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The United States Senate

Report of Proceedings

Hearing held before

Committee on Finance

S. 3972

May 10, 1938

Washington, D. C.

WARD & PAUL

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OFFICIAL REPORTERS
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C O N T E N T S

Witnesses

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S. 3972

Tuesday, May 10, 1938.

United States Senate,

EXECUTIVE SESSION

Committee on Finance,

Washington, D. C.

The committee met, pursuant to call, at 10:30 o'clock a.m., in Room 312 Senate Office Building, Senator Harrison (Chairman) presiding.

The Chairman: I wanted to save a little time, that is why I called this meeting this morning. This bill was introduced in the House. It will probably pass today or tomorrow in the House. It has been reported by the Ways and Means Committee. It deals with amending the Second Liberty Bond Act. It does not call for any more money, but is merely a reallocation of certain classes of securities that the Treasury issues. All right, Mr. Secretary.

Senator King: But it raises the limit from 25 billion to 45 billion.

The Chairman: The 45 billion is the limit of the short term paper and long term paper, and it gives them a right to put both of them under the one limitation, that is the 20 billion short term and 25 billion long term under the limitation of 45 billion.

Senator King: That is right.

The Chairman: They have run short on the long term, they have not run short on the short term, and the treasury thinks they can save some interest charges maybe and do their financing better by reallocation of the 25 billion and 20 billion within the 45 billion limitation.

STATEMENT OF HON. HENRY MORGENTHAU, JR.

Secretary of the Treasury.

The Act of February 4, 1935, amending the Second Liberty Bond Act, as amended, limited the amount of bonds to be outstanding at any one time under the provisions of that Act, to an aggregate of $25,000,000,000 and the amount of Treasury notes, certificates of indebtedness and Treasury bills to be outstanding at any one time to an aggregate of $20,000,000,000.

The following statement shows the amount of public debt obligations issued under the Second Liberty Bond Act, as amended, and outstanding as of April 30, 1938, and the additional amounts which the Secretary of the Treasury may issue under the authority of that Act:

Bonds:

Total amount that may be outstanding at any one time		$25,000,000,000
Outstanding as of April, 1938:		
Treasury bonds.	$20,927,252,250	
U.S. Savings Bonds (maturity value). . . (a) .	1,546,000,000	
Veterans Adjusted Service bonds	828,713,806	23,301,966,056
Total additional amount of bonds which may be issued under present limitation.		$ 1,698,033,944

Notes, certificates of indebtedness and Treasury bills:

Total amount that may be outstanding at any one time.		$20,000,000,000
Outstanding as of April 30, 1938:		
Treasury notes.	$11,309,276,050	
Certificates of indebtedness.	767,465,000	
Treasury bills.	1,753,268,000	13,830,009,050
Total additional amount which may be issued under present limitation.		$ 6,169,990,950

Recapitulation:

Total public debt obligations which may be issued under authority of the Second Liberty Bond Act, as amended, and be outstanding at any one time	$45,000,000,000
Total outstanding public debt obligations as of April 30, 1938, which were issued under authority of the Second Liberty Bond Act, as amended.	37,131,975,106
Total amount which may be issued under present limitation.	$ 7,868,024,894

(a) Current redemption value $1,180,736,166.

The total combined amounts that may be issued under the two limitations are, I believe, sufficient for the present but the division as between bonds and notes, certificates of indebtedness and Treasury bills should be adjusted in order to give the Treasury more latitude as to the kind of securities it can issue. In the monthsof June, September, and December, 1938, the Treasury has maturities of Treasury notes aggregating more than $1,600,000,000 face amount and it will probably be necessary during this period to raise additional cash between $500,000,000 and $1,000,000,000, making the total financing during the next eight months' period, exclusive of Treasury bill operations, of more than $2,600,000,000. It may be highly desirable, from the standpoint of the public debt program and the Government security market, for the Treasury to meet the maturing notes and to raise whatever additional cash is necessary, or a major portion thereof, through the issuance of additional Treasury bonds, rather than through the issuance of Treasury notes. After reserving $248,000,000 to meet the estimated additional issues of U. S. Aavings bonds during this period, only $1,450,000,000 would be available for further bond issues under the present limitation. This might not be sufficient to meet the Treasury requirements in connection with the maturing notes aggregating more than $1,600,000,000.

I should like to emphasize that we are not asking for an increase in the total limitation on the aggregate of the public debt obligations which may be outstanding at any one time under authority of the Second Liberty Bond Act, as amended, but we are asking only for a consolidation of thepresent limitations on the two classes of securities mentioned in that Act so as to give the Treasury greater flexibility in its financing operations.

Senator Vandenberg: What is the differences between a bond and a note, except as to the length of maturity?

Secretary Morgenthau: None. It is a Government obligation. Certain tax features are different. The bonds are not totally tax exempt, the notes are.

Senator Vandenberg: So if you increase your note issue you would be increasing the tax exempt securities?

Secretary Morgenthau: The total tax exempts we would. I mean if Congress takes no action then we would have to continue, after we reached our limitation of the 25 billion, to sell notes which are totally tax exempt. The bonds are not.

Senator Vandenberg: In figuring the 25 billion limitation do you include the bonds which you issue to the Social Security Board, for example?

Secretary Morgenthau: Everything is included in that. The Social Security obligation was included in that 37 billion dollar outstanding obligation.

Senator Vandenberg: Do you count them as obligations that are limited by this 25 billion and this 20 billion ?

Secretary Morgenthau: Yes.

Senator Byrd: Do you include the government-owned corporations?

Secretary Morgenthau: No, only the direct obligations of the Government.

Senator Byrd: Mr. Secretary, will you furnish the Committee, at my request, a complete list of all Government-owned corporations together with the obligations as of this date that have been guaranteed by the Federal Government, and also the obligations that can be issued in the future?

Secretary Morgenthau: This is it (handing paper to Senator Byrd).

Senator Byrd: You have got here only four. There are quite a number of others.

Secretary Morgenthau: Will you tell Mr. Bell what you would like to have that is not on that list?

Senator Byrd: The Farm Corporation established in the last Farm Bill.

Secretary Morgenthau: What four have you got there?

Senator Byrd: The Federal Farm Mortgage Corporation, the Home Owners Loan Corporation, the Federal Housing Administration, and the Reconstruction Finance Corporation.

Mr. Bell: Senator, that does not answer the second part of your question, to furnish those that can be issued in the future. Those are the ones outstanding.

Senator Byrd: I would like to ask the Secretary to furnish the Committee a complete list of all Government corporations partially or totally owned by the Government, and the what extent the Government is guaranteeing the obligations.

Secretary Morgenthau: I would be delighted to do so.

Senator Byrd: And to what extent these corporations can issue more obligations than they have already issued.

Secretary Morgenthau: Yes.

