Calendar No. 1210

77TH CONGRESS } SENATE { REPORT
2d Session } { No. 1173

INCREASING THE DEBT LIMIT OF THE UNITED STATES AND FURTHER AMENDING THE SECOND LIBERTY BOND ACT

MARCH 16 (legislative day, MARCH 5), 1942.—Ordered to be printed

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

REPORT

[To accompany H. R. 6691]

The Committee on Finance, to whom was referred the bill (H. R. 6691) to increase the debt limit of the United States, to further amend the Second Liberty Bond Act, and for other purposes, having considered the same, report favorably thereon with an amendment and recommend that the bill as amended do pass.

The purposes of this bill are (*a*) to raise the limit on the public debt from $65,000,000,000 to $125,000,000,000; (*b*) to increase the flexibility of the authority of the Secretary of the Treasury over the issuance of Treasury bonds, bills, notes, and certificates of indebtedness; (*c*) to permit obligations of the United States, redeemable upon the demand of the holder, to be receivable in payment of Federal taxes; (*d*) to authorize the exchange of obligations of any agency or instrumentality which are unconditionally guaranteed both as to principal and interest for direct obligations of the United States; (*e*) to clarify the authority of the Treasury to purchase, redeem, or refund outstanding obligations of the United States; (*f*) to terminate the authority of the Postmaster General to issue postal-savings stamps when other defense stamps are issued by the Treasury; and (*g*) to remove the tax-exemption privilege from the shares and other eivdences of ownership issued hereafter by any agency or instrumentality of the United States.

The amendment recommended by your committee is as follows:

On page 1, line 6, strike out all of the line following the period immediately after the numeral 21, and lines 7 and 8, and substitute in lieu thereof the following:

The face amount of all obligations issued under the authority of this Act, and the face amount of all obligations issued by any agency or instrumentality of the United States which are unconditionally guaranteed as to principal and interest by the United States, except such guaranteed obligations which are owned by the Treasury Department, shall not exceed in the aggregate $130,000,000,000 outstanding at any one time.

This amendment would place an over-all limit of $130,000,000,000 on the combined amount of the Treasury obligations and obligations issued by the agencies and instrumentalities of the United States which are unconditionally guaranteed both as to principal and interest by the United States, except such guaranteed obligations as are owned by the Treasury, which could be outstanding at any one time.

GENERAL STATEMENT

By reason of the fact that the unused borrowing authority of the Treasury was only $1,405,887,776 at the end of February 1942, it is imperative that the public-debt limit be raised as soon as possible. Unless this limit is raised it is probable that by the end of March the borrowing authority will not be sufficient to cover the necessary issues of securities which will be required during the month of April.

According to the President's Budget message for the fiscal year 1943, the deficit for the fiscal year of 1942 will be $18,600,000,000 and the Treasury will lend to the Governmental corporations approximately $3,000,000,000. Under these estimates the public debt at the end of the fiscal year 1942 will be $70,600,000,000. The estimated deficit for the fiscal year 1943, after taking into consideration additional revenues of $7,000,000,000 from new taxation, will be $35,400,000,000 and the Treasury in that year will be required to advance $4,400,000,000 to the governmental corporations. The estimated increase in the public debt for the fiscal year 1943 will therefore be $39,800,000,000 and on June 30, 1943, the public debt will be $110,400,000,000.

It is believed that the proposed increased limit on the public debt to $130,000,000,000 will cover the financing requirements of the Government through the fiscal year 1943 and part of the fiscal year 1944.

The Treasury is responsible for raising the large sums necessary to finance the war program. Therefore, it would seem desirable that it be given greater flexibility concerning the types of securities which it may issue to meet the demands of the several classes of purchasers. Accordingly, the authority contained in the Second Liberty Bond Act would be broadened so that Treasury bonds, bills, notes, and certificates of indebtedness could be issued by the Treasury on an interest-bearing basis, on a discount basis, or on a combined interest-bearing and discount basis.

The bill would authorize the Treasury to accept obligations of the United States which are redeemable upon the demand of the owner or holder in payment of any taxes imposed by the United States. This provision should benefit taxpayers owning such obligations by making it easier for them to pay their taxes.

Under existing law, obligations of the United States cannot be directly exchanged for obligations which are guaranteed both as to principal and interest by the United States. The exchange may now be made only by redeeming the outstanding guaranteed obligations and using the proceeds for the purchase of direct obligations of the United States. The bill would authorize the direct exchange of guaranteed obligations for obligations of the United States and thereby permit the Treasury to avoid this indirect procedure.

When Congress enacted the Gold Reserve Act of 1934, it intended to give the Treasury authority to purchase obligations of the United States on the open market before maturity but the law with respect to that point is not entirely free from ambiguity. The bill would remove this ambiguity by authorizing the Secretary of the Treasury to use any money in the general fund of the Treasury or any money received from the sale of obligations of the United States for the purchase, redemption, or refunding, at or before maturity, of any securities outstanding.

The Postmaster General is required to issue postal-savings stamps under the laws relating to the Postal Savings System, while the Secretary of the Treasury, pursuant to the terms of the Second Liberty Bond Act, as amended, can issue stamps as evidences of payment toward the purchase of savings stamps. The Secretary of the Treasury has never issued the latter stamps as it has not been deemed feasible to have two types of savings stamps on sale in the post offices at the same time. It was decided by the Postmaster General and the Secretary of the Treasury that postal-savings stamps would be sold to provide a means for accumulating funds for the purchase of savings bonds. Postal-savings stamps are carried as obligations of the board of trustees of the Postal Savings System and not as public debt obligations, although today these stamps are being purchased primarily to support the war program. Consequently, it is believed that the obligation to redeem the stamps should be carried on the books of the Treasury as any other public debt obligation of the United States. The bill would terminate the authority of the Postmaster General to issue postal-savings stamps at such time as the Secretary of the Treasury issues stamps pursuant to the authority contained in section 22 (c) of the Second Liberty Bond Act, as amended and the obligation to redeem the outstanding postal-savings stamps would become a public debt obligation instead of a liability of the board of trustees of the Postal Savings System. The new stamps which the Treasury will issue will be redeemable on demand at the post offices and any person who has accumulated a dollar's worth of stamps will be able to turn them in for a dollar deposit in the Postal Savings System.

The Public Debt Act of 1941 removed the tax-exemption privilege from obligations issued by the United States and agencies and instrumentalities of the United States after the effective date of that act but the tax-exemption privilege enjoyed by shares and other evidences of ownership issued by the various agencies and instrumentalities of the United States was overlooked. The bill would remove the tax-exemption privilege on the shares of stock and other evidences of ownership hereafter issued by such agencies and instrumentalities. Some of the organizations the shares of which would be affected by this change are the Federal savings and loan associations, the Federal Reserve banks, the national mortgage associations, the Federal land banks, the national farm loan associations, and the Federal intermediate credit banks. This provision would not in any way affect the status for tax purposes of any agency or instrumentality of the United States.

Your committee stress the necessity for immediate consideration and action on this vital legislation. The Treasury is rapidly approaching the public-debt limit and is becoming restricted in the flexibility of its financing operations. It is therefore imperative for the successful prosecution of the war program and the general operation of the Government that the debt limit be raised before the first of April.

O