PUBLIC DEBT ACT OF 1942

HEARINGS

BEFORE THE

COMMITTEE ON FINANCE
UNITED STATES SENATE

SEVENTY-SEVENTH CONGRESS

SECOND SESSION

ON

H. R. 6691

A BILL TO INCREASE THE DEBT LIMIT OF THE UNITED STATES, TO FURTHER AMEND THE SECOND LIBERTY BOND ACT, AND FOR OTHER PURPOSES

MARCH 13 AND 16, 1942

REVISED

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PUBLIC DEBT ACT OF 1942

FRIDAY, MARCH 13, 1942

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

The committee met at 10:30 a. m., pursuant to call, in room 312, Senate Office Building, Senator Walter F. George (chairman) presiding.

The CHAIRMAN. The committee will come to order.

Mr. Secretary, the committee will be very glad to hear you on H. R. 6691, an act to increase the debt limit of the United States.

(The bill H. R. 6691 is as follows:)

[H. R. 6691, 77th Cong., 2d sess.]

AN ACT To increase the debt limit of the United States, to further amend the Second Liberty Bond Act, and for other purposes

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That this Act may be cited as the Public Debt Act of 1942.

SEC. 2. Section 21 of the Second Liberty Bond Act, as amended, is further amended to read as follows:

"SEC. 21. The face amount of obligations issued under the authority of this Act shall not exceed in the aggregate $125,000,000,000 outstanding at any one time."

SEC. 3. Section 20 of the Second Liberty Bond Act, as amended, is further amended to read as follows:

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

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

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

SEC. 4. Section 19 of the Second Liberty Bond Act, as amended, is further amended to read as follows:

"SEC. 19. Any obligations authorized by this Act may be issued for the purchase, redemption, or refunding, at or below maturity, of any outstanding bonds, notes, certificates of indebtedness, Treasury bills, or savings certificates of the United States, and any money received from the sale of such obligations or any other money in the general fund of the Treasury may, under such rules, regulations, terms, and conditions as the Secretary of the Treasury may prescribe, be used for such purchase, redemption, or refunding."

SEC. 5. The authority of the Postmaster General contained in section 6 of the Act of June 25, 1910, as amended (U. S. C., 1940 edition, title 39, sec. 756), and section 22 (c) of the Second Liberty Bond Act, as amended, to prepare and issue postal-savings cards and postal-savings stamps shall terminate on such date as stamps issued by the Secretary of the Treasury pursuant to the authority contained in section 22 (c) of the Second Liberty Bond Act, as amended, are made available for sale to the public; and, as soon as practicable thereafter, the Board of Trustees of the Postal Savings System shall pay to the Secretary of the Treasury a sum equal to the redemption value of all postal-savings stamps outstanding; and after such payment has been made the obligation to redeem such stamps shall cease to be a liability of the Board of Trustees of the Postal Savings System but shall constitute a public debt obligation of the United States.

SEC. 6 Section 4 of the Public Debt Act of 1941 (Public, Numbered 7, Seventy-seventh Congress, first session), is hereby amended to read as follows:

"SEC. 4. (a) Interest upon obligations, and dividends, earnings, or other income from shares, certificates, stock, or other evidences of ownership, and gain from the sale or other disposition of such obligations and evidences of ownership issued on or after the effective date of the Public Debt Act of 1942 by the United States or any agency or instrumentality thereof shall not have any exemption, as such, and loss from the sale or other disposition of such obligations or evidences of ownership shall not have any special treatment, as such, under Federal tax Acts now or hereafter enacted; except that any such obligations which the United States Maritime Commission or the Federal Housing Administration had, prior to March 1, 1941, contracted to issue at a future date, shall when issued bear such tax-exemption privileges as were, at the time of such contract, provided in the law authorizing their issuance. For the purposes of this subsection a Territory, a possession of the United States, and the District of Columbia, and any political subdivision thereof, and any agency or instrumentality of any one or more of the foregoing, shall not be considered as an agency or instrumentality of the United States.

"(b) The provisions of this section shall, with respect to such obligations and evidences of ownership, be considered as amendatory of and supplementary to the respective Acts or parts of Acts authorizing the issuance of such obligations and evidences of ownership, as amended and supplemented.

"(c) Nothing contained herein shall be construed to amend or repeal sections 114 and 115 of the Revenue Act of 1941."

Passed the House of Representatives March 10, 1942.

Attest:

SOUTH TRIMBLE, *Clerk*.
By H. NEWLIN MEGILL.

STATEMENT OF HON. HENRY MORGANTHAU, JR., SECRETARY OF THE TREASURY, ACCOMPANIED BY DANIEL W. BELL, THE UNDER SECRETARY OF THE TREASURY, AND LAWRENCE J. BERNARD, ASSISTANT GENERAL COUNSEL

Secretary MORGENTHAU. Mr. Chairman and gentlemen, the bill H. R. 6691, now before you for consideration, would raise the limitation on the power of the Treasury to issue public debt obligations under the Second Liberty Bond Act, as amended, from $65,000,000,000 to $125,000,000,000, and provides greater flexibility to enable the Treasury to conduct its war financing operations. I am glad to have this opportunity to discuss with this committee the situation with respect to the public debt.

It is urgent that this bill be promply enacted. The balance of our borrowing authority at the end of February 1942 was about $1,400,000,000. By the end of March it is anticipated that the borrowing authority will be insufficient to cover the debt issues that will be required during the month of April.

In February 1941 I appeared before your committee in support of a bill to increase the total borrowing authority from $49,000,000,000 to \$65,000,000,000. It appeared at that time that a limitation of \$65,000,000,000 would be sufficient to enable the Treasury to finance the estimated deficit in the Budget until the end of the present fiscal year and provide some margin. But we could not foresee then that we would be engaged in a war that would require our all-out effort. Our defense program at that time amounted to approximately 28½ billion dollars in appropriations, contract authorizations, and recommendations. The war program now exceeds \$140,000,000,000, exclusive of commitments by governmental corporations.

The 1943 Budget submitted to the Congress early in January indicates that the deficit for the current fiscal year ending next June 30 will amount to \$18,600,000,000 and, in addition, that the Treasury will be required to advance to governmental corporations approximately \$3,000,000,000 to finance their activities. On the basis of these estimates the public debt on June 30, 1942, will amount to \$70,600,000,000.

The estimated deficit in the fiscal year beginning July 1, 1942, after taking into consideration contemplated additional budgetary revenues of \$7,000,000,000 from new tax legislation, will amount to \$35,400,000,000 We will also be required to raise \$4,400,000,000 for governmental corporations, principally to meet defense expenditures by the Reconstruction Finance Corporation. The estimated increase in the public debt for the fiscal year beginning July 1, 1942, based on these estimates, will thus be \$39,800,000,000 and leave us with a public debt on June 30, 1943, of \$110,400,000,000.

While these figures are huge in amount, they are made necessary by the great task to which the Congress and the American people have dedicated themselves, namely, the task of winning this war. Whatever the cost may be we are ready to face it. We are strong enough to bear it, and we know that it will be worth it in the end. As I have suggested before, our production of overwhelming quantities of war materials, an effort that makes this debt necessary, should frighten no one but our enemies.

The bill before you proposes certain changes which are needed in order to facilitate the Treasury's financing operations in addition to the increase in the debt limitation. Briefly, these are as follows:

1. The Secretary of the Treasury would be authorized to issue Treasury marketable securities on a discount basis or on a combination interest-bearing and discount basis. At the present time we have authority to issue regular marketable securities on a discount basis only if the maturity date is not more than 1 year after their date of issuance. We also have authority to issue savings bonds on a discount basis. But this additional authority would give the Treasury more flexibility and permit it to design its issues to conform more closely to the investment requirements of particular classes of purchasers.

2. The Secretary of the Treasury would be authorized to accept in his discretion in payment of any taxes imposed by the United States any obligations of the United States which are redeemable upon demand of the owner. This, in effect, can now be accomplished by the holder of such demand obligations turning them in to the Treasury and getting the cash and then using the cash to pay taxes. The new authority would simplify the procedure and would make it more convenient to the taxpayer.

3. The Secretary would be authorized to offer any new Treasury obligations in exchange for outstanding obligations of any agency or instrumentality of the United States which are guaranteed by the United States as to both principal and interest. The Treasury has taken over all the financing of the various governmental agencies which formerly issued marketable guaranteed obligations and now provides them with funds by purchasing their securities. We are also in process of refunding the outstanding guaranteed obligations of these agencies into Treasury securities, but in view of the language of the various statutes under which guaranteed securities are issued, it is now necessary to refund them indirectly by purchasing the guaranteed security and selling the holder a Treasury security. This proposed amendment would simplify these operations and permit us to offer Treasury securities directly to the holders of these guaranteed obligations in exchange for such obligations, in the same manner as Treasury securities are now refunded.

4. The Postmaster General would be authorized to transfer the liability for outstanding Postal Savings stamps to the Treasury and his authority to issue such stamps would be terminated as of the date when the Treasury makes Treasury savings stamps available to the public under section 22 of the Second Liberty Bond Act, as amended.