The Chairman: Can you give that to us so it can be printed in this record?

Secretary Morgenthau: Yes.

Senator King: That would include the T.V.A., would it not, the Rural Electric Corporation, - I think that is the name of it, - that manufactures or sells electric supplies.

Senator Byrd: And, Mr. Secretary, as a matter of ~~book-keeping~~ fact, of course, all of these guaranteed obligations, guaranteed by the Federal Government, ~~as a matter of fact~~ - they are part of the Federal Government, the only difference is that there may be some recovery in these that would not apply to the direct debt, but if I endorse your note that is a part of my liability. It may be a contingent liability, but, nevertheless, it is a part of the liability, and I think your Treasury statements ought to show all the contingent liabilities of the Federal Government as well as the direct liabilities.

Secretary Morgenthau: They do.

Mr. Bell: We publish on the public debt statement a full list of the contingent liabilities outstanding, and we publish once a month a complete consolidated balance sheet of all of these agencies, showing the proprietary ownership of the Government over and above the liability.

Senator Byrd: Your daily report ~~is~~ shows the direct liability, and ~~the daily report~~ does not give the contingent liability, does it?

Mr. Bell: No, sir, it does not, because we cannot get that information except once a month.

Senator Byrd: Youhave here the four corporations of the Government guaranteed to the extent of $4,680,000,000. As a matter of fact there are a number of others that are not included in this statement.

The Chairman: What others are there?

Senator Byrd: There are quite a number of them. I know we created another corporation under this new Farm Act, authorizing it to issue $600,000,000 of obligations.

Senator King: And in the bill which we passed some time ago we provided $100,000,000 for insurance, as a basis of it.

Senator Byrd: What about the T.V.A.?

Mr. Bell: I think you are thinking of the Commodity Credit Corporation, and that is included in the R.F.C. total.

Senator Byrd: But the R.F.C. is financed partially through the direct obligations of the Government, and yet the Federal Government has purchased $500,000,000 of stock of the R.F.C., and those notes of $4,250,000,000 were also purchased by the Federal Government.

Mr. Bell: That is right, except about $298,000,000 sold to the public.

Senator Byrd: That is included in the direct public debts.

Mr. Bell: That is right.

Senator Vandenberg: Where the contingent liabilities show up, such as insured mortgages for F.H.A., does that show anywhere?

Mr. Bell: Not the insurance fund, Senator, but if they have issued any debentures for default mortgages, that shows as a contingent liability. The insurance fund is supposed to be the asset behind the insurance liability.

Senator George: How is the U. S. Housing handled?

Mr. Bell: It can sell its own obligations under the mortgage guarantee.

Senator Byrd: You have only got here $370,000 for the Federal Housing Administration.

Senator George: I did not mean the Federal Housing, I meant the U. S. Housing the low cost housing. How is that financed? Is that a direct or a contingent liability of the Treasury?

Mr. Bell: Which organization, Senator?

Senator George: The U. S. Housing.

Senator Clark: That is under the Department of the Interior, the U. S. Housing.

Mr. Bell: That is a guaranteed obligation of the U.S. Government.

Senator Byrd: I received a statement, which may not be complete, from the general accounting offices, that these different corporations are empowered now to obligate the Government to the extent of 10 billion dollars in addition to the 38 billion of direct debt that we now have. I would like to know if that is correct or not, because it does not require any further action of Congress, as I understand it, to make these additional obligations, does it? If they have authority then, of course, they can do it as the directors of these corporations desire it to be done. The Secretary of the Treasury cannot prevent them from doing it, can he?

Mr. Bell: Most of them are issued by his approval. I do not know of one that is not.

Senator Byrd: Certainly there is no further action of Congress necessary.

Mr. Bell: That is right, in those cases where the authority is now continued, but some of them have lapsed.

Senator Byrd: If they use the authority we will have a public debt of about 50 billions of dollars in the next fiscal year, if that information is correct.

Mr. Bell: I shall be glad to put a statement in the record showing each organization, its authority, and the amount outstanding at the present time, and whether or not it has authority to issue continued obligations. Some of them do not have that authority.

Senator Byrd: I would like the treasury to consider it as a matter of bookkeeping that can be easily understood, to put under the direct public debt [illegible] the daily direct public debt, but the amount daily of the contingent liability, and then make a total of the two.

Mr. Bell: You mean each day?

Senator Byrd: Each day.

Secretary Morgenthau: We do it once a month.

Senator Byrd: If I endorse someone's note and that man does not pay the note I am as liable as if I made that note.

Mr. Bell: Under the law, Senator, that is not part of the public debt.

Senator Byrd: I understand ~~it is~~ that. As a matter ~~of book-keeping~~ fact, it is part of the public debt. If you endorse my note and I do not pay the note don't you have to pay it?

Mr. Bell: We keep our records in accordance with law, and the Secretary has no authority to combine the two.

Senator Byrd: If there is a defect in the law, I would like to introduce a bill to correct that defect.

Secretary Morgenthau: I would like to ask the Senator if youasked us for any information during the past year that we have not supplied you?

Senator Byrd: No, but I have had great difficulty in finding out these contingent liabilities. I am informed there about nineteen corporations that have obligations to the Federal Government, some to a large extent and some to a small extent.

Secretary Morgenthau: On this point that you are making, I just want to say for the record that we keep the books according to the law.

Senator Byrd: You keep the books according to the law, but I called your attention, Mr. Secretary, more than a year ago to the fact that you were carrying assets of the R.F.C. that were not assets. It took more than a year to get legislation through to correct that. On January 15, 1937 I made a speech on the floor of the Senate and called attention to that.

Secretary Morgenthau: You might be interested to know that I wrote the R.F.C. in April, 1937, suggesting that.

Senator Byrd: Mr. Jesse Jones told me time and time again that the Treasury was holding up a bill that he wanted passed to charge off those assets, and for fifteen months the Federal Government misled the people of this country by carrying two billion dollars of the assets of the R.F.C.

which were not assets, because the money had been distributed to relief organizations and other things and could not be recovered.

Secretary Morgenthau: Wait a minute, Senator. In the first place, if you do not mind my saying it, I question that Jesse Jones ever said it.

Senator Byrd: There is no question of that, Mr. Secretary, because he told me not one time, but four or five times, and I will get you two together and prove it.

Secretary Morgenthau: Well, I have got the correspondence and letters over Mr. Jones' signature. Mr. Jones and I both wanted to do that.

Senator Byrd: What was the delay then for a year if you both wanted to do it?

Secretary Morgenthau: I cannot answer that from memory, and would not answer that from memory, but the correspondence is all there and I would be very glad to show it to you. Now, we did take the initiative in April, 1937, but, if I may say so with all respect, there was nothing to keep you from introducing any such legislation any time that you wanted to.

