# PAYMENT OF VETERANS' ADJUSTED-SERVICE CERTIFICATES

# HEARINGS

BEFORE THE

## COMMITTEE ON FINANCE
## UNITED STATES SENATE

SEVENTY-FIRST CONGRESS

THIRD SESSION

RELATIVE TO

PAYMENT OF VETERANS' ADJUSTED-SERVICE CERTIFICATES

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## PART 2

FEBRUARY 18, 1931

Printed for the Use of the Committee on Finance

UNITED STATES
GOVERNMENT PRINTING OFFICE
WASHINGTON : 1931

37803

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# TO INCREASE THE LOAN BASIS OF ADJUSTED SERVICE CERTIFICATES

**WEDNESDAY, FEBRUARY 18, 1931**

UNITED STATES SENATE,
COMMITTEE ON FINANCE,
*Washington, D. C.*

The committee met, pursuant to call of the chairman, in the committee hearing room, Senate Office Building, at 10 o'clock a. m., Senator Reed Smoot presiding.

Present: Senators Smoot (chairman), Watson, Reed, Shortridge, Couzens, Keyes, Bingham, La Follette, Thomas of Idaho, Harrison, King, George, Walsh of Massachusetts, Barkley, and Thomas of Oklahoma.

The CHAIRMAN. The committee will come to order. This meeting was called for the purpose of considering H. R. 17054 to increase the loan basis of adjusted-service certificates.

Senator HARRISON. Mr. Chairman, I had a wire from Senator Simmons and a phone call from Senator Connally asking me to cast their votes. Is there any objection?

The CHAIRMAN. Certainly there is no objection on my part.

Senator COUZENS. Mr. Chairman, may we have the bill as passed by the House and the report submitted by the Ways and Means Committee of the House made a part of our hearing at this point?

The CHAIRMAN. The committee reporter will at this point make a part of our hearing H. R. 17054 as passed by the House of Representatives February 16, 1931, and Report No. 2670 as made by Representative Bacharach, from the Committee on Ways and Means, which was submitted on behalf of the committee for consideration by the House of that bill.

(The bill and report of the Ways and Means Committee are here made a part of the record as follows:)

[H. R. 17054, Seventy-first Congress, third session]

AN ACT To increase the loan basis of adjusted-service certificates

*Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,* That section 502 of the World War adjusted compensation act, as amended, is amended by adding at the end thereof two new subdivisions to read as follows:

"(1) For the purpose of this section the loan basis provided in subdivision (g) shall at no time be less than 50 per centum of the face value of the certificate, and in no event shall the rate of interest on any loan made after this subdivision takes effect exceed 4½ per centum per annum, compounded annually. If at the time of application to the Administrator of Veterans' Affairs for a loan the principal and interest on or in respect of any prior loan under this section have not been paid in full by the veteran (whether or not the loan has matured), then, on request of the veteran, the administrator shall (1) pay or otherwise discharge such unpaid principal and so much of such unpaid interest (accrued or to accrue) as is necessary to make the certificate available for use as security for the new loan and (2) deduct the same from the then existing loan basis of the certificate.

"(m) Loans made by the Administrator of Veterans' Affairs under this section may at his option be made out of the United States Government life insurance fund, or out of the Adjusted Service Certificate Fund created under section 505."

SEC. 2. Section 507 of such act, as amended, is amended to read as follows:

"SEC. 507. All amounts in the fund shall be available for payment, by the administrator, of adjusted-service certificates upon their maturity or the prior death of the veteran, for payments under section 502 to banks on account of notes of veterans, and for making loans authorized by section 502, as amended."

SEC. 3. There is authorized to be appropriated such amounts as may be necessary to provide for the making of loans to veterans by the Administrator of Veterans' Affairs under the World War adjusted compensation act, as amended.

SEC. 4. This act may be cited as the "Emergency Adjusted Compensation Act, 1931."

[House Report No. 2670, Seventy-first Congress, third session]

The Committee on Ways and Means, to whom was referred the bill (H. R. 17054) to increase the loan basis of adjusted-service certificates, having had the same under consideration, report it back to the House without amendment and recommend that the bill do pass.

There have been introduced in the House some 50 or more bills bearing upon the payment of adjusted-service certificates; the first of these were introduced as early as May 28, 1929. The principles of these bills are exactly the same, so that they may be grouped into four general classes.

(*a*) Those that contemplate the payment of the face value of the certificates in cash.

(*b*) Those that contemplate payment of the basic credit, plus 6 per cent interest from 1918.

(*c*) Those that contemplate payment of the basic credit, interest at 4 per cent, with full 25 per cent additional credit.

(*d*) Those that contemplate payment on present-value basis, allowing earned portion of 25 per cent credit.

The total amount of cash required to be raised by the Treasury to put into effect the first class would be $3,409,250,000; for the second class it would require $2,770,714,605; for the third class it would require $2,106,250,000; and for the fourth class it would require $1,728,770,393.

There was unanimity on the part of the committee that some kind of legislation bearing upon this question should be enacted by this Congress, and after giving full and careful consideration to all the four above-mentioned plans the committee rejected all of them and agreed upon the bill (H. R. 17054) herewith submitted.

Under section 1 of the bill, subdivision (l) of the amendment, which was recommended to be added to section 502, provides that the loan basis of any certificate shall be not less than 50 per cent of the face value of the certificate. It also provides that the interest rate on any loan made after the subdivision takes effect shall not exceed 4½ per cent per annum compounded annually. The subdivision further makes provision whereby the possession of certificates already pledged as security for loans may be obtained by the Administrator of Veteran's Affairs for the purpose of making a further loan. The new subdivision (m) to be added to section 502 extends the authority of the Administrator of Veterans' Affairs so that in addition to making loans out of the United States Government life-insurance fund, loans may also be made out of the adjusted-service certificate fund.

Section 2 of the bill proposes an amendment to section 507 of the World War adjusted compensation act so that loans are authorized to be made out of the adjusted-service certificate fund.

Section 3 of the bill authorizes the necessary appropriations to be made for carrying into effect the purposes of the bill.

On January 1 it is estimated that there were in force and effect approximately 3,400,000 certificates, with a maturity value of about $3,423,000,000, or, averaging a little over $1,000 apiece. On certificates issued as of January 1, 1925, in the average case 22½ per cent of the maturity value may, under the present law, be borrowed, the total loan value approximating $730,000,000. This bill provides for increasing this loan value to $1,712,500,000. Approximately $325,000,000 has been loaned on adjusted-service certificates. Of this amount approximately $13,000,000 is represented by notes held in the adjusted-service certificate fund, $26,000,000 in the hands of banks, and $286,000,000 from the United States Government life-insurance fund. The total assets as of the first of the calendar year held by the adjusted-service certificate fund amounted to approximately $771,000,000, from which provision must be made for the payment of certificates maturing on account of death, which, according to the American Experience Table of Mortality, will amount to $21,000,000. The assets of the adjusted-service certificate fund are composed of $756,000,000 in special Treasury notes and $13,000,000 in notes secured by adjusted-service certificates, the remaining $2,000,000 being represented by accrued interest.

It will thus be seen that the principal feature of the bill is that it increases the loan value to 50 per cent of the face value of the certificates. This compares with a loan value of 53 per cent on an old line insurance policy which has been in force the same length of time as the adjusted-service certificate; in other words, on an old line insurance company's policy for $1,000, running for the same length of time, $530 could be borrowed, while only $500 can be borrowed on the adjusted-service certificate.

The Treasury Department estimates that the potential cost of this legislation would be $1,720,000,000. This estimate, of course, is based upon the assumption that the holders of the 3,397,973 certificates now in force would take full advantage of the loan value of their certificates.

It should, in fairness, be stated that there is some divergence of opinion as to the probable cost of this legislation, and estimates of the cost range from $375,000,000 upward.

There is no way to determine accurately just what the cost will be, but the facts are that only about 48 per cent of the veterans eligible to borrow on their certificates have taken advantage of this right, and they have borrowed only about 43 per cent of the total amount available for that purpose.

If the veterans of our country have gone through the period of distress through which we have been passing in the past year and a half, with only 48 per cent of their number taking advantage of the loan feature of their adjusted-service certificates, it seems reasonable to assume that not more than 50 per cent will take advantage of the increased loaning value of their certificates under this bill.

This is borne out by the fact that while the borrowing value of all outstanding certificates for the year 1930—the w rst period of distress and unemployment—was $400,000,000, the veterans only borrowed $90,000,000 during the year.

It would therefore seem that the greater number of the veterans holding adjusted-service certificates have a full realization of their real value at the end of the 20-year period, and of the protection afforded their dependents in the event of death in the interim, and will preserve them intact until maturity.

There is transmitted herewith letters from the Secretary of the Treasury and Gen. Frank T. Hines, of the Veterans' Administration, bearing upon the bill:

TREASURY DEPARTMENT,
*Washington, February 13, 1931.*

Hon. WILLIS C. HAWLEY,
*Chairman Committee on Ways and Means, House of Representatives.*

MY DEAR MR. HAWLEY: In response to your request that the Treasury comment on H. R. 17054, with particular reference to the financial requirements which it creates and the probable effects on the Government finances and public debt operations, I submit the following:

The bill amends the war adjusted compensation act by increasing the loan value of certificates up to 50 per cent of their face value. As the face value of these certificates is $3,440,000,000, in round numbers, this proposal establishes a potential liability of $1,720,000,000. What proportion of these loans will be demanded by the veterans can not be determined. It will depend upon the circumstances. The estimates run all the way from $550,000,000 to $1,000,000,000 of loans beyond those already made. The suggested use of the adjusted service certificate fund does not alter the situation as these reserves are in Treasury obligations which will need to be converted into cash by means of sales of securities to the public in order to pay cash to the veterans.

In this connection I think I should call attention to the fact that the only funds made available for meeting this liability of $1,720,000,000 are those in the adjusted service certificate fund amounting to $772,000,000 less $21,000,000 which must be reserved for the payment of death claims this year. This would indicate that unless Congress is prepared to incur an obligation without providing means of meeting it, an appropriation of approximately $1,000,000,000 is necessary.

Aside from the merit or demerit of the proposal, the important consideration is the amount of cash that can be obtained by the Treasury through borrowing without disorganizing the finances of the Government and adversely affecting the security market to which the Government must resort to cover its obligations.

This question can not be disassociated from the present financial situation of the Treasury. That position is at best a trying one at this time, and the difficulty of obtaining these additional great sums can not be fairly appraised if considered alone or as if times were normal, but only if this consideration is made a part of the general picture and viewed against the background of the great financial problems already facing the Treasury.

We are confronted with a probable deficit of not less than a half billion dollars for this fiscal year which must also be made good by borrowing. The revenues of the Government are steadily falling behind not only the figures of last year but below what we reasonably expected to receive at the beginning of this year. In addition to the normal expenditures of the Government, we have been called upon to find funds for emergency purposes of various kinds, including relief measures and an increase in public works and construction activities of the Government for purposes of increasing employment. For construction work alone we will spend this year over $600,000,000, as compared with $275,000,000 in 1928.