5. The Postmaster General would be authorized to transfer the liability for outstanding Postal Savings stamps to the Treasury, and his authority to issue such stamps would be terminated as of the date when the Treasury makes Treasury savings stamps available to the public under section 22 of the Second Liberty Bond Act, as amended. The Treasury will then assume the liability for redeeming such outstanding stamps and such stamps will become a public-debt obligation.

When we initiated our present Defense Savings program last year we deemed it advisable to utilize the facilities of the Postal Savings System because it was already issuing savings stamps and had the facilities for immediately carrying out an expanded program. The question is now often raised by the purchaser of Postal Savings stamps as to whether the funds thus provided go into the Treasury for the purpose of helping to pay for the national defense. Of course, such funds do come into the Treasury and they are available for that purpose, but it is sometimes a little difficult for the purchaser to understand. In view of the fact that the Defense Savings program is carried on in the Treasury, I believe that it would clarify the whole program if we could eliminate Postal Savings stamps and issue instead Treasury savings stamps. It would only introduce confusion if the Treasury issues its stamps at the same time the Postal Savings System is selling stamps. These new stamps would also be sold through post offices as well as other agencies. The Postmaster General concurs in this proposed change.

6. A provision is included to remove the tax-exemption privileges on income from shares of stock issued by Federal agencies and instrumentalities which were inadvertently omitted from a similar provision in the Public Debt Act of 1941. This would put these shares of stock on the same basis as obligations issued by the United States and by its agencies as provided in the act enacted last year.

With this enlarged borrowing program before us, it is necessary more than ever that the Treasury exert every effort to obtain its funds from the current income of the people. We have, therefore, materially expanded our campaign to sell Defense Savings bonds. Since last May 1, when the present Defense Savings bond program was inaugurated, we have received approximately $4,300,000,000 in cash through the sale of these securities. Up to December 1, just prior to the attack on Pearl Harbor, the sale of these securities averaged about $300,000,000 a month. In the month of December we sold $500,000,000, in the month of January over a billion dollars, and in the month of February approximately $700,000,000. The American people are responding splendidly to our efforts to place these securities in the hands of the real investing public. Within the past few months we have inaugurated a plan for voluntary pay-roll deductions to purchase savings bonds. Many business institutions have already adopted such plans, and the number is increasing each week. At the present time more than one-half of all persons working in trade and industry have this method for buying savings bonds available to them. It is hoped that within the course of the next few weeks practically all businesses will have adopted these plans.

The Treasury has a tremendous program ahead of it. No one appreciates the magnitude of our problems better than those of us in the Treasury. We are facing the facts squarely, and we are working continuously in our endeavor to finance the war program as much as possible from current savings in order that our fiscal operations may be a positive force in winning the war and in preventing inflation.

Senator BYRD. Mr. Secretary, would you see any objection to an amendment to make the debt limit inclusive of the debts that have been created by Government corporations where they are totally owned and guaranteed?

Secretary MORGENTHAU. Well, in that case we would have to have a different figure, Senator Byrd, than the $125,000,000,000.

As Mr. Bell points out, as these various guaranteed obligations fall due we refund them and assume that obligation, but there are considerable outstanding.

Senator BYRD. If you can assume them, there would be no objection then to such an amendment, would there?

Secretary MORGENTHAU. May I ask just a minute to think this over?

The CHAIRMAN. Yes.

They are assumed to be absorbed under the limitation of this bill, is not that correct?

Mr. BELL. They will be.

Secretary MORGENTHAU. What we are doing, Senator George, if, for instance, the R. F. C. or Commodity Credit Corporation have some obligations coming due, we pay them off in cash and then issue Treasury obligations in their place.

Gradually, we are assuming them. It will take about 5 years.

Senator VANDENBERG. Does that include the H. O. L. C. bonds, for instance?

Mr. BELL. Yes, sir.

Secretary MORGENTHAU. All of them.

Senator VANDENBERG. What happens in connection with an H. O. L. C. bond which now also has property behind it? What becomes of the collateral when you assume the obligation?

Mr. BELL. The collateral is still held by the Government.

Senator VANDENBERG. But it ceases to be behind the security?

Mr. BELL. Well, it is owned by the Home Owners' Loan Corporation, and the Government owns all the assets of that Corporation.

Under the terms of the bond at present no reference is made to collateral behind it, but it is there in effect.

Senator VANDENBERG. It is there in effect, behind the whole obligations of the Government?

Mr. BELL. Yes, sir.

Senator VANDENBERG. Instead of that particular obligation?

Mr. BELL. That is right; yes.

Senator TAFT. You list 7.4 billion dollars as the amount that you are going to loan these Government corporations during the present and next fiscal, 3 billion dollars in the 1942 fiscal year, and 4.4 billion dollars in the 1943 fiscal year. Of that 7.4 billion dollars, how much is refunding and how much is new money going to these corporations?

Secretary MORGENTHAU. Excuse me. We have not answered Senator Byrd as to whether we had any objection to his amendment.

The CHAIRMAN. Senator Byrd raised the question, Senator Taft, of an amendment, which has not yet been answered by the Secretary.

Secretary MORGENTHAU. Would you mind waiting just a moment, Senator Taft?

Senator TAFT. This would give you the figures that would enable you to determine it. I was leading up to the same thing.

Mr. BELL. The 1943 Budget includes refunding operations in the fiscal year 1942, that is the curernt fiscal year, amounting to $362,-000 000, and in the fiscal year 1943, $885,000,000.

Then we will have to raise new cash for these corporations in the fiscal year 1942 of $2,657,000,000 and in the fiscal year of 1943 of $3,483,000,000.

Senator TAFT. Then after you have refunded this $1,247,000,000, how much more is outstanding that is going to have to be refunded?

Mr. BELL. $4,500,000,000.

Senator TAFT. $4,500,000,000 in addition to what is refunded; is that correct?

Mr. BELL. That is outstanding in the market, and we own at the present time $2,100,000,000.

Senator TAFT. In addition to the $4,500,000,000?

Mr. BELL. Yes, sir.

Senator TAFT. I was just interested in what was outstanding.

Mr. BELL. To get it straight, Senator Taft, there is outstanding now $5,700,000,000, of which we will pick up $1,200,000,000 within the next year.

Senator TAFT. So, if we suppose that the 125-billion-dollar limit included this, it would reduce your leeway by 4.5 billion dollars by the end of the 1943 fiscal year; is that correct?

Mr. BELL. Yes, sir.

Senator TAFT. In other words, 129.5 billion dollars would be equivalent to 125 billion dollars?

Mr. BELL. Yes, sir. That is right. I might point out, though, that there is already a limitation on the authority of each one of the corporations to borrow money.

Senator BYRD. All I am trying to do is to have the corporation debts included in the public debt. Of course, it has assets, I know that; but, as a matter of fact, it is a debt of the United States Government because these corporations are wholly owned and the obligations are wholly guaranteed by the Treasury.

I am not concerned about the limitation on the debt; you may make it $130,000,000,000; but, as a matter of bookkeeping, I think it ought to be included in the public debt.

Secretary MORGENTHAU. If you increase the limitation to $130,000,000,000, we would have no objection to the amendment.

Senator VANDENBERG. Mr. Secretary, speaking of these corporations, in the earlier part of your statement you say, "The war program now exceeds $140,000,000,000, exclusive of commitments by governmental corporations."

Do you have the figure inclusive of commitments by governmental corporations?

Secretary MORGENTHAU. I will ask Mr. Bell to answer that.

Mr. BELL. No; we have not. We can get it, Senator Vandenberg, and put it in the record.

(The information is as follows: "The total war program as of this date is approximately $150,000,000,000.")

Senator VANDENBERG. Let me ask you then about the net result of all this arithmetic. Apparently we are going to have a deficit of between $21,000,000,000 and $22,000,000,000 for the fiscal year ending June 30, 1942, including what you have to furnish the Government corporations. The same figure in 1943 is approximately $40,000,000,000. You are only selling Defense bonds at the maximum rate of a billion dollars a month.

Secretary MORGENTHAU. Yes.

Senator VANDENBERG. Where are you going to get the rest of the money?

Secretary MORGENTHAU. Well, the rest of the money we will have to get from other kinds of owners of money, people who have surpluses in their businesses, who are not in the defense business, States, and so forth. Some of the States have expressed an interest in investing their surplus funds, if they could get the kind of security that fits their needs.

Senator VANDENBERG. Was it the purpose of this recent amendment to the war powers bill, allowing you to route your bonds straight from the Treasury to the Federal Reserve bank, in anticipation of the need that the banks will have to assume the larger share of this debt?

Secretary MORGENTHAU. No.

Senator VANDENBERG. How much of the debt is in the banks now?

Mr. BELL. About $22,000,000,000 in the commercial banks.

Senator TAFT. And about $2,000,000,000 in the Federal Reserve?

Mr. BELL. Yes; about 2.25 billion dollars.