Senator Byrd: Mr. Secretary, if you want to do that I will introduce legislation along this line. I was hoping that the Secretary of the Treasury of the United States would correct something that very obviously should be corrected without the necessity of a Senator introducing a bill. ~~It took a year to do it.~~

Secretary Morgenthau: But it has all been done.

Senator Byrd: It took a year and three months to do it.

Secretary Morgenthau: All we were attempting to do was to attempt to correct an Act of Congress.

Senator Byrd: That was not an attempt to correct an Act of Congress, it was a matter of book-keeping whereby the Federal Government took credit for four billion dollars of the assets of R.F.C. where they actually only had two billion dollars.

Secretary Morgenthau: Why did we only have two billion?

Senator Byrd: I am not concerned about that. I am talking about the statement that the Treasury Department made that was misleading.

Secretary Morgenthau: I do not think the statement of the Treasury Department is misleading when it is carrying out the exact letter of the law.

Senator Byrd: The Treasury Department statement did not state that due to certain acts of Congress the two billions of dollars was diverted to non-recoverable expenditures.

Secretary Morgenthau: At whose instructions?

Senator Byrd: I do not care at whose instructions.

Secretary Morgenthau: I do.

Senator Byrd: If you prefer me to do it, I will introduce legislation direct instead of asking you to correct something that ought to be corrected as a matter of honest bookkeeping. If a corporation did that it ought to be in the penitentiary.

Secretary Morgenthau: You made that statement before, and I take strenuous exception to a statement that the United States Treasury, in carrying out the act of Congress, is doing anything wrong.

Senator Byrd: If you were carrying an honest and proper statement why did you get any legislation to correct it?

Secretary Morgenthau: Because we were carrying something there which was useless, which was serving no purpose, and therefore we requested that Congress correct this situation, and as soon as we brought it to the attention of Congress they did correct it.

Senator King; I presume, Mr. Secretary, there may be other obligations of the Government, obligations which the Federal Government will have to meet which are not carried now as liabilities but are treated as assets?

Secretary Morgenthau: Pardon me, Senator?

Senator King: I suppose some of these obligations that have been issued by corporations sponsored by or under the direction of the Federal Government subsequently had to be cancelled and to that degree your balance will have to be

Secretary Morgenthau: I do not think there is any question that some of the obligations of the agencies which have been issued against various works, that we will not collect 100 cents on the dollar, and as those appear we will make corrections, just as we did in Commodity Credit. We suggested to Congress that its capital be reimbursed, and Congress did it. Now, as these things come to our attention we act as rapidly as we can, but some of the agencies like the R. F. C. are tremendously big and it takes time, but I want to say for the record that there is nobody in Washington with whom I work closer, or whom I have more cooperation from than Jesse Jones.

Senator Byrd: I am going to introduce a resolution, Mr. Secretary, on the floor of the Senate, asking you to analyze all the assets of the different corporations and to make a report to the Congress as to the losses that have occurred up to this time. I prefer not to do that, but if you think it is better for me to do it that way instead of coming to you privately and asking you to correct something that ought to be corrected, I have no other recourse than to do that.

Secretary Morgenthau: I think it is much better to do that than to try to give the public an impression that we are trying to do something illegal.

Senator Byrd: I did not say that, Mr. Secretary. I made a speech in New York in your presence and I said it was an not honest statement, ~~but~~ to say you had four billion dollars of assets when you really haven't got half that. At least you could have made an explanatory note "Due to Act of Congress this money had been given to relief and other things."

Secretary Morgenthau: Let us be frank. How would the gentlemen of the Congress like it if we shoved it in their faces all the time, "We are carrying out the Acts of Congress, it is Congress' fault that we do things of this kind."

Senator Byrd: It ~~takes~~ took fifteen months to act upon a notice (public) of [illegible] had been made. It should be done in a more expeditious way. I called attention to it on January 15, 1937, in the speecy on the floor of the Senate, and no one has denied it, no one has denied that what I said was exactly true.

Senator King: Mr. Secretary, the Treasury notes to which you have referred, there is nothing behind them, simply I.O.U.s of the Government, a guarantee of the Government?

Secretary Morgenthau: It has the guarantee of the whole United States Government behind it.

Senator King: You do not issue bonds and sell them on the market for the purpose of backing Treasury notes?

Secretary Morgenthau: No.

Senator King: They are just I.O.U., without any obligation?

Secretary Morgenthau: Just the obligation of the United States Government.

Senator King: You have got authority now to issue Treasury notes in what amount?

Secretary Morgenthau: 20,000,000,000.

Senator King: And you have authority to issue bonds up to 25 billion?

Secretary Morgenthau: Yes.

Senator King: That would be 45 billion dollars for the two?

Secretary Morgenthau: Yes.

Senator King: You have got now, as I remember your figures, you have available authority now to issue seven billion dollars before reaching the 45 billion?

Secretary Morgenthau: That is correct.

Senator King: Don't you think that 7 billion dollars, in view of the fact that we have just passed a tax bill to give you five billion and two or three hundred million dollars, ought to carry us over for another year?

Secretary Morgenthau: It certainly will, Senator, provided we can borrow money and issue the kind of security which will be the most economical at the time of the issuance. Now, we have in June some 2-7/8 notes coming due, and under the present condition of the bond market it would be to the interest of the Government to convert those 2-7/8 notes into a bond, and it is perfectly possible that we may use up all of our authority to borrow on bonds and then be faced with the situation that we could only borrow on bills or notes. All I am asking is that these partitions be removed and that we be permitted to borrow and issue that kind of security which is the most favorable to the Government. Now, with this limitation we may find that we might want to issue all bonds for the rest of the year if we get favorable rates. We want to distribute our dates, so it does not all come due in the next three or four years, and it might be to the interest of the Government to issue all bonds.

The Chairman: I think it would be.

Senator Vandeberg: Do you think the 45 billion total will last you for another year?

Secretary Morgenthau: Yes, sir.

Senator Vandenberg: That will let you finance the deficit in the next fiscal year of about how much? About 8 billion dollars?

Secretary Morgenthau: I think, if you do not mind, Senator, I am willing to stand by the statement that we can finance the Government for the next fiscal year within the 45 billions.

Senator Byrd: What do you anticipate the deficit, Mr. Secretary, will be if the recommendations as now made by the President are enacted?

Secretary Morgenthau: We have not made an estimate until the legislation is passed. We cannot give an estimate.

Senator Byrd: Mr. Bell gave an estimate, did he not, before the Committee?

Secretary Morgenthau: He can repeat what he gave in the House.

Mr. Bell: No, I did not give an estimate, Senator Byrd. I stated that there had been private estimates made ranging anywhere from four to eight billion dollars, but I did not think, if we assumed that every dollar that had been asked for in these programs for 1939, that the deficit would amount to more than three billion seven.