If the bill in its present form becomes law, the funds to be provided must be raised either in the first instance or at a comparatively early date by long-term bond issues. The Treasury even without this burden, is already in a difficult position. A statement of the public-debt situation will make this entirely clear. There is at present outstanding a short-term debt of approximately $2,800,000,000 which under existing circumstances is already too large. On March 15 next $1,109,000,000 of old obligations mature. In June, 1932, $1,933,000,000 of first Liberty loan bonds become callable, of which $536,000,000 bear 4¼ per cent interest. In October, 1933, $6,268,000,000 of fourth Liberty loan 4¼ per cent bonds become callable. Irrespective of the desirability of retiring the $536,000,000 first Liberty loan 4¼ per cent bonds and the $6,268,000,000 of fourth 4¼ per cent Liberty loan bonds because of the high interest rate they bear, it is obvious that refunding operations must be undertaken in 1933, since it is unthinkable that $6,268,000,000 of obligations should be allowed to mature in the single year 1938. It is evident, therefore, that important refunding operations must be undertaken both in the immediate and in the near future.

On June 30 our short-term debt amounted to something over $3,000,000,000. At that time it was reasonable to anticipate that ordinary debt retirements through sinking fund, foreign repayments, and other smaller amounts, would permit the reduction of the short-term debt by about $1,800,000,000 in the 3-year period ending June 30, 1933. Present indications are that there will be no decrease in the public debt but rather an increase this fiscal year, and a very material cut in the estimated debt-retirement figures for 1932 and 1933. So that in the 3-year period the public debt will be reduced by probably not more than $800,000,000 or $900,000,000, leaving a short-term debt outstanding on June 30, 1933, of approximately $2,200,000,000.

This is altogether too large an amount in view of the necessity of making provision for the fourth Liberty loan bonds in October, 1933. At least a billion dollars should be refunded some time before that date. If to this be added $700,000,000 or more required for loans on adjusted service certificates, it becomes apparent that, leaving out of consideration the first 4¼ per cent Liberty loan bonds, it will become necessary to undertake in the course of the next 28 months, exclusive of those of March 15 next, refunding operations to the extent of $1,000,000,000, and, in addition, to raise $700,000,000 more or less of new money which directly or indirectly must be obtained through the medium of long-term securities.

Coming to the operations that must be conducted next March, if the Treasury is obliged to borrow $400,000,000 to take care of the potential loans that may have to be made until the June quarter day, the Treasury will be obliged to offer a billion and a half of securities in a single month, of which $1,100,000,000 will be of a refunding character and $400,000,000 will have to be sold to new buyers to obtain additional funds.

The Treasury wishes earnestly to call attention of the committee to the cumulative effect of all these factors which make the problem of current financing extraordinarily difficult, particularly in view of the desirability of the Government's not making too great demands upon the investment market at this time. I regret that I can not, in view of the situation explained above, approve of the Treasury assuming the obligations imposed by this bill.

I can not too urgently recommend that this measure should have reconsideration in order that it should be placed upon a basis which will not damage our whole financial position.

Sincerely yours,

W. MELLON,
*... ...y of the Treasury.*

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VETERANS' ADMINISTRATION,
*Washington, February 13, 1931.*

Hon. WILLIS C. HAWLEY,
*Chairman Ways and Means Committee,*
*House of Representatives, Washington, D. C.*

MY DEAR MR. CHAIRMAN: In compliance with your request I herewith submit a report on bill H. R. 17054.

There are outstanding in force and effect approximately 3,400,000 adjusted-service certificates with a maturity value of $3,423,000,000 and a loan value of, in round numbers, $730,000,000. The bill proposes to increase this loan value to $1,711,500,000. It is estimated that there are outstanding loans aggregating some $325,000,000, about $13,000,000 of which is held in the adjusted-service certificate fund, approximately $26,000,000 is in the hands of banks, and the remainder, or $286,000,000 is held by the United States Government life-insurance fund. Notes in the adjusted-service certificate fund may be considered as an effect, but so far as the Government is concerned, obligations in the hands of the banks and the Government life-insurance fund must not be considered for any purpose as paper which may not be presented to the adjusted-service certificate fund for redemption. There is in the adjusted-service certificate fund $771,000,000; however, there must be set aside from that sum $21,000,000, which is the probable amount, according to the American Experience Table of Mortality, which will be payable during the current year because of certificates maturing on account of death. The assets of the adjusted-service certificate fund are composed of $756,000,000 in special Treasury notes and $13,000,000 in notes secured by adjusted-service certificates, the remaining $2,000,000 being represented by accrued interest.

The number of veterans who will avail themselves of an additional loan privilege is problematical, and the amount of cash funds necessary to give effect to this bill is necessarily dependent upon the number of applicants for these loans.

Yours very truly,

FRANK T. HINES, *Administrator.*

## CHANGES IN EXISTING LAW

In compliance with paragraph 2a of Rule XIII of the Rules of the House of Representatives, changes in the World War adjusted compensation act, as amended, made by the bill are shown as follows: Existing law proposed to be omitted is inclosed in black brackets; new matter is printed in italics; existing law in which no change is proposed is shown in roman.

### LOAN PRIVILEGES

SEC. 502. (a) A loan may be made to a veteran upon his adjusted-service certificate only in accordance with the provisions of this section.

(b) Any national bank, or any bank or trust company incorporated under the laws of any State, Territory, possession, or the District of Columbia (hereinafter in this section called "bank"), is authorized, after the expiration of two years after the date of the certificate, to loan to any veteran upon his promissory note secured by his adjusted-service certificate (with or without the consent of the beneficiary thereof) any amount not in excess of the loan basis (as defined in subdivision (g) of this section) of the certificate. The rate of interest charged upon the loan by the bank shall not exceed, by more than 2 per centum per annum, the rate charged at the date of the loan for the discount of 90-day commercial paper under section 13 of the Federal reserve act by the Federal reserve bank for the Federal reserve district in which the bank is located. Any bank holding a note for a loan under this section secured by a certificate (whether the bank originally making the loan or a bank to which the note and certificate have been transferred) may sell the note to, or discount or rediscount it with, any bank authorized to make a loan to a veteran under this section and transfer the certificate to such bank. Upon the indorsement of any bank, which shall be deemed a waiver of demand, notice, and protest by such bank as to its own indorsement exclusively, and subject to regulations to be prescribed by the Federal Reserve Board, any such note secured by a certificate and held by a bank shall be eligible for discount or rediscount by the Federal reserve bank for the Federal reserve district in which the bank is located. Such note shall be eligible for discount or rediscount whether or not the bank offering the note for discount or rediscount is a member of the Federal reserve system and whether or not it acquired the note in the first instance from the veteran or acquired it by transfer upon the indorsement of any other bank. Such note shall not be eligible for discount or rediscount unless it has at the time of discount or rediscount a maturity not in excess of nine months exclusive of days of grace. The rate of interest charged by the Federal reserve bank shall be the same as that charged by it for the discount or rediscount of 90-day notes drawn for commercial purposes. The Federal Reserve Board is authorized to permit, or on the affirmative vote of at least five members of the Federal Reserve Board to require, a Federal reserve bank to rediscount, for any other Federal reserve bank, notes secured by a certificate. The rate of interest for such rediscounts shall be fixed by the Federal Reserve Board. In case the note is sold, discounted, or rediscounted the bank making the transfer shall promptly notify the veteran by mail at his last known post-office address.

(c) If the veteran does not pay the principal and interest of the loan upon its maturity, the bank holding the note and certificate may, at any time after maturity of the loan but not before the expiration of six months after the loan was made, present them to the director. The director may, in his discretion, accept the certificate and note, cancel the note (but not the certificate), and pay the bank, in full satisfaction of its claim, the amount of the unpaid principal due it, and the unpaid interest accrued, at the rate fixed in the note, up to the date of the check issued to the bank. The director shall restore to the veteran, at any time prior to its maturity, any certificate so accepted, upon receipt from him of an amount equal to the sum of (1) the amount paid by the United States to the bank in cancellation of his note, plus (2) interest on such amount from the time of such payment to the date of such receipt, at 6 per centum per annum, compounded annually.

(d) If the veteran fails to redeem his certificate from the director before its maturity, or before the death of the veteran, the director shall deduct from the face value of the certificate (as determined in section 501) an amount equal to the sum of (1) the amount paid by the United States to the bank on account of the note of the veteran, plus (2) interest on such amount from the time of such payment to the date of maturity of the certificate or of the death of the veteran, at the rate of 6 per centum per annum, compounded annually, and shall pay the remainder in accordance with the provisions of section 501.

(e) If the veteran dies before the maturity of the loan, the amount of the unpaid principal and the unpaid interest accrued up to the date of his death shall be immediately due and payable. In such case, or if the veteran dies on the day the loan matures or within six months thereafter, the bank holding the note and certificate shall, upon notice of the death, present them to the director, who shall thereupon cancel the note (but not the certificate) and pay to the bank, in full satisfaction of its claim, the amount of the unpaid principal and unpaid interest, at the rate fixed in the note, accrued up to the date of the check issued to the bank; except that if, prior to the payment, the bank is notified of the death by the director and fails to present the certificate and note to the director within fifteen days after the notice, such interest shall be only up to the fifteenth day after such notice. The director shall deduct the amount so paid from the face value (as determined under section 501) of the certificate and pay the remainder in accordance with the provisions of section 501.

(f) If the veteran has not died before the maturity of the certificate, and has failed to pay his note to the bank or the Federal reserve bank holding the note and certificate, such bank shall, at the maturity of the certificate, present the note and certificate to the director, who shall thereupon cancel the note (but not the certificate) and pay to the bank, in full satisfaction of its claim, the amount of the unpaid principal and unpaid interest, at the rate fixed in the note, accrued up to the date of the maturity of the certificate. The director shall deduct the amount so paid from the face value (as determined in section 501) of the certificate and pay the remainder in accordance with the provisions of section 501.

(g) The loan basis of any certificate at any time shall, for the purpose of this section, be an amount which is not in excess of 90 per centum of the reserve value of the certificate on the last day of the current certificate year. The reserve value of a certificate on the last day of any certificate year shall be the full reserve required on such certificate, based on an annual level net premium for twenty years and calculated in accordance with the American Experience Table of Mortality and interest at 4 per centum per annum, compounded annually.

(h) No payment upon any note shall be made under this section by the director to any bank, unless the note when presented to him is accompanied by an affidavit made by an officer of the bank which made the loan, before a notary public or other officer designated for the purpose by regulation of the director, and stating that such bank has not charged or collected, or attempted to charge or collect, directly or indirectly, any fee or other compensation (except interest as authorized by this section) in respect of any loan made under this section by the bank to a veteran. Any bank which, or director, officer, or employee thereof who does so charge, collect, or attempt to charge or collect any such fee or compensation shall be liable to the veteran for a penalty of $100, to be recovered in a civil suit brought by the veteran. The director shall upon request of any bank or veteran furnish a blank form for such affidavit.

(i) The Director of the United States Veterans' Bureau is authorized, through such officers and at such regional offices, suboffices, and hospitals of the United States Veterans' Bureau as he may designate, and out of the United States Government life insurance fund established by section 17 of the World War Veterans' act, 1924, as amended, to make loans to veterans upon their adjusted-service certificates in the same amounts and upon the same terms and conditions as are applicable in the case of loans made under this section by a bank, and the provisions of this section shall be applicable to such loans, except that the rate of interest shall be 2 per centum per annum more than the rate charged at the date of the loan for the discount of ninety-day commercial paper under section 13 of the Federal reserve act by the Federal reserve bank for the Federal reserve district in which is located the regional office, suboffice, or hospital of the United States Veterans' Bureau at which the loan is made, but in no event shall the rate of interest exceed 6 per centum per annum.

