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PUBLIC DEBT AND INTEREST RATE LIMITATIONS

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

REPORT

[To accompany H.R. 4690]

The Committee on Finance, to which was referred the bill (H.R. 4690) to increase the public debt limit set forth in section 21 of the Second Liberty Bond Act, and for other purposes, having considered the same, reports favorably thereon without amendment and recommends that the bill do pass.

I. SUMMARY

This bill is concerned with the statutory debt limitation, with the maximum interest rate applicable to long-term U.S. obligations, and with a provision not permitting the redemption before maturity at more than fair market value of any obligation of the United States (except Treasury bills) in payment of Federal taxes. The permanent debt limitation, under present law, is $380 billion. Present law also provides for a temporary additional increase of $15 billion, providing an overall limit of $395 billion, effective through June 30, 1971. Long-term U.S. obligations, that is, those with a maturity longer than 7 years, presently may not yield a rate of interest at face value that exceeds 4¼ percent per year.

With respect to the debt limit, the bill provides for an increase in the permanent debt limitation from $380 to $400 billion. It also increases the temporary addition from $15 billion to $30 billion. The period for which this temporary increase is to be available is extended until July 1, 1972, These actions make available an overall limitation of $430 billion from the date of enactment of this bill until the end of fiscal year 1972. After June 30, 1972, the bill provides that the limitation will be $400 billion. The administration requested an overall limitation of $435 billion for this period.

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The bill also provides that long-term U.S. obligations, in an aggregate amount not exceeding $10 billion, may be issued without regard to the statutory $4\frac{1}{4}$ percent limitation on the interest rate on long-term bonds. The administration requested the removal of this ceiling.

Finally, the bill amends the Second Liberty Bond Act and the Internal Revenue Code to provide that U.S. Government obligations issued after March 3 (except Treasury bills which run for a period of no longer than a year) having a market value below face value cannot be redeemed at face or par value in payment of any United States tax.

The provisions described above are all in the House-passed bill, which the committee has accepted without change.

The debt limitations for the years since 1941, together with the limitation provided by this bill, are shown in table 1, below.

TABLE 1.—STATUTORY DEBT LIMITATIONS, FISCAL YEARS 1941 TO DATE, AND PROPOSED LIMITATION FOR THE FISCAL YEARS 1971 AND 1972

[In billions]

Fiscal year	Statutory debt limitation: Permanent	Temporary additional	Total
1941 through Feb. 18	$49		$49
1941 Feb. 19 through June 30	65		65
1942 through Mar 27	65		65
1942: Mar. 28 through June 30	125		125
1943 through Apr. 10	125		125
1943: Apr 11 through June 30	210		210
1944 through June 8	210		210
1944: June 9 through June 30	260		260
1945 through Apr. 2	260		260
1945: Apr. 3 through June 30	300		300
1946 through June 25	300		300
1946: June 26 through June 30	275		275
1947–54	275		275
1955 through Aug. 27	275		275
1955 Aug. 28 through June 30	275	$6	281
1956	275	6	281
1957	275	3	278
1958 through Feb. 25	275		275
1958: Feb 26 through June 30	275	5	280
1959 through Sept 1	275	5	280
1959: Sept. 2 through June 29	283	5	288
1959: June 30		5	290
1960	285	10	295
1961	285	8	293
1962 through Mar. 12	285	13	298
1962 Mar. 13 through June 30	285	15	300
1963 through Mar. 31	285	23	308
1963 Apr 1 through May 28	285	20	305
1963: May 29 through June 30	85	22	307
1964 through Nov. 30	285	24	309
1964: Dec. 1 through June 28	285	30	315
1964: June 29 and 30	285	39	324
1965	285	39	324
1966	285	43	328
1967 through Mar. 1	285	45	330
1967 Mar. 2 through June 30	285	51	336
1968 [1]	358		358
1969 through Apr. 6 [1]	358	7	365
1969 after Apr. 6 [1]	358		358
1970 through June 30 [1]	365	12	377
1971 through June 30 [1]	380	15	395
Later years	380		380
Proposed.			
From enactment through June 30, 1972 [1]	400	30	430
After June 30, 1972 [1]	400		400

[1] Includes FNMA participation certificates issued in fiscal year 1968.

II. STATUTORY DEBT LIMITATION

A. Revenue and expenditure estimates submitted to committee

For the fiscal year ending June 30, 1971, revenue and expenditure estimates submitted by the administration indicate a Federal funds deficit of $25.5 billion and for the fiscal year 1972, a Federal funds deficit of $23.1 billion. The 1972 estimate includes proposed legislation that affects revenues. In the fiscal year 1972, the Federal funds deficit as estimated by the administration without proposed legislation would be $23.3 billion. These estimates are summarized in table 2.

TABLE 2.—FEDERAL FUNDS RECEIPTS AND EXPENDITURES, FISCAL YEAR 1970 ACTUAL, AND FISCAL YEARS 1971 AND 1972 ESTIMATES [1]

[In billions of dollars]

	1970 actual	1971 budget estimates [2]	1972 budget estimates [2]
Excluding proposed legislation:			
Receipts	143.2	139.1	153.6
Expenditures	156.3	164.7	176.9
Deficit (−)	−13.1	−25.5	−23.3
Including proposed legislation:			
Receipts	143 2	139.1	153.7
Expenditures	156.3	164.7	176.9
Deficit (−)	−13.1	−25.5	−23.1

[1] Details may not add due to rounding.
[2] As indicated in the budget document for fiscal year 1972 and adjusted for the intragovernmental transactions.

The estimates shown above for both the fiscal year 1971 and the fiscal year 1972 are based on the Federal funds concept, since this closely corresponds with the way in which the debt limitation is calculated. However, since the budget frequently is shown on a unified budget basis, for comparative purposes the following discussion of the unified budget is also included.

For the fiscal year 1971, the administration estimates that the unified budget deficit will be $18.6 billion and that in the fiscal year 1972 the deficit will amount to $11.6 billion. For both fiscal years, these estimates include revenue legislation proposed by the administration. Without these proposals, the administration's estimates of the deficits would be $18.7 billion in 1971 and $14.7 billion in 1972. These estimates are summarized in table 3.

TABLE 3.— UNIFIED BUDGET RECEIPTS AND EXPENDITURES, FISCAL YEAR 1970 ACTUAL, AND FISCAL YEARS 1971 AND 1972 ESTIMATES [1]

[In billions of dollars]

	1970 actual	1971 budget estimates [2]	1972 budget estimates [2]
Excluding proposed legislation:			
Receipts	193.7	194.0	214.6
Expenditures	196.6	212.8	229.2
Deficit (−)	−2.8	−18.7	−14.7
Including proposed legislation.			
Receipts	193.7	194.2	217.6
Expenditures	196.6	212.8	229.2
Deficit (−)	−2.8	−18.6	−11.6

[1] Details may not add due to rounding.
[2] As indicated in the budget document for fiscal year 1972.

The administration's estimates of unified budget receipts in the fiscal year 1972 represents an increase of $23.4 billion above the current estimates for the fiscal year 1971. The estimated increase reflects a $3 billion rise attributable to proposed legislation and a $20.4 billion rise anticipated by the administration as the result of its forecast of a high level of economic activity for the calendar years 1971 and 1972.