Senator Bailey: What calculation did you make as to the revenue under the new Act and under the present conditions?

Mr. Bell: I took the budget figures as a basis.

Sentor Vandenberg: Your budget estimates on prospective revenue were based on business conditions as of 1937, were they not?

Mr. Bell: The income taxes based on business conditions in the calendar year 1937, yes.

Senator Vandenberg: Of course, if you do not have any such business conditions you will not get any such revenue?

Mr. Bell: I cannot answer that.

Senator Bailey: At the present rate of business you know you will be off at least 500 million dollars?

Mr. Bell: No, I do not, Senator Bailey, I do not know that.

Senator Bailey: Do you have any impressions as to that?

Mr. Bell: No, I do not.

Senator Bailey: You know a little about what is going on in business, don't you?

Mr. Bell: The Treasury made their estimates in December for the 1937 calendar year, based on business conditions at that time and took into consideration a large part of the depression.

Senator Bailey: They discounted the present situation in that calculation?

Senator Clark: Included in your figures for 1937 were several months which were comparable to the present business conditions, the very worst month, is that not right?

Mr. Bell: That is right. The income tax figures are based on 1937 calendar year business. Ten months and a half of it had gone by when the estimates were made.

Senator Byrd: The conditions now are a good deal worse than they were last fall.

Senator Bailey: Mr. Secretary, would they probably later, either next year or after that, ask us to remove this limitation on bonds?

Secretary Morgenthau: Well, that is a long way off.

Senator Bailey: No, it is very near, I beg your pardon, it is just a few months off. Is not that really in contemplation, that we go to 50, or perhaps to 60 billions of dollars?

Secretary Morgenthau: I am not trying to evade the question, Senator, but until this session of Congress is passed and until we can estimate the total of appropriations and make a new estimate of the revenue in view of the present business conditions, anything I might say here would be just a sheer guess, and I think it is too important to try to guess.

Senator Bailey: What would be the attitude of the Treasury to an Act requiring that the Treasury should not issue further bonds except on popular subscription? We should have an end to this system that we have not of taking the money out of the banks.

Secretary Morgenthau: Well, the way the bonds are offered now, they are offered to anybody who wants to invest, and I would call that popular subscription.

Senator Bailey: Well, you do get your funds through the banks almost exclusively, don't you?

Secretary Morgenthau: Oh, no, sir.

Senator Vandenberg: From the Social Security Board, too.

Senator Bailey: I want to get this clear. The popular subscription idea which I had in mind is the one we pursued when we financed the War, that was a sale direct to the people, not operations through the banks. We do have at this time operations through the banks. You call on the banks for subscriptions rather than the people.

Secretary Morgenthau: If you do not mind, I would like to correct that.

Senator Bailey: All right.

Secretary Morgenthau: We offer them to the public. Anybody can and does subscribe for these bonds who wishes to do that. At the present time we have what we call the United States savings bonds, and those are going extremely well.

Senator Bailey: To what extent?

Secretary Morgenthau: I think they average about a million and a half a day.

Mr. Bell: Between a million and a million and a quarter a day.

Senator Townsend: What is the total amount?

Secretary Morgenthau: About a billion and a half outstanding.

Senator Townsend: What is the total amount of the bonds in the public's hands outside of the banks?

Secretary Morgenthau: You see the bonds are not registered, so we do not know.

Senator Bailey: But the banks carry about 13 billions, as I understand.

Mr. Bell: The banks held $11,572,000,000 on December 31, 1937. This is a statement of those banks reporting to the Federal Deposit Insurance Corporation. In addition they held $2,096,000,000 of guaranteed obligations, making a total of $13,669,000,000.

Senator Bailey: Well, I would like to know, Mr. Secretary, just what the operation is. You advertise bids, I take it, on the bonds, but I have been informed, - I may be mistaken, - it is mainly a transaction through the banks.

Secretary Morgenthau: No.

Senator Bailey: I would like to have this statement from you, as to just what the process is, whereby we float the bonds.

Secretary Morgenthau: Would you mind Mr. Broughton answering that? Mr. Broughton is in charge of that.

Mr. Broughton: What was it you wanted?

Senator Bailey: I wanted to get a statement of the Treasury on the procedure under which we do dispose of our bonds and realize funds for the Government.

Mr. Broughton: An issue is determined by the Secretary. The Federal Reserve banks are advised and the public is circularized, inviting the people of the United States to subscribe. I am speaking of the long term bond issue, or the note issue. It is a public offering, inviting subscriptions. They are received through the Federal Reserve Banks, and all subscriptions are subject to allotments. The allotments are made, and whether it is an individual or bank it makes no difference, so far as the treatment is concerned.

Senator Bailey: It is handled by the banks?

Mr. Broughton: They are our fiscal agency, and through that machinery every bank in the United States receives advice of an offering on the opening day. Subscriptions are receivable at the Federal Reserve Banks and from there they are reported to the Treasury.

Senator Bailey: Then you make your allotment through the banks?

Mr. Broughton: Yes, on the basis of subscriptions received.

Senator Bailey: When they are disposed of to private customers they are disposed of through the banks?

Mr. Broughton: What is that?

Senator Bailey: When they are disposed of to individuals they are disposed of by the banks to customers?

Mr. Broughton: Individuals can come direct.

Senator Bailey: They can come, but do they?

Mr. Broughton: Yes, they do. Now, in the case of bills, there is an offering there and the tender is receivable only at the public banks, in the public treasury.

Senator Bailey: Suppose the banks did not subscribe, what would be the consequence?

Mr. Broughton: What is that?

Senator Bailey: If the banks should fail to subscribe, what would be the consequence?

Mr. Broughton: It is wholly optional with them whether they subscribe or not.

Senator Bailey: Suppose they should fail to subscribe, what would be the consequence?

Mr. Broughton: I do not know. I do not imagine it is going to happen.

Senator Bailey: You say now it is not going to happen, but it may happen.

Mr. Broughton: I cannot answer that.

Senator Bailey: The bonds and the banks would go down together, is that right?

Secretary Morgenthau: Senator, we cannot answer that. After all, the fact remains since I have been Secretary of the Treasury to date we have been able to finance this government at a constantly lower interest rate, that we do sell the government securities at a lower interest rate than any other government in the world, andwe have done it successfully. Now, what is going to happen in the future, - I may be a little facetious, - I cannot look into the crystal and answer. All I know is we have done it to date.

Senator Bailey: We do not like to look at that crystal either if it does not look good.

Secretary Morgenthau: I can answer as of today that the credit of the government is as high or higher than it has ever been. That is all I can say.

Senator Bailey: Under the circumstances I will agree there is no question about that, but I think the banks, where they have got 11 billions of bonds now, if the bonds broke 10 points what would happen to the banks?