(j) For the purpose of enabling the director to make such loans out of the United States Government life insurance fund the Secretary of the Treasury is authorized to loan not exceeding $25,000,000 to such fund with interest at the rate of 4 per centum per annum (beginning on the date the check for each amount loaned to a veteran is paid by the Treasurer of the United States), compounded annually, on the security of bonds held in such fund.

(k) The disbursing officers of the United States Veterans' Bureau shall be allowed credit in their accounts for all loans made in accordance with regulations and instructions of the director.

*(l) For the purpose of this section the loan basis provided in subdivision (g) shall at no time be less than 50 per centum of the face value of the certificate, and in no event shall the rate of interest on any loan made after this subdivision takes effect exceed 4½ per centum per annum, compounded annually. If at the time of application to the Administrator of Veterans' Affairs for a loan the principal and interest on or in respect of any prior loan under this section have not been paid in full by the veteran (whether or not the loan has matured), then, on request of the veteran, the Administrator shall (1) pay or otherwise discharge such unpaid principal and so much of such unpaid interest (accrued or to accrue) as is necessary to make the certificate for available use as security for the new loan and (2) deduct the same from the then existing loan basis of the certificate.*

*(m) Loans made by the Administrator of Veterans' Affairs under this section may at his option be made out of the United States Government life insurance fund, or out of the adjusted service certificate fund created under section 505.*

* * * * * * *

SEC. 507. All amounts in the fund shall be available for payment by the [Director] *Administrator,* of adjusted-service certificates upon their maturity or the prior death of the veteran, [and] for payments under section 502 to banks on account of notes of [veterans.] *veterans, and for making loans authorized by section 502, as amended.*

The following sections of the World War adjusted compensation act, as amended, are not specifically amended by the bill, but are merely set forth in this report for the information of Members of the House:

SEC. 201. The amount of adjusted service credit shall be computed by allowing the following sums for each day of active service, in excess of 60 days, in the military or naval forces of the United States after April 5, 1917, and before July 1, 1919, as shown by the service or other record of the veteran: $1.25 for each day of oversea service, and $1 for each day of home service; but the amount of the credit of a veteran who performed no oversea service shall not exceed $500, and the amount of the credit of a veteran who performed any overseas service shall not exceed $625.

* * * * * * *

SEC. 501. The director, upon certification from the Secretary of War or the Secretary of the Navy, as provided in section 303, is hereby directed to issue without cost to the veteran designated therein a nonparticipating adjusted service certificate (hereinafter in this title referred to as a "certificate") of a face value equal to the amount in dollars of 20-year endowment insurance that the amount of his adjusted-service credit increased by 25 per centum would purchase, at his age on his birthday nearest the date of the certificate, if applied as a net single premium, calculated in accordance with accepted actuarial principles and based upon the American Experience Table of Mortality and interest at 4 per centum per annum, compounded annually. The certificate shall be dated, and all rights conferred under the provisions of this title shall take effect, as of the first day of the month in which the application is filed, but in no case before January 1, 1925. The veteran shall name the beneficiary of the certificate and may from time to time, with the approval of the director, change such beneficiary. The amount of the face value of the certificate (except as provided in subdivisions (c), (d), (e), and (f) of section 502) shall be payable out of the fund created by section 505 (1) to the veterans 20 years after the date of the certificate, or (2) upon the death of the veteran prior to the expiration of such 20-year period, to the beneficiary named; except that if such beneficiary dies before the veteran and no new beneficiary is named, or if the beneficiary in the first instance has not yet been named, the amount of the face value of the certificate shall be paid to the estate of the veteran. If the veteran dies after making application under section 302, but before January 1, 1925, then the amount of the face value of the certificate shall be paid in the same manner as if his death had occurred after January 1, 1925.

* * * * * * *

SEC. 505. There is hereby created a fund in the Treasury of the United States to be known as "The adjusted-service certificate fund," hereinafter in this title called "fund." There is hereby authorized to be appropriated for each calendar year (beginning with the calendar year 1925 and ending with the calendar year 1946) an amount sufficient as an annual premium to provide for the payment of the face value of each adjusted-service certificate in twenty years from its date or on the prior death of the veteran, such amount to be determined in accordance with accepted actuarial principles and based upon the American Experience Table of Mortality and interest at 4 per centum per annum, compounded annually. The amounts so appropriated shall be set aside in the fund on the first day of the calendar year for which appropriated. The appropriation for the calendar year 1925 shall not be in excess of $100,000,000.

The CHAIRMAN. It was thought perhaps there might be some member or members of the committee who would desire to ask questions either of General Hines or Undersecretary of the Treasury Mills in relation to the provisions of the bill. If so, opportunity is at hand now.

Senator REED. I should like to ask General Hines a few questions.

The CHAIRMAN. All right, General Hines, will you please come around and take a seat at the table opposite the committee reporter.

## STATEMENT OF BRIG. GEN. FRANK T. HINES, ADMINISTRATOR OF VETERANS' AFFAIRS, WASHINGTON, D. C.

Senator REED. General Hines, have you considered the probabilities regarding the number of veterans who would take advantage of the privilege carried by this bill?

General HINES. I have, Senator Reed.

Senator REED. What proportion of them do you think will exercise their right to borrow up to 50 per centum of the face value of their certificates?

General HINES. Well, it is my judgment that if economic and business conditions continue as they are now, over and above the men who are now borrowing, we may expect an increase of in the neighborhood of 25 per cent, of those who have not heretofore borrowed. In other words, the best experience on which to base a prediction for the future in the case of this bill, particularly in view of the fact that the interest rate has been reduced to 4½ per cent, is what has happened to us during January and February of 1931. In January of this year we have made loans amounting in round numbers to $21,000,000. February is now running at a rate based upon which we may anticipate loans of about $14,000,000 more.

Senator KING. And that will mean $34,000,000 all told.

General HINES. Yes, for the two months.

Senator COUZENS. But even at that rate it is not quite as rapid an increase as you expected, because you testified here before it was running at about a million dollars a day.

General HINES. In February it is not, but in January it was about a million dollars a day by the way of loans I estimated. The average of the previous year was about $8,000,000 per month, or around $90,000,000 for the entire year. If we were to take the same average for the rest of the month of 1931, that is, $8,000,000, for March, April, and May, and continue it on through, then we could expect under the present loan value of 22½ per cent to have to obtain about $114,000,000.

The CHAIRMAN. That is, you mean by way of increase?

General HINES. Yes.

Senator REED. Without passing this bill it would represent $114,000,000 as the increase?

General HINES. Yes. So I feel if conditions of employment continue as they are now we should be prepared to take care of 75 per cent of those that are eligible for loans. I base that upon this: That the 4½ per cent interest is going to be attractive to some veterans who have heretofore not borrowed. And the increased amount of money that will be available will attract others who have not borrowed. So that I should say that as a conservative estimate in event this bill becomes a law that you had better be prepared to take care of 75 per cent of the men.

Senator REED. That means over a billion dollars in loans, does it not?

General HINES. It would mean that 2,550,000 men could borrow $1,283,625,000. Therefore, you should subtract the amount that we have loaned now of $330,000,000, which would bring it to a point just below $1,000,000,000 if all of the 75 per cent I estimate will take advantage of it do take advantage of it.

Now, in an effort to test out that very element that you ask me about, Senator, let me say: I know a veteran who has a loan with one of the banks, $400 in amount. If this bill is enacted into law he could borrow seven hundred and some odd dollars on his certificate, and he has indicated that if the interest rate is left at 4½ per cent it will be his intention to liquidate his $400 loan at the bank, and take a loan from the Government at 4½ per cent.

Now, how many others who may be in the same or a somewhat similar situation will do that is of course more or less problematical. But we might very well estimate that a number of them would do so.

Senator GEORGE. Of course as you reduce the interest rate you increase the volume of loans.

General HINES. Undoubtedly.

Senator KING. You do what, Senator George?

Senator GEORGE. A reduction in interest rate undoubtedly results in increasing the volume of loans, was my question to General Hines.

Senator KING. Oh, yes; I see that.

Senator THOMAS of Idaho. What is this veteran paying now on his $400 loan to which you referred, General Hines?

General HINES. Six per cent.

Senator THOMAS of Idaho. Does the law authorize that?

General HINES. Yes; that is the maximum authorized by law now.

Senator COUZENS. Might I point out that that is according to the veteran an unusual degree of intelligence, when he is expected to accept a proposition of that sort, is it not, General Hines?

General HINES. Yes; but I think we may well do that.

Senator COUZENS. And when he figures the interest rate in view of the guardianship that is desired to be placed over these men by the Treasury Department.

The CHAIRMAN. General Hines, you have stated that the present interest rate is 6 per cent. That may be true in some sections of the country, but it is not rrue in a section like New York.

General HINES. That is not the interest charged by the Government.

The CHAIRMAN. I mean charged to the soldier himself. He is not now paying 6 per cent in New York.

General HINES. Well, I am not sure what they are paying to the banks in New York. He is only paying us 4 per cent in New York.

The CHAIRMAN. But the veteran is not paying the banks in New York that rate of interest.

Senator REED. If I understand the motives of the gentlemen who have been supporting this legislation, it is to relieve the distress of the veteran, but not to give him opportunities to make business ventures, or to refund loans, or things of that sort. Would it not answer that need, I mean of relieving distress, if this increase in borrowing power were given only to those who had already borrowed on their certificates? In other words, if a man has not borrowed anything under his present borrowing power it would not seem to be necessary to increase the borrowing limit in order to help any distress on his part. And it would relieve the strain upon the Government very greatly it seems to me if this additional borrowing power were only given to those veterans who have up to the present time exercised their rights in borrowing.

Senator HARRISON. But what are we going to do about the fellow who was not in distress before the present time but who is now in actual distress and needs money for the first time?

Senator REED. He has a borrowing power under the present plan of adjusted-service certificates.

Senator HARRISON. But he will be paying a high rate of interest.

Senator REED. Cut the rate of interest to 4½ per cent.

General HINES. We are averaging now on all loans on adjusted-service certificates a little below 5 per cent. But there are rediscounts in New York at the rate of 2 per cent. I think it would be a decided advantage to fix a definite rate rather than to have fluctuations in accordance with the Federal reserve rates.

Now, might I make an observation along the line of what you stated a moment ago, Senator Reed: In my judgment, if it is only the intent of the Congress to try to relieve the distress of veterans, there are two ways by which you could limit this matter and, I believe, accomplish the purpose desired; and it would probably relieve the pressure of having to raise such a large sum of money.

One way would be to limit it to those veterans who are in distress. While that is somewhat an administrative problem, I am confident that in 99 cases out of 100 the veteran's own statement would be almost sufficient to determine the factor of need.

There is another way, which probably would not be so objectionable, and that would be for payments on loans that exceed $100—and I should not attempt to go below $100—by spreading those payments out either monthly or quarterly, where the demand would be spread over a larger period.

