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PAYMENT OF ADJUSTED-COMPENSATION CERTIFICATES

JUNE 15 (calendar day, JUNE 16), 1932.—Ordered to be printed

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

REPORT

[To accompany H. R. 7726]

The Committee on Finance, to whom was referred the bill (H. R. 7726) to provide for the immediate payment to veterans of the face value of their adjusted-service certificates, having considered the same, report adversely thereon with the recommendation that the bill do not pass.

STATEMENT

The proposal embodied in this bill is that immediate payment be made to any veteran to whom an adjusted-service certificate has been issued of the amount of the face value of the certificate. This bill would necessitate an expenditure of $2,400,000,000. To effect the payment the Secretary of the Treasury is directed to issue United States currency notes; such notes to be legal tender for public and private debts. At the time of placing such notes in Federal reserve banks subject to the order of the Administrator of Veterans' Affairs to be used for the purposes of the act, the Secretary of the Treasury is directed to issue a like amount of United States bonds bearing 3¾ per cent interest payable in 20 years. Such bonds are to be sold from time to time by direction of the Federal Reserve Board and the currency received therefor is to be used for the retirement of notes to be issued under the act.

The aggregate face amount of the outstanding adjusted-service certificates is about $3,515,000,000. This amount is for the most part, however, not due until 1945, and the certificates have an aggregate present value of about $1,880,000,000 discounted on the basis of 4 per cent per annum. For the Government to pay now a sum which is not due until 1945 would in effect increase the amount of the original grant made by the Congress to the veterans by the difference between the face value of the certificates and their present value, or by about $1,635,000,000. It is of the essence of the plan of the adjusted-service certificates that they mature and be paid at the expiration of 20 years from the date of issue, or upon death should that occur earlier. Any acceleration of the time for payment has the same effect as increasing the amount of the original bonus grant.

Under the plan for the adjusted-service certificates as adopted in 1924, the face or maturity value of the certificates was fixed as follows:

For each veteran there was determined a basic amount equivalent to $1.25 per day for each day of service overseas and $1 per day for each day of service in this country in excess of the first 60 days. This amount was then increased by 25 per cent because of deferred payment. The total so arrived at was used as a net single premium to fix the amount of the adjusted-service certificate, maturing in 20 years, on the basis of the American experience table of mortality, with interest at 4 per cent compounded annually. The adjusted-service certificate is essentially a 20-year endowment insurance policy. The aggregate amount called for by the certificates at maturity was to be met by the Government through setting aside each year in the adjusted-service certificate fund amounts which, invested at 4 per cent, would equal the face value of the certificates at maturity.

Most generous provisions have been made by our Government for the care of dependents of those who gave their lives to their country and for the care of the wounded, disabled, and ill veterans and their dependents. On this point the adverse report on this bill from the Committee on Ways and Means of the House stated:

> The Government of the United States has already paid on account of veterans of the World War up to date $6,000,000,000, and according to the testimony of General Hines, if we continue at our present rate, with no authorizations increasing our present commitments, by 1945 we will probably expend for World War veterans $21,500,000,000 which will about equal the cost of our participation in the World War.
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> We have spent for veterans of all other wars previous to the World War up to date in all the history of the country only $8,000,000,000.
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> It can, therefore, not be seriously contended that the Government has not been liberal with veterans of the World War. On their account we are practically now in our commitments financing another war as expensive as was our participation in the World War.