Secretary MORGENTHAU. Not to leave any possible misunderstanding from my testimony, what we cannot get from the people's savings, after we have used every legitimate means to attract the savings and earnings of people to invest in the Government securities, when we have exhausted all of that then we have to go to the banks.

Senator TAFT. Unless you impose a compulsory savings plan. That would be one alternative.

Secretary MORGENTHAU. That would be an alternative.

Senator VANDENBERG. Are you satisfied that the existing arrangement will suffice to provide the necessary reservoir for these funds?

Secretary MORGENTHAU. Senator Vandenberg, as far as I can see as of today, I can do the job.

Senator CLARK. Mr. Secretary, as a practical matter, what useful purpose does this debt limit serve under modern conditions?

We all know we are going to have to appropriate money as necessary for the conduct of the war, and everybody knows in order to do that you are going to constantly approach the debt limit, and whenever you do that, Congress is going to raise the debt limit. What is the use of having a debt limit at all? Does it serve any practical purpose?

Secretary MORGENTHAU. I think it is a legal way to do it.

Senator CLARK. I always had great reverence for the debt limit, but in recent years we have always changed it whenever it was necessary to appropriate more money.

Senator VANDENBERG. It provides a revenue rendezvous for the Congress and the Secretary.

Secretary MORGENTHAU. It is always a useful and pleasant rendezvous.

Senator VANDENBERG. Some day the war will be over.

Mr. Secretary, I am seriously interested in that problem. When you confront a prospective debt of $40,000,000,000 in the next fiscal year and you are only selling bonds at the maximum rate of $12,000,000,000 a year at the present time, it leaves a pretty serious gap, and if you are forced into the banks it seems to me you are forced squarely in the jaws of inflation.

Secretary MORGENTHAU. Not necessarily. After all, Senator, how we borrow the money is important.

The less we go to the banks, the more desirable it is from every standpoint.

Supposing we even got all our money from the banks, with the machinery that Congress has set up to control inflation, we, in the Treasury, regardless of how we borrow and how we tax, cannot control the entire inflation situation. After all, it gets down to that. It is variously estimated that the so-called gap between what we can produce for civilian consumption and the amount of money that the people will have in their pockets is somewhere between eleven and fifteen billion dollars. The question is: What are you going to do with the 15 billion—taking the top figure?

Certainly, through rationing, or, in the case of automobiles, the complete stoppage of the manufacture of automobiles, the complete stoppage of the manufacture of radios, you can go a long ways toward controlling inflation, through means completely outside of the Treasury.

Senator VANDENBERG. I understand that. That detours a little from the main theme I was pressing.

Secretary MORGENTHAU. I did not mean to detour you.

Senator VANDENBERG. It is my fault because I threw in the inflationary thought. With this $40,000,000,000 gap in the next fiscal year and only private Defense bond sales of $12,000,000,000 a year maximum at the present time, it seems to me you are confronted with a perfectly terrific responsibility with respect to the remainder. I am wondering if you are fully satisfied that we should not be exploring other means to obtain these funds.

Secretary MORGENTHAU. Well, Senator, after all, the thing you are talking about—how we borrow and how we tax—is my principal job and responsibility. We have made as intelligent studies as we know how. They change from day to day. We have estimated how much the people earn, how much they will save, how much they can spend, and this thing has been going on for almost a year in the Treasury. We consult all the other Government agencies, to get the benefit of their advice and help, and consult private industry, to get the benefit of their advice and help, and the program which we recommended or brought to the attention of the Ways and Means Committee, and hope soon to bring to this committee, if it passes approximately along the lines we recommend, for the next fiscal year, I think I can do the job, and if I cannot I will come up here and say so.

Senator VANDENBERG. In the final analysis, if I can just make this concluding observation, I think it is terribly important in the post-war psychology, that this debt should be in the hands of the American people instead of in the hands of banks.

Secretary MORGENTHAU. I agree with you.

Senator VANDENBERG. I think almost any device that produces that net result is justified.

Secretary MORGENTHAU. Now just to give you an example, on our voluntary pay-roll deduction plan, which we are working very hard on, over 72 percent of all the companies in the United States employing 500 or more people have now got the plan in, and we hope, within another month or two, they all will have it in.

Senator BROWN. Mr. Chairman, I have a question that I would like to ask the Secretary.

The CHAIRMAN. Yes, Senator Brown.

Senator BROWN. I was in Detroit, where a good deal of defense work is going on, and I find considerable discussion about this means of adding to the Defense bond purchases. The idea is to take all overtime pay on Government contracts and pay it in the form of nonnegotiable Defense bonds. Has the Treasury given any thought to that idea?

Secretary MORGENTHAU. That suggestion has been made, Senator, and we are considering it. I do not know whether you have in mind a voluntary plan or a compulsory plan.

Senator BROWN. I talked it over with some manufacturers and I talked it over with some of the labor people, and without binding themselves as to their opinion, I might say that it met with a very favorable response from both sides. In other words, the labor leaders think that such a plan might be acceptable to the men generally. It would be a considerable amount.

Secretary MORGENTHAU. Yes.

Senator BROWN. And it would certainly reduce the purchasing power which is highly desirable, and at the same time it would materially increase the money available to the Treasury from the various sources from which it comes.

Senator CLARK. It would also have the effect of keeping fellows from working a few hours at overtime wages and then laying off the rest of the day when they would be on regular wages.

The CHAIRMAN. It is highly important that there be no overtime in the war except through necessity.

Senator TAFT. What percent do you now deduct under the voluntary plan? Does that vary with each man? Do they do it voluntarily?

Secretary MORGENTHAU. Oh, yes; it is a truly voluntary plan.

Senator TAFT. It runs from 1 to 10 percent?

Secretary MORGENTHAU. Something like that; yes.

Senator VANDENBERG. Of course, your social-security taxes tend to impinge on that plan.

Secretary MORGENTHAU. It might have an effect on it, but I do not know.

The CHAIRMAN. Mr. Secretary, I express the hope that the Treasury will not entirely disregard the suggestion which I made to the tax people in the Department, just on this point and that is that every taxpayer be allowed a deferred deduction against his net taxable income, of a limited percent, of course, provided that it be placed in bonds, securities that bear no interest until after the war, and then to be repaid in annual installments at a very low rate of interest, the whole thing to be taxed; that is, the principal then to be taxed as a capital gains at the top percent. That would offer a fair inducement to every taxpayer to put a part of his earnings in bonds. I think it would be worthy of very serious consideration.

Secretary MORGENTHAU. I will be glad to look into it and study it.

The CHAIRMAN. It might tend to meet some part of the gap that Senator Vandenberg has in mind between borrowings, taxes, and debt.

Secretary MORGENTHAU. I will be glad to study it, Senator.

Senator BYRD. Mr. Secretary, do you anticipate making any use, more than you already have, of the Federal Reserve System in the disposing of these bonds?

Secretary MORGENTHAU. Only in this way; of course, as you know, we use them as our final agents. Also the Open Market Committee of the Federal Reserve has separate authority to keep the money market stable. We cooperate very closely with them and they with us.

Senator BYRD. They own 2.5 billion now?

Mr. BELL. 2.25 billion.

Senator BYRD. Now, you have no plans that would contemplate a very large expansion of the activity of that agency at this time?

Secretary MORGENTHAU. No; our plans are to concentrate everything that we can on the savings of the country, to use every legitimate means to make it attractive to the people who are working and getting in defense industries to invest their savings with us.

Senator BYRD. Suppose this gap is 28,000,000,000 and it would be impossible to sell that to the country in addition to the 12,000,000,000 that you are already selling, would you then resort to selling it to the Federal Reserve System?

Secretary MORGENTHAU. Frankly, I have not thought about it.

Senator BYRD. That would be inflationary; would it not?

Secretary MORGENTHAU. It would be, Senator, if you do not mind my saying it, in the way we have been taught to think of inflation, but there are so many other ways today of controlling inflation, that just through borrowing from the banks, in itself, would not necessarily cause inflation, because it is a question of what you do with your money. If the goods are not there to buy, why the prices cannot go up.

Senator BYRD. Do you mean that the Federal Reserve System would pass the bonds on to the banks, or would they issue certificates and pay for the bonds that way?

Secretary MORGENTHAU. They could buy our bills, or our certificates or our bonds. We work the thing out, over and above. We will go to the banks—and I must say that this past year, in our campaign with savings banks, the banks have been simply grand. They shoulder the entire expense of the handling of this thing.

Senator BYRD. I am not speaking of the banks themselves, I am speaking of the Federal Reserve System.

Secretary MORGENTHAU. Oh. Right now our plans do not include asking the Federal Reserve System at this time to buy securities.

Senator BYRD. I am asking this for my own information.

This 2.25 billion dollars of bonds, how did the Federal Reserve System get the money to pay to the Federal Government for the purpose of these 2.25 billion dollars of bonds?

Mr. BELL. They bought those bonds in the market, Senator Byrd. I think what you are thinking of is the authority under the war powers bill to buy directly from the Treasury. That is only intended to be used in an emergency.