Manifestly if you put a limitation of that kind you do two things: You reduce the amount of money that will probably be called for as a matter of loans; and you will spread, even if the amount should be large, you will spread it over a greater period and will give more time to the Treasury to raise the money.

There is one other suggestion that I desire to offer in connection with that matter: The banks are now authorized to make loans to veterans, and our records indicate, according to the best information we can get, that they have made loans and there are outstanding at this time about 140,000 loans, aggregating approximately, $26,000,000.

Four and a half per cent loans in some sections of the country to veterans may not be attractive, particularly if they have to make them for six months or a year—I mean attractive to the banks. But if you offered the banks in addition to the feature they have now of rediscounting them with the Federal reserve, the opportunity of cashing in to the Treasury at any time and not wait for default on the part of the veteran in the payment of his loan, in my judgment you would spread the facilities for making loans to veterans out over a greater area by reason of more facilities being available in the way of banks at this time, at least to carry considerable of this paper, because it is Government paper, practically call money you might say, for whenever they need the money they can get it on demand. In that way you would encourage the banks to go into the business, whereas they may not be attractive now, particularly those banks which are in the habit of getting 6 or 8 per cent, in some sections of the country, and they would be more willing to make 4½ per cent loans. These loans are going to be more attractive to banks due to the fact that they will be larger than we have offered them heretofore. Usually the amounts have been small and the banks have not been interested in lending to the veteran.

Senator REED. It would be practically a call loan of the Government's at the rate of 4½ per cent.

General HINES. That is what it would be so far as the banks are concerned.

Senator REED. And just about three times the present call rate in New York City.

General HINES. The banks when they rediscount at the Federal Reserve do it at 2 per cent, and they make 2½ per cent.

Senator REED. At the present time the banks have to wait six months after maturity to get their money?

General HINES. No. After the loan matures and the veteran fails to pay either the principal or the interest, they are then privileged to send it in to us for payment. But I feel that the larger banks do not consider that attractive business, particularly when the loans are small.

Senator GEORGE. General Hines, as I understand it, under this bill a certificate less than 2 years old would not be eligible?

General HINES. It is our interpretation that they would all be eligible.

Senator GEORGE. Is that your interpretation of this bill?

General HINES. Yes.

Senator COUZENS. I made the statement on the floor yesterday that they would not be any more eligible under this bill than under the old law, which is two years.

General HINES. I feel that the House is under the impression that they would all be eligible. Therefore, I think it ought to be cleared up by this committee.

Senator BARKLEY. I do not think that is the situation, General Hines. In talking with Members of the House on yesterday I found they were unanimous in the view that it did not apply to those less than 2 years old.

General HINES. Very well. What ever you do here will establish a precedent on it.

Senator BARKLEY. The provisions of this bill are based on subsections that do not change that.

General HINES. Well, then, there would be some question whether, if you limit it to the distressed, you would cover them all unless you did make some provision as to all veterans. Of course the number that have certificates, outside of the large group issued in 1925, is small, but there might be cases just as distressing which we could not reach.

Senator COUZENS. How many certificates have you now at less than 2 years of age?

General HINES. In round numbers, 75 per cent of the certificates were issued in 1925.

Senator COUZENS. Well, of course, a lot of time is included between 1925 and 1931. How many are less than 2 years old?

General HINES. About 100,000 certificates are not eligible.

Senator KING. And there are some who have not obtained their certificates?

General HINES. Yes, sir; but they are applying right along all the time.

Senator GEORGE. I do not concede that that would be confined to certificates over 2 years old, but I wanted your impression.

General HINES. I think it at least should be definitely settled.

Senator REED. How long may a veteran delay in applying for his certificate?

General HINES. 1935 is the last extension. It is my impression that it is your intention to take them all in eventually.

Senator HARRISON. What is your reaction to 4½ per cent compound interest as against 4½ per cent simple interest?

General HINES. We talked a good deal in the Ways and Means Committee of the House of Representatives about interest, and we purposely put it at 4½ per cent in order to keep the Government insurance fund in the business of making loans and also to make sure that the banks would at least take some of them. The difference between compound and simple interest is just the difference in the cost to the veteran.

Senator HARRISON. How much do you estimate that would be? We will say that you believe 75 per cent of the soldiers would avail themselves of this proposition, then how much would it be?

General HINES. Simple interest at 4½ per cent at 14 years is comparable to compound interest at 3½ per cent.

Senator COUZENS. May I say for the record that I had that worked out: If a veteran should borrow now $500, which is half of a $1,000 certificate, at 4 per cent, or simple interest, then in 14 years, or in 1945, he would have due him $220.

Senator KING. When you say "simple interest" do you mean payable annually?

Senator COUZENS. Not payable at all but continued. And if it were compounded annually he would have $134.16 left.

General HINES. That calculation differs a little from——

Senator COUZENS (interposing). But I am talking now about on the 4 per cent basis.

General HINES. Oh; all right.

Senator COUZENS. Now, on the 4½ per cent simple basis he would have $185 coming to him in 1945; and if compounded he would have $74.03 coming to him in 1945.

General HINES. That is right. We worked that out, that if a veteran borrowed $500 under this bill, and permitted the loan to run to 14 years, to maturity, he would have about $75 left at the end of the period.

Senator BARKLEY. Assuming that no more of these veterans would repay their loans than in the case of policyholders with life insurance companies, which is about 2 per cent I believe, the effect of this is a cash payment of one-half of the face value of the certificate, is it not?

General HINES. It is just within 2 per cent of that.

Senator COUZENS. But I desire to point out that we have no right to assume that these veterans are not going to repay their loans within the 14 years. If conditions improve, as we hope they will and as propagandists say they will, we may certainly hope that these veterans will pay up these loans, and I have no reason to think the loans will run until 1945.

Senator BARKLEY. I was basing my question on the experience of life insurance companies with their policyholders, who through borrowing privileges do not pay back loans at a greater extent than 2 per cent. I was just assuming that the same condition might be expected to exist here.

Senator COUZENS. But I do not assume that the same condition would exist, because in that case less than 10 per cent borrow, and here we are figuring on 75 per cent of the veterans borrowing.

Senator BARKLEY. But these men are more in need than those who carry voluntary insurance.

Senator COUZENS. But we hope that they will not be in need for a period of 14 years.

Senator GEORGE. General Hines, may I ask you about section 3 of this bill as it passed the House:

There is authorized to be appropriated such amounts as may be necessary * * *.

That refers to what?

General HINES. This is out of the adjusted-service-certificate fund.

Senator GEORGE. And the insurance fund?

General HINES. No; not the insurance fund. That amount comes from premiums paid in on converted insurance.

Senator GEORGE. That is not an authorization for payment out of the Treasury.

General HINES. No, sir.

Senator GEORGE. So that under this bill your loans would be limited to this fund.

General HINES. To the adjusted-service-certificate fund, and the Treasury of course would be permitted—and this is an authorization act to carry it out—to go in, if the adjusted service certificate fund did not contain sufficient money to meet the requirements of the bill, they would be authorized to go before the Bureau of the Budget and get an appropriation to carry it out.

Senator GEORGE. They would have to get from Congress an amount over and above what is in the fund? That would have to be appropriated in order to meet the demands of this bill.

General HINES. So far as the actual appropriation is concerned, it is an authorization of the fund to that extent.

Senator KING. What are the assets of that fund?

General HINES. About $771,000,000, from which we deduct approximately $13,500,000 now in the form of loans on bonus certificates.

Senator HARRISON. Does that count in the $112,000,000 we appropriated this year?

General HINES. No; that does not count that in.

Senator COUZENS. But that is not available until July 1.

General HINES. No; and it would not go into the fund until January 1 of next year. In Treasury certificates there are $756,000,000 available to be converted into cash if they are disposed of in some way. In addition to that we feel that probably $50,000,000 could be made available next year out of the converted-insurance fund, from the premium receipts of that fund, or the sale of securities in that fund.

The CHAIRMAN. Now, General Hines, if you will permit me at this time: I am in receipt of a letter from President Hoover dated February 18, 1931, which I now desire to read:

(The letter will be inserted by the clerk of the committee when furnished by the chairman.)

THE WHITE HOUSE,
*Washington, February 18, 1931.*

Hon. REED SMOOT,
*Chairman Senate Finance Committee,*
*United States Senate, Washington, D. C.*

MY DEAR SENATOR SMOOT: I have given thought to your request that I should express to you and to the Senate Finance Committee my views upon the bill passed by the House of Representatives, increasing the loans to World War veterans upon the so-called bonus certificates. In view of the short time remaining in this session for its consideration I shall comply with your request.

The proposal is to authorize loans upon these certificates up to 50 per cent of their face value. And to avoid confusion it must be understood that the face value is the sum payable at the end of the 20-year period (1945) being based on the additional compensation to veterans of about $1,300,000,000 granted about six years ago, plus 25 per cent for deferment, plus 4 per cent compound interest for the 20-year period. As the face value is about $3,423,000,000, loans at 50 per cent thus create a potential liability for the Government of about $1,712,000,000, and, less the loans made under the original act, the total cash which might be required to be raised by the Treasury is about $1,280,000,000 if all should apply. The Administrator of Veterans Affairs informs me by the attached letter that he estimates that, if present conditions continue, then 75 per cent of the veterans may be expected to claim the loans, or a sum of approximately $1,000,000,000 will need to be raised by the Treasury.

I will not undertake to enumerate all of the grounds for objection to this proposal. There are a number of most serious objections, some of which are matters of method and some of which are matters of fundamental principle affecting the future of our country and the service men themselves.

I have supported, and the Nation should maintain, the important principle that when men have been called into jeopardy of their very lives in protection of the Nation, then the Nation as a whole incurs a special obligation beyond that to any other groups of its citizens. These obligations can not be wholly met with dollars and cents. But good faith and gratitude require that protection be given to them when in ill health, distress, and in need. Over 700,000 World War veterans' or their dependents are to-day receiving monthly allowances for these reasons. The country should not be called upon, however, either directly or indirectly, to support or make loans to those who can by their own efforts support themselves.

By far the largest part of the huge sum proposed in this bill is to be available to those who are not in distress.

The acute depression and unemployment create a situation of unusual economic sensitiveness, much more easily disturbed at this time than in normal times by the consequences of this legislation, and such action may quite well result in a prolongation of this period of unemployment and suffering in which veterans will themselves suffer with others.

By our expansion of public construction for assistance to unemployment and other relief measures we have imposed upon ourselves a deficit in this fiscal year of upward of $500,000,000, which must be obtained by issue of securities to the investing public. This bill may possibly require the securing of a further billion of money likewise from the public. Beyond this, the Government is faced with a billion dollars of early maturities of outstanding debts which must be refunded, aside from constant renewals of a very large amount of temporary Treasury obligations. The additional burdens of this project can not but have damaging effect at a time when all effort should be for the rehabilitation of employment through resumption of commerce and industry.

There seems to be a misunderstanding in the proposal that the Government securities already lodged with the Treasury to the amount of over $700,000,000 as reserve against these certificates constitute available cash to meet this potential liability. The cash required by the veterans' can only be secured by the sale of these securities to the public.

The legislation is defective in that this $700,000,000 of Government securities is wholly inadequate to meet either a potential liability of $1,280,000,000 or of approximately $1,000,000,000 estimated as possible by the Administrator of Veterans' Affairs, and provision would need to be made at once for this deficiency.