Veterans' Administration disbursements as of April 30, 1932

	To June 30, 1931			Veterans' Administration	
	National homes	Bureau of Pensions	Veterans' Bureau	During April [1]	Fiscal year 1932
Veterans' Administration homes	$250,312,883.84				
Army and Navy pensions		$8,169,801,911.88	$234,176,282.66	$19,751,215.15	$194,956,501.17
Maintenance and expenses for pensions		151,212,728.16	1,744,732.30		
Military and naval compensation			1,891,950,451.08	26,868,450.49	262,515,605.64
Military and naval insurance (term)			1,374,004,790.35	11,630,528.89	105,690,148.14
Government life insurance [2]			143,675,359.21	2,408,740.64	23,183,213.45
Medical, hospital, and domiciliary services			420,011,705.25	78,280.09	[3] 7,640,051.65
State and Territorial homes					599,865.32
Administrative [4]			425,408,361.08	8,863,378.16	79,344,523.65
Hospital and domiciliary facilities and services, Veterans' Administration			52,328,514.27	1,041,335.20	10,257,895.52
Adjusted service certificate fund [5]			110,735,825.17	2,334,886.30	19,075,493.10
Adjusted service and dependent pay			40,823,757.04	523,913.63	2,429,451.35
Vocational training			[6] 644,960,808.83		[7] 17,099.11
Allotments and allowances			582,926,255.95	2,240.34	8,679.06
Marine and seamen's insurance			35,077,918.69		
Miscellaneous			299,212.54	20.00	3,949.47
Total	250,312,883.84	8,321,014,640.04	5,958,123,974.42	73,502,988.89	705,688,278.41

Civil Service retirement and disability fund

	To June 30, 1931	During April	Fiscal year 1932
Annuities and refunds	$131,809,483.19	$2,352,632.84	$22,968,784.82

[1] Gross figures used for April. Adjustment will be made on subsequent report.
[2] Does not include investments and loans.
[3] Disbursements out of appropriations for previous years; for the fiscal year 1932 included in "Administrative."
[4] Administrative includes medical and hospital services, 1932, salaries and expenses, etc.
[5] Represents payments on certificates matured by death of veterans. Also includes $485,047.45 to June 30, 1931, and $3,420,315.12 for fiscal year 1932, deducted from payment of matured certificates on account of loans previously made from adjusted service certificate fund (plus accrued interest from date of loans to death of veteran).
[6] Includes $9,313.29 revolving fund, loans outstanding June 30, 1931.
[7] Credit.

NOTE.—Amount disbursed from insurance premiums and allotments, $956,362,612.48.

The Government is now expending for the benefit of all veterans about $1,000,000,000 a year. This amounts to nearly one-fourth of the total expenditures of the Government.

It is not contended by proponents of this measure that under present conditions the Government could or should provide funds from its revenues or from borrowings in the usual course to pay the $2,400,000,000 which would be required for the payment of the certificates. The deficit of the Government for the fiscal year 1932 will amount to more than $2,800,000,000 without regard to the provisions of this bill. Up to May 31 the gross public debt had increased to over $18,600,000,000, an amount more than $2,000,000,000 in excess of the public debt outstanding a year earlier. Included in the amount of the Government debt outstanding is nearly $4,000,000,000 of obligations maturing within a year.

To maintain the finances of the Government upon an unassailable basis Congress has recently enacted a revenue measure drastically increasing rates of taxation and imposing many new levies. Congress is now engaged in working out the economy legislation based upon the necessity of effecting all practical reductions in Government expenditures.

The proposal in the bill is that the Government should make the payment to the veterans in the form of United States Treasury notes to be created simply by the operation of the printing press. These notes would have no gold cover. It is proposed that concurrently with the issue of the notes there should be placed in the Federal reserve banks 3½ per cent 20-year Government bonds to be sold at the discretion of the Federal Reserve Board with a view to obtaining currency which could be used for ultimate retirement of the legal tender notes.

The existence of United States bonds in the hands of the Federal reserve banks does not change the status of the notes. Such bonds would merely represent a different form of obligation of the Government to pay, not in itself adding anything to the obligation expressed by the currency notes themselves. These bonds would represent the mere possibility that at some future date the Government might sell its obligation and secure funds for the retirement of the legal-tender notes. That possibility would be present regardless of whether the bond issue was provided for in advance. The existence of an anticipatory supply of bonds to be marketed by the Federal reserve banks at their discretion would seriously complicate normal Government finances.

