which $4,000,000,000 may be issued), and certificates of indebtedness issued under the act of 1898 (of which $300,000,000 may be issued).

Under section 21, as amended by section 2 (a) of this bill, the limit on the amount of obligations which may be outstanding under the Second Liberty Bond Act, as amended, is fixed at $65,000,000,000, the authority to issue national-defense series obligations is repealed, and the reference to section 6 of the First Liberty Bond Act, as amended, is deleted.

Section 2 (b) (1) would terminate existing authority to issue $300,000,000 of certificates of indebtedness which are now outside the $49,000,000,000 debt limit. Section 2 (b) (2) would terminate existing authority to issue $2,000,000,000 of certificates of indebtedness which are subject to the present debt limit but which would not be subject to the new $65,000,000,000 limit under section 2 (a) of this bill. Section 2 (b) (3) would terminate existing authority to issue $4,000,000,000 war-savings certificates which are now outside the $49,000,000,000 limit.

The net result of sections 2 (a) and 2 (b) of this bill will be to consolidate under the Second Liberty Bond Act, as amended, all authority of the Treasury to issue direct obligations, and thus make the $65,000,000,000 limitation the actual limit of the amount of such obligations which may be outstanding at one time.

Section 2 (c) would eliminate the special fund now required for the retirement of national-defense series obligations by repealing the provision of law under which it was established.

Section 3: This section amends section 22 of the Second Liberty Bond Act, as amended (the law under which savings bonds are issued) in the following particulars:

(1) It authorizes issuance, under the laws which govern the issuance of savings bonds, of a new type of obligation called United States Treasury savings certificates as a substitute for the war savings certificate now authorized by section 6 of the Second Liberty Bond Act, as amended (such authority is terminated by sec. 2 of the bill). While the Secretary of the Treasury would have authority under the bill to differentiate between the terms of bonds and certificates in other respects, the only difference between the two obligations imposed by law would be in the maturity dates. In the case of bonds the maturity date could not exceed 20 years while in the case of certificates it could not exceed 10 years.

(2) Savings bonds must now be issued on a discount basis. Under this amendment savings bonds as well as savings certificates could be issued on either a discount or an interest-bearing basis or on a combination interest-bearing and discount basis.

(3) Under existing law the demoninations of savings bonds may not be less than $25. Under this amendment both bonds and certificates could be issued in such demoninations as the Secretary of the Treasury may fix.

(4) Under existing law no person may hold more than $10,000 maturity value of savings bonds issued in any one calendar year. Under this amendment the Secretary of the Treasury could from time to time by regulation increase or lower that limit with respect to either bonds or certificates.

(5) It authorizes the issuance of stamps to evidence partial payment on savings bonds and certificates and the exchange of certificates for bonds.

(6) It makes the indefinite appropriation "Expenses of loans, act of September 24, 1917, as amended and extended" available to cover expenses incident to the issuance of savings certificates. Such appropriation is now available to cover the expenses of issuing savings bonds.

Section 4: This section would, in effect, make interest upon, and gain from, the sale or other disposition of all obligations issued in the future by the United States and its agencies and instrumentalities (except Territories, possessions, and the District of Columbia, and any political subdivision thereof, and any agency or instrumentality of any one or more of the foregoing) subject to taxation by the Federal Government to the same extent as like obligations of private issuers. Obligations issued in the future by the Maritime Commission and the Federal Housing Administration under commitments embodied in guaranty contracts entered into prior to the taking effect of this section would be treated as outstanding obligations. The phrase "the United States or any agency or instrumentality thereof" is used in the broadest possible sense, so as effectively to eliminate for the future (with the specific exceptions noted above) whatever exemptions from Federal taxation may have been accorded to any obligations by any act of Congress. This section does not affect in any way the taxable status of obligations of States, municipalities, and other local governmental agencies.

Section 5: This section merely provides that the bill, except sections 2 (b) and (c), is to become effective on the 1st day of the month following the date of enactment of the bill. Section 2 (b) and (c) are to become effective immediately.

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