The one appealing argument for this legislation is for veterans' in distress. The welfare of the veterans' as a class is inseparable from that of the country. Placing a strain on the savings needed for rehabilitation of employment by a measure which calls upon the Government for a vast sum beyond the call of distress and so adversely affecting our general situation will in my view not only nullify the benefits to the veteran but inflict injury to the country as a whole.

Yours faithfully,

HERBERT HOOVER.

The CHAIRMAN. Now, I will read the letter accompanying the President's letter, from Gen. Frank T. Hines, Administrator of Veterans' Affairs, which is dated February 17, 1931, and is addressed to the President:

FEBRUARY 17, 1931.

MY DEAR MR. PRESIDENT: You have requested that I advise you as to the estimated number of veterans who would be eligible for loans and the amount which would be borrowed on adjusted-service certificates in the event H. R. 17054 becomes a law.

When I appeared before the Committee on Ways and Means, House of Representatives, February 12, 1931, in connection with this measure, I made the following statement in reply to Congressman Ramseyer:

"* * * Based on your experience and knowledge of the ex-service men, are you prepared to make any estimate as to the increased borrowers that a bill like this would probably bring about?

"General HINES. Well, it depends a great deal, Congressman, on whether the present employment conditions are going to continue. If there is a period still of another year where unemployment is not going to improve, it would be my judgment that there would be an increase of at least 25 per cent in the men who would borrow."

In accordance with the above, it is my estimate that 2,550,000 veterans will avail themselves of the full loan value under the proposed measure, and that the total amount of such loans will be $1,283,625,000. From the amount there should be subtracted the $325,000,000 which has previously been borrowed, making a total additional amount which will be borrowed of $958,625,000, or approximately $1,000,000,000.

Respectfully,

FRANK T. HINES, *Administrator.*

The honorable the PRESIDENT OF THE UNITED STATES.

Senator HARRISON. General Hines, your letter to the President was based on the assumption that we were going to have unemployment for 12 months longer, was it not?

General HINES. Well, if present conditions, which have accelerated veterans borrowing, now change——

Senator HARRISON (interposing). But you estimated they would continue probably for 12 months.

General HINES. Yes, sir.

Senator HARRISON. And if present conditions of unemployment should continue for six months, then that estimate would be cut down considerably, would it not?

General HINES. If conditions change it will affect the numbers that will apply.

Senator HARRISON. If unemployment conditions should continue 6 months instead of 12 months, what would you consider would be the percentage of veterans who would apply?

General HINES. It would be hard to consider it in that way. Probably there would be a proportional reduction in the number of men who would apply.

Senator HARRISON. That would not be any more difficult to estimate, I mean in the case of 6 months, than in the case of 12 months, would it?

General HINES. It would certainly not be in direct proportion. You could not say that only 12½ per cent would apply, because as soon as this bill becomes a law there will be a definite number of men who will apply because they are faced with acute conditions at this time. Now, then, whether in a period of six months some of them would withdraw their applications is rather a difficult thing to say. I would say that probably six months might reduce that to 20 per cent or something along there. But your guess would be as good as mine.

Senator HARRISON. And the 75 per cent that you suggest in your letter to the President also is, of course, a mere estimate?

General HINES. Exactly.

Senator HARRISON. And it really might not be over 50 or 60 per cent?

General HINES. We know that it is over 50 per cent now. When I appeared before the committee before it was averaging 48 per cent, and it is now up over 50 per cent.

Senator HARRISON. How much over 50 per cent?

General HINES. It is about 51 per cent. And the numbers of men have increased. We were dealing then with about 1,600,000 men. We are now dealing with 1,700,000 men, and more have borrowed.

Senator HARRISON. Fifty one per cent have applied for loans when we have had this unemployment situation pretty acute.

General HINES. I should not think for two years or a year and a half many of them, well, not many of them, but 75 per cent of the outstanding certificates mature a new loan value on January 1 of this year, which was about $150,000,000 more. We can not very well tell how many men who have not heretofore taken full advantage of the $730,000,000 available, are going to come in. But we know that we are pressed now to make loans as fast as we can make them.

Senator HARRISON. Is it the interpretation of the chairman of the committee that the President would veto this legislation if it should be enacted?

The CHAIRMAN. I rather think he would.

Senator WALSH of Massachusetts. The letter would indicate it.

Senator COUZENS. What kind of a veto do you think it would be? Would it be a pocket veto or by way of a veto message?

The CHAIRMAN. Well, I have not asked the President.

Senator KING. I think it is unfair to expect the President to say whether he will veto it or not.

Senator HARRISON. I was asking the chairman of the committee what he thought about it.

Senator REED. I think a fair interpretation of the letter is that he would probably veto it if none of these faults he points out were corrected.

The CHAIRMAN. That would be my opinion.

Senator WALSH of Massachusetts. General Hines, have you any way of knowing the number of veterans who are in distress?

General HINES. No; we have not. We would have to canvass that situation.

Senator WALSH of Massachusetts. Approximately it is a small percentage, is it not?

General HINES. In my appearance before the Ways and Means Committee, and I think the same data was given to this committee, I had an estimate that those veterans out of the entire group that were probably out of employment and needed help, would represent in round numbers about 200,000 men.

Senator WATSON. Do you mean physical or financial distress, Senator Walsh?

Senator WALSH of Massachusetts. I meant in financial distress, and who have dependents who are really in need and in want.

Senator WATSON. All right.

Senator WALSH of Massachusetts. General Hines, have you given any consideration to this question being solved by caring only for those who are in financial distress, and can prove it, and by advancing to them, a limited number, a cash amount to be credited upon their certificates and not to bear interest?

Senator KING. But to be charged on their certificates?

Senator WALSH of Massachusetts. Yes.

General HINES. Yes; we had one bill in particular which was under consideration in the House, the Fish bill, which proposed to advance 25 per cent of the face value of the certificate to the men, and that that advance would be a noninterest-bearing loan on the certificate to date of maturity. The disadvantage of that plan, however——

Senator WALSH of Massachusetts (interposing). Was that plan limited to those in financial distress?

General HINES. No; it was not. That plan was open to any who might take part, and as I recall we estimated the cost would be $850,000,000 or something like that.

Senator WALSH of Massachusetts. If there are only 200,000 men who are in financial distress, or approximately that number, and we should provide for that number, furnishing proper proof of their distress, a cash advance to be credited against their certificate, of $100 to $150, would be a very comparatively small charge upon the Treasury, as compared with these other measures.

General HINES. Certainly. I think we could handle that.

Senator WALSH of Massachusetts. You think you could handle that all right?

General HINES. Yes, sir.

Senator REED. I think the answer is obvious, that it would cost between $100,000,000 and $130,000,000.

General HINES. That would in no way distrurb even the Government's insurance fund.

Senator REED. And that could be done quite easily.

General HINES. Yes, sir.

Senator BARKLEY. Do you think it quite fair to the veterans or to the Veterans' Bureau that it should be charged with the responsibility of deciding who among the veterans would need such a loan?

General HINES. I should not say it would be unfair to us to undertake any duty the Congress would assign to us. I should say that it would be somewhat of a task, but not an administrative task which we should in any way try to evade at this time. I think we would receive the cooperation of all service organizations.

Senator BARKLEY. I am not assuming that you would try to evade it. I know that you will try to perform any duty we assign to you as best you can. But wouldn't it lead to complaints among the veterans' organizations that the Veterans' Bureau was acting artitrarily, and possibly not exercising the sound discretion that ought to be exercised, in determining on the part of the Government for somebody else whether they needed this money or not?

General HINES. There would probably be some complaint, but we have a problem of that character now, in determining the dependency of parents, and of course our proposition is to receive the statement of the individual involved, and in a large number of cases it is cleared up by their own statement.

Senator BARKLEY. Would you regard a veteran who has bought a home and paid, we will say, $2,000 on it, and was unable to pay the balance, or even the interest on it, and it was about to be sold for the debt that he owed, as in a distressing situation and such as would justify a loan?

General HINES. Yes, I would.

Senator GEORGE. General Hines, if this bill passes with the 4½ per cent interest, it would have to apply to all certificates?

General HINES. That is my interpretation.

Senator GEORGE. And again you would not recommend that the 4½ per cent merely be allowed to the distressed veterans?

General HINES. No.

Senator GEORGE. In other words, you would not recommend any discrimination?

General HINES. No.

Senator GEORGE. Then the present borrowing capacity on these certificates could not be affected by any distress or lack of distress? That is, the veteran can now get 22½ per cent on them, roughly speaking?

General HINES. Yes; that is available to them right now.

Senator GEORGE. You could not bring in a proposition of distress or lack of distress so far as that loan is concerned?

General HINES. The group which under the original plan is now eligible for loans up to 22½ per cent would not be disturbed.

Senator GEORGE. Nor can you have one interest rate for a distressed veteran and another interest rate for a nondistressed veteran.

General HINES. Of course we could, but it wouldn't be a thing I would recommend.

Senator GEORGE. Therefore, it seems to me it would be very difficult to bring in any element of distress into the case on these loans, because the distress would apply to amount between 22½ and 50 per cent. And you would have increased borrowing anyway when you reduce the interest rate. You would have increased borrowing even if you did not increase the borrowing capacity.

General HINES. But we would certainly eliminate from the demand that we would have to meet those men who have not taken advantage of the full loan value of the certificates to date, or some proportion of them at least. There would be men who would think this is a good way to probably change some obligation they have, such as the example I cited, by taking up the obligation at the bank and borrowing from the Government. But this would cut it down very materially if we should undertake to pick out men in distress.

Senator GEORGE. It would cut it down, but then you would inject the element of pension into these certificates. That element was not considered or gone into in the case of these certificates.

General HINES. No.

Senator BARKLEY. How do you arrive at the figure of 200,000 veterans in distress?

General HINES. By taking the total unemployment throughout the United States and then taking the ratio of veterans to total population.

Senator BARKLEY. Do not the veterans constitute a larger number in proportion to the numbers of unemployed because of the fact that they are probably more able-bodied than the average of the population?

General HINES. I should not think so. And then you must bear in mind that out of that entire group that has been enumerated here some 785,000 veterans or their dependents, or dependent members of their families, who are in receipt of some benefits from the Government at this time. So that I believe really in the matter of a strict ratio of veterans in proportion to the general population we many not find as many of them in need among them as among others.

Senator BARKLEY. What proportion of the veterans having compensation are putting loans on their certificates already?

General HINES. Well, I do not know, but I think probably not as many who are in receipt of a reasonable degree of compensation have made loans as others who have no other way of obtaining loans.

Senator BARKLEY. Of course, the figure of 200,000 men can not be anything more than a guess.

General HINES. It is an estimate. That is all. I would not put that estimate up and say it was any better than yours.

Senator COUZENS. And of course that estimate does not include the part-time men, who are hardly able to get along.

General HINES. Those are included as employed

Senator COUZENS. I think that is one of the weaknesses of our whole census, that they do not take into consideration men who are working 1, 2, or 3 days a week. Obviously they can not get along on that basis.

Senator WALSH of Massachusetts. If we have no other questions I propose that we get along.

Senator BARKLEY. Just one minute. In addition of course there is a good deal of basis for dispute over this $771,000,000 that is in this adjusted-service certificate fund. Of course that would be actual cash if it had not been converted into short-term certificates.