It is asserted by proponents of this measure that the Government has at its disposal gold stock amply sufficient to warrant the issue of these notes. The total stock of monetary gold in the country on May 31, 1932, was $4,149,000,000. Of this amount, however, the total amount of free gold in the Treasury not specifically allocated was but $20,000,000. The balance of the gold stock was partly in circulation, but was largely held either by the Government for the Federal reserve system, or by the reserve system itself, for definite commitments. The following table sets forth the form and distribution of the gold stock:

Monetary stock of gold, May 31, 1932

[Millions of dollars]

Held in the Treasury:	
Against gold certificates—	
Held by Federal reserve banks	671
In circulation	735
Reserve against United States notes and Treasury notes of 1890	156
Held for Federal reserve banks and agents	1, 566
In the general fund of the Treasury:	
Allocated against specific gold liabilities of the Treasury	54
Free gold, not specifically allocated	20
Gold coin and bullion held by Federal reserve banks	512
Gold coin in circulation	435
Total	4, 149

The amount of the free gold of the Federal reserve system itself as of the 31st day of May included in the above total was approximately $1,140,000,000. This amount of the free gold of the Federal reserve system, representing the capacity of the system to stand withdrawals of gold and to meet increased demands for currency and increase in member bank reserve balances, does not belong to the Treasury and is not, therefore, available to the Treasury to be placed behind Treasury obligations.

The effect of issuing large volumes of legal tender notes at this time would undoubtedly be to increase the drain upon gold. It would be the natural tendency of those who receive the legal tender notes to replace them by established currency, particularly by gold. Under the act of March 14, 1900, the Treasury is required to maintain the parity of all forms of currency with the gold dollar. This means that regardless of its stock of gold the Government could be called upon to furnish gold in exchange for the entire amount of the legal tender notes.

The effect of the tendency to require gold in place of the legal-tender notes would naturally be to send gold to a premium as compared with other forms of currency to cause or accelerate gold hoarding and to stimulate a flight from the dollar. During the recent months there has been a loss in the country's gold stock, through the exportation of gold, in excess of $500,000,000. It is believed that foreign balances in this country have been reduced to such point that further exportation is not probable, but any strain upon confidence in the dollar, any tendency to increase the demand for gold in this country would be likely, however, to increase the pressure upon the export of gold and to cause resumption and even acceleration in the gold drain.

The effect of the resort by this Government to legal tender notes upon its financial affairs and also upon the business economy of the Nation would be disastrous. This is vividly shown by recent European experience. If it is once determined that funds to meet Government expenditures can be obtained by the mere issuance of Government currency notes, there will be an inevitable tendency to meet all Government obligations in that way. If this plan is good for the payment of the veterans, it is equally good for the payment of Government employees and other Government obligations. Resort to such a plan nullifies the will and effort to accomplish Government financing through normal and accredited methods.

The whole body of our people, and the veterans themselves, have far more to gain from the restoration of normal business conditions in this country through adherence to sound Government finance than from any experiment with the printing press as a means of Government finance.

There is no evidence that the veterans as a class are any more in need than other groups of our citizens. Rejection of this measure in no way indicates indifference to existing needs of the veterans and of other citizens. It indicates determination to adhere in the conduct of our Government to those principles which have contributed to the development and strength of our country and which are essential to the achievement of recovery, through which our whole people, including the veterans, will benefit.

A suggested amendment submitted to the committee by Senator Thomas does not seem to us to meet the vital objections to the bill. Under this amendment, it would be provided that payments of the face value of certificates would be made only in cases where the applicant shall state that he is in need of the funds. The fact that the applicant has already secured a loan on his certificate would be taken as prima facie evidence of the need. The effect of this amendment would be merely to require an additional statement by the applicant. Indeed, that statement could be made a mere matter of form by any applicant who would first obtain a loan upon his certificate to which he is entitled as a matter of right. It seems probable that such a requirement would not to any material degree reduce the amount of the payment called for. The amendment in no way removes the dangerous features of the bill which are above set forth.

The amendment proposed by Senator Connally would confine any payments which might be made to veterans at this time to the cash value of the adjusted-service certificates, this to be calculated on the basis of the amount of the original adjusted-service credit to the veteran, increased by 25 per cent, with interest at 4 per cent compounded annually added thereto, making no reduction for the cost of the insurance benefits previously enjoyed under the certificate. The amount of the net payment which would be called for under this plan is estimated at approximately $1,300,000,000. The amendment contemplates that the amount required for the payment should be met by the Government in the ordinary way and not through the issue of legal-tender notes. It is the belief of the committee that the condition of the Treasury at this time and the urgent necessity of applying to the Budget all available tax revenues and of terminating borrowing, preclude favorable consideration of this amendment.

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