Senator BYRD. I understand that. I would like to know how this money comes into existence. Does the Federal Reserve System issue certificates in order to purchase bonds from the Federal Government in this particular instance, 2¼ billion dollars?

Mr. BELL. You mean to pay for them?

Senator BYRD. To pay for them: yes.

Mr. BELL. No. They could, of course, issue currency to pay for them. What they do, if they buy from a given bank in the market, why, they just credit that bank's reserve account, or they could give them currency, or they could give them a draft, either one, to pay for them.

Senator BYRD. They do not issue currency?

Mr. BELL. They could. If the bank from which they purchase it wanted currency, of course.

Senator TAFT. The total assets of the Federal Reserve System are how much? They are greatly in excess of 2¼ billions, are they not?

Mr. BELL. Oh, yes.

Senator TAFT. Mr. Secretary, I understand when you testified on the Second War Powers Act, you stated that the Treasury had no intention whatever of permanently selling bonds directly to the Federal Reserve Bank, but only wanted the power to tide over days of particular emergency, or perhaps bad war news, or something. I assume, after that was taken care of, the Federal Reserve Bank again would get rid of those bonds, so they would be in a position to help you again the next time. That was the policy at that time?

Secretary MORGENTHAU. That was the policy at that time, and it was not changed.

Senator VANDENBERG. Does the Treasury object to the $5,000,000,000 limitation that the House wrote in the war powers bill in respect to the right to buy direct from the Treasury?

Secretary MORGANTHAU. Not if it is a revolving fund.

Senator BYRD. If the Federal Reserve System should issue currency to purchase bonds from the Treasury, would not that be a long step toward inflation?

Mr. BELL. Yes; that would be inflationary, but all we would do, Senator Byrd, would be to do that in an emergency.

Assume that we had an issue in the open market and some crisis would come, and we could not sell that issue, the Federal Reserve might pick that up until the crisis had passed.

Senator BYRD. What I wanted is an opinion.

If currency was issued in large quantities to purchase the bonds by the Federal Reserve System, that would be inflationary?

Mr. BELL. Yes; that would be inflationary.

Senator TAFT. In fact, if you issue bonds to the Treasury in large amounts, they could only pay for them by issuing currency, so it would be almost a direct issue of paper money by the Federal Government?

Mr. BELL. Yes.

Senator TAFT. Mr. Chairman, may I ask one question in connection with Senator Byrd's amendment?

I notice this 125 billions applies only to the Second Liberty Bond Act. Is there any borrowing power by the Government outside of the act and Government corporations?

Secretary MORGENTHAU. No.

Senator TAFT. If we would include Government corporations, that would include all Government borrowing?

Mr. BELL. Yes, sir.

Senator TAFT. May I ask one other question about this section 19?

I do not quite understand the purpose of the amendment dealt with in your paragraph 4 amending section 19. Is that intended to give the Treasury the power to buy its own bonds on the open market, a power that it has not now got?

Mr. BELL. In 1934, Senator Taft, Congress amended the authority under the Second Liberty Bond Act, to give us that power.

As a matter of fact, we have exercised that authority under that amendment, but it is a little ambiguous.

Senator TAFT. One of the purposes for which you can issue bonds is the purchase of other bonds, if you have the power to purchase other bonds which you are doing now, as you say.

To confer direct power on the Treasury to buy its own bonds on the open market at any rate it sees fit, is not that a duplication of the Federal Reserve banks' power to buy and sell on the open market?

Mr. BELL. They can do it, but we also want that authority, because, generally when they are in the market, we are with them. We will go "50–50."

Senator TAFT. What I am doubtful about, this business of buying and selling Treasury Government bonds on the open market, whether two different departments of the Government should have the power to do that. This seems to give the Treasury unrestricted power to go out and buy and sell Government bonds in any amount it sees fit from the banks. That business of buying and selling on the open market is practically a control of bank inflation.

I just wonder if two different departments ought to have the same power, whether somebody ought not to have the supreme power to say whether the Government should buy and sell bonds on the open market.

Secretary MORGENTHAU. Well, what we have been doing in the last year or two with the Federal Reserve was when they have been going into the market, why we have gone in with them jointly.

We have been operating with them jointly on this thing. If they buy a million dollars worth of bonds, we take a half million of that.

Senator TAFT. What is the purpose of that?

Ought not there to be a consolidated control of that policy?

The Federal Reserve bank, for instance, can only buy on the open market under the orders of the Federal Reserve Open Market Committee, on which there are seven members of the board and five bankers. That restriction was imposed because it was thought that was the best way to control the open-market purchasing.

If we come along with this section, the Federal Reserve Open Market Committee might as well be thrown out the window, because the Treasury could buy it whether they approved it or not.

Secretary MORGENTHAU. I think this, Senator; I think in time of war and under these conditions, there has to be one person in an executive position who is responsible for raising the money. There cannot be two.

Senator TAFT. Of course, this is not directly raising the money if we are buying the Government bonds. In fact, it is costing money to do that, instead of raising money.

Secretary MORGENTHAU. Yes; but it has a direct effect on the money rate.

Senator TAFT. You mean you want full power to manipulate the Government bond market in any way you see fit for the benefit of the war program?

Secretary MORGENTHAU. I would not state it that way but, in effect, that is what it amounts to. I do not believe in these times in pulling my punches. I have to do this thing under the capitalistic system and profit system. It is as difficult a job as anybody ever had and, in order to do that, I would like to have the legal authority to do it, and I am willing to stand on my 8 or 9 years in the Treasury without abuse of that power.

Senator TAFT. Would it not be a franker way to do it, more convenient, to say during the period of the war the Secretary of the Treasury shall direct the Federal Reserve Board on what power they shall have?

Secretary MORGENTHAU. No; that is not necessary, because again being very frank, they recognize my responsibility, and within their legal responsibility, they are willing to cooperate.

Senator TAFT. May I ask whether there was a statement somewhere—I did not think it was accurate—that this was to be used in connection with this power, the Second War Powers Act, that the money to buy these bonds on the open market was to be, in effect, borrowed from the Federal Reserve banks under the power of the Second War Powers Act, to borrow the money from the Federal Reserve bank and go ahead and buy bonds on the open market? Was that a mistake? I assume it was.

Secretary MORGENTHAU. That is a mistake, and I again stand on my record.

Senator TAFT. That was on the ticker, or some news report.

Secretary MORGENTHAU. I have been there for 8 years. When you are dealing with money it is a question of confidence. I think I have been fortunate enough so far that I have had the confidence of the financial community. If I did anything like you suggest, I could lose it overnight, and I want to keep it.

Senator TAFT. What I am a little bit concerned about—and this is a permanent change here—is the fact, when you had the Federal Reserve Bank Board amendments, the Congress deliberately took the Secretary of the Treasury off the Board, Congress deliberately went about making the Federal Reserve Board an independent agency of the Government.

Now, I have a feeling that it ought to be confined to wartime, and there ought not to be a permanent change in the whole relationship of the Treasury and the Federal Reserve Board.

Secretary MORGENTHAU. Well, as far as I know, there is no complaint that I have had from the Federal Reserve Board that they, in the first place, object to the present relationship between the Treasury and the Federal Reserve.

As I say, I think any statement or promise that I make for the future is not nearly as important as what I have or haven't done in the last 8 years.

Senator TAFT. I was only questioning whether this should be just a wartime policy, as to whether any changes you make ought to be confined to the period of the war.

The CHAIRMAN. Any other questions?

Senator DANAHER. Just one, Mr. Chairman, if I may.

The CHAIRMAN. Yes, Senator Danaher.

Senator DANAHER. Mr. Secretary, turning again to that same section 4, how much would you be limited if the language in lines 6 and 7 on page 3 were taken out, the alternative clause commencing with the word "or," "or any other money in the general fund of the Treasury"? How serious a limitation would that be on your proposed operations under section 4, as amended, if we were to take out the language "or any other money in the general fund of the Treasury"?

The CHAIRMAN. Where is that language?

Senator DANAHER. Page 3, lines 6 and 7.

The CHAIRMAN. You are reading from the bill?

Senator DANAHER. Yes; I am.

Secretary MORGENTHAU. Will you give me a minute, please?

Senator DANAHER. Of course.

Mr. BELL. The only thing that would do, as I see it, Senator Danaher, would be to confine us to the proceeds of the sale of Government securities.

Senator DANAHER. That is right.

Mr. BELL. That is money that goes into the general fund, such as taxes and other receipts, that is commingled. We do not separate it. I do not see where it would hamper our operations a lot. During these times we always have the proceeds from sales of Government securities in the general fund.

Senator TAFT. If you take it out it would more or less imply that you would only buy over a brief period as you sold. I mean it would be used as a method to deliberately go out and reduce the Government debt.

Mr. BELL. That certainly would not be wrong, would it? We have that authority under the statute of 1881 and when there is surplus money in the Treasury, the Secretary can go out and buy securities at any time at any price. This clarifies section 19 of the Second Liberty Board Act, only. He can do it at any time, and all it amounts to in effect is the refunding of the outstanding debt, that is all it amounts to, and it puts him in the position where he can go on the market on the most favorable basis.