Secretary Morgenthau: Well, the answer is obvious.

Senator Bailey: The banks must ~~keep the money~~ take the bonds, that is the situation. I want to get some information on this. How far do you think we can go with this borrowing, how much further?

Secretary Morgenthau: I cannot answer that. I have said again and again that as far as I am concerned the Treasury is on the 24-hour basis, and it has been there since I have been there, and we try to meet these very difficult situations as they arise. All I can say is, as of today I think we have met them. What we can do in the future I do not know.

Senator Bailey: I want to ask you another question about the derivation of funds from the trust account, what is the practice there?

Mr. Bell: The Social Security Act levies certain taxes and provides that those taxes should be collected and covered into the Treasury just like any other taxes. They go into the general fund and are comingled with all other revenue to meet the requirements of the Old Age reserve accounts. That, I assume, is what you refer to. Congress appropriates an annual sum which is based on an actuarial computation, with an interest rate of 3 per cent, which will meet the benefit payments under that Act.

Senator Bailey: Is that set aside?

Mr. Bell: That appropriation is used every year to invest in Government obligations. The Secretary is required under the law to so invest it that it will earn at least 3 per cent.

Senator Bailey: Then you will ultimately have to levy a t ax of 3 per cent, when the obligations under the Social Security come due it is the Government's duty to pay the obligations at the rate of 3 per cent on the Government bonds to be deposited in lieu of the Social Security revenue, is not the consequence there?

Mr. Bell: No, I do not think so.

Senator Bailey: What would be the consequence?

Mr. Bell: The process we go through in investing Social Security funds does not increase the public debt one dollar. Is that what you have in mind?

Senator Bailey: No, it does not inrease the public debt because you simply substitute bonds.

Mr. Bell: Supposing we took the appropriation made by Congress and went out in the market and bought coupon bonds, would you then say we had to tax the American people to retire the Social Security?

Senator Bailey: No, you would get the coupons then.

Mr. Bell: There is no difference between the two, Senator.

Secretary Morgenthau: You would get the Government bonds.

Senator Bailey: You would get new Government bonds. That 3 per cent coupon comes due in 1945, say; now you have used up your Social Security money, you have spent that, where do you get the money to pay the 3 per cent on the bonds?

Mr. Bell: Well, using the Social Security fund is reducing our borrowing in the market.

Senator Byrd: It is added to the public debt.

Mr. Bell: It is not added to the public debt, Senator. If we had a balanced budget today and did not have a deficit what you would have to do would be to reduce the bonds in the hands of the public.

Senator Byrd: You are collecting how much now? About $800,000,000 from the Social Security?

Mr. Bell: It would be about $400,000,000 in the Old Age account this year.

Senator Byrd: When you transfer that to the trust fund it increases the public debt in proportion, your statement shows that, and you have got to pay 3 per cent then on that debt, and that 3 per cent has got to be paid out of taxation.

The statement shows that. I think you do yourself an in- justice when you say you do not add it to the public debt. $270,000,000 this year the general accounting office advises me was not added to the public debt, but the balance was. The 3 per cent is paid just like any other interest is paid, and it is paid out of the taxation, or the deficits, whatever it is. As a matter of fact we are borrowing money to pay interest right now, we borrow a billion dollars a year now to pay inter- est on the public debt, assuming that that particular inter- est is a deficit.

Mr. Bell: We have collected in taxes under Title A of the Social Security Act $577,000,000, and we have invested and made benefit payments of about $639,000,000, so that the deficit over the whole period has only been affected about $59,000,000 through the operation of the Social Security Act.

Senator Byrd: Are not part of the payments though, covered by appropriations?

Mr. Bell: They are all covered by appropriations. There is not a dollar drawn out except by appropriations.

Senator Byrd: Do you contend that the amount that was set aside in the trust fund of the Social Security is not added to the public debt?

Mr. Bell: It is added to the public debt just the same as we would sell obligations in the market.

Senator Byrd: You stated a while ago that it was not added to the public debt.

Mr. Bell: I meant the operations of the Social Security fund do not necessarily add to the public debt, because we take the money and go out in the market and buy, but to make up the deficit we would have to borrow money.

Senator Bailey: Using the new money in place of issuing bonds.

Senator Byrd: The Treasurer Department issued a statement about two or three months ago that the last loan they expected to make from the public was made then. That is my recollection.

Mr. Gaston: That was made by a newspaper man.

Senator Byrd: Parker Gilbert stated that in Secretary Morgenthau's presence, that there would be no more loans.

Secretary Morgenthau: I did not write the speech.

Senator Byrd: And the Secretary himself advocated in his economy speech, as I recall it, and received great applause, as he deserved, all over the country for it, advocated a reduction of expenditures of $700,000,000 and a balanced budget for the year 1939, but as a matter of fact the amounts that are placed in the Social Security Trust Fund are added to the public debt, and the 3 per cent that is paid on that is taken out of taxation, there is no doubt about that.

Mr. Bell: It would be the same if you just lifted bodily out of the budget all of the Social Security revenue and Social Security payments.

Secretary Morgenthau: That is the point, but we do not.

Mr. Bell: If you lifted them bodily right out of the budget the deficit would be the same and so would the public debt. It is a charge on both sides.

Secretary Morgenthau: It is a charge on both sides of the books.

Senator Clark: You are borrowing from the Social Security fund and not on the market.

Mr. Bell: That is right.

Senator Bailey: You sell the obligations of the Social Security fund, the obligations bear interest, and when it comes due you pay the interest out of the general revenue?

Mr. Bell: That is right.

Senator Bailey: When we go to raise the general revenue we have to levy taxes for that, though you have got two taxes, the Social Security original taxes and you have the subsequent taxes to pay the interest on the bonds.

Mr. Bell: That is not right.

Senator Bailey: If that is not true then you have got a good way to make something out of nothing. Youcan eat your cake and have it too. When it comes due you haven't got the money to pay it, and therefore you have got to get new revenue.

Secretary Morgenthau: The alternative, Senator, is this: We take in Social Security money and then sterilize it, and then say we accumulate a billion dollars of it, let it lie in the banks, or with the Federal Reserve, or in our own account, and then borrow another billion dollars —

Senator Byrd: (Interposing) How do you sterilize it if you pay 3 per cent interest on it?

Secretary Morgenthau: When I used the word I meant leave it there and do not use it.

Senator Byrd: To make that clear, Mr. Secretary, is not this the situation: Suppose you have got a billion dollars in the Social Security trust fund, to show for that billion dollars you have got a billion dollars of United States bonds which have been added to the total public debt.

Secretary Morgenthau: It does not have to be bonds, it is an obligation.

Senator Byrd: The reason for that is that this Social Security bond may be callable, I mean the interest is only callable, or, under the terms of the Social Security, the principal is callable.

Mr. Bell: Yes, the principal is callable.

Senator Byrd: I am speaking of the two funds, I am speaking of the Old Age, and you have got the Unemployment fund and that is callable too.

Mr. Bell: They are all callable, the whole fund is available to meet the benefit payments.

Senator Byrd: Then the Government ~~would have to be~~ is called upon, of course, they would have to sell the bonds to the public. In other words, instead of taking them out of the Social Security fund they would take them out of the public to get the money to make the payment, to pay the demand. That has got to be paid, plus 3 per cent interest.

Senator Bailey: Ultimately the bonds have got to be paid and then you have got to have taxes.

Senator Byrd: Suppose we had a very severe depression and this amount in the Social Security fund would be as much as 10 billion dollars ~~in the future~~ and we had to go on the market with 10 billion dollars of bonds in order to pay the calls that are made on the principal of the Social Security bonds, would not that be a very dangerous thing for the Government to do?

Secretary Morgenthau: I think, Senator Byrd, that is the same thing that Senator Bailey says. Suppose we had a drop of 8, 10 or 15 points in the Government bonds market, what is going to happen to the banks? All of those things are what I call building walls of fear, if those things might possibly happen, and then the question arises: How good is the Government credit and how much can the United States Treasury pay?

Senator Bailey: Mr. Secretary, there are limitations to the United States credit. If you keep on issuing bonds you will find that we will be broken, because nobody will buy bonds, or if you issue some paper that will depreciate the currency.

Senator Byrd: Suppose you acted suddenly, due to some great disaster that might come, due to economic conditions of the country and you had to call the Social Security money in accordance with the terms of the law?

Secretary Morgenthau: The same is true of postal savings. We have about $1,200,000,000 in postal savings, and those people can call on us.

Senator Byrd: It is not as likely to happen. It does not amount to so much.

Secretary Morgenthau: We have a billion and a half dollars United States Savings bonds that the holders of them can call on us.

Senator Bailey: You would have to raise cash if it is called.

Secretary Morgenthau: We would have to have other obligations to take the place of them.

Senator Bailey: All that means is taxation.

Secretary Morgenthau: That could all happen.

Senator Bailey: When the R.F.C. recovers money that is loaned out, what does it do with it?

Secretary Morgenthau: The money goes to the Treasury.

Senator Bailey: The money goes to the Treasury and is spent from the current account?

Secretary Morgenthau: That is part of the general fund.

Senator Bailey: Is it credited to the R. F. C.?

Secretary Morgenthau: All the money in the general fund, as long as we have a deficit we spend it.

Senator Bailey: It does not go to discharge the bonds that were issued to raise the money to finance the R. F.C.?

Secretary Morgenthau: There are not any bonds outstanding of the R.F.C.

Senator Bailey: Suppose they have been discharged, they might have been discharged by issuing new money, new bonds. Perhaps you do not understand me, perhaps I have not made myself clear.

Secretary Morgenthau: Maybe I do not.

Senator Bailey: The R. F.C. gets their money from this Government. It does not have any money except the money it gets out of the Treasury, and what it gets out of the Treasury it gets by issuing bonds, and when the R.F.C. pays out that money it does not go to pay off the bonds, it goes for current expenses.

Secretary Morgenthau: That is right. May I explain my position?

Senator Bailey: I would like to hear the explanation.

Secretary Morgenthau: We have a general fund, and when these funds are collected, whether it is man that deposits money with us in postal savings, United States Savings bonds, or whether excess of receipts in the R.F.C., those are all deposited in our general fund, and just as long as this Government is running into a deficit and we have to constantly borrow new money we use that money in the general fund for the purposes of general expendituresof the Government. Now, if the time should ever come when we have a balanced budget then we can go and use that money to cancel obligations and stop issuing new ones. That is the whole story.

Senator Bailey: In the meantime the R.F.C. means increased revenues to the Government by collecting the funds whidh are realized from bonds, bonds outstanding which are not paid off, and the money finally goes to the Government.

Secretary Morgenthau: Well, if you want to you can say that about any of these Governmental agencies that collect money. Today we may get a deposit from the R.F.C. for $10,000,000 which goes to the general fund and tomorrow we may get a call from them for $50,000,000. Now, the U.S. Housing, which is a new agency, they have informed us that over the period of the next few months they will need $25,000,000. We advised them we think it is a mistake for them to sell their own obligations because it is not well enough known, until they need more money. So they call on us any time up to $25,000,000. So far they have called on us for $1,000,000. Now that $1,000,000 that we take out of the general fund may has been given to us by any one of a dozen sources. It may have come out of the liquor tax, the R.F.C., the Customs Duty, or any one of a dozen different sources of revenue.

Senator Bailey: As an illustration, if I should borrow $100,000 and issue my note to the bank and if I should get paid $100,000 and leave the note in the bank and spend the $100,000, how long would my credit be good under that sort of operation?

Secretary Morgenthau: I think in your case it would be very good.

Senator Bailey: It would be good because anybody on earth that knows me knows I would not do ~~an inequity~~ such an iniquity, but we have got notice that the Government does.

Secretary Morgenthau: I will again point out that we are very, very careful in carrying out the letter of the law in every single case.

Senator Bailey: I was not suggesting that you were not, and I would not put the blame on the Congress.

Secretary Morgenthau: May I also point out, Senator, that there is not another government in the world which publishes a daily statement of the Treasury. With the additional information we give each month it gives as much information on the financial status of the Government of the United States Treasury as it is possible to give, and there is not another Government in the world that does it.

Senator Bailey: I do not think there is another Government on earth that can supply Congress with information as rapidly as this Government does. We can get information from every department at almost any sort of notice.

Senator Byrd: Mr. Secretary , that point about the R.F.C. repayment, it seems to me the criticism is this, that you have taken that off of the expenditures, as I understand your report. In other words, if you obtain from the R. F. C., on any of these loans that they have made, a surplus of $500,000,000 over loans made at that particular time, then you reduce the ordinary expenses of the Government to that extent. I do not think that is a fair thing to do, because that shows an artificial reduction of expenditures, which should not be shown on the reports. As a matter of fact, if you get an excess of loans paid to the R.F.C. over loans made you then take that off your current expenditures.

Mr. Bell: Senator, the R. F. C. operates through the treasury through a revolving fund. We only have the one account, but we have to show the picture as net.

Senator Byrd: My objection is you take it off the general expenditures. If you collect a billion dollars extra from R.F.C. then the Treasury report would show we spent a billion dollars less for general expenditures of the Government.

Mr. Bell: If the R. F. C. loaned $1,000,000 a month, if it had a million dollars capital and loaned it out at the first of the month and it was repaid at the end of the month, and loaned it out at the first of the next month and it was repaid at the end of the next month, and they did that twelve times, you would say that it had $12,000,000 in receipts and $12,000,000 in expenditures, would you not?

