

SECOND EMERGENCY BOND ISSUE

HEARINGS

BEFORE THE

COMMITTEE ON FINANCE UNITED STATES SENATE

SIXTY-FIFTH CONGRESS

FIRST SESSION

ON

H. R. 5901

AN ACT TO AUTHORIZE AN ADDITIONAL ISSUE OF BONDS TO MEET EXPENDITURES FOR THE NATIONAL SECURITY AND DEFENSE, AND, FOR THE PURPOSE OF ASSISTING IN THE PROSECUTION OF THE WAR, TO EXTEND ADDITIONAL CREDIT TO FOREIGN GOVERNMENTS, AND FOR OTHER PURPOSES

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SECOND EMERGENCY BOND ISSUE.

TUESDAY, SEPTEMBER 11, 1917.

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

The committee met, pursuant to call, at 3 o'clock p. m. in the committee room, Capitol, Senator William J. Stone presiding.

Present: Senators Stone (acting chairman), Smith of Georgia, Gore, Jones of New Mexico, Gerry, Lodge, McCumber, Smoot, and La Follette; also, Hon. William G. McAdoo, Secretary of the Treasury.

The committee proceeded to the consideration of the bill (H. R. 5901) to authorize an additional issue of bonds to meet expenditures for the national security and defense, and, for the purpose of assisting in the prosecution of the war, to extend additional credit to foreign governments, and for other purposes.

The ACTING CHAIRMAN. The Secretary of the Treasury is present, and the committee will now hear his statement in regard to this measure.

STATEMENT OF HON. WILLIAM G. McADOO, SECRETARY OF THE TREASURY.

Secretary McAdoo. I desire first to submit, not for reprinting in the record but merely for reference, my testimony before the Ways and Means Committee of the House on the 28th and 29th of August, 1917.

Senator LA FOLLETTE. On what page does it begin, Mr. Secretary?

Secretary McAdoo. It begins at the beginning—page 1.

Senator McCUMBER. This is all the Secretary's testimony.

Senator LA FOLLETTE. Oh, it is all devoted to yours?

Secretary McAdoo. Yes. They invited me to do a great deal of talking, and I did.

There are certain amendments to this bill which are meant for clarification more largely than anything else, and, as they are somewhat technical, I am going to ask Mr. Leflingwell, who is one of the special counsel of the department in connection with these bond matters, and who is here, to explain them to the committee at the proper time. I shall concern myself for the moment, with your permission, with certain amendments that relate more largely to questions of policy. First, however, I should like to repeat what I said to the Ways and Means Committee of the House, and to elaborate it to some extent here, about the estimates that are being submitted to the Congress of expenditures for the fiscal year 1918.

I observed in the debate on the revenue bill the other day that Senators Penrose and Smoot implied that I had not been altogether frank with this committee about estimates. I am sure that those gentlemen did not intend to do the Secretary of the Treasury any injustice, but I think they did do him an injustice, and it is for that reason that I should like to make clear this fact in the record.

Senator Smoot. I want you to eliminate me from that, because I did not in any way, shape, or form cast any kind of a suspicion upon you. I remember that Senator Penrose did—that is, his remarks perhaps could be construed in that way—but I had no idea of such a thing, nor did I say anything that could be even construed in that light.

Secretary McAdoo. I only saw the newspaper statements, Senator, and perhaps I got a wrong impression.

Senator Smoot. If you will read the Record you will see that I rather corrected it.

Secretary McAdoo. I am obliged to you, then. I want to say that I am making no complaint about it; I only wanted to clarify it; that is all. I have not the slightest feeling about it, because I know that in debate—

Senator Smith of Georgia. In the Record you will find that not only were the changed conditions referred to, but the fact was brought to the attention of the Senate that you were not making your own estimates; you were transmitting the estimates furnished to you from time to time by the various departments, and that that was your connection with the matter.