The administration's estimates of unified budget receipts for the fiscal years 1971 and 1972, together with those of the staff of the Joint Committee on Internal Revenue Taxation for the same years, are shown in table 4. The staff estimates, because of a somewhat lower level of assumed economic activity, are approximately $1 billion less than those of the administration for the fiscal year 1971 and about $6 billion below those of the administration for the fiscal year 1972. The administration and staff estimates for the fiscal years 1971 and 1972 are shown in table 4.

TABLE 4. UNIFIED BUDGET AND FEDERAL FUNDS AND TRUST FUNDS ESTIMATED RECEIPTS FOR FISCAL YEARS 1971 AND 1972 INCLUDING PROPOSED LEGISLATION [1]

[In millions of dollars]

	Estimates			
	1971		1972	
	Budget [2]	Staff [3]	Budget [2]	Staff [3]
Federal funds:				
Individual income taxes	88,300	88,200	93,700	92,300
Corporation income taxes	30,100	29,500	36,700	32,800
Excise taxes	10,650	10,700	11,115	11,165
Estate and gift taxes	3,730	3,700	5,300	5,300
Customs	2,490	2,500	2,700	2,600
Miscellaneous receipts	3,778	3,678	4,114	4,008
Total	139,048	138,278	153,629	148,173
Trust funds:				
Social insurance taxes and contributions	48,973	49,070	57,559	57,056
Excise taxes	6,150	5,900	6,385	6,273
Miscellaneous receipts	22	22	20	20
Total	55,145	54,992	63,964	63,349

[1] Receipts from the public only; intragovernmental transfers not included.
[2] As shown in the budget document for fiscal year 1972.
[3] Staff of the Joint Committee on Internal Revenue Taxation.

The administration's revenue estimates are based upon a forecast of gross national product for the calendar year 1971 of $1,065 billion, of personal income of $868 billion and of corporate profits before taxes of $98 billion. The staff estimates are based upon a gross national product of $1,055 billion, for the calendar year 1971, on a personal income of $860 billion, and on corporate profits before taxes of $93 billion. The corporate profits assumed by both the administration and the staff are before adjustment for increased depreciation allowances announced by the Treasury in January, 1971.

As indicated previously, there are legislative proposals in the budget which increase unified budget receipts by $3,022 million in the fiscal year 1972 and by $176 million in fiscal year 1971. The major proposal affecting fiscal year 1972 unified budget receipts is the requested increase in the social security wage base from $7,800 to $9,000. As proposed, this would be effective retroactively to January 1, 1971, increasing the receipts in the fiscal year 1971 by $170 million and by $2,856 million in the fiscal year 1972. Other changes attributable to proposed legislation are an increase in airway user taxes to meet expenses incurred in providing services associated with the anti-hijacking system, an extension of the interest equalization tax, retirement of old series currency, etc., and a loss in revenue attributable to a special tax treatment for domestic international sales corporations (partially effective in the fiscal year 1972 under the administration's proposal). The effects of the proposed revenue legislation are summarized in table 5.

TABLE 5.—ESTIMATES OF PROPOSED REVENUE LEGISLATION, FISCAL YEARS 1971 AND 1972

[In millions of dollars]

Proposal	Budget revenue estimates [1]
Fiscal year 1971:	
Increase in social security wage base and railroad retirement	170
Airway user taxes	6
Total, 1971	176
Fiscal year 1972:	
Increase in social security wage base and railroad retirement	2,856
DISC	−200
Extension of interest equalization tax	85
Airway user taxes	53
Retirement of old currency, etc	228
Total, 1972	3,022

[1] As indicated in the budget document for fiscal year 1972.

B. Treasury proposal

The Treasury Department proposed a $40 billion increase in the temporary debt ceiling, increasing it from the present level of $395 billion to $435 billion effective as of the date of enactment.

The Treasury Department recommended that the committee follow the procedure of estimating the necessary increase in the public debt limit by adding a $3 billion allowance for contingencies to the peak debt level expected during the years in question. In addition, the Treasury Department recommended that the necessary increase in the debt limit be based on an assumed $6 billion operating cash balance.

Table 6, constructed in the manner indicated above, shows that the debt subject to limitation will reach a peak of $433.6 billion on June 15, 1972. It was on this basis that the Treasury recommended a maximum debt limitation effective until July 1, 1972, of $435 billion.

TABLE 6.—ESTIMATED DEBT SUBJECT TO LIMIT, FISCAL YEARS 1971 AND 1972

[In billions of dollars]

	Debt with $6.0 cash balance	With $3.0 margin for contingencies
1971		
Mar. 15	397 3	
Mar. 31	395. 3	
Apr. 15	400. 8	
Apr. 30	392. 0	
May 17	397. 3	
May 31	399. 4	
June 15	404. 7	
June 30	396. 5	
June 30	396. 5	$399. 5
July 15	403. 1	406. 1
July 30	403. 9	406. 9
Aug. 16	409 3	412 3
Aug. 31	409. 4	412. 4
Sept. 15	413. 0	416. 0
Sept. 30	405. 3	408. 3
Oct. 15	410 8	413. 8
Oct. 29	409. 1	412. 1
Nov. 15	413. 0	416. 0
Nov. 30	413. 7	416. 7
Dec. 15	418. 4	421. 4
Dec. 31	416. 1	419. 1
1972		
Jan. 17	422 5	425. 5
Jan. 31	414. 6	417. 6
Feb. 15	418. 8	421. 8
Feb. 29	419. 4	422. 4
Mar 15	426. 0	429. 0
Mar. 31	423. 8	426. 8
Apr. 17	429 7	432. 7
Apr. 28	419. 1	422. 1
May 15	424. 6	427. 6
May 31	425. 9	428. 9
June 15	430. 6	433. 6
June 30	420. 0	423. 0

Source: Treasury Department.

C. Basis for committee action

Both the House and the committee recognize that it is difficult for the public to see why a $35 billion increase in the debt limitation is required for fiscal year 1972 when the estimated budget total which receives the most public attention, namely, the estimate for the unified budget, shows a deficit of only $11.6 billion. The most important difficulty, of course, is that the unified budget deficit shows only the the increase in the debt owed to the public. It does not include the increase in the debt owed to the trust funds, which the Government manages in a fiduciary capacity. In considering the debt limitation, it is essential to take into account the Federal Government's liabilities for future payments of principal and interest to trust funds in much the same way as in the case of debt owed to the public. Both types of liability are real and must be met at some future time.

Last year the Congress requested that the Federal funds deficit, because of its significance in determining the debt limitation, be given more prominence in the budget document. As a result of this request, the Federal funds deficits for the fiscal years 1970 through 1972, on an actual or estimated basis, appear on page 49 of the budget document. Even with this inclusion, however, it does not appear that the significance of these figures is generally understood.

The importance of these considerations for the debt limitation is shown by the fact that while the unified budget deficit is estimated by the administration at $11.6 billion for the fiscal year 1972, the Federal funds deficit is estimated by the administration at $23.1 billion.