Senator Byrd: I would not say that.

Mr. Bell: That is identically the same thing.

Senator Byrd: What I say is repayment of the loans should not be deducted from the general expenditures of the Government, it ought to be a separate item, because then the total of the Government expenditurex are not correct, because an expenditure is a very different thing from the repayment of the loan. I think it would be better, if you want to do it, to include it ~~was~~ as a receipt.

Mr. Bell: We do show it on the daily statement as receipts and expenditures.

Senator Byrd: I am speaking of the total expenditures, I want to get this correct. The General Accounting office tells me that if we spent a billion dollars and that if the R.F.C. collects $200,000,000 more of loans in that particular day, or that particular month, then there is only shown on the Treasury report $800,000,000 of expenditures, is that correct or not?

Mr. Bell: In one part of the daily statement, that is correct.

Senator Byrd: ~~I am speaking of the total. The people cannot look all over the daily statement.~~ I am speaking of the total expenditures.

Mr. Bell: That is right. That shows the net picture of the R.F.C. for that period.

Senator Byrd: I do not think that is honest book-keeping, to take the loans that are paid back off of your general expenditures and show it in the totals.

Senator Johnson: Are not the expenditures shown at the time the R. F. C. gets the money?

Mr. Bell: That is right.

Senator Johnson: You do not want to show it twice.

Senator Byrd: It is misleading as of that particular month, though.

Secretary Morgenthau: Not only that, Senator, but once a month the R.F.C. makes a report directly to Congress of its expenditures.

Senator Byrd: I think these loans ought to be handled in some way in a separate item in the Treasury report. A lot of them would be paid back at another time. On your comparison the expenditures would not be accurate.

Senator Brown: Mr. Chairman, I would like to get a little information about this bill. We have had a very interesting discussion about Government finance, but I think there are some subjects of inquiry that we ought to go into.

There must have been some reason, Mr. Secretary, in the first place, for the eradication of this partition between short time and long time loans. Can you tell us what that reason was?

Secretary Morgenthau: Senator, I was asked that by the Committee in the House. We talked it over, and, quite frankly, no one seems to remember just why it was set up that way.

Senator Brown: Generally speaking, you have three classes of Federal obligations. First you have the bonds, then you have the Treasury notes, and then you have the Treasury bills.

Secretary Morgenthau: That is right.

Senator Brown: The Treasury bills are very short?

Secretary Morgenthau: 90 days.

Senator Brown: And your Treasury notes?

Secretary Morgenthau: One to five years.

Senator Brown: They run as long as five years. The bonds are, of course, a good deal longer?

Secretary Morgenthau: Five years and over.

Senator Brown: What you are up against at the present time, and where you are cramped is on your authority to issue bonds, is that not right?

Secretary Morgenthau: That is right, sir.

Senator Brown: You have about 22 to 23 billion dollars of outstanding bonds at the present time?

Secretary Morgenthau: That is right.

Senator Brown: Now, it seems to me that the tendency that would be followed if we eliminate this partition would be to get into higher rate Government financing, because your bonds bear the highest interest rate and the Treasury bills and Treasury notes the lowest, and it seems to me that is the wrong way to go at it.

Secretary Morgenthau: I would be glad to answer that. We have $618,000,000 of notes maturing June 15th bearing coupons at 2-7/8 interest, and on September 15th we have gotten $576,000,000.

Senator Brown: Notes?

Secretary Morgenthau: Notes coming due, at 2-1/2 per cent. Now we can issue, oh, I suppose, at present 12 or 13 year bonds, maybe longer, with a coupon of 2-1/2 per cent, so we could refund both the June and September notes at no increase in tax payment.

Senator Townsend: How much less could you sell the notes for?

Secretary Morgenthau: Oh, you could sell the notes for considerably less, Senator, but, in the first place, the notes are wholly tax exempt, and, in the second place, I would consider it dangerous to pile up all your debts, or a greater part of your debt in the next five years. If it does not give me this I can get along, but my whole purpose in being here and pointing this out to you gentlemen is, I think it is a mistake not to permit me to borrow on that kind of security at a time which seems to be to the best interests of everybody. Now, next June and September it might be advantageous to sell the bond issue, to convert these notes, and I do not think we want to pile too much of the debt in the next five years. That is the whole thing.

Senator Brown: There are two factors. There is the interest rate and the maturity.

Secretary Morgenthau: That is the whole story.

Senator Johnson: Are the notes short term?

Secretary Morgenthau: The notes are from one to five years. It would mean piling up too much of this debt in the next five years.

Senator Brown: What you have recommended to the Congress, to the President, as I understand it, is to stop issuing tax exempt bonds?

Secretary Morgenthau: That is correct.

Senator Brown: I am in favor of that. It seems to me if we can authorize you to greatly increase the amount of bonds that you can issue, that there would be a possibility, - I do not say it would be done, - there would be a possibility of issuing a large number of bonds now which would contain certain tax exempt features, and that does not seem to me to be desirable. It seems to me the shorter term that we can make our debt at the present time, so we can take advantage of that situation in the future, the better. That ought to be the tendency of the Treasury, rather than to open up the way here to a larger issue of bonds.

Secretary Morgenthau: Senator, I would like to answer that, if I may. Pending Congress taking action on the question of tax exempt bonds---

Senator Brown: (Interposing) That probably will not be done at this session.

Secretary Morgenthau: Well, whatever Congress does, let us say Congress decides not to give me this additional authority, then we would be forced to sell notes which are completely tax exempt.

Senator Brown: You could not sell them then.

Secretary Morgenthau: That is true. There also is the danger of piling up too many bills.

Senator Gerry: Mr. Secretary, are those bonds tax exempt?

Secretary Morgenthau: They are subject to sur_taxes.

Senator Gerry: They are only exempt for normal taxes, not exempt for surtaxes?

Secretary Morgenthau: That is right. I think it would be poor business for the Federal Government not to take for itself every advantage it could while it is in competition with states and municipalities who have the privilege of selling totally tax exempt securities. Now, I think as long as other units of government have that privilege the United States Government should take on to itself and sell its securities as reasonably as possible.

Senator Bailey: I think it would enable you to sell your bonds very good, because a little later on we will have the tax exemption stricken out from all future bonds, and I should think the people would buy them now.

Senator Lonergan: I think you are right, Mr. Secretary, I think that is sound. We ought not to remove the exemption until steps are taken where we can succeed in such an attempt to have the exemption removed from state bonds and subdivisionsof states. That is your point, is it not?

Secretary Morgenthau: That is the position we took under the so-called Borah amendment.

Senator Brown: If we are not going to stop issuing tax exempt bonds I do not think we ought to issue any large number just between how and the time that this proposed law goes into effect. That is why I am a little bit concerned about that.

Senator Longergan: I think we ought to submit a Constitutional amendment.

Senator Johnson: These are all replacement bonds and they are tax exempt now.

Senator Brown: Those are short term notes.

The Chairman: Mr. Secretary, I want to get this clear. Of course we adopted the Borah amendment, and in conference the House Conferees objected to the Borah amendment on the ground that it would put the Federal Government in the position where the tax exempt securities would be taxed, and the municipalities and states would have the same provision, and that this matter ought to be handled from the Treasury, representing the Administration. I think this matter ought to be taken up as soon as we can, but I wonder if I can get the reaction of the Committee today. It seems to me that there is a strict constitutional question involved as to whether or not you can do this without a Constitutional amendment. Some think that you can and others think that you cannot.

Senator Brown: You mean with reference to the state bonds?

The Chairman: Yes, with reference to the state bonds.

Senator Bailey: The President already told us we did not need a Constitutional amendment.

The Chairman: That is right. It seems tome it would be well if we can do it at this session of Congress. I think the Judiciary Committee subcommittees, both House and Senate, and Finance Committee subcommittees of both Houses and the Finance Committee and Judiciary Committee of the Senate ought to be working on this thing jointly. What is the reaction of the Committee on that?

Senator Lonergan: Mr. Chairman, the Judiciary Committee appointed a subcommittee to take testimony on this question, and the subcommittee reported to the general committee favorably on a Constitutional amendment. That matter is before the general committee of the Judiciary Committee, and I am inclined to think, from information I have gathered, that the majority opinion in that committee is in favor of a Constitutional amendment.

Senator Brown: Mr. Secretary, would you object to a limitation on this bill by whichno securities would be issued during the next year for whatever limited time seems desirable, for a period of, say, longer than five years?

Secretary Morgenthau: Yes.

Senator Brown: You would object?

Secretary Morgenthau: Yes.

The Chairman: That would put it in the same classification as a note, then.

Secretary Morgenthau: That is right.

Senator Brown: It seems to me then we are open to the charge that there may be the idea of issuing a large amount of tax exempt bonds for a long time period. I do not mean to charge you with that at all, but we are open to the charge that that is going to be done. All you can issue now in the shape of long term securities is three billion dollars in round figures?

Secretary Morgenthau: About a billion and a half more.

Senator Brown: I have your statement here.

Secretary Morgenthau: About a billion and a half more.

Senator Brown: Now if we take the lid off and authorize you to issue long term securities in the amount of 20 billion more I am fearful of public reaction to it, just at a time when we are considering this matter of eliminating tax exempt bonds.

Secretary Morgenthau: My record on this is all right, because the first year I was secretary I came up and recommended that they remove the tax exempt bonds. If I may just say, for the rest of this year until next year, until Congress meets, the maximum we could issue would be a little over 7 billion.

Senator Brown: You do not quite get my point. You could call in your bills and your notes and substitute the bonds for them.

Secretary Morgenthau: The notes are not callable. The bills mature, the bills do mature.

Senator Brown: You have got lots of notes that are currently due.

Senator Townsend. What is the total that mature?

Senator Brown: He has about 2 billion dollars out in

Treasury bills, in round figures.

Secretary Morgenthau: A billion seven.

Senator Brown: I have a billion nine here.

Secretary Morgenthau: A billion seven.

Senator Brown: Then you have five maturities of Treasury notes in 1938, maybe four.

Secretary Morgenthau: We are on record that we believe the tax exemptions of all units of Government should be removed. I think it is in the interest of the taxpayer to give me the opportunity to move within the 45 billion dollars. I might be faced with the situation where it might be quite important to have that authority between now and the time that Congress comes back. I am willing to stand on my record of the last four years as to how I financed the Government, whether I have done it well or badly, and with that four years' record behind me I do not think there is very much cause to worry, because I have tried to do it, and have done it.

Senator Byrd: I think you have done a fine job, I will say that.

Secretary Morgenthau: Thank you, Senator.

The Chairman: Now let us for a moment get back to this request of Senator Byrd. Do you understand that request, Mr. Bell? Will you furnish that right away for this record, the request that Senator Byrd made?

Mr. Bell: Yes, sir.

The Chairman: Is there any other request? I understood you were going to introduce a bill.

Senator Byrd: I was just going to ask, Mr. Secretary, in regard to the billion, five hundred million on the last bill that R.F.C. could loan, ~~could~~ would that be included in the deficit, or ~~could~~ would that be financed by selling notes of the R.F.C.?

Secretary Morgenthau: The billion and a half?

Senator Byrd: Yes.

Secretary Morgenthau: Any money that the R.F.C. needs, we could do one or two things, we could either let them draw the money out of the general fund of the Treasury or the R.F.C. can go on the market and sell its own obligations.

Senator Byrd: What do you propose to do about that? Because in estimating the deficit for the fiscal year --

Mr. Bell: (Interposing) In the budget it was figured $50,000,000 in receipts.

Senator Byrd: I am speaking of the bill that Senator Glass introduced, whereby the R.F.C. could loan a billion five hundred million dollars to business.

Secretary Morgenthau: Yes.

Senator Byrd: Is that to be included in the disbursements, or will it be financed by notes such as you have already sold $300,000,000 of?

Secretary Morgenthau: I do not know. There are two alternatives. We either can sell the R.F.C. obligations direct or we can draw on the general fund. It is just a question which will be the most economical, and we do not know.

Senator Bailey: Mr. Chairman, I think I will reserve the right, in view of the President's message, to offer an amendment on the floor prohibiting the inclusion of the tax in any bond issue.

Senator George: Mr. Chairman, I want to ask a question. Mr. Secretary, under this bill you could increase your bonds as distinguished from bills or notes to 45,000,000,000?

Secretary Morgenthau: Senator George, we could only increase the number of bonds as either the notes or bills matured.

Senator George: I understand, but if the opportunity existed you could go up to 45 billion?

Secretary Morgenthau: It could be possible. You meant ultimately, did not you, over a period of years, over a period of five years?

Senator George: Oh, yes.

Secretary Morgenthau: It would take five years until the last note matured, because the notes are not maturing at the same time, so it would be a matter of four and one-half years at least.

Senator George: And they are not callable ?

Secretary Morgenthau: No, sir.

The Chairman: Without objection the bill will be reported out favorably.

Senator Byrd: This does not increase the authority of the Government to borrow above that?

The Chairman: No, the limitation is 45 billion. It gives you the right, in the interest of the Government, and so forth, to issue the long term and short term.

Senator Byrd: I think the Secretary should have that discretion, he should be able to use his discretion about it, as Senator Brown brought out.

The Chairman: Without objection the bill will be reported out favorably.

(Whereupon at the hour of 11:45 o'clock a.m. the Committee adjourned.)