Secretary McAdoo. Yes. I should just like to make this clear, because I think the country has a very different impression about it, and I think it is important that it should be made clear, not only that we may all thoroughly understand the situation but also because I feel that anything which would tend to create the impression that the Secretary of the Treasury of the United States at this juncture was not only careless about statements he made to Congress but that he did not know his business—I do not say that anybody said that, but I mean to say, if these statements in the papers which imply that should go unnoticed or uncontradicted, I think it would handicap the head of that department at this critical time in the history of the country in doing the essential service that he must perform for the Nation in carrying out the will of Congress. For that reason, as well as for a thorough understanding of the situation, I should like to make this statement:

As you gentlemen know, the Secretary of the Treasury has no power whatever over the estimates of the other departments. The only estimates he controls are the estimates of the Treasury Department itself. He is responsible for those. He has no power over the expenditures of other departments. Under the law, each department head makes his estimates; they are submitted in turn to the President, and, if he approves them, the duty is imposed by law upon the Secretary of the Treasury to transmit those estimates to the Congress. That is all he has to do with them. The Secretary of the Treasury can not control the time when these estimates are made by other departments, and he has no authority whatever in connection therewith except merely to transmit them.

When I first appeared before the Finance Committee of the Senate and spoke of the estimates for the fiscal year 1918 as being probably three billion six or eight hundred millions of dollars—I have forgotten which—that statement was made upon the basis of estimates which had been made by the War and Navy Departments of what they at that time thought would be necessary to carry on the military and naval operations of the Government. At that time the selective-draft law had not been passed; the scope of military operations in which the Government was going to engage was not determined; the estimates for a government-built merchant marine had not been submitted to the Congress; this large appropriation of six or seven hundred millions of dollars for the creation of an aviation corps of large proportions had not been submitted or authorized by the Congress.

After the selective-draft law was prepared, the War Department submitted new estimates over which the Secretary of the Treasury had no control, and concerning which he was not even consulted. Those estimates represented more than five billions of dollars. The revenue measure which had passed the House, and which was under consideration by this committee, was about to be reported when the Secretary of War notified me personally that he was about to submit this additional estimate. I immediately came up here in person and informed this committee that such an estimate was about to be forwarded, even before it was submitted, because I felt that you should have the information at the earliest possible moment.

I may say in this connection that it is impossible, I imagine, for the Secretary of War or the Secretary of the Navy or the heads of other departments of the Government directly concerned in the conduct of the war to anticipate their expenditures with any very great degree of certainty. They depend, of course, upon the developments of the war itself; and I think probably we are going to have to be confronted repeatedly with unexpected estimates of expenditures growing out of the proper conduct of the war. As they come into the Treasury Department from time to time, of course it will be my duty to submit them to the Congress. I may say further, gentlemen, that the War Department—and I am not trying to explain their estimates—could not have submitted that last estimate of five billions of dollars until the Congress had acted upon the selective-draft bill, which of course altered the whole basis of things, and until certain developments incident to the war itself had been made clear.

I feel as much sympathy for the Congress as I hope the Congress will feel for me with respect to these estimates, because you not only have got to pass the legislation under which the moneys are to be raised to provide for them, but the load is upon the Secretary of the Treasury to try to find the money within the authority that the Congress may confer upon him. So that it is a difficult task for all of us; and I should like you to feel that, so far as I am concerned, I am most anxious at all times to give this committee the benefit of the fullest possible information that comes to me, and that you shall have it as quickly as it is possible for me to get it here.

In that connection I should like to say that I submitted to the Ways and Means Committee of the House a statement, dated August 23, 1917, covering the estimated expenditures for 1918. In making

up that statement I asked the other departments to give me an estimate not only of what they proposed to expend of the appropriations already made but of the pending appropriations and any proposed appropriations that they had in view, so that I could make it as comprehensive as possible.

On September 4—

Senator LA FOLLETTE. Mr. Secretary, has that statement of August 23 been printed?

Secretary McADOO. It is in the record there before you.

Senator LA FOLLETTE. In this record?