General HINES. But it had to be done.

Senator BARKLEY. I understand that. And you have to reconvert that into cash so that the net difference between the value of these certificates that have been bought with the money we have been setting aside for the veterans, even if based upon the President's estimate, would be something in the neighborhood of $300,000,000 over and above the amount represented by the certificates.

General HINES. I am not sure that I understand your question. Do you mean in addition to the fund we would have to raise on the 75 per cent idea an additional $300,000,000?

Senator BARKLEY. Yes.

General HINES. That is correct.

Senator LA FOLLETTE. In arriving at the figure of 200,000 veterans unemployed, what number of unemployed in the country do you take as a basis for your calculation?

General HINES. I took 4,000,000 men as the basis.

Senator LA FOLLETTE. And your estimate is even 1,000,000 shy of Colonel Woods's estimate.

General HINES. I took 5 per cent of 4,000,000 men.

Senator BARKLEY. And that is 2,000,000 shy of the estimate made by the American Federation of Labor.

General HINES. And I think that indicates pretty well how good estimates are.

Senator THOMAS of Oklahoma. This is an amendment to the World War veterans' compensation act?

General HINES. Yes, sir.

Senator THOMAS of Oklahoma. Do you interpret the amendment as providing for a reduction of interest for the loans already made?

General HINES. This of course makes a reduction in interest prospectively. In other words, it is not retroactive. So it would take effect the next time the loan was renewed. In other words, on the anniversary of the loan, one now running at 4 per cent, for instance, when it was made, should this bill be enacted into law, the interest rate would be increased to 4½ per cent. And those loans made at 6 per cent would be reduced to 4½ per cent.

Senator THOMAS of OKLAHOMA. Suppose a veteran has a loan that he desires to carry and does not desire to take advantage of this plan, then how about his interest?

General HINES. He would pay the same interest up to the end of the note. Then he would renew it at the new rate of interest.

Senator THOMAS of Oklahoma. Mr. Chairman, Mr. Mills admitted in the House hearing that the basic part of this compensation is now due the soldier. Mr. Young, representing what might be assumed to be the substantial citizens of the country, made a similar admission. If I understand it, these soldiers who borrow their own money are required under this bill to pay 4½ per cent interest on the loans. In order that the record may be made I desire at this time to offer an amendment, and while I will not insist upon it, I think it ought to be presented at this hearing, as follows:

On page 1, line 11, after the word "annually" to strike out the period, insert a semicolon and the following proviso:

> Provided, That no interest shall be computed or collected, at any time, on any loan or on any portion of any loan corresponding with an equivalent to that portion of any adjusted-service certificate already equitably due.

That would permit soldiers to borrow money without interest.

The CHAIRMAN. We will take that up when the committee meets to consider the bill.

Senator WATSON. How many soldiers have not availed themselves of the opportunity to take advantage of the adjusted-compensation certificates?

General HINES. About 300,000.

Senator WATSON. How rapidly are they coming in?

General HINES. At the rate of about 1,100 a month.

Senator WATSON. Do you think if opportunity to avail themselves to borrow 50 per cent as provided in this bill is given that it would bring practically all of them in very quickly?

General HINES. Of course I can not tell exactly, but it would be my judgment that more would apply. I had an example the other day of a veteran who is well employed and occupies a very good position, who inquired simply because he had read of this agitation in Congress, as to how he could get his application filed for a certificate; and he said that he had not thought of it before, but that he was going to file. I imagine it would stimulate some of those who have not applied.

Senator WATSON. But of course as I understand the situation he could not borrow for two years.

General HINES. It would be my interpretation, unless you make it clear in this act, that the intent of the House was to cover all certificates outstanding.

Senator WATSON. Now or in the future?

General HINES. Yes, sir.

Senator LA FOLLETTE. I should like to ask Mr. Beaman his interpretation of that.

Senator WATSON. It is your understanding, General Hines, that that would apply to certificates now outstanding or in the future outstanding?

General HINES. Yes, sir.

Senator WATSON. So that the 50 per cent borrowing capacity would obtain?

General HINES. Yes, sir. But I think that should be cleared up in this act, so that there might be no misunderstanding.

The CHAIRMAN. Would there be an increase in applications, with an interest rate of 4½ per cent, among those who have, perhaps, borrowed from the local banks at 6 per cent, the same as now charged? If they could get that money at 4½ per cent from the Government, of course they would apply rather than pay 6 per cent at the local bank. And do you think there are very many of those?

General HINES. I am not sure how many out of the 140,000 outstanding loans with the banks are made at the rate of 6 per cent. We have no way of telling that until it is presented to us for payment. But I have a feeling that those men who calculate closely, as soon as they discover they can make a loan at 4½ per cent as against 6 per cent, would take advantage of it.

The CHAIRMAN. You would naturally think so, and you would if you were the one considering it.

General HINES. Yes; and I cited a case of a veteran here in Washington.

Senator WALSH of Massachusetts. Mr. Beaman, what is your interpretation of this language in this bill?

Mr. MIDDLETON BEAMAN (House legislative counsel). I am very definitely of opinion that under the bill as written, and the existing law, no veteran can make a loan at any time until two years after the date of the certificate. And that this law would not change that in any respect.

The CHAIRMAN. If there are no further questions to be propounded to General Hines, we will excuse him, with thanks.

(Thereupon General Hines left the committee table.)

The CHAIRMAN. Mr. Mills, do you desire to say anything in reference to this matter?

Undersecretary MILLS. Mr. Chairman, if the committee would care to have the views of the Treasury Department, I should be glad to attempt to give them. But I do not want to press myself on the committee.

The CHAIRMAN. I think it would be proper for you to present your views if you express the views of the Treasury Department.

Senator KING. Mr. Chairman, I should be glad to hear Mr. Mills.

Senator GEORGE. I think we should hear Mr. Mills.

The CHAIRMAN. Very well.

## STATEMENT OF HON. OGDEN L. MILLS, UNDERSECRETARY OF THE TREASURY, WASHINGTON, D. C.

Undersecretary MILLS. Mr. Chairman and gentlemen of the committee, I think if we would properly understand what is involved in the proposed legislation we would have to go back five or six years and consider the principles underlying the original adjusted service compensation act.

You gentlemen will remember very distinctly that there was a considerable drive behind the movement to adjust compensation by way of cash payment, and that the original bonus discussion was centered entirely on the question whether the veterans should have their compensation adjusted in cash or not, and that after mature consideration the Congress determined to settle the adjusted-compensation question by paying the veteran with a 20-year endowment policy, allowing a dollar a day for services at home and $1.25 a day for service abroad, plus 25 per cent increase for deferred payment, and the two amounts to be at 4 per cent compound interest for 20 years, thus establishing the ultimate maturity value of the endowment policy.

Now, Congress knew very well what they were doing when they settled the adjusted-service compensation in that form. They decided very definitely that it was to the benefit of the veteran to receive an endowment policy rather than cash in adjusting his compensation. And I do not think anyone will question, or has questioned, the wisdom of that decision on the part of Congress.

The Congress also provided definitely in the organic law—and it is not as has been suggested by some gentleman, that the amount of the loan value is based on regulations—it is based on the organic law. Congress gave to the veteran a loan privilege, but they limited that loan privilege in accordance with sound actuarial principles. And based on actuarial principles the loan value to-day is about $730,000,000.

I have also read in the Record that some gentlemen say that the loan value based on actuarial principles is far in excess of the amount provided for in the organic law. That misconception arises from the fact that Congress provided for the payment of an annual premium and not a single premium. And based on an annual premium the present loan value that would be allowed by the New York Life Insurance Co., for instance, is $216; and by the Metropolitan Life Insurance Co. it is $218——

Senator REED (interposing). That means per thousand.

Undersecretary MILLS. Well, that is on an original $1,000 maturity value at 34 years of age. The Prudential Insurance Co. of America would give a loan value after six years of $209; and the Mutual Life Insurance Co. of New York $216.84. While under the adjusted service compensation act it is $225.46. Showing that the Government is being more liberal than any insurance company on an annual premium basis, which is the basis provided for in the organic act.

Now, it seems to me that aside from the actuarial principle Congress had very definitely in mind the desirability of limiting the loan value so that the veteran would not exhaust the ultimate value of the certificate through borrowing or reduce the insurance value during the interim period.

What, then, do we find? We find that five or six years after the termination of hostilities, after much discussion and a great deal of consideration, the Congress of the United States definitely settled the adjusted-compensation question, and every one assumed for all time, by the adjusted service compensation act, in the form of an endowment policy with limited borrowing capacity. And I do not think that anyone has ever questioned that the terms were liberal. And I do not think that anyone has ever questioned that it was infinitely better for the veteran to receive this policy rather than cash.

I am not inclined to insist upon the actuarial end of it, because it is very obvious that there is no element of risk in loaning money on a security of the United States Government, whether there is a reserve fund or not back of it. That, I think, would be very foolish to stress.

The idea, though, that this proposed legislation very definitely reopens the whole question and goes back to the original discussion as to whether adjusted compensation is to be in the form of cash or in the form of an endowment policy, I think has good basis. Of course, what you are doing here, gentlemen of the committee, although you call it a loan, is to permit the veteran to cash in the full present-day value of his certificate. That is what you are doing. In effect you are giving him the present-day full value of his certificate in cash, and are to that extent destroying the endowment feature of the settlement.

Now, what is the justification for reopening this question? The justification is that owing to the business depression a number of veterans are in distress, a number of veterans are in need, and that under those circumstances they should be permitted to avail themselves of the security which they hold in the form of a compensation certificate, to borrow. If that is the real purpose of this bill, then, why isn't it limited to the veteran in distress? Why should it be used as a vehicle to reopen a question which we thought we had settled six years ago? Yes, and in substance go back to the original proposition of cash compensation rather than an endowment policy payment.

Now, I think from the standpoint of the veteran, from the standpoint of the original settlement, that is the real principle involved in this legislation, and I think you gentlemen ought to consider it very seriously.

Now, gentlemen of the committee, there is another side to this matter——

Senator BARKLEY (interposing). Before you get on to the other side of the matter, let me ask you a question: When we provided for the loaning of money upon these certificates in the original act, didn't we assume that from time to time it would be, to some extent at least, settled on a cash basis as this money might be borrowed? And that this simply makes it a larger cash basis, but the principle is just the same?

Undersecretary MILLS. I think you might argue that, Senator Barkley, but the plain fact is that we placed a very limited loan value on this, and I think we did it most deliberately, because we did not want them to step up to the counter next day and cash in the certificate, or a good part of it. I think you know, and we all know, that when any number of men in a matter of this kind receive their certificates, the next day they step up and borrow the full loan value, or as near as they can. In other words, they have wanted to transform it into cash rather than an endowment policy so far a they could.

Senator BARKLEY. Whatever they did, it involved the cash payment principle, which is simply enlarged in this act.

Undersecretary MILLS. I can not get away from what you propose to do here, which is to allow a man to step in to-morrow morning and get the full present-day value of his certificate in cash, irrespective of what he does to the ultimate maturity value, and irrespective of what he does to the insurance feature for the next 14 years.

Senator HARRISON. In other words, we permit him to cash in at its present value, and give him insurance just the same.