Senator TAFT. Would you say after y‹ ı have bought in these bonds you can reissue the same bonds, or does that terminate them?

Mr. BELL. That terminates them. They are redeemed.

Senator TAFT. Any action you took under this section, if you redeemed those bonds it would terminate them and you would have to issue other bonds?

Mr. BELL. Very definitely.

Senator VANDENBERG. I would like to ask this further question, Mr. Secretary. Your statement says, "The war program now exceeds $140,000,000,000 exclusive of commitments by governmental corporations."

Are your deficit figures based on the assumption that the entire $140,000,000,000-plus will be expended within these 2 fiscal years?

Secretary MORGENTHAU. It will have to be.

Mr. BELL. No; no.

All we are spending in this fiscal year is $24,000,000,000, and in 1943 is $53,000,000,000, and we spent over $6,000,000,000 in 1941, so that out of the program you have got about $83,000,000,000.

Senator VANDENBERG. So, looking ahead, you are only figuring on the Government's reaching a tempo where it spends $77,000,000,000 out of this $140,000,000,000 that has already been dedicated to the war effort; is that right?

Mr. BELL. We figure $83,000,000,000 or $84,000,000,000.

Senator VANDENBERG. That is plus what has already been spent?

Mr. BELL. That was in the $140,000,000,000 program that began in June 1940.

Senator VANDENBERG. This is based on about a 50-percent expenditure of the appropriations?

Mr. BELL. Well, the $140.000,000 figures include appropriations, contract authorizations, and recommendations pending before the present Congress.

Senator TAFT. It was estimated in the Senate the other day that that $140,000,000,000 would run to the 1st of January 1944.

Senator VANDENBERG. What I am getting at is the debt increase which we are now authorizing only represents about one-half of the expenditures of the money we have already authorized for the war effort.

Mr. BELL. That is right.

Senator VANDENBERG. So there is not any question as to where we will go on this debt limit after we get through with this little coroner's jury.

Mr. BELL. We contemplate that that will take us up to June 30, 1943, and we will be back then for another hearing.

Senator VANDENBERG. And then you contemplate in June 1943 there will still be about $60,000,000,000 of the present authorization to take care of, to say nothing of what we think of in between?

Mr. BELL. That is right; yes, sir; plus whatever additional taxes you want to levy at that time to take care of that addition.

Senator DANAHER. Mr. Chairman, statement V of these Summary statements is a statement of obligations of corporations and credit agencies guaranteed as to principal and interest as of February 28, 1942. Could this be supplied for our record, that it may be incorporated in full?

Mr. BELL. Yes, sir.

Senator DANAHER. I would like to ask permission, then, that statement V appear in the printed record at this point. It will be supplied by Mr. Bell.

The CHAIRMAN. Very well.

(The statement referred to follows:)

V. Obligations of corporations and credit agencies guaranteed as to principal and interest as of Feb. 28, 1942

[In millions of dollars]

Corporation or agency	Limit of authority	Outstanding obligations [1]		
		Total	Matured [2]	Unmatured
Commodity Credit Corporation	$2,650.0	$701.1	$0.1	$701.1
Federal Farm Mortgage Corporation	2,000.0	953.5	16.4	937.1
Federal Housing Administration	[3] 4,300.0	20.5	.1	20.4
Home Owners' Loan Corporation	[4] 4,750.0	2,415.3	6.4	2,408.9
Reconstruction Finance Corporation	[5] 8,873.1	1,492.0	.4	1,491.5
Tennessee Valley Authority	[6] 61.8			
U. S. Housing Authority	[7] 800.0	114.2		114.2
U. S. Maritime Commission	[8] 200.0			
Total	23,634.9	[9] 5,696.6	23.4	5,673.2

[1] Exclusive of obligations owned by the Treasury.

[2] Funds have been deposited with the Treasurer of the United States for payment of all obligations guaranteed by the United States, representing outstanding matured principal amounting to 23.4 million and interest of 2.4 million.

[3] Limit of authority to insure mortgages. This amount may be increased by $1,000,000,000 upon approval by the President. Debentures may be issued and tendered only in exchange for insured property acquired through foreclosure.

[4] The Corporation was authorized to issue bonds for an amount not to exceed $4,750.0 millions to be exchanged or sold to obtain funds for financing home mortgage loans or for the redemption of any of its outstanding bonds. Its authority to make loans expired on July 13, 1936, and the above limit may only be increased for the purpose of retiring its outstanding bonds by an amount equal to the amount of the bonds to be retired, which would not affect the net amount outstanding after June 13, 1936.

[5] Includes all amounts of outstanding loans and commitments under indefinite authorizations.

[6] Exclusive of $8,300,000 issued on the credit of the United States and held by the Reconstruction Finance Corporation.

[7] The limit of $800,000,000 on the amount of issues may be increased only by the amount of the issues for refunding purposes.

[8] Limit which may be outstanding at any one time with respect to the insuring of mortgages and the issuance of debentures.

[9] The total amount of assets of these corporations and agencies is in excess of the total amount of liabilities, including obligations guaranteed by the United States.

NOTE. Figures in this statement have been rounded to the nearest tenth of a million and will not necessarily add to totals.

See statement VI for status as of Jan. 31, 1942.

Senator BYRD. As I understand it, the corporations are authorized to contract obligations to the extent of $23,000,000,000.

Senator DANAHER. $23,634.9 million.

Senator VANDENBERG. You mean that is in addition to the $140,000,000,000?

Senator DANAHER. Yes.

Senator VANDENBERG. So that makes it over $160,000,000,000. How much is that?

Senator DANAHER. $23,634.9 million.

Senator VANDENBERG. So it is really $163,000,000,000 that we are now committed to?

Senator TAFT. This is only authority to borrow; this is not the proposal that that be borrowed.

Senator VANDENBERG. That is bad enough.

Mr. BELL. And many of these corporations are now limited to refunding, such as the Home Owners' Loan Corporation. Its business is liquidation.

Senator DANAHER. These were not Treasury obligations anyhow. These were what Congress authorized.

Senator BROWN. Mr. Chairman, I, for one member of the committee, would be unwilling to vote for the present amendment without hearing from the Government agencies that are involved. I am fairly familiar with the Commodity Credit. I had a good deal to do with the Commodity Credit, as some members of the committee know, and the Reconstruction Finance Corporation. We are dealing with a subject matter upon which I do not think the views of Senator Byrd and the Treasury should be final. I think if we are going into that subject matter, we should find out what those who operate these corporations think about it.

Senator TAFT. Mr. Chairman, may I just answer that?

Senator BROWN. I was not quite through.

Senator TAFT. Go ahead.

Senator BROWN. If you will pardon me for a moment.

Senator TAFT. Go ahead.

Senator BROWN. We are dealing with financial operations of corporations that have very considerable assets of their own. I recognize that the R. F. C. in recent years has departed considerably from the principle which was originally laid down, that is, making only such loans on which they had a reasonable assurance of repayment, but some very major part of their operations are bona fide banking transactions in which their money is used over and over again.

I do not know just what effect the Byrd amendment will have on it. If Senator Byrd would propose that the Treasury list the contingent obligations of the Government, I would not have the slightest objection to that. That is what they are, in the main.

If Commodity Credit could sell out today, as was stated on the floor of the Senate the other day, there would not be a nickel lost to the Government of the United States. They have got ample assets to cover every dollar that they owe the R. F. C. or Treasury, or whatever agency it is that they do owe this money to.

I do not suppose it would be conceded that there is an actual loss in the R. F. C. today, although I cannot make that statement with the same confidence as I can with respect to the Commodity Credit. To mix this thing up with the general debt limitation, when these are not debts and are not obligations in the main which the Government will ever have to pay, it seems to me somewhat illogical.

The CHAIRMAN. May I ask, Senator Byrd, have you offered an amendment, Senator?

Senator BYRD. Yes, sir.

(The amendment referred to follows:)

On page 1, line 7, after the word "Act", insert the following: "and the face amount of obligations issued by any agency or instrumentality of the United States which are unconditionally guaranteed as to principal and interest by the United States."

Senator TAFT. Mr. Chairman, may I point out that the Treasury has already declared a policy that they will not permit these Government corporations to borrow from the public, that they must go to the Treasury and borrow it.

Senator BROWN. We authorized additional R. F. C. capital the other day with which the Treasury has nothing to do.

Senator TAFT. I will ask the Secretary if I am not correct that the Treasury has, in effect, told these corporations that if they want any money outside of what they have got they must go to the Treasury and borrow it from the Treasury and not from the public. Is not that a correct statement?

Secretary MORGENTHAU. No. I do not operate like that.

Senator TAFT. Well, in effect, is that not true?

Secretary MORGENTHAU. There is a fundamental difference, Senator Taft. The calling up, the consulting with these people, and saying, "In order to accomplish the job which the President has given me to borrow this money, would it be agreeable to you, gentlemen?" That is quite a different thing.

Senator TAFT. After it was agreeable, you issued a press release saying that was the policy of the Government hereafter, did you not?