Secretary McADOO. Yes; the details of it can be found on pages 5 to 8, inclusive, of the hearings held before the Committee on Ways and Means of the House.

Senator LA FOLLETTE. Thank you.

Secretary McADOO. Since that statement was made, gentlemen, on the 23d of August, we have been advised, under date of September 4, that the War and Navy Departments contemplated asking further appropriations of \$283,000,000—\$223,000,000 for ordnance for the Army and \$60,000,000 for ordnance for the Navy. Now, obviously the Secretary of the Treasury or the Treasury Department can not be responsible for those estimates, and I mention it only to show you that all that I can reckon with in discussing these matters with the committees of the Congress is the estimates as of the latest date that I have been able to get them from the various departments.

Senator SMITH of Georgia. I think you will find in the Record that Senator Penrose's attention was called to the fact that you were not responsible for these estimates; that, on the contrary, you furnished them as they were furnished to you, and that it was impossible for those furnishing them to you to know earlier in advance what would be required.

Senator SMITH. I was speaking when Senator Penrose interrupted me, and he and Senator Jones of New Mexico had some colloquy about what Senator Penrose had said. I did, however, refer to the fact that before the bill was first reported to the Senate, and long after the draft law was passed, I said that the amount that we were providing for as a result of a statement presented to the committee by Mr. Cooksey, I think, would not meet the expenditures of the Government, and I knew it would not meet it; and I told the committee that our appropriation would be \$3,500,000,000 more than the estimates at least. Of course the committee at that time did not believe me; and you, Mr. Secretary, came before the committee, and instead of the amount being \$3,500,000,000 as I stated, your estimate was \$6,000,000,000, and I told the committee in the first place why I knew that future additional appropriations would have to be made for the fiscal year 1918. Now, that I did refer to in my statement upon the floor of the Senate; and I also, I think, said to Senator Jones of New Mexico and to Senator Penrose that I did not want to get into any discussion at that time upon the subject in dispute.

Senator SMITH. Unless the Secretary or the Senators think this very important—which I do not, I am frank to say—but us take up the amendments as soon as possible.

Secretary McADOO. I thought it important, gentlemen, to have something in the record about these estimates, merely for the future,

because I should like you to feel that if I have to come back and make other representations, I am not precluded by anything that already has been said.

Senator STONE. I do not think you have made a statement here at this sitting with which the members of this committee are not familiar. They understand that situation, and I am sure I do. I have heard you go over it time and again, and I think your statement is a correct one.

Secretary McANOO. Gentlemen, referring now to section 4, it is suggested that the last sentence appearing at the bottom of page 7 and the top of page 8 be stricken out, and that the following be substituted:

The bonds to be issued upon such conversion shall be substantially the same in form and terms as shall be prescribed by or pursuant to law with respect to the bonds of such subsequent series, not only as to interest rate but also as to convertibility (if future bonds be issued at a still higher rate of interest) or nonconvertibility, and as to exemption from taxation, if any, and in all other respects, except that the bonds issued upon such conversion shall have the same dates of maturity, of principal and of interest, and be subject to the same terms of redemption before maturity, as the bonds converted; and such bonds shall be issued from time to time if and when and to the extent that the privilege of conversion so conferred shall arise and shall be exercised. If the privilege of conversion so conferred shall once arise, and shall not be exercised with respect to any convertible bonds within the period so prescribed by the Secretary of the Treasury, then such privilege shall terminate as to such bonds and shall not arise again though again thereafter bonds be issued bearing interest at a higher rate or rates.

In the discussion in the House more or less hesitation about the privilege of conversion developed; and this amendment is proposed in order to remove any doubt, and to make it entirely clear that the whole subject is dependent upon the future action of Congress, if at any time it should wish to authorize the issue of bonds bearing interest at a higher rate, and that the privilege of conversion, if not exercised, will lapse.

It ought to be determined whether there are to be successive conversions, or one conversion only, one privilege of conversion with respect to the bonds provided in the pending bill. While I feel that the question is not at all free from doubt as to what is the wisest policy to pursue, I think we must be definite about it. We have got to say either that they shall have the privilege of successive conversions, or that they must exercise their option to convert once, and then that the option shall not continue. I am inclined to think, after considering the question as deliberately as I can from every angle, that the amendment I have just suggested ought to be adopted, and that that is the policy we ought to pursue.

Senator LONG. That is, the policy of—

Secretary McANOO. The policy of the right of a single conversion.

Senator STONE. Of one chance.

Senator LONG. That is, if the holder of a 3½ per cent bond converts it into a 4, and we subsequently raise the interest rate to 4½, he shall not again convert?

Senator STONE. No; I did not understand it that way. Let us see about that.

Secretary McANOO. No. If the holder of the 3½ per cent bond converts it into a convertible bond, then, of course, he would have the privilege of converting it again. In other words, if the holder of

the 3½ per cent bond converts it into this 4 per cent bond, which in its turn is convertible into another issue, he would have the right to do that; but if he converts it into an issue that has not the right of conversion, of course he does not then get any additional right of conversion unless the Congress should specifically authorize it.

Senator SMOOR. In other words, the amendment is to force him to convert or else lose his privilege of any conversion thereafter at a higher rate that may be provided?

Secretary McADOO. It is to define the privilege; that is all. It is to define it more clearly than it is defined under existing law.

Senator LA FOLLETTE. That enables the department to clean up and know what its position is upon these bonds from time to time and have an end of things?

Secretary McADOO. Yes. There must be a limit to it some time in some way.

Senator McCUMBER. Mr. Secretary, how would that affect a case of this kind: Suppose the holder of a present 3½ per cent bond had an opportunity to convert it into a four-and-a-half, and that 4½ bond should be taxable, and he did not desire to do that, and we should afterwards issue another series of four-and-a-halves or one of fives, that was not taxable, and he then desired to convert. Ought he not to be allowed to convert at such time and under such circumstances as he, in his judgment, might think would be proper for him?

Senator SMOOR. Take a case like this: Do you believe that it is fair to deny the purchaser of a liberty bond what I believe every purchaser thought he had a right to—

Secretary McADOO. He is not affected, Senator—the holder of a 3½ per cent liberty bond.

Senator SMOOR. Yes; but he will be affected in a case like this: He has purchased his bond bearing a rate of interest of 3½ per cent, with the convertible right. Now we propose to issue under this bill, we will say, a 4 per cent bond, but a taxable bond.

Secretary McADOO. Partially taxable.

Senator SMOOR. Well, partially taxable; yes. Now, the purchaser of the liberty bond figures that his 3½ per cent bond, nontaxable, is better to him than a 4 per cent taxable bond; so he does not want to convert. Then later we issue another series of bonds, taxable the same as the proposed issue, but at a rate of 4½ per cent. The purchaser of the first liberty bond figures that the 4½ per cent bond, taxable, is a bond into which it is advantageous for him to convert his liberty bond. He did not exercise the right to convert in the first place, but when the 4½ per cent bonds are issued he wants to convert. Now, why should he not have that right?

Senator LA FOLLETTE. Would he not have that right? He has a contract which you can not determine by anything you put in here. His contract is fixed.

Senator SMITH of Georgia. The contract of the present bondholder is fixed and can not be changed.

Senator LA FOLLETTE. Absolutely. You can not change it by any subsequent legislation. As to bonds issued under this law you can impose any condition that you please, but you can not change by anything you put in here the contractual relation that is established between the bondholder and the Government under the issue that has already been made and the bonds purchased.

Senator SMOOT. But if we adopt this amendment we are undertaking to do it.

Senator LA FOLLETTE. No; it does not relate to that. It can not relate to it in law.

Senator SMOOT. Well, let us read it.

Senator LA FOLLETTE. I do not care what it says; you can not do it. You may attempt to do it.

Senator SMOOT. That is what I said.

Senator LA FOLLETTE. But this does not attempt to do it. It only refers to bonds hereafter issued.

Senator STONE. The Secretary, I think, is correct when he says that this does not affect the liberty bonds.

Secretary McADOO. It does not affect the present liberty bonds in any way.

Senator LODGE. Mr. Chairman, it seems to me it does. The liberty bond was issued on the understanding that it should be exempted from taxation and it should have the right of conversion if a bond was issued subsequently at a higher rate of interest. Now you allow them to exercise their right of conversion within a limited period; that is, you begin by limiting the right of conversion, which is not limited in the original law, and you do more than that—you take from them the privilege of exemption.

Secretary McADOO. Senator, we do not alter the contract with the present holder of liberty bonds at all. Whatever rights he has under his present contract will, of course, be respected literally.

Senator LODGE. But there is no limitation on his right of conversion—no time limitation.

Secretary McADOO. No; none whatever on him, except in so far as it is limited by any regulation of the department made in pursuance of law.

Senator LODGE. But this bill does put a limitation on him.

Secretary McADOO. No; it puts a limitation on—

Senator STONE (to Senator Lodge). On the liberty bond holder?

Senator LODGE. It does; it limits his right of conversion.

Senator STONE. I do not believe you can do that.

Senator SMITH of Georgia. This language is intended to apply only to bonds issued under this act.

Senator LODGE. No; not that; I am speaking of the bill apart from that amendment. Under this bill, if he does not convert within a certain time he is cut off from his right of conversion.

Secretary McADOO. Do you mean the holder of a liberty bond?

Senator LODGE. I mean the holder of a liberty bond. Under this bill, if he does not within a given time convert into the 4 per cent bond he loses his right of conversion, and I do not think there is any provision for that in the original law.

Secretary McADOO. You mean the holder of the 3½ per cent liberty bond?

Senator LODGE. Yes.

Secretary McADOO. Oh, no, Senator; he is not affected at all.

Senator LODGE. I understood you to say that under this law there was to be a limitation.

Senator STONE. Take this case: I hold a liberty bond bearing 3½ per cent per annum. Now, as I understand the Secretary, what-

ever the language of the amendment may be, it is not the intention to say to me, as the holder of that bond, that I can not convert it in strict accordance with the terms of the law and the contract.

Secretary McADOO. Absolutely not. There is nothing in this bill that would seek to do that.

Senator McCUMBER. It ought to be made certain.

Senator LODGE. Then I understand the holder of a liberty bond can exercise his right of conversion when he pleases, under the terms of the law?

Secretary McADOO. I will get Mr. Leffingwell to state the provision of the law in that respect.

Senator SMOOR. You have a copy of the law there. Read the provision of the law.

Senator LODGE. The existing law?

Senator SMOOR. Yes.

Mr. LEFFINGWELL. The existing law provides as follows.

That any series of bonds issued under authority of sections 1 and 4 of this act may, under such terms and conditions as the Secretary of the Treasury may prescribe, be convertible into bonds bearing a higher rate of interest than the rate at which the same were issued if any subsequent series of bonds shall be issued at a higher rate of interest before the termination of the war between the United States and the Imperial German Government, the date of such termination to be fixed by a proclamation of the President of the United States.

Senator McCUMBER. That says "any subsequent issue." It is not the next one, but any subsequent issue.

Senator LODGE. Any subsequent series.

Mr. LEFFINGWELL. Now, if I may be permitted to explain the purpose of the proposed amendment, it relates solely to the terms upon which future issues of bonds may be made convertible, and has nothing to do, as it is drafted and submitted to you, with the terms under which the existing \$2,000,000,000 of liberty bonds are convertible. The Secretary of the Treasury, in offering those two billions of bonds, prescribed the terms and conditions. He issued department circular No. 78, which was read into the record of the hearing before the Ways and Means Committee of the House.

This is the provision relating to conversion:

If any subsequent series of bonds (not including Treasury certificates of indebtedness and other short-term obligations) shall be issued by the United States at a higher rate of interest than 3½ per cent per annum before the termination of the war between the United States of America and the Imperial German Government (the date of such termination to be fixed by a proclamation of the President of the United States), the holders of any of the bonds of the present issue shall have the privilege of converting the same, within such period and upon such further terms and conditions covering matters of detail as the Secretary of the Treasury may prescribe.

Senator SMOOR. Please read that again.

Mr. LEFFINGWELL. (reading):

Within such period and upon such further terms and conditions covering matters of detail as the Secretary of the Treasury may prescribe into an equal par amount of bonds bearing such higher rate of interest and substantially identical with the bonds of such new series, except that the bonds issued upon such conversion are to be identical with the bonds of the present series as to maturity of principal and interest and terms of redemption.

Senator McCUMBER. The circular says, as you have just read it, "Any series." You make a condition that deprives them of the right

to convert into any series and limit to the right to convert into one series.

Mr. LEFFINGWELL. This amendment has no bearing upon the first issue of liberty bonds.

Senator McCUMBER. I understand that. I am not speaking of the amendment, but of the bill as it stands.

Senator SMOOR. If they were to convert those bonds voluntarily into the bonds provided for they would have a new contract which they voluntarily entered into.

Senator McCUMBER. Undoubtedly if they convert into those. My point is, suppose they hold that $3\frac{1}{2}$ per cent and do not convert into this series at all. Then another series is issued, and they are exempted from taxation under the higher rate. Under the original law they are entitled to convert into another series.

Mr. LEFFINGWELL. It is not intended in this bill, either as it passed the House or under the amendment now proposed, to make any provision which would in any way impair the rights of holders of the original bonds.

Secretary McADOO. The fact is that this bill, as we intend it, does not affect or in anywise alter the present obligation of the United States Government to the holders of the present $3\frac{1}{2}$ per cent bonds. Prior rights which they have by virtue of their contract will be scrupulously observed. If they have the right to convert into any subsequent issue, of course, that right will not be taken from them. What I feel we ought to do with respect to future issues is to make it perfectly explicit that the purchasers of the bonds will have a right of conversion into only one subsequent issue and that ought to be definite.

Senator SMOOR. There is one other question. It is about liberty bonds and I ask the question because I understood you to make the statement that you did take from the purchaser of liberty bonds a right he has under the law. Take a holder of liberty bonds who decides he will convert them into 4 per cent bonds and who does make that conversion, I understand you to say, then, hereafter he could not convert if there was a higher-rate bond issued in the future?

Secretary McADOO. No; I did not say that; at least I did not intend to say it.

Senator SMITH. Thereafter he would have to convert, under the terms of this act, just like other holders of bonds under the issue.

Senator SMOOR. I will go one step further and say he has converted his $3\frac{1}{2}$ per cent bonds into the proposed 4 per cent bonds. Then there is another issue of, say, 4 $\frac{1}{2}$ per cent bonds, but a different rate of taxation, and he decides that he does not want to make that conversion from 4 to 4 $\frac{1}{2}$. Would he have the right to make the conversion if there was a later 5 per cent issue?

Secretary McADOO. No.

Senator SMOOR. That is exactly what I wanted to get at.

Senator LODGE. This is no longer a liberty bond.

Senator SMOOR. I know, but does not the law provide that the purchaser of liberty bonds shall have the right to convert in any future issue?

Senator LODGE. To convert on a liberty bond, but not another kind of bond.

Senator SMITH. And if he holds out and waits for the 5 per cent bond, he takes it, but when he takes that new bond he makes a new contract and is governed by the terms regulating that issue.

Secretary McADOO. Yes. He does not have to take them, but if he does, he voluntarily makes a new contract with the Government.

Senator STONE. Is that the language of the amendment?

Secretary McADOO. That is what is intended.

Senator LODGE. My sole point was about the Liberty Bonds, and it seems to me that under this bill he has the right to hold on until the 5 or 5½ per cent issue or any subsequent issue at a higher rate of interest; he could reserve the right to convert the Liberty Bond into any series. Then he comes to that new contract.

Senator STONE. Do you not think we understand what the Secretary desires under that amendment, and if he does not cover it we could amend it?

Secretary McADOO. It is needless for me to say that I would not make a suggestion to Congress to alter an existing contract made with the holders and purchasers of the 3½ per cent bonds that would abridge any rights they now have; and, if I did, of course you would not make such a change, because we must observe our obligations scrupulously.

Senator LA FOLLETTE. And if Congress should make such a change it could not be enforced.

Secretary McADOO. I am only speaking in reference to future issues, letting the existing holder exercise his present privileges; but when he enters into a new contract he comes under the terms of this act and falls under it. It is a question of policy as to whether or not we shall do this. My own judgment is it is better to do this, and I submit it for what it is worth.

Senator LODGE. In this line adopt a new policy.

Secretary McADOO. And in this line adopt a new policy.

Senator McCUMBER. He must take the next higher or none at all?

Secretary McADOO. Yes. I should like to call your attention to the amendment made by the House to the provisions of section 7 and as to the extent of the exemption to be given to all bonds. The Secretary of the Treasury had recommended that future bonds be exempt—

from all taxation present or future, except estate or inheritance taxes, imposed by any State or any of the possessions of the United States, or by any local taxing authority therein, and from all stamp taxes, present or future, imposed by the United States, and shall be exempt as to interest from all normal income taxes (not including graduated additional, excess-profits, and war-profits taxes) present or future, imposed by the United States upon incomes of individuals, partnerships, associations, or corporations.

It will be observed that while the clause recommended by the Secretary of the Treasury exempted the bonds, so far as United States taxes are concerned, only from stamp taxes and normal income taxes, the clause as presented to the House by the Ways and Means Committee and passed by the House exempts the bonds from all United States taxes except estate or inheritance and superincome taxes.

The effect of that provision is this: As the bill is changed the Government of the United States is surrendering all power to legislate with respect to taxation of any new character hereafter with respect to these bonds. Now, I do not know that the policy of the Govern-

ment may ever change; I can not say; I do not know that the time will arrive when the Government will want to impose taxation of forms different from those now existing, but if it should, under the House provision the Government's hands would be absolutely tied. Under the provisions as I presented them there was specific exemption from certain things. Under the House provision we are giving an additional exemption of an indefinite and undefinable character, of no calculable value, which does not affect the value of the bonds to the man who is buying them, and yet the time might come within the next 30 years when the whole policy of the Government might be so altered that some new form of taxes might be necessary and ought to be applied to these bonds. The man who buys, let us say, the bonds of a railroad company or of any corporation can not get absolute certainty that existing forms of taxation will be maintained and he will never have to pay any other taxation than that existing to-day. My judgment is that the Government ought not to cut itself off from that power if occasion should arise making it necessary.

Senator LODGE. Your idea was to specify the exemptions?

Secretary McADOO. Yes.

Senator LODGE. The objection is against the language "on taxation now or hereafter imposed by the United States"?

Secretary McADOO. Yes. I think the language as I presented it to the House would be better because instead of a blanket clause we provide the specific exemptions on these bonds.

Senator LODGE. Would you mind reading your language again?

Secretary McADOO. They should be exempt "from all taxation, present or future (except estate or inheritance taxes), imposed by any State or any of the possessions of the United States, or by any local taxing authority therein, and from all stamp taxes, present or future, imposed by the United States; and shall be exempt as to interest from all normal income taxes (not including graduated additional, excess profits, and war profits taxes), present or future, imposed by the United States upon incomes of individuals, partnerships, associations, or corporations." In other words, we state specifically what the exemptions are to be, whereas the House exempts them from everything in the future except certain taxes.

Senator SMOOR. Could not you reach what you are intending by striking out the words "or hereafter" on line 9, so that it would read "that all such bonds and certificates shall be exempt, both as to principal and interest from all taxation now imposed by the United States, any State, or any of the possessions of the United States"?

Senator McCUMBER. That would allow any kind of taxation.

Senator SMOOR. That is what the