Undersecretary MILLS. Yes, but you are diminishing the insurance to the amount paid in cash plus the interest on it.

Senator HARRISON. Well, we want to give him this very relief, or at least I do.

Undersecretary MILLS. If you are going to reopen the adjusted-service certificate settlement, and that is what you are doing for you are destroying the original basis, you are departing from the fundamental principle upon which it was based. And it is not going to end here, after you have paid off the present value. I do not say that the veterans will be back next year or the following year, but some one will be back and propose: Let us pay off the remaining base value. So that long before the maturity date this whole settlement will have been wiped out, we will have paid the whole face value before it is due. That is what is going to happen once you break down the principle upon which this legislation was founded.

And what then? We fondly hoped that through war-risk insurance established during the war, and through this particular settlement effected six years after the war, and through very liberal provisions for taking care of veterans who have suffered disability, and their dependents—and we are spending this year $570,000,000 for the World War veterans—I say, we fondly hoped we would avoid the evils of the old pension system. But you whittle away this adjusted-compensation business step by step until there is nothing left, and the next step will be pensions, and when you get to the question of pensions for some 4,000,000 veterans the cost will be perfectly staggering.

It may not be the particular duty of the Treasury Department to point out certain features of the proposed legislation, but they impress themselves so forcibly on my mind, and my recollection of the discussions in the debates that led up to the original settlement are so clear, that I should not feel I was doing my full duty to this committee if I did not present these views.

Senator COUZENS. When the amount was arrived at of $500 for the veteran who remained at home and $625 for the veteran who went abroad, there was 25 per cent added.

Undersecretary MILLS. Yes, sir.

Senator COUZENS. Wasn't that 25 per cent added for the delay that occurred from 1917-18 to 1925?

Undersecretary MILLS. I do not think so. I never heard that suggestion made until this bill came up.

Senator COUZENS. It is quiet reasonable to expect that that was one of the things Congress had in mind when it did it, is it not?

Undersecretary MILLS. Well, it would have been reasonable if the Congress had provided that interest should be paid to those receiving $50 cash, or if Congress had provided that an interest should be paid in the case of the veteran who had died on the amount paid to his beneficiary. And yet Congress did not do either one of these two things. The Congress provided that when the amount due to any one man was $50 or less he should receive cash and they did not add interest from 1918 to 1925. And they provided that if a veteran died before the adjusted compensation act became a law, the wife or mother or any dependent of his should receive the value of his adjusted compensation but without interest, and without the 25 per cent step up. That clearly indicates to me that the 25 per cent increase was for the deferred payments from 1925 to 1945 rather than from 1918 to 1925.

Senator COUZENS. May I ask you to assume for the sake of the argument that this 25 per cent was added for the purpose of compensating the veteran for the delay from 1917 to 1925, then what percentage would that have been on the adjusted compensation?

Undersecretary MILLS. If I understand your question, the original credit was $1,320,000. And if you take out 25 per cent of that you would have an additional $357,000,000.

Senator COUZENS. But I mean, what percentage would that be, assuming that the man was entitled to his $500 when he was assumed to have earned it during the war, and then you added 25 per cent up to the time of the adjusted compensation act, what percentage would that have been on his $500?

Undersecretary MILLS. That would have been a period of six years, and you would have it figures at 5 per cent, would you not?

Senator COUZENS. Somewhere between 4 and 5 per cent.

Undersecretary MILLS. All right, between 24 and 25 per cent.

Senator COUZENS. So it would not be extravagant if we assumed that when we put on the 25 per cent we were paying him interest from the time be began to earn it until we gave him the money.

Undersecretary MILLS. No. We could have done that, but I do not think we did.

Senator HARRISON. We did write into the law a cheap form of insurance by these annual appropriations. Suppose in 1925 the Government had made the appropriation and put it in the fund, and had given them a policy on the proposition of a flat single premium, then with respect to the old line insurance policies they would be permitted now to borrow more than 50 per cent, and would be permitted to borrow about 53 per cent, isn't that true?

Undersecretary MILLS. I have seen that statement made, and I no not question it.

Senator HARRISON. You do not controvert it?

Undersecretary MILLS. No.

Senator KING. However, the borrowing feature reduces the insurance in the final maturity of policy, if you do exercise your borrowing privilege.

Undersecretary MILLS. Now, it seems to me clear that if we want to maintain the principle of the original law and not break it down completely, we ought to limit this to the men who really need it, and I am sure that the Treasury Department would be willing to go that far.

Senator THOMAS of Oklahoma. As to the requirements imposed by this bill, if a veteran makes application for a loan isn't it fair to assume he is in distress?

Undersecretary MILLS. I do not think so. My information is that any number of them cash in to the full extent of the loan value the very first day that they can.

Senator GEORGE. You inject the question of need into it. Isn't it your opinion that that will break down the whole scheme, and that not more than two Congresses will pass by before the whole law will be wiped out?

Undersecretary MILLS. I do not think so. I think the one appealing argument back of this proposal is need. If there had not been a business depression I do not think you gentlemen would be considering this bill this morning.

Senator GEORGE. Well, I do not think you would have to wait more than one more Congress for that.

Undersecretary MILLS. Assuming that there are 300,000 veterans out of work, does it make sense to increase the borrowing value of 3,400,000 veterans in order to help 300,000? If this is a relief measure, and I have not heard any argument other than that, do we have to increase the loan value on 3,400,000 certificates in order to reach 300,000 men?

Senator GEORGE. But the very minute you put that distinction in, you are going to have Congress acting upon the whole thing in my judgment.

Undersecretary MILLS. Well, I believe just as firmly as you do that if Congress passes this bill it is just the beginning of the end of the adjusted-service certificates.

Senator GEORGE. That may be, but the end will come the more swiftly if you put your other statement in it.

Senator HARRISON. General Hines states that about 75 per cent of these people will apply for this loan, and on the assumption that the unemployment situation as we have it now will continue 12 months longer. You do not anticipate it is going to extend 12 months longer, do you, Mr. Mills?

Undersecretary MILLS. I hope not.

Senator HARRISON. But you do not believe that it will, do you?

Undersecretary MILLS. I do not believe in trying to play the rôle of prophet.

Senator HARRISON. And if it should just continue six months longer it will very materially reduce the estimate?

Undersecretary MILLS. I should assume that if we had a gradual business pick-up, and any number of these men now out of work would go back to work, the need would rapidly disappear. But that would not do away with the temptation on the part of the active, resourceful, fellow to borrow money at 4½ per cent and try to make some money with it. I think the average veteran with gumption would go in and borrow because he would figure he could do better with this money than the Government could do with it for him. And the average veteran without gumption would borrow anyhow.

Senator HARRISON. Assuming that the unemployment situation continues for six months instead of 12 months, and that the percentage of applications would decrease from the 75 per cent estimate, do you think the passage of this proposition then would greatly affect the physical structure of the Government?

Undersecretary MILLS. Well, that is the second phase of the question that I desire to take up. There are two phases of this question, and one is, what we would like to do, and the second question is, what can we afford to do. Now, I will say, perfectly frankly, that any difficulty we can afford to find money to take care of the veterans who are in need so that they may borrow on their certificates. I say that without hesitation, that the Treasury can find money to carry out the real purpose of this bill without doing any harm to the public finances or the general economy of the country.

But I say if you ask us to go beyond the real purpose of this bill, that is, to relieve the veteran in need, and give to every veteran an opportunity to borrow up to the full amount, which is $1,712,000, then according to General Hines' figures you are creating a more difficult situation for the Treasury, and will possibly do harm to the business of the country. And I will try to make my reasons clear for that statement.

Senator HARRISON. But no one contends that every veteran is going to make application for a loan.

Undersecretary MILLS. No; but you have heard General Hines say it might run up to $1,000,000,000, and I do not believe that it can go below $550,000,000. I think that is the minimum of new funds that will have to be provided.

Senator BARKLEY. But that would not even consume all of the securities represented in this $771,000,000 of accumulated certificate fund.

Undersecretary MILLS. Senator Barkley, it is not a question of whether those securities are adequate to take care of this proposal or not. This is a cash proposal, and the problem of the Treasury is to get the cash. That is our only problem.

Senator BARKLEY. I understand that, and you have to reconvert these securities into cash.

Undersecretary MILLS. Yes; and so far as the fund is concerned it will be just as well invested in loans to veterans.

Senator COUZENS. Before you leave that point, I should like to ask you if under this bill you could spend any more than the amount in this fund? In other words, there is no authorization to go to the Treasury under the bill.

Undersecretary MILLS. I do not think so, but others think differently.

Senator COUZENS. I do not see anything in the bill to authorize you to go to the Treasury. I can only read it as saying that you have the right to go to the insurance fund.

Senator REED. But it would have to be followed up by an appropriation.

Senator COUZENS. And there won't be any appropriation at this session of Congress, because we estimate that this will be adequate for the time being.

Undersecretary MILLS. Well, I should hate to see the Congress create a potential liability of over a billion dollars and only create $771,000,000 to cover it. Let us not create a liability upon the part of the United States Government and not provide means to complete it.

Senator BARKLEY. Based on the history of loans in the Veterans' Bureau, over what period might we expect that these borrowings would be spread? My understanding has been that all this money would not have to be paid at once, that it would probably be spread out over a period of a year or more, so that it does not bring up an immediate demand on the Treasury for even that amount which would likely be required ultimately.

Undersecretary MILLS. You would help us very much if it were not provided for all to be paid at one time but in monthly installments.

Senator BARKLEY. I am not speaking of the individual veteran borrowing that way, but based on past history and assuming that all might take advantage of it to the full extent, yet it would be spread out over a year or more and not be a sudden obligation.

Undersecretary MILLS. Let me show you our problem, Senator. This is strictly a Treasury problem, and we have to take care of the maturity of $1,100,000,000 on the 15th of March, and irrespective of this proposed legislation we will probably have to borrow an additional $100,000,000 for ordinary purposes for the Government in view of the fact that we have a deficit this year. So we probably will have to borrow no matter what you gentlemen may do here to-day, $112,000,000 on the 15th of March.

Senator REED. That is $1,200,000,000.

Undersecretary MILLS. Yes, sir. You mean that we have to raise and that we have to borrow within the next three months?

Senator REED. Yes.

Undersecretary MILLS. We have outstanding this year $2,000,000,000 of short-term paper. That is too much. In June we have $1,900,000,000 of first Liberty loan that becomes callable, and $500,000,000 of these bear 4¼ per cent interest, and clearly the $500,000,000 ought to be called. In October, 1933, we have $6,250,000,000 of fourth Liberty loan bonds that become callable, and they all bear 4¼ per cent interest. It is desirable to reduce that as rapidly as possible through refunding operations because of the high interest rate. But leaving the high interest rate out of consideration, we have to begin disposing of these bonds in 1933, because we can not allow so many securities to mature in one year.

Therefore, it is clearly indicated that we have very heavy refunding operations to undertake within three weeks. We have another operation six months from now, and we have a very large operation, indeed, two and a half years from now. We have, as I have stated, $2,800,000,000 of short-term paper outstanding now. At the beginning of this fiscal year it was not unreasonable for us to suppose that in the course of the following three years; that is, up to June 30, 1933, through ordinary debt reduction we would be able to dispose of $1,800,000,000 of that short-term paper, at the rate of $600,000,000 a year, which would have left us with a short-term debt at the time the fourth Liberty loan becomes callable of approximately a billion dollars, provided we undertook in addition to that some refunding operations in the meanwhile.