Secretary MORGENTHAU. I announced it to the press, but each head of each one of these agencies had ample time to consider it and they were glad to have me do it for them, because we are able to borrow the money for them cheaper than they could borrow it for themselves.

Senator TAFT. Mr. Chairman, what I want to point out is I think that is a very wise policy, and the effect of the Byrd amendment is to incorporate it directly into legislation. That in effect, the Treasury limit shall include these other corporations.

I see no particular reason why the Treasury should not have the final veto power on whether fully guaranteed Government obligations shall go out in the hands of the public.

So, I am very much in favor of the principle of the Byrd amendment.

The CHAIRMAN. Has the amendment been submitted to you, Mr. Secretary?

Secretary MORGENTHAU. No.

(The amendment was handed to Secretary Morgenthau.)

Secretary MORGENTHAU. May we have a chance to study it?

The CHAIRMAN. Yes, sir.

Senator BYRD. Mr. Rice, of the Drafting Bureau, drew the amendment.

Mr. RICE. The amendment as drawn is very simple. It goes in on page 1. The amended section 21 of the Second Liberty Bond Act would read as follows:

> SEC. 21. The face amount of obligations issued under the authority of this act—

that is the Second Liberty Bond Act—

> and the face amount of obligations issued by any agency or instrumentality of the United States which are unconditionally guaranteed as to principal and interest by the United States shall not exceed in the aggregate $125,000,000,000 outstanding at any one time.

So that obligations issued by the Treasury under the Second Liberty Bond Act and all of these obligations issued by Government corporations and other agencies will be included in that aggregate of $125,000,000,000.

Senator BYRD. I am entirely willing to accept the suggestion of the Treasury that we increase the total to $130,000,000,000. As I understand it, the outstanding obligations are $4,500,000,000. Is that correct?

Secretary MORGENTHAU. Mr. Chairman, could we have 24 hours to study this proposed amendment?

The CHAIRMAN. If you desire it, Mr. Secretary. Of course, we would like to report this to the Senate and get action at an early time, but we probably would not report it before Monday anyway.

Secretary MORGENTHAU. My people tell me they could have it ready this afternoon.

The CHAIRMAN. We might have a meeting of the committee tomorrow morning.

Can the committee meet in the morning?

Senator GUFFEY. I want to vote against the Byrd amendment. I am in favor of the House bill as it was submitted to the Senate, and if I am not here, I want to be so recorded.

Senator BYRD. I just want to make this statement, Mr. Chairman, I have no objection whatever to listing the assets of these corporations. I think, as a business matter, if these debts are guaranteed, and they are made by the completely Government-owned corporations, that they are just as much a debt as any other debt. If they want to list the assets, it is entirely agreeable. I think it should be done.

It would give a clear picture as to what the debt of the country is and the assets.

Senator RADCLIFFE. Senator Byrd, in listing the assets, would you attempt to value them?

Senator BYRD. I would leave that entirely to the Treasury.

Senator RADCLIFFE. Merely listing the assets would not hurt anybody?

Senator BYRD. I am not trying to expose any losses of these corporations. Simply as a matter of proper bookkeeping, I would like to see the total debt of the Government given, and not a partial debt.

Mr. BELL. We do publish it, Senator Byrd, right along with the gross public debt.

The CHAIRMAN. Would you like to have some time on that?

Secretary MORGENTHAU. My attorney says there are at least eight different corporations involved and he thinks we should examine their charters and their statutes.

The CHAIRMAN. It seems to me that this amendment is a very important one, a most important one, and I think the Treasury should have a chance to look at it.

Secretary MORGENTHAU. I would like to withdraw what I said in regard to being ready this afternoon.

Senator VANDENBERG. Could not we meet Monday morning?

The CHAIRMAN. Perhaps we better meet again Monday, to give him time to look into the amendment over the week end.

Now, Senator Byrd, do you wish to ask Mr. Rice anything else?

Senator BYRD. Yes; I will ask Mr. Rice to confer with the Treasury.

Mr. RICE. I think I should point out, Mr. Chairman, that this amendment would have the effect of amending the organic act of these corporations.

The CHAIRMAN. Certainly it does.

Mr. RICE. For instance, the R. F. C. has power now that it has not exercised. If the debt came to $120,000,000,000 and the debt limit was $125,000,000,000, they would try to beat the gun on the other corporations to get theirs out.

If they got theirs out first, nobody else would be able to get theirs out until you raised this debt limit again. It does have that effect.

The CHAIRMAN. It does, in effect, modify the organic act of every agency.

Senator BYRD. It only modifies it, Mr. Chairman, in providing that the debt of the corporations be included in the total Government debt.

The CHAIRMAN. That is true, Senator.

Senator BYRD. It does not modify it in any other direction, as I understand it.

It simply says these obligations shall be included in the total public debt authorized. I am willing to make that debt any amount that the Secretary thinks it should be. He suggested an increase of $5,000,000,000.

I notice here he estimates on June 30, 1943, a debt of $110,000,000,000. This would give a margin of $20,000,000,000, assuming that the present obligations are $4,500,000,000.

Secretary MORGENTHAU. If we have the time, Mr. Chairman, we would be ready Monday morning.

Senator VANDENBERG. You would not want to report this bill on Friday the 13th anyway.

The CHAIRMAN. No.

Senator BYRD. I want to get it clear that it is not my intent to amend the charters or the acts of any of these corporations.

The CHAIRMAN. It is a definite limitation on the organic acts of all these operating agencies.

Senator BYRD. Except to the extent that the total obligation shall not exceed a certain amount.

The CHAIRMAN. It is a very definite limitation. We would have them all running a race to get under the wire.

Senator BYRD. I think, Mr. Chairman, the time has come that these corporations should some way be brought under the control of the Treasury. They have no right to draw $23,000,000,000. I do not think it is the proper way to do the financing of this Government at this time.

We have 10 or 15 outside agencies.

Senator BROWN. Senator Byrd, each one of them is authorized to do so by acts of Congress.

Senator BYRD. They are not authorized for specific things. They get a blanket authorization of two or three or four billions of dollars without saying what they are going to do with it.

Senator BROWN. I think they are specifically directed.

Senator BYRD. The R. F. C. is not specifically directed.

Senator GUFFEY. You do not want to list the assets, too?

Senator BYRD. Yes; we want to list the assets, too.

Senator GUFFEY. All the assets of the United States Government we ought to have in there.

Senator BYRD. All the assets recoverable in terms of dollars; I think that should be done. All I am asking for is to have a balance sheet that some ordinary person can understand.

Mr. BELL. We publish that every month, Senator Byrd, and in our daily statement, and we submit it in the report to Congress once a year. It has been delayed this year.

Senator RADCLIFFE. I understand, Senator George, he not only wants it listed but he wants some evaluation. I understand the balance sheet has to give some record of the value. If you list the liabilities without some consideration of the assets, your balance sheet is not conclusive.

Senator BYRD. I am entirely willing to leave it to the Treasury to list the assets—what they estimate the value to be. I think that is the proper way to do it.

The CHAIRMAN. Mr. Secretary, would you be able to be down at 10 o'clock on Monday, or would that be too soon?

Secretary MORGENTHAU. Would you want me?

The CHAIRMAN. I mean the representatives of the Department.

Secretary MORGENTHAU. The Department can be here at 10 o'clock.

The CHAIRMAN. Perhaps 10:30 would be better. Would 10:30 be more convenient? If so, we will postpone the further consideration of this particular bill—H. R. 6691—until 10:30 on Monday.

Senator VANDENBERG. I would like to ask the Secretary just one further question, in order to maintain the continuity of the record: Are you still in favor of the repeal of the Silver Purchase Act?

Secretary MORGENTHAU. Yes, sir.

Senator VANDENBERG. Thank you.

(Whereupon, at the hour of 11:45 a. m., the committee adjourned to 10:30 a. m. Monday, March 16, 1942.)

PUBLIC DEBT ACT OF 1942

MONDAY, MARCH 16, 1942

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

The committee met at 10:30 a. m., pursuant to adjournment, in room 312, Senate Office Building, Senator Walter F. George (chairman), presiding.

The CHAIRMAN. The committee will come to order, please.

Mr. Bell, have you any report to make on this amendment this morning?

STATEMENT OF DANIEL W. BELL, THE UNDER SECRETARY OF THE TREASURY

Mr. BELL. Mr. Chairman, as to the first part of the amendment, which includes the authority to issue guaranteed obligations within the limitation on the regular public debt, we have one suggestion to make. At the end of the first amendment we would like to add the words—

except such guaranteed obligations which are owned by the Treasury Department.

In other words, they are already in the public debt, and we did not want to include them twice.

Senator BYRD. That is perfectly satisfactory.

Mr. BELL. We have no real objection to the amendment, although we do not want it to delay action on the bill, because we have to have this authority by the end of this month.

Senator DAVIS. What investments does the Treasury have that this would be in conflict with?

Mr. BELL. We own $2,100,000,000 of guaranteed obligations which are already in our gross public debt. If we followed the policy that we are now following, all of the guaranteed obligations will eventually be in the public debt, because we are taking them over as they mature and refund them into Treasury obligations. As these agencies have no cash, we give them the cash and take their obligations. So that within the course of 3 years all of the guaranteed public debt will be in the gross public debt.

Senator VANDENBERG. And all of the property owned by these corporations will then be behind the total national debt, instead of special sectors of it?

Mr. BELL. That is right; yes, sir.

The CHAIRMAN. What about the second provision of the amendment, Mr. Bell?

Mr. BELL. We have suggested an amendment at the beginning of the section to say:

Beginning on the first day of the second month following the effective date of this Act, any official report or statement issued by an agency.

That is to give us time to change our accounting procedures and instructions.

The CHAIRMAN. I suppose there is no objection to that, is there, Senator?

Senator BYRD. No.

Mr. BELL. I would like to comment on that in this way: We have two public debt statements, one that is issued the day following the end of the month, and which we call a preliminary public debt statement. The statement for the 28th day of February came out on the 2d of March. We list all outstanding securities and show one figure as the total gross public debt, and right below it we show, in memorandum form, the total guaranteed debt.

Now, on the formal public debt statement which comes out usually weeks later because of the many items in transit, we show a detailed statement of the public debt of the United States and then on the following page we show a detailed statement of the contingent liabilities, which includes the guaranteed debt. Now, contingent liabilities include many things that are not considered as guaranteed debt, such as the Federal Reserve notes and the postal-savings deposits.

Senator BROWN. How are the Federal Reserve notes contingent liabilities?

Mr. BELL. Federal Reserve notes are obligations of the United States Government, and if the assets of the Federal Reserve System are not sufficient to pay off those notes, the Treasury will pay them.

Senator BROWN. This amendment of yours would exclude the Federal Reserve notes?

Mr. BELL. Yes, sir; we are only taking in the formal debt obligations issued by the corporations and credit agencies.

Now, I would like to see that amendment eliminated and I think we can take care of Senator Byrd's suggestion by just adding a line to our regular statements, and we are glad to do that if that is satisfactory.

Senator BYRD. You would not put in there these contingent liabilities that you have mentioned, that are actually not liabilities?

What I am getting at is to get a frank statement of the debts of the Government, less whatever assets they may have. As I understand it, you have the contingent liabilities.

Mr. BELL. Yes, sir.

Senator BYRD. Such as guaranteeing the Federal Reserve notes. I do not think that is a liability.

Mr. BELL. That is a contingent liability which ought to be noted on any balance sheet you get out.

Senator BYRD. It is not an actual liability. Would not that confuse it? If you issued a statement including the notes of the Federal Reserve System and postal-savings accounts, things of that kind, will not that confuse an understanding of what is the actual liability?

Mr. BELL. I think we ought to publish the contingent liabilities.

Senator BYRD. I have no objection to that; I just wanted a separate statement, if possible, including these corporations.

Mr. BELL. My suggestion is this, Senator Byrd, that under the figure of total gross debt on our two published debt statements, one preliminary and the other final, we add a line, "total guaranteed debt" and put that under the total gross debt, and then total them, total gross debt and guaranteed debt.

Senator BYRD. That will be done on your daily report, Mr. Bell?

Mr. BELL. That will be done on our monthly reports. We do not have detailed reports daily.

Senator BYRD. I get a report each day of the month of the public debt.

Mr. BELL. We do not give out a detailed report each day, but we do show the gross public debt at the end of each day on the daily report. We could put a line under that "guaranteed debt" and come down to the total gross debt and guaranteed debt.

Senator BYRD. Each day?

Mr. BELL. Each day.

Senator BYRD. That will be entirely satisfactory.

Senator BROWN. Where would the gold come into the picture then—the Federal Reserve bank's gold?

Mr. BELL. That would come on page 1 of the daily statement of the Treasury.

Senator BROWN. I am not talking about free gold that the United States owns, but the gold which it holds and issues certificates to the Federal Reserve bank for. What would be in back of the Federal Reserve bank's money?

Mr. BELL. That would not change, Senator Brown. We would still show the total gold in the monetary system. Then we show the liabilities against the gold. Our total gold at February 28 was $22,704,000,000.

Senator BROWN. Is that the property that the Federal Reserve Bank is the equitable owner of?

Mr. BELL. The title is in the United States Government.

Senator BROWN. The Federal Reserve bank is the equitable owner of it?

Mr. BELL. They have an interest in it, I would say.

Senator BYRD. Certificates have been issued against it.

Senator BROWN. They bought it with their money.

Mr. BELL. Let me say as to the liability against the gold, one is the outstanding gold certificates of $2,876,000,000 which have actually been issued and sent to the Federal Reserve banks, and then we have $17,687,000,000 in the gold certificate fund, which is no more than a credit on our books, for which they can call for gold certificates.

Then we have $156,000,000 gold reserve for the so-called greenbacks, $1,800,000,000 gold for the Exchange Stabilization Fund, and about $173,000,000 of gold in the general fund.

Senator BYRD. You do not regard that as a nonobligated asset?

Senator BROWN. The $17,000,000.

Mr. BELL. No, sir; I do not.

Senator BYRD. What you call the stabilization fund is the only part of it?

Mr. BELL. There is also $173,000,000 in the general fund.

Senator BROWN. In other words, the taxpayers of the United States have no interest in the $17,000,000,000 or the $2,000,000,000?

Mr. BELL. In effect, no.

Senator BROWN. That belongs to the depositors in the Federal Reserve banks?

Senator BYRD. They have an interest in it when the gold moves down to its normal price. Somebody would have to pay a lot less.

Mr. BELL. The gold certificates which represent the gold are the property of the Federal Reserve banks.

Senator BYRD. Suppose the gold should go down to the price that existed before the $35-an-ounce price, there would be a loss of seven or eight billion dollars. How would that be financed?

Mr. BELL. If the weight of the gold dollar should be increased, the difference would be financed through an appropriation to be made by Congress.

Senator BYRD. An appropriation?

Mr. BELL. Yes, sir.

The Gold Reserve Act provides that.

Senator VANDENBERG. How much gold do you buy now? How fast is it still coming in?

Mr. BELL. It is not coming in, Senator. In the last 3 months we really lost gold on the balance, but very small. We are still getting some small shipments of gold.

The CHAIRMAN. How much silver are you getting in, Mr. Bell? How much are you buying?

Mr. BELL. We bought 70,000,000 ounces in the United States from January to December 1941.

Senator VANDENBERG. Silver?

Mr. BELL. Silver; yes, sir.

The total was 143,000,000 ounces of silver; 70,000,000 was newly mined in the United States and 72,600,000 mined abroad.

Senator VANDENBERG. That is over what period?

Mr. BELL. The 12 months ended December 31, 1941.

We are not getting very much silver from abroad at the present time because it is going into the market at a little higher price than what we are offering.

Senator VANDENBERG. You paid for the silver at what rate?

You bought the domestic silver at seventy-odd cents?

Mr. BELL. Yes, sir.

Senator VANDENBERG. How much?

Mr. BELL. $50,000,000 is what we paid for the domestic silver at a price of 71.11 cents.

Senator VANDENBERG. And how much did you pay for the foreign silver?

Mr. BELL. The silver that we are now buying we are paying 35 cents for. It averages about 50 cents.

Senator VANDENBERG. The average foreign silver price is 50 cents for the last year?

Mr. BELL. That is the average since 1934, Senator Vandenberg. In the last year we paid about 35 cents for silver.

Senator VANDENBERG. That is what I thought.

The CHAIRMAN. Does the Treasury have an objection to the amendment proposed by Senator Byrd on page 1, line 6?

Mr. BELL. The first amendment we have no objection to, if it is not going to delay the passage of the bill.

The CHAIRMAN. That is the only objection to that?

Mr. BELL. Yes. We need this authority promptly.

The CHAIRMAN. Does this $130,000,000,000 afford leeway for the operation of these agencies of Government who are issuing evidences of debt which really is guaranteed by the Treasury?

Mr. BELL. Yes, sir; I think so.

Senator BYRD. You have got about $70,000,000,000 leeway, haven't you?

Mr. BELL. Yes, sir. The debt at the present time is $62,500,000,000.

The CHAIRMAN. This will do for another year at least, you think?

Mr. BELL. That is right. That is what was contemplated when we submitted the $125,000,000,000.

The CHAIRMAN. And you are making the suggestion that you have made to Senator Byrd to take the place of the second amendment on page 5, is that right? You would rather not have that amendment?

Mr. BELL. I would rather not have that, and I think we can do what he wants without legislation.

Senator BYRD. I am willing to eliminate that, Mr. Chairman.

What I think the Treasury proposes to do is exactly what I had in mind. I want to compliment the Treasury. They have been continually improving their financial reports.

The CHAIRMAN. I think so, too, although I am not an expert on interpreting them.

Senator BROWN. I was very agreeable to section 7, but somewhat in doubt as to the first amendment proposed, and I had an opposite view to that which Senator Byrd and Mr. Bell take.

Senator BYRD. The only thing I can think about section 7, it says, "Any report or statement issued by any agency," and so forth. There may be some confusion in that "any statement." I do not know how many they issue. If you just put it on your daily statement and monthly statement, I think that is sufficient.

Mr. BELL. Well, any other statement that would be issued, at least officially, would be based on our daily Treasury statement, and our formal debt statement which comes out at the end of the month.

The CHAIRMAN. Are there any other questions?

Senator BROWN. I would like to aks as to whether or not there has been any consultation between the R. F. C. and the Treasury, or any of these Government agencies that would be affected by this new limitation?

Mr. BELL. Not by us, Senator Brown.

Senator BROWN. What are, at the present time, the authorization limitations of the R. F. C.? How much may they borrow?

Mr. BELL. The last total which they could borrow was $8,873,000,000, as we calculate it. That is the total over-all limit.

Senator BROWN. The recent one was $2,500,000,000.

Mr. BELL. There is one pending before the Congress; yes.

Senator BROWN. I think our committee passed it.

Mr. BELL. I think you did; yes.

Senator BROWN. Is that included in the $8,000,000,000?

Mr. BELL. No, sir; that is not.

This is as of February 28.

Senator BROWN. That would be about $10,500,000,000?

Mr. BELL. About $11,000,000,000.

Senator BROWN. Outstanding in the R. F. C. Are there any other agencies?

Senator BYRD. Is any of the R. F. C. owned by the Treasury now?

Mr. BELL. Yes.

Senator BYRD. That would be included?

Mr. BELL. Well, that is already in the public debt.

Senator BYRD. Is not that deductible then from the $10,000,000,000?

Mr. BELL. No, sir; that comes within their limitation to borrow.

Senator BROWN. What other authorizations are there?

Senator DANAHER. Senator, look at page 16 of the hearings, right in front of you.

Senator BYRD. The R. F. C. is constantly collecting money in, is it not?

Mr. BELL. Yes, sir; and the R. F. C. can use any receipts it gets for further loans.

Senator VANDENBERG. They could even start building rubber plants, if they wanted to, could not they?

Mr. BELL. Their authority is pretty broad, Senator Vandenberg. I do not know whether they could build a rubber plant or not.

Senator VANDENBERG. They will get around to it some day.

Mr. BELL. There is quite an item there, Senator Brown, for Home Owners' Loan $4,750,000,000, against which they have outstanding $2,415,000,000. You should read the footnote on that.

Senator BROWN. There cannot be any addition to that now?

Mr. BELL. No, sir. They are a liquidating corporation.

Senator BROWN. They are liquidating, they are all through, but actually we are putting in this $130,000,000,000 limit; is that right?

Mr. BELL. Yes.

Senator BROWN. You are actually reducing that by the outstanding authorization of $23,000,000,000?

Senator BYRD. No; it is not that much. You see, the limit of the authority is $23,000,000,000, and they have already about $6,000,000,000 roughly, already issued; that makes $17,000,000,000.

Then you have to take off the Home Owners' Loan.

Senator BROWN. Well, you have got $2,50,000,000 pending with the R. F. C.

Senator BYRD. It is about $4,500,000,000, is it not, in that neighborhood?

Mr. BELL. Well, we are contemplating putting in issues that come along hereafter for corporation and credit agencies in the public debt of the United States.

Senator BYRD. If you do that, it is really only a question of about $4,500,000,000 and the debt limit is raised $5,000,000,000, so you are gaining by it instead of losing.

Mr. BELL. As I see it, it is just a question of the outstanding $5,600,000,000.

Senator BYRD. I understood you to say $4,500,000,000.

Mr. BELL. Senator Taft, I believe, arrived at $4,500,000,000 by deducting the $1,200,000,000 which we will refund in the next 12 months.

Senator BYRD. In other words, it is not increased. The subsequent issues we can finance out of the Treasury anyhow.

Senator BROWN. As a matter of fact, we have a leeway of $70,000,000,000, and I imagine Mr. Bell will be back again the next year.

The CHAIRMAN. Are there any further questions, gentlemen? Are there any further questions of any of the other staff who are present? If not, we thank you, Mr. Bell, for coming back this morning.

Senator RADCLIFFE. Senator George, I understand section 7 is to be eliminated. Senator Byrd is not asking for section 7.

Senator BYRD. I think if the Treasury objects to it, it will not be necessary, in view of the fact that they have introduced practically the same thing themselves.

Mr. BELL. We do not object to it, Senator Radcliffe, but we do not need legislation. We are glad to do it.

Senator BYRD. As long as the Treasury has been very cooperative about including the statements, I prefer just to leave it to them to do it, if they are going to do it.

Senator RADCLIFFE. I suppose it will be the policy of the Treasury Department, when they list these various obligations called for in section 7, also to make some estimate as to the value of the assets.

Senator BYRD. I suppose so.

Mr. BELL. I am afraid not, because we publish this daily, and I do not think we could make a daily valuation. Whatever valuation we could make would not be worth very much. It would take a corps of engineers to do that.

Senator BROWN. You would have to take the R. F. C. estimate, the R. F. C. statement.

Mr. BELL. That is right. We submit an annual consolidated statement of all of these corporations and credit agencies, and undertake to give some valuation, based on the reports of the agencies, and I think that is about as far as we can go.

Senator RADCLIFFE. I mean if you print a statement showing the value of the obligations and there is no reference whatever to the value of the assets; is not that a little bit lop-sided?

Mr. BELL. I take it what Senator Byrd is trying to get before the public is the gross liability of the Federal Government.

Senator RADCLIFFE. The public does not understand this gross.

Senator BYRD. You make quarterly statements, do you not, of the assets? He says he cannot make it daily, but I assume he could make a statement of the assets, for instance, on the notes they own.

Mr. BELL. We publish monthly a consolidated statement of all the corporations and credit agencies, and show the proprietary interest of the United States in those assets.

Senator BYRD. That would disclose the assets.

Senator RADCLIFFE. It would seem to me that the thing is misleading unless these assets are in some way indicated.

Senator BYRD. I am perfectly willing to put the assets in daily, if they want to, and if it is not possible to do it daily, then to do it monthly or quarterly, or whatever it is.

Mr. BELL. We do do it monthly, but we do not show the valuation of them, other than what is shown on the books of the corporations; that is, setting up reserves for losses, and so forth.

Senator RADCLIFFE. I am simply looking at it from the standpoint of giving information to the public.

I think the public would be interested in knowing what part of the $130,000,000,000 is represented by these assets. I do not know how feasible it is to state them or when they should be stated, but the public can easily get erroneous information, or an erroneous opinion.

If they are substantial assets, they ought to be included, according to sound bookkeeping.

Mr. BELL. We would like to show it, but I am afraid it will take quite a force to compile the information.

Senator BYRD. I think it will be included, except on the daily report. You have the statement of the R. F. C. and these other agencies as to the value of their assets and they include them in their monthly reports.

Mr. BELL. They are included in the monthly report.

Senator BYRD. Of course, that is not necessarily a correct statement of the assets, but it seems to me that is as far as you can go.

Mr. BELL. That is right; that is as far as we can go.

Senator BYRD. Unless you attempt to appraise thousands and hundreds of thousands of pieces of property all over the country. When I got through, as you recall, asking the Treasury to make such appraisal you replied it was impossible to do it.

Senator RADCLIFFE. Do not you make any estimate at all in regard to the value at any time?

Mr. BELL. Each agency does that and sets up a reserve on their books, and we take that as some indication of the value they put on the assets.

Senator RADCLIFFE. Would not it be possible to make some statement that these assets are estimated, or have been estimated, or were estimated, at certain figures at a certain time instead of entirely ignoring the matter?

Senator BYRD. Why could not you take it as a given estimate on the first day of the last month?

Senator RADCLIFFE. Even if the estimate were a month or 2 months back, it would be some kind of estimate at the last valuation of so and so, whatever that amount would be. It would be some information rather than none at all.

Mr. BELL. We will be glad to look into it. You know we do evaluate all assets of the Commodity Credit Corporation as of March 31 every year. Of course, there you can get definite prices of commodities as of that day.

Senator BYRD. I think the time will come, Mr. Bell, when you will have to do the same thing with the other corporations. The losses of the Commodity Credit are made up by appropriations of Congress. I believe, when this war situation is straightened out, the Treasury should do the same with all the other corporations.

The CHAIRMAN. Thank you very much.

Mr. BELL. Thank you.

The CHAIRMAN. Senator Byrd, as we understand it, the suggested changes in the amendment are agreeable to you?

Senator BYRD. Entirely agreeable.

The CHAIRMAN. What shall we do with the amendment now offered by Senator Byrd on page 1, line 6?

Senator RADCLIFFE. I move it be adopted.

The CHAIRMAN. Any discussion? All in favor say "Aye"; opposed "No."

The ayes have it.

I hope it does not delay us.

Senator BYRD. I should not think it would, Senator.

The CHAIRMAN. Without objection, the bill as amended will be reported out.

(Whereupon, at the hour of 11:05 a. m., the committee adjourned.)

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