Moreover, even this substantial figure for the Federal funds deficit for fiscal year 1972 does not fully reflect the increase in the debt ceiling which is required. Expenditures are spread relatively evenly over the year and receipts, particularly individual and corporate income tax collections, tend to be relatively larger in the latter part of the year. As a result, the Treasury estimates that while the Federal funds deficit will amount to $23.1 billion for the entire fiscal year 1972, this deficit will amount to $33.6 billion from the end of fiscal year 1971 to June 15, 1972. Since the debt limitation is applicable to the highest debt outstanding at any time during the year, it is necessary to provide a limitation high enough to accommodate the peak Federal deficit expected at any time during the year. Table 7, which shows the cumulative Federal funds deficit from month to month (and on June 15), indicates that the peak Federal funds deficit estimated by the Treasury for the fiscal year 1972 is expected to occur on June 15, 1972, and to amount to $33.6 billion.

TABLE 7.—ESTIMATED FEDERAL FUNDS RECEIPTS, OUTLAYS, AND DEFICIT OR SURPLUS, MONTHLY, FISCAL YEAR 1972

[In billions of dollars]

	Receipts	Outlays	Surplus (+) or deficit (−)	Cumulative deficit
July	8.7	16.0	−7.3	−7.3
August	9.7	14.7	−5.0	−12.3
September	16.9	14.0	+2.9	−9.4
October	9.4	14.4	−5.0	−14.4
November	10.8	14.3	−3.5	−17.9
December	14.5	15.0	−0.5	−18.4
January	14.6	14.5	+0.1	−18.3
February	9.8	13.8	−4.0	−22.3
March	10.0	14.9	−4.9	−27.2
April	19.7	15.3	+4.4	−22.8
May	8.2	14.3	−6.1	−28.9
June 1–June 15			−4.7	−33.6
June (entire month)	21.4	15.6	+5.8	−23.1
Total	153.7	176.9	−23.1	

Source: Treasury Department.

The Treasury Department has estimated that the debt subject to the limit on June 30, 1971, assuming a $6 billion cash balance, will amount to $396.5 billion. Adding the $33.6 billion peak Federal funds deficit to this, plus making an allowance of $3 billion for contingencies and a $500 million allowance for conceptual differences between the expected deficit in the Federal funds budget and the debt subject to the limitation, indicates the need for a maximum debt limitation in the fiscal year 1972 of $433.6 billion. This is summarized in the following tabulation:

	(In billions)
Public debt subject to limit on June 30, 1971 (with $6 billion cash balance)	$396.5
Federal funds deficit for period June 30, 1971, to June 15, 1972	33.6
Conceptual difference between Federal funds deficit and increase in public debt[1]	0.5
Margin for contingencies	3.0
Total	433.6

[1] For the above differences between the Federal funds deficit and the increase in the amount of debt subject to limit, see table entitled, "Federal Funds Financing and Change in Debt Subject to Limit," on p. 48 of the budget for the fiscal year 1972.

It should be noted, however, that the above projection of a $433.6 billion debt on June 15, 1972, is based on the assumption that there is a need for a $6 billion cash balance on June 15, 1972. However, if the cash balance were allowed to drop to $2.4 billion on June 15, 1972, (but still with the $3 billion allowance for contingencies) the public debt subject to limitation could be kept within a limitation of $430 billion. Such a cash balance appears to be well within the range of the cash balances usually existing at this date in prior years. For example, the cash balance was $2.7 billion on June 15, 1970, and $2.2 billion on June 15, 1969. In fact, it is customary for the cash balance to diminish for a period up until June 15 and then pick up rapidly thereafter as collections flow in from estimated individual income and estimated corporation income taxes for the current year.

In setting the temporary debt limit for fiscal year 1972 at a $430 billion level, the House and the committee did so not only because they believed (as indicated above) that the Treasury figures justify such a level, but also because they believed it was desirable to keep a restraint on spending, as well. Although initially requesting a debt limit of $435 billion for fiscal year 1972, the Treasury Department has indicated that a $430 billion debt limit is satisfactory.

It should be noted that the $430 billion temporary debt limit, which is provided in this bill, is based on the administration's estimates of revenue and expenditure as presented in the budget for fiscal year 1972. The committee agrees with the House that the economic assumptions underlying the estimated revenue receipts may well be too high. In fact, the estimates of the staff of the Joint Committee on Internal Revenue Taxation suggest receipt estimates about $6 billion lower than those of the administration, and others believe that receipts may be still lower. Moreover, judging on past experience, it would appear that actual spending is likely to exceed spending projected in the budget. Accordingly, there is the possibility that the actual deficit for fiscal 1972 could be substantially larger than the deficit now estimated by the administration. However, it would appear that the debt limit for fiscal year 1972 should be set on the basis of the administration's estimates. Should these prove to be too low, the Congress can reconsider the limitation at a later date as has occurred on occasion in other years. The committee agrees with the House, however, that in the interest of restraining expenditures, it would be inappropriate to use receipt and expenditure estimates which give rise to a larger increase in the debt subject to limitation than is justified by the figures presented by the administration.

The analysis presented above shows that the debt limitation above $395 billion is needed not only for the fiscal year 1972, but also for the latter part of the fiscal year 1971. As indicated above, the debt at the end of the fiscal year 1971 is expected to be $396.5 billion, and the debt on June 15, 1971, can be expected to be significantly above this level. Moreover, as indicated by table 6 in the material presented by the Treasury Department, the $395 billion level could well be inadequate beginning around March 15, 1971. Because of this, the bill provides the higher temporary dept limitation of $430 billion, not only for the fiscal year 1972, but also for the portion of fiscal year 1971 occurring after the date of enactment of this bill,

In providing the debt limitation of $430 billion, the bill increases the permanent debt limitation from $380 billion to $400 billion, since, given the deficits for the fiscal years 1971 and 1972, it is obvious that for a number of years to come the debt subject to the statutory limitation will not be below $400 billion. The remaining limitation provided by the committee of $30 billion is a temporary limitation expiring at the end of the fiscal year 1972.

D. Results of delaying the enactment of an adequate debt ceiling

A number of real complications would develop in the event of any delay in enacting a public debt limit sufficient for the Government's needs during the next fiscal year. If provision is not made for a new debt limitation, the present limitation of $395 billion will expire and on July 1 the overall limitation will fall to $380 billion. On that date, the debt subject to limitation is expected to exceed $380 billion by approximately $16.5 billion assuming a $6 billion cash balance. While there would be no question concerning the legality of the outstanding debt in such a situation, the Treasury Department would be unable to issue any new securities. This prohibition would apply to issues designed to replace maturing issues as well as to securities representing new debt.

As a result, savings bonds could not be issued and payroll savings plans would be disrupted. In addition, the Treasury cash balance would be depleted rapidly. Substantial amounts of Treasury bills become due on a weekly basis. If new bills cannot be issued to replace these issues, the Treasury cash balance would soon be exhausted.

Once the cash balance is exhausted, the Government would be compelled to delay full payment (or resort to partial payments) of contract obligations, Government salaries, various loan and benefit programs, and grants to States and local governments when they become due. The economic hardships resulting from such action would, of course, be most severe in those areas where there are large concentrations of Federal employees or employees engaged in production under large Government contracts.

III. INTEREST LIMITATION

A. Treasury proposal

The Treasury Department proposed that the present 4¼ percent interest rate ceiling applicable to bonds with maturities of more than 7 years be eliminated on the grounds that the ceiling has, in recent years, impeded Treasury financing, interfered with prudent debt management and had an adverse impact on financial markets. It pointed out that the management of the debt has been impeded because current long-term interest rates in excess of 4¼ percent limit have forced the Treasury for the last several years to concentrate its financing entirely in the short end of the market where there is no interest rate limitation. This is evidenced by the fact that the current market interest rate at which outstanding Treasury bonds with maturities of 10 years or more are traded was 5.78 percent at the end of January 1971. This concentration of all new financing in short-term financing has resulted in a precipitous decline in the average maturity of the outstanding debt from an average maturity of 5 years and 9 months in June 1965 to 3 years and 4 months as of January 1971. (See table 8.) The consequence of this is that the Treasury must enter the market more and more frequently to refinance the maturing debt.

TABLE 8.—MATURITY DISTRIBUTION AND AVERAGE LENGTH OF MATURITY OF MARKETABLE INTEREST-BEARING PUBLIC DEBT [1]

[Amounts in millions of dollars]

End of fiscal year or month	Amount outstanding	Maturity classes					Average length	
		Within 1 year	1–5 years	5–10 years	10–20 years	20 years and over	Years	Months
1961	187,148	81,120	58,400	26,435	10,233	10,960	4	6
1962	196,072	88,442	57,041	26,049	9,319	15,221	4	11
1963	203,508	85,294	58,026	37,385	8,360	14,444	5	1
1964	206,489	81,424	65,453	34,929	8,355	16,328	5	0
1965	208,695	87,637	56,198	39,169	8,449	17,241	5	4
1966	209,127	89,136	60,933	33,596	8,439	17,023	4	11
1967	210,672	89,648	71,424	24,378	8,425	16,797	4	7
1968	226,592	106,407	64,470	30,754	8,407	16,553	4	2
1969	226,107	103,910	62,770	34,837	8,374	16,217	4	0
1970	232,599	105,530	89,615	15,882	10,524	11,048	3	8
1968, December	236,812	108,611	68,260	35,130	8,396	16,415	4	0
1969:								
November	237,919	120,144	73,305	20,026	8,360	16,083	3	8
December	235,863	118,124	73,302	20,026	8,358	16,054	3	8
1970:								
January	236,321	118,633	73,294	20,026	8,354	16,014	3	7
February	235,968	117,796	77,104	19,329	10,557	11,182	3	7
March	238,195	121,272	75,889	19,329	10,551	11,155	3	6
April	233,998	117,148	75,855	19,329	10,542	11,124	3	6
May	236,561	109,432	89,631	15,879	10,534	11,085	3	8
June	232,599	105,530	89,615	15,882	10,524	11,048	3	8
July	237,821	110,813	89,614	15,876	10,514	11,004	3	6
August	240,511	109,830	91,075	18,122	10,507	10,978	3	7
September	239,330	108,671	91,066	18,140	10,501	10,951	3	6
October	242,180	111,636	90,992	18,138	10,493	10,922	3	5
November	244,447	120,125	82,302	22,555	8,566	10,900	3	6
December	247,713	123,423	82,318	22,553	8,556	10,863	3	4

[1] All issues are classified to final maturity except partially tax-exempt bonds which have been classified to earliest call date. The last of these bonds were called on Aug. 14, 1962, for redemption on Dec. 15, 1962.

Source. Office of Debt Analysis, Treasury Department.

The volume of maturing notes and bonds that the Treasury needs to refinance each year, for example, rose from $13.3 billion in 1965 to $22.9 billion at the beginning of 1971, an increase of 72 percent. Frequently this refinancing must be undertaken when the financial markets are congested and the addition of the Treasury demand creates difficulties for all borrowers and contributes to a rise in short-term interest rates. Large and frequent refinancings required by the short maturity of the debt also complicate the open market operations of the Federal Reserve or make monetary policy changes difficult because of the need to avoid distributing the market's reception of the new Treasury issues.

The Treasury has emphasized that good debt management requires greater flexibility both in choosing the time for entering the market and also in choosing whether it is more desirable to enter the short-term market or the long-term market. It suggested that the 4¼ percent interest rate limit makes this desired flexibility impossible. It also suggested that the concentration of Treasury financing in the short-term market, as a result of the interest rate ceiling, has had an adverse impact on the housing industry. By concentrating its financing in the short-term market and contributing to higher interest rates, it indicated that funds have been attracted out of savings and loan associations and mutual savings banks and into other short-term assets including Treasury securities. The result of this process (referred to as disintermediation), the Treasury stated, has reduced the supply of funds available for housing.

The Treasury Department also indicated that the interest rate ceiling has not been effective in keeping interest rates down or providing a saving of interest cost to the Treasury. It pointed out that during a period of inflation and heavy credit demands, such as we have experienced recently, a legal limit on interest the Treasury may pay on long-term securities cannot prevent interest rates from rising. However, the ceiling has it indicated forced the Treasury to finance in the short-term market which, at times, helped push the short-term rates significantly above the long-term rates, making the general level of interest rates higher than they otherwise would have been.

In this connection, the Treasury pointed out that the significant amount of long-term financing the Treasury was able to do in the late 1950's and early 1960's is still providing substantial interest savings. At that time, the long-term interest rates were significantly below the more recent short-term rates. Had long-term financing not been possible, it would have been necessary to finance this debt at the higher short-term interest rates of recent years, resulting in a still greater total interest cost than we are now paying.

B. Basis for committee action

The committee agrees with the House that the Treasury Department may well be correct in assuming that the 4¼ percent interest rate limit has interfered with good debt management practices and has had an unfortunate impact on financial markets and housing. Further support for this view was provided by the following statement signed by all living former Secretaries of the Treasury:

STATEMENT BY FORMER SECRETARIES OF THE TREASURY

As men who have served as Secretary of the Treasury over a period of more than twenty years and in widely varying economic and financial circumstances, we join in supporting the request of Secretary Connally that the 4¼ percent interest rate ceiling on Treasury bonds be removed. This action is essential to continued orderly management of the Government debt. Failure to remove this outmoded ceiling, with the consequence of forcing disproportionate short-term financing, can become a disruptive influence in credit markets.

DAVID M. KENNEDY.
JOSEPH W. BARR.
HENRY H. FOWLER.
DOUGLAS DILLON.
ROBERT B. ANDERSON.
JOHN W. SNYDER.

FEBRUARY 16, 1971.

There also appears to be substantial support for removal of the interest ceiling among professional economists, financial and mortgage organizations, the Commission on Money and Credit and the Commission on Mortgage Interest Rates appointed in 1968 by President Johnson.

The committee also agrees with the House that the rise in short-term interest rates resulting from the concentration of Treasury financing in short-term securities may also have made the overall level of interest rates higher than it otherwise would have been in the absence of an interest ceiling.

While the committee, like the House, is concerned with the adverse effects the Treasury Department indicates have arisen from the interest rate ceiling, it is reluctant to remove the ceiling completely, at least until there has been an opportunity to observe the effects of a limited exception to the ceiling. Consequently, the bill provides that the Treasury may issue up to $10 billion of long-term securities without regard to the 4¼ percent ceiling. Since the $10 billion is not an annual amount nor an amount that may be outstanding at any one time, this authority is likely to be used up in a few years, giving the Congress another opportunity to consider the desirability of an interest rate limitation on long-term bonds.

On the basis of assurances from the Treasury Department, it is clear that the Treasury does not intend to use the $10 billion authority in a way that would impede the current decline in long-term interest rates. As Secretary Connally testified, "* * * the Treasury has no intention of pressing massive sales of long-term bonds on a reluctant market." Nor does the Treasury intend to issue long-term securities without regard to the level of long-term interest rates compared to the level of shorter-term rates. In fact Secretary Connally has given assurance, that had he been in office for the past few months, and the exception to the interest rate ceiling been applicable at that time, he would not have issued long-term securities because the situation was not right—the long-term interest rates were too high. The Secretary has also given assurance that the exception to the interest rate limit would not affect the borrowing rates on Federal programs such as student loans, academic facilities, and mental health facilities. Although borrowing rates on many of these programs are tied to the market rate on Government securities the Secretary does not believe changing the interest rate ceiling will change market yields generally.

The Secretary of the Treasury has also given assurances that the bonds issued outside of the 4 percent interest rate limitation will contain an adequate volume issued in relatively small denominations so that small investors will have an equal opportunity with large investors to participate in these offerings. The Secretary of the Treasury indicated that he would issue these bonds in denominations of not more than $1,000 to the extent that the market indicates a demand for these smaller issues.

In view of the considerations set forth above, the bill provides for the removal of the interest rate limitation for a limited amount of long-term bonds; namely, $10 billion, in order to provide the Treasury Department with an opportunity to establish whether this increased flexibility in debt management will have the desirable effect with respect to interest rates and other factors which it anticipates.

IV. USE OF GOVERNMENT OBLIGATIONS SELLING AT DISCOUNT IN PAYMENT OF TAXES ON BASIS OF FACE VALUE

Present law contains several provisions permitting debt obligations issued by the the United States Government which are selling in the market place at a price below their face value to be used in payment of estate, income or other taxes on the basis of the par or face value of the obligations. Section 14 of the Second Liberty Bond Act, for example, provides specifically that any bonds of the United States bearing interest at a higher rate than 4 percent which have been owned by a person for at least 6 months prior to his death are to be accepted by the United States at par (with adjustment for accrued interest) in payment of any estate taxes imposed by the United States. While this section is mandatory, the Treasury Department has interpreted the first section of the Second Liberty Bond Act as giving the Treasury Department similar, although somewhat broader, authority on a permissive basis. This section provides, for example, that bonds may be issued subject to such terms and conditions of issue, conversion, redemption, maturity, payment and rate or rates of interest (not exceeding 4¼ percent) as the Secretary of the Treasury from time to time, or before issue, may prescribe. Under the authority contained in this provision the Treasury Department has authorized debt obligations, even though issued at less than 4 percent, to be received on the basis of their face or par value in payment of estate, income, or other U.S. Government taxes, whether or not the bonds have been held for a period of more than 6 months.

In addition, the Internal Revenue Code (in section 6312) provides that the Treasury Department may receive at par (with an adjustment for accrued interest) Treasury bills, notes and certificates of indebtedness issued by the United States in payment of any Internal Revenue taxes or stamps.

Other sections of the law also give the Treasury Department authority in some cases, to permit the redemption of bonds at above their fair market value before maturity in payment of Federal taxes.

The use of Government bonds and obligations in the manner cited above has the effect of making it possible to pay estate, income and other taxes with discount obligations which have a current market value substantially below the face or par value at which they are being redeemed. From July, 1968, for example, through June, 1969, $420 million in estate taxes were paid with United States Government obligations. In the period from July, 1969, through June, 1970, $469 million of estate taxes due were paid with U.S. Government obligations. No record is available of the extent to which the obligations with which the payments were made were selling at less than face value. Based upon discounts on outstanding long-term Government obligations, however, it appears that the discounts on the average could have ranged from 10 to 20 percent. This suggests a revenue loss, in the fiscal year 1969, of from about $40 to $80 million. In the fiscal year 1970, these data suggest a revenue loss of from near $50 million to close to $100 million. The committee agrees with the House that there is no basis for permitting taxpayers to meet their tax payments with obligations having a value of less than the amount of the taxes due. For that reason, it has agreed to the provision added in the House to forestall this tax benefit with respect to U.S. obligations issued after March 3, 1971 (the date the House adopted the provision).

The provision added by the House and agreed to by the committee amends present law in three respects to remove the benefit referred to with respect to obligations issued after March 3, 1971.

First, the bill repeals section 14 of the Second Liberty Bond Act (31 U.S.C. 765) with respect to obligations issued after March 3, 1971. This repeals the requirement in existing law that bonds issued at an interest rate of more than 4 percent and held by a person for 6 months or more must be received at par in payment of estate taxes imposed by the United States.

Second, the bill repeals a section of the Internal Revenue Code. (sec. 6312) effective with respect to obligations issued after March 3, 1971. This provision specifies that the Treasury Department may receive at par (with adjustment for accured interest) Treasury bills, notes, and certificates of indebtedness issued by the United States in payment of Internal Revenue taxes or for Internal Revenue stamps.

Finally, the Second Liberty Bond Act is amended by the bill by adding a new section at the end of this act providing that in the case of obligations issued after March 3, 1971, under any provision of law the terms and conditions of the issue are not to permit the redemption of the obligations before maturity in payment of any tax imposed by the United States in an amount which exceeds the fair market value of the obligation at the time of the redemption.

This section does not, however, apply to Treasury bills issued under the authority of section 5 of the Second Liberty Bond Act. These Treasury bills are issued for periods of less than 1 year. Because the period for which these bills are issued is relatively short the discount here is minor and the advantage, in practice, has been limited to not more than 6 days of interest. To foreclose the use of Treasury bills in this case would present difficult financial problems for the Treasury since it permits the purchase of Treasury bills to be used as payment of taxes in order to even out the flow of cash into the Treasury. The Treasury receives large tax payments after the 15th of March, April, and June, in the period between the 15th and 22nd of these months. These tax anticipation bills, which as a general practice mature on the 22nd of these months are used as payment of tax on the 15th of the same month. The use of these bills brings cash into the Treasury before the 15th of these months. Since these bills are auctioned off in the market and since in practice about one quarter of these bills are used for payment of taxes, it would appear that the shorter maturity period in this case is a factor in arriving at the price at which the bills sell in the market.

V. COSTS OF CARRYING OUT THE BILL, EFFECT ON THE REVENUES OF THE BILL, AND VOTE OF THE COMMITTEE IN REPORTING THE BILL

In compliance with section 252(a) of the Legislative Reorganization Act of 1970, the following statement is made relative to the costs incurred in carrying out this bill and the effect on the revenues of the bill. The committee does not believe that either the change made by this bill in the debt limitation or the change made by this bill in the interest rate limitation on long-term obligations will result in any costs either in the current fiscal year or in any of the 5 fiscal years following that year. In addition, the committee estimates that the change made by the bill in the manner in which new issues of Government bonds may be used in payment of a tax liability will result in an eventual revenue gain for a one-year period of from $40 to $100 million. The Treasury Department agrees with this statement.

In compliance with section 133 of the Legislative Reorganization Act of 1946, the tabulation of the roll call vote to report the bill is as follows:

In favor—8 (Messrs. Long, Anderson, Ribicoff, Bennett, Curtis, Jordan, Fannin, Hansen);
In opposition—4 (Messrs. Talmadge, Fulbright, Byrd, Miller);
Abstaining—1 (Mr. Nelson).

VI. APPENDIX

TABLE I.—*Debt limitation under sec. 21 of the Second Liberty Bond Act as amended—History of legislation*

Sept. 24, 1917:	
40 Stat. 288, sec. 1, authorized bonds in the amount of	[1] $7,538,945,400
40 Stat. 290, sec. 5, authorized certificates of indebtedness outstanding revolving authority	[2] 4,000,000,000
Apr. 4, 1918:	
40 Stat. 502, amending sec. 1, increased bond authority to	[1] 12,000,000,000
40 Stat. 504, amending sec. 5, increased authority for certificates outstanding to	[2] 8,000,000,000
July 9, 1918: 40 Stat. 844, amending sec. 1, increased bond authority to	[1] 20,000,000,000
Mar. 3, 1919:	
40 Stat. 13, amending sec. 5, increased authority for certificates outstanding to	[2] 10,000,000,000
40 Stat. 1309, new sec. 18 added, authorizing notes in the amount of	[1] 7,000,000,000
Nov. 23, 1921: 42 Stat. 321, amending sec. 18, increased note authority outstanding (established revolving authority) to	[2] 7,500,000,000
June 17, 1929: 46 Stat. 19, amending sec. 5, authorized bills in lieu of certificates of indebtedness; no change in limitation for the outstanding	[2] 10,000,000,000
Mar. 3, 1931: 46 Stat. 1506, amending sec. 1, increased bond authority to	[1] 28,000,000,000
Jan. 30, 1934: 48 Stat. 343, amending sec. 18, increased authority for notes outstanding to	[2] 10,000,000,000
Feb. 4, 1935:	
49 Stat. 20, amending sec. 1, limited bonds outstanding (establishing revolving authority) to	[2] 25,000,000,000
49 Stat. 21, new sec. 21 added, consolidating authority for certificates and bills (sec. 5) and authority for notes (sec. 18); same aggregate amount outstanding	[2] 20,000,000,000
49 Stat. 21, new sec. 22 added, authorizing U.S. savings bonds within authority of sec. 1.	
May 26, 1938; 52 Stat. 447, amending secs. 1 and 21, consolidating in sec. 21 authority for bonds, certificates of indebtedness, Treasury bills, and notes (outstanding bonds limited to $30,000,000,000). Same aggregate total outstanding	[2] 45,000,000,000
July 20, 1939: 53 Stat. 1071, amending sec. 21, removed limitation on bonds without changing total authorized outstanding of bonds, certificates of indebtedness, bills, and notes	[2] 45,000,000,000
June 25, 1940: 54 Stat. 526, amending sec. 21, adding new paragraph:	
"(b) In addition to the amount authorized by the preceeding paragraph of this section, any obligations authorizes by secs. 5 and 18 of this Act, as amended, not to exceed in the aggregate $4,000,000,000 outstanding at any one time, less any retirements made from the special fund made available under sec. 301 of the Revenue Act of 1940, may be issued under said sections to provide the Treasury with funds to meet any expenditures made, after June 30, 1940, for the national defense, or to reimburse the general fund of the Treasury therefor. Any such obligations so issued shall be designated 'National Defense Series' "	[2] 49,000,000,000

[1] Limitation on issue.
[2] Limitation on outstanding.

TABLE I.—*Debt limitation under sec. 21 of the Second Liberty Bond Act as amended—History of legislation*—Continued

Feb. 19, 1941: 55 Stat. 7, amending sec. 21, limiting face amount of obligations issued under authority of act outstanding at any one time to	[2] $65, 000, 000, 000
Eliminated separate authority for $4,000,000,000 of national defense series obligations.	
Mar. 28, 1942: 56 Stat. 189, amending sec. 21, increased limitation to	[2] 125, 000, 000, 000
Apr. 11, 1943: 57 Stat. 63 amending sec. 21, increased limitation to	[2] 210, 000, 000, 000
June 9, 1944: 58 Stat. 272, amending sec. 21, increased limitation to	[2] 260, 000, 000, 000
Apr. 3, 1945: 59 Stat. 47, amending sec. 21 to read: "The face amount of obligations issued under authority of this act, and the face amount of obligations guaranteed as to principal and interest by the United States (except such guaranteed obligations as may be held by the Secretary of the Treasury), shall not exceed in the aggregate $300,000,000,000 outstanding at any one time"	[2] 300, 000, 000, 000
June 26, 1946: 60 Stat. 316, amending sec. 21, adding: "The current redemption value of any obligation issued on a discount basis which is redeemable prior to maturity at the option of the holder thereof shall be considered, for the purposes of this section, to be the face amount of such obligation," and decreasing limitation to	[2] 275, 000, 000, 000
Aug. 28, 1954: 68 Stat. 895, amending sec. 21, effective Aug. 28, 1954, and ending June 30, 1955, temporarily increasing limitation by $6,000,000,000 to	[2] 281, 000, 000, 000
June 30, 1955: 69 Stat. 241, amending Aug. 28, 1954, act by extending until June 30, 1956, increase in limitation to	[2] 281, 000, 000, 000
July 9, 1956: 70 Stat. 519, amending act of Aug. 28, 1954, temporarily increasing limitation by $3,000,000,000 for period beginning July 1, 1956, and ending June 30, 1957, to	[2] 278, 000, 000, 000
Effective July 1, 1957, temporary increase terminates and limitation reverts, under act of June 26, 1956, to	[2] 275, 000, 0001000
Feb. 26, 1958: 72 Stat. 27, amending sec. 21, effective Feb. 26 1958, and ending June 30, 1959, temporarily increasing limitation by $5,000,000,000	[2] 280, 0000, 00, 000
Sept. 2, 1958: 72 Stat. 1758, amending sec. 21, increasing limitation to $283,000,000,000, which, with temporary increase of Feb. 26, 1958, makes limitation	[2] 288, 000, 000, 000
June 30, 1959: 73 Stat. 156, amending sec. 21, effective June 30, 1959, increasing limitation to $285,000,000,000, which, with temporary increase of Feb. 26, 1958, makes limitation on June 30, 1959	[2] 290, 000, 000, 000
Amending sec. 21, temporarily increasing limitation by $10,000,000,000 for period beginning July 1, 1959, and ending June 30, 1960, which makes limitation beginning July 1, 1959	[2] 295, 000, 000, 000
June 30, 1960: 74 Stat. 290, amending sec. 21 for period beginning on July 1, 1960, and ending June 30, 1961, temporarily increasing limitation by $8,000,000,000	[2] 293, 000, 000, 000
June 30, 1961: 75 Stat. 148, amending sec. 21, for period beginning on July 1, 1961, and ending June 30, 1962, temporarily increasing limitation by $13,000,000,000 to	[2] 298, 000, 000, 000
Mar. 13, 1962: 76 Stat. 23, amending sec. 21, for period beginning on Mar. 13, 1962, and ending June 30, 1962, temporarily further increasing limitation by $2,000,000,000	[2] 300, 000, 000, 000
July 1, 1962: 76 Stat. 124 as amended by 77 Stat. 50, amending sec. 21, for period—	
1. Beginning July 1, 1962, and ending Mar. 31, 1963	[2] 308, 000, 000, 000
2. Beginning Apr. 1, 1963, and ending June 24, 1963	[2] 305, 000, 000, 000
3. Beginning June 25, 1963, and ending June 30, 1963	[2] 300, 000, 000, 000

[2] Limitation on outstanding.

Table I.—*Debt limitation under sec. 21 of the Second Liberty Bond Act as amended—History of legislation*—Continued

May 29, 1963: 77 Stat. 50, amending sec. 21, for period—	
1. Beginning May 29, 1963, and ending June 30, 1963	[2] $307,000,000,000
2. Beginning July 1, 1963, and ending Aug. 31, 1963	[2] 309,000,000,000
Aug. 27, 1963: 77 Stat. 131, amending sec. 21, for the period beginning on Sept. 1, 1963, and ending on Nov. 30, 1963	[3] 309,000,000,000
Nov. 26, 1963: 77 Stat. 342, amending sec. 21, for the period—	
1. Beginning on Dec. 1, 1963, and ending June 29, 1964	[2] 315,000,000,000
2. On June 30, 1964	[2] 309,000,000,000
June 29, 1964: 78 Stat. 225, amending sec. 21, for the period beginning June 29, 1964, and ending June 30, 1965, temporarily increasing the debt limit to	[2] 324,000,000,000
June 24, 1965: 79 Stat. 172, amending sec. 21, for the period beginning July 1, 1965, and ending on June 30, 1966, temporarily increasing the debt limit to	[2] 328,000,000,000
June 24, 1966: 80 Stat. 221, amending sec. 21, for the period beginning July 1, 1966, and ending on June 30, 1967, temporarily increasing the debt limit to	[2] 330,000,000,000
Mar. 2, 1967: 81 Stat. 4, amending sec. 21, for the period beginning Mar. 2, 1967, and ending on June 30, 1967, temporarily increasing the debt limit to	[2] 336,000,000,000
June 30, 1967: 81 Stat. 99—	
1. Amending sec. 21, effective June 30, 1967, increasing limitation to	[2] 358,000,000,000
2. Temporarily increasing the debt limit by $7,000,000,000 for the period from July 1 to June 29 of each year, to make the limit for such period	[2] 365,000,000,000
April 7, 1969: 83 Stat. 7—	
1. Amending sec. 21, effective Apr. 7, 1969, increasing debt limitations to	365,000,000,000
2. Temporarily increasing the debt limit by $12,000,000,000 for the period from Apr. 7, 1969 through June 30, 1970, to make the limit for such period	377,000,000,000
June 30, 1970: 84 Stat. 368—	
1. Amending sec. 21, effective July 1, 1970, increasing debt limitations to	380,000,000,000
2. Temporarily increasing the debt limit by $15,000,000,000 for the period from July 1, 1970, through June 30, 1971, to make the limit for such period	395,000,000,000

[2] Limitation on outstanding.

TABLE II.—PUBLIC DEBT SUBJECT TO LIMITATION AT END OF FISCAL YEARS 1938–72

[In millions of dollars]

Fiscal year	Public debt subject to limitation at end of year	Fiscal year	Public debt subject to limitation ar end of yeat
1938	36,882	1956	272,361
1939	40,317	1957	270,188
1940	43,219	1958	276,013
1941	49,494	1959	284,398
1942	74,154	1960	286,065
1943	140,469	1961	288,862
1944	208,077	1962	298,212
1945	268,671	1963	306,099
1946	268,932	1964	312,164
1947	257,491	1965	317,581
1948	251,542	1966	320,102
1949	252,028	1967	326,471
1950	256,652	1968	350,743
1951	254,567	1969	356,932
1952	258,507	1970	373,425
1953	265,522	1971 [1]	398,368
1954	270,790	1972 [1]	421,922
1955	273,915		

[1] Estimated.

Source: Table 1: Annual Report of the Secretary of the Treasury on the State of the Finances, 1967, p. 439, through 1967; Table FD-8: Treasury Bulletin, January 1971, p. 25 for 1968, 1969, and 1970; Table 10: The Budget for Fiscal Year 1972, p. 531, for estimates for 1971 and 1972.

VII. CHANGES IN EXISTING LAW

In compliance with subsection (4) of Rule XXIX of the Standing Rules of the Senate, changes in existing law made by the bill, as reported, are shown as follows (existing law proposed to be omitted is enclosed in black brackets, new matter is printed in italic, existing law in which no change is proposed is shown in roman):

THE SECOND LIBERTY BOND ACT

* * * * * * *

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That the Secretary of the Treasury, with the approval of the President, is hereby authorized to borrow, from time to time, on the credit of the United States for the refunding, at or before maturity, of any outstanding bonds, notes, certificates of indebtedness, or Treasury bills of the United States, and to meet expenditures authorized for the national security and defense and other public purposes authorized by law, such sum or sums as in his judgment may be necessary, and to issue therefor bonds of the United States.

The bonds herein authorized shall be in such form or forms and denomination or denominations and subject to such terms and conditions of issue, conversion, redemption, maturities, payment, and rate or rates of interest, not exceeding four and one-quarter per centum per annum, and time or times of payment of interest, as the Secretary of the Treasury from time to time at or before the issue thereof may prescribe. The principal and interest thereof shall be payable in United States gold coin of the present standard of value. *Bonds herein authorized may be issued from time to time at a rate or rates of interest exceeding four and one-quarter per centum per annum, but the aggregate face amount of bonds issued pursuant to this sentence shall not exceed $10,000,000,000.*

The bonds herein authorized shall from time to time first be offered at not less than par as a popular loan, under such regulations, prescribed by the Secretary of the Treasury from time to time, as will in his opinion give the people of the United States as nearly as may be an equal opportunity to participate therein, but he may make allotment in full upon applications for smaller amounts of bonds in advance of any date which he may set for the closing of subscriptions and may reject or reduce allotments upon later applications and applications for larger amounts, and may reject or reduce allotments upon applications from incorporated banks and trust companies for their own account and make allotment in full or larger allotments to others, and may establish a graduated scale of allotments, and may from time to time adopt any or all of said methods, should any such action be deemed by him to be in the public interest: *Provided,* That such reduction or increase of allotments of such bonds shall be made under general rules to be prescribed by said Secretary and shall apply to all subscribers similarly situated. And any portion of the bonds so offered and not taken may be otherwise disposed of by the Secretary of the Treasury in such manner and at such price or prices, not less than par, as he may determine. The Secretary may make special arrangements for subscriptions at not less than par from persons in the military or naval forces of the United States, but any bonds issued to such persons shall be in all respects the same as other bonds of the same issue.

Notwithstanding the provisions of the foregoing paragraph, the Secretary of the Treasury may from time to time, when he deems it to be in the public interest, offer such bonds otherwise than as a popular loan and he may make allotments in full, or reject or reduce allotments upon any applications whether or not the offering was made as a popular loan.

* * * * * * *

SEC. 5. (a) In addition to the bonds and notes authorized by sections 1, 18, and 22 of this Act, as amended, the Secretary of the Treasury is authorized, subject to the limitation imposed by section 21 of this Act, to borrow from time to time, on the credit of the United States, for the purposes of this Act, to provide for the purchase, redemption, or refunding, at or before maturity, of any outstanding bonds, notes, certificates of indebtedness or Treasury bills of the United States, and to meet public expenditures authorized by law, such sum or sums as in his judgment may be necessary, and to issue therefor (1) certificates of indebtedness of the United States at not less than par (except as provided in section 20 of this Act, as amended) and at such rate or rates of interest, payable at such time or times as he may prescribe; or, (2) Treasury bills on a discount basis and payable at maturity without interest. Treasury bills to be issued hereunder shall be offered for sale on a competitive basis, under such regulations and upon such terms and conditions as the Secretary of the Treasury may prescribe, and the decisons of the Secretary in respect of any issue shall be final. Certificates of indebtedness and Treasury bills issued hereunder shall be in such form or forms and subject to such terms and conditions, shall be payable at such time not exceeding one year from the date of issue, and may be redeemable before maturity upon such terms and conditions as the Secretary of the Treasury may prescribe. Treasury bills issued hereunder shall not be acceptable before maturity in payment of interest or of principal on account of obligations of foreign governments held by the United States of America.

(b) [Repealed.]

(c) Wherever the words "bonds and notes of the United States," or "bonds and notes of the Government of the United States," or "bonds or notes of the United States" are used in the Federal Reserve Act, as amended, they shall be held to include certificates of indebtedness and Treasury bills issued hereunder.

(d) [Repealed.]

* * * * *

[SEC. 14. That any bonds of the United States bearing interest at a higher rate than four per centum per annum (whether issued under section one of this Act or upon conversion of bonds issued under this Act or under said Act approved April twenty-fourth, nineteen hundred and seventeen), which have been owned by any person continuously for at least six months prior to the date of his death, and which upon such date constitute part of his estate, shall, under rules and regulations prescribed by the Secretary of the Treasury, be receivable by the United States at par and accrued interest in payment of any estate or inheritance taxes imposed by the United States, under or by virtue of any present or future law upon such estate or the inheritance thereof.]

* * * * *

SEC. 18. (a) In addition to the bonds and certificates of indebtedness and war-savings certificates authorized by this Act and amendments thereto, the Secretary of the Treasury, with the approval of the President, is authorized subject to the limitation imposed by section 21 of this Act, to borrow from time to time on the credit of the United States for the purposes of this Act, to provide for the purchase, redemption, or refunding, at or before maturity, of any outstanding bonds, notes, certificates of indebtedness, or Treasury bills of the United States, and to meet public expenditures authorized by law, such sum or sums as in his judgment may be necessary and to issue therefor notes of the United States at not less than par (except as provided in section 20 of this Act, as amended) in such form or forms and denomination or denominations, containing such terms and conditions, and at such rate or rates of interest, as the Secretary of the Treasury may prescribe, and each series of notes so issued shall be payable at such time not less than one year nor more than seven years from the date of its issue as he may prescribe, and may be redeemable before maturity (at the option of the United States) in whole or in part, upon not more than one year's nor less than four months' notice, and under such rules and regulations and during such period as he may prescribe.

* * * * *

SEC. 20 (a) Any obligations authorized by sections 1, 5, and 18 of this Act, may be issued on an interest-bearing basis, on a discount basis, or on a combination interest-bearing and discount basis, at such price or prices and with interest computed in such manner and payable at such time or times as the Secretary of the Treasury may prescribe: and any such obligations may be offered for sale on a competitive or other basis under such regulations and upon such terms and conditions as the Secretary of the Treasury may prescribe; and his decision with respect to any such issue shall be final.

(b) Any obligations authorized by this Act and redeemable upon demand of the owner or holder may, under such regulations and upon such terms and conditions as the Commissioner of Internal Revenue with the approval of the Secretary of the Treasury may prescribe, be receivable by the United States in payment of any taxes imposed by the United States.

(c) Any obligations authorized by this Act may, under such regulations and upon such terms as the Secretary of the Treasury may prescribe, be issued in exchange for any obligations of any agency or instrumentality of the United States which are unconditionally guaranteed both as to principal and interest by the United States, at or before their maturity.

SEC. 21. The face amount of obligations issued under authority of this Act, and the face amount of obligations guaranteed as to principal and interest by the United States (except such guaranteed obligations as may be held by the Secretary of the Treasury), shall not exceed in the aggregate [$380,000,000,000] *$400,000,000,000* outstanding at any one time. The current redemption value of any obligation issued on a discount basis which is redeemable prior to maturity at the option of the holder thereof shall be considered, for the purposes of this section, to be the face amount of such obligation.

* * * * * * *

SEC. 27. In the case of obligations issued after March 3, 1971, under this Act or under any other provision of law, the terms and conditions of issue shall not permit the redemption before maturity of such obligation in payment of any tax imposed by the United States in any amount above the fair market value of such obligation at the time of such redemption. This section shall not apply to any Treasury bill which is issued under the authority of section 5.

SECTION 2 OF PUBLIC LAW 91–301

[SEC. 2. During the period ending on June 30, 1971, the public debt limit set forth in the first sentence of section 21 of the Second Liberty Bond Act shall be temporarily increased by $15,000,000,000.]

INTERNAL REVENUE CODE OF 1954

* * * * * * *

CHAPTER 64—COLLECTION

* * * * * * *

Subchapter B—Receipt of Payment

Sec. 6311. Payment by check or money order.
[Sec. 6312. Payment by United States notes and certificates of indebtedness.]
Sec. 6313. Fractional parts of a cent.
Sec. 6314. Receipt for taxes.
Sec. 6315. Payments of estimated income tax.
Sec. 6316. Payment by foreign currency.
Sec. 6317. Payments of Federal unemployment tax for calendar quarter.

* * * * * * *

[SEC. 6312. PAYMENT BY UNITED STATES NOTES AND CERTIFICATES OF INDEBTEDNESS

[(a) GENERAL RULE.—It shall be lawful for the Secretary or his delegate to receive, at par with an adjustment for accrued interest Treasury bills, notes and certificates of indebtedness issued by the United States in payment of any internal revenue taxes, or in payment for internal revenue stamps, to the extent and under the conditions provided in regulations prescribed by the Secretary or his delegate.

[(b) CROSS REFERENCES.—

[(1) For authority to receive silver certificates, see section 5 of the act of June 19, 1934 (48 Stat. 1178; 31 U.S.C. 405a).

[(2) For full legal tender status of all coins and currencies of the United States, see section 43(b)(1) of the Agricultural Adjustment Act, as amended (48 Stat. 52, 113; 31 U.S.C. 462).

[(3) For authority to receive obligations under the Second Liberty Bond Act, see section 20(b) of that act, as amended (56 Stat. 189; 31 U.S.C. 754b).]

O