Now, then, it is perfectly apparent we are not going to reduce the debt this year by $600,000,000. In fact, we are going to increase the public debt this fiscal year, and are not going to reduce the public debt by anything like $600,000,000 as we had the right to hope we would do, nor next year. My guess is that we will be very lucky if in the 3-year period we reduce the public debt by a total of $600,000,000. And unless we do some refunding of short-term debts, in addition to what I have already discussed, we will have two billions of dollars of short-term debt on hand in October, 1933, together with $6,250,000,000 of fourth Liberty to be handled. And $2,000,000,000 of short-term debt means that every quarter tax payment date has absolutely failed by $500,000,000, and the Treasury then would find itself in a very embarrassing situation.

Now, what is the conclusion to be derived from this statement: That irrespective of the $1,200,000,000 to be obtained on March 15th, the Treasury during the course of the next two and a half years must turn a very large proportion of its short-term debt into long-term securities, and must do so under conditions when your public debt is not being reduced and is actually being increased. So that even without this proposed legislation we are confronted with a most difficult problem of financing, the most difficult problem of financing that the Treasury has faced in 10 years.

Senator BARKLEY. Mr. Mills, have you any doubt that you can refund all these debts to which you have referred and at a lower rate of interest than they now bear?

Undersecretary MILLS. Oh, no; because a good part of the short-term debt we have obtained at a very low rate of interest. There is a plenty of short-term money right now, but the market for long-term securities is by no means so good. In fact, up to the first of the year it was very bad. But investors have been responding and with the turn of the year a fairly good bond market started to develop in New York, and Government bonds showed real strength. And then this whole proposition came along, and since then the Government market has been decidedly weak.

Senator BARKLEY. Let me ask you one other question: Speaking about inability of the Treasury to retire the public debt by $600,000,000 this year and next year——

Undersecretary MILLS (interposing). I did not catch your question.

Senator BARKLEY. Referring to your statement that the Treasury may not be able to retire the war debt by $600,000,000 this year and next year.

Undersecretary MILLS. It won't retire any part of it this year, and we will actually increase it.

Senator BARKLEY. Assuming that the Treasury did not pay a dollar of the debt for five years and started over again where we are now, you would still pay the debt sooner than Congress intended when we passed the refunding act.

Undersecretary MILLS. Well, when they created a sinking fund, do you mean?

Senator BARKLEY. Yes.

Undersecretary MILLS. Well, I do not think the Congress knew then, because nothing whatsoever had been done at that time in reference to the foreign debt. My guess is that when the sinking fund was established in 1918 the Congress was still under the impression we would collect our debts in full, and that the debts our Government owed would be retired much faster.

Senator BARKLEY. Assuming that Congress intended that the debts should be retired in that orderly fashion, in accordance with the sinking fund, then you could skip a 5-year period and still be no worse off than Congress intended when it passed the law.

Undersecretary MILLS. I do not think that is true. I think the Congress in fact thought we would be able to pay our debt off, based on the foreign debt, quite quickly. I think in 1918 it was thought that all paper which we had received from foreign governments was good and would be paid 100 cents on the dollar, and that it was only four or five years later when we discovered that that was fond delusion.

Senator KING. Senator Barkley, we would have to pay the initial interest on the debt, whereas if we applied $600,000,000 annually it would reduce the principal and thus reduce the interest.

Senator THOMAS of Idaho. Mr. Mills, you are operating the Treasury with a deficit this year, are you not?

Undersecretary MILLS. Yes; of not less than half a billion dollars.

Senator THOMAS of Idaho. And you are likely to operate it next year with an increasing deficit?

Undersecretary MILLS. Not with an increasing deficit, but the immediate probabilities are that there will be a deficit.

Senator THOMAS of Idaho. With our increased appropriations in Congress somebody has to pay them.

Undersecretary MILLS. Yes, sir; and we are getting it both ways up at the Treasury, in that appropriations are going up, and tax collections are coming down.

Senator THOMAS of Idaho. Do you think it good business to operate the Treasury on an increasing deficit?

Undersecretary MILLS. No; I do not. I think we are perfectly justified in doing it this year, when it was absolutely sound under the circumstances to borrow money rather than raise taxes. But it is perfectly obvious that you can not do that indefinitely.

Senator COUZENS. You said a while ago you had $2,800,000,000 of short-term obligations out, and that that was entirely too much. How did it get out if it is too much?

Undersecretary MILLS. Well, it got out largely through refunding the second and third Liberty loans. We refunded $5,000,000,000 of high-interest-bearing securities in 1927 and 1928 and put out short-term paper.

Senator COUZENS. Why did you put out too much?

Undersecretary MILLS. We did not put out too much under the conditions existing. We were retiring the public debt reasonably well, and if we retired the debt according to the sinking fund and the foreign payments of principal, we would have carried out our schedule without any hitch. On the other hand, if instead of reducing your debt by $600,000,000 you are actually faced with a deficit of half a billion dollars, your whole picture changes over night. And that is what has happened to the Treasury.

Senator COUZENS. When this error in judgment occurred——

Undersecretary MILLS (interposing). I have not so described it at all, Senator Couzens. On the other hand, I think it is one of the finest jobs that has been done, retiring $5,000,000,000 of high-interest-bearing securities in 18 months. I think that is a very fine performance indeed.

Senator COUZENS. Well, I agree with you.

Undersecretary MILLS. We put out 3 per cent notes, and we disposed of them in an orderly way without affecting ordinary conditions. But we have run into a condition where there is a substantial deficit. And we will pull out of that difficulty if you will leave us alone.

Senator COUZENS. Well, we will not call it an error of judgment.

Undersecretary MILLS. No; and I will feel happier if you do not.

Senator COUZENS. What I am trying to get at is that changed business conditions have brought you to the point where you have too much short-term obligations.

Undersecretary MILLS. We have in view of the early call feature of the fourth Liberty loan. That is the real problem.

Senator COUZENS. When you put $2,800,000,000 of short-term paper out you anticipated economic conditions would continue, and that it would not be too much, is that it?

Undersecretary MILLS. Yes; but even if there had been a fall in economic conditions we would not be in any trouble.

Senator HARRISON. How much as a whole have you refunded Treasury certificates?

Undersecretary MILLS. Since the war?

Senator HARRISON. Yes. It is about $17,000,000,000, is it not?

Undersecretary MILLS. Well, I will have to get the statement to tell you.

Senator HARRISON. I think you made the statement some time ago that it was about $17,000,000,000. Do you find anything different in the financial soundness of the Government now than it was in November of last year?

Undersecretary MILLS. Oh, well, as to the financial soundness of the United States Government, that is always good.

Senator HARRISON. I noticed an interesting article you wrote in November of 1930 for the New York Times, where you discussed all the debts and gave praise to the Treasury Department for its wonderful refunding processes.

Undersecretary MILLS. I thought I just let the facts speak for themselves. Did I paint the lily? [Laughter.]

Senator HARRISON. Is it any different now from then, when you said this:

> The maturity schedule is well balanced and under such degree of control as gives necessary flexibility, while the Treasury possesses the necessary instrumentalities through which current financing can be carried on with the maximum of efficiency and economy.

Undersecretary MILLS. That is so. I stand by that.

Senator HARRISON. And that is true to-day, is it not?

Undersecretary MILLS. It is not as flexible as it was. And the factor as I see it which is much more difficult than it was in November, we have written down our revenue estimates a substantial amount.

Senator BARKLEY. The $500,000,000 deficit represents the substantial amount by which we have relieved agriculture, has it not?

Undersecretary MILLS. No; I do not think that the Farm Board has been quite as expensive as you think.

Senator REED. Have we relieved agriculture?

Senator BARKLEY. You have been furnishing it.

The CHAIRMAN. The money has been spent, anyhow.

Undersecretary MILLS. I should like to say one other thing: How does this bill affect the immediate prospects? In view of General Hines's estimate, even assuming that you need only $100,000,000 a month, you would have to have a margin for it. It seems to me if this bill goes through we would not——

Senator KING (interposing). You mean if it goes through in its present form?

Undersecretary MILLS. Yes. That we would not start the March quarter safely with less than $400,000,000 on hand. And as you know our system is to bill on March 15 to carry the Government through until June 15.

Senator WATSON. Do you think this will necessitate the issuance of bonds?

Undersecretary MILLS. I will point that out to you. We will have to borrow $400,000,000 more on March 15 in order to take care of these loans, and I have not heard anyone suggest that they will run less than a million dollars a day. And on March 15 we will borrow $1,600,000,000, and $1,100,000,000 of it will be a refunding proposition, and $500,000,000 of it will be new money. That means we will have to go to the reinvestment market for half a billion dollars right now. With a weak bond market, and with the inevitable tendency to look at the bond market as a means of furnishing funds for the initial stages of business recovery, it is plain common sense that the Government ought to keep out of the security market at the present time if it can.

But when we come to meeting this situation, and if you will limit it to veterans in distress, and if you will give us a chance to take care of it over a 10-month period, we will do it as a part of our current financing, and we will not disturb the market situation.

I think you could take care of every veteran that needs it with $200,000,000, and if you will do that you can meet the real purpose of this bill, and we will undertake to find funds for you without in any way disturbing conditions. It won't be easy, and while it will add to our difficulties, the Treasury says to you it can be done.

But if you ask us to provide $400,000,000 for the next three months, and then another $400,000,000 for the quarter beginning June 15, 1931, I say you are going to ask the Government to tap the savings of the country in March and June for the purposes of these loans, and that that will have an adverse effect on the bond market, and an adverse effect in my judgment on business resumption.

The CHAIRMAN. Does the committee desire to report this bill out to-day?

Senator COUZENS. I think we should.

The CHAIRMAN. Then we will have to close the hearings at this time.

Senator WALSH of Massachusetts. I should like for the representatives of the veterans' organization to comment on this House bill.

The CHAIRMAN. Very well, if the committee wishes that done, we will hear them. Where are they?

Senator REED. I imagine after it was indicated that the committee intended to go into executive session they must have departed.

The CHAIRMAN. Then we will go ahead with our executive session.

Senator BARKLEY. I should like to ask that this letter from the national commander of the American Legion addressed to the chairman of the committee be made a part of the record.

(The letter referred to is as follows:)

FEBRUARY 17, 1931.

Hon. REED SMOOT,
*Washington, D. C.*

The present legion interest in adjusted-compensation legislation is inspired by the plight of veterans and their families in need through unemployment and drought. The Senate problem from the viewpoint of the American Legion is to take immediate action on this legislation.

May we ask you, as chairman of the finance committee, that your committee immediately report a bill, and your help in securing a law within the next few days will be greatly appreciated.

We would not urge legislation that would place a financial burden upon our country, but we are convinced that a law can be enacted that will not be burdensome and yet give substantial relief.

Thanking you for your help,

RALPH T. O'NEIL,
*National Commander American Legion.*

The CHAIRMAN. The committee will now go into executive session.

(Thereupon, at 11.45 a. m. the doors were closed and the committee proceeded as an executive session until 12 o'clock noon, when an adjournment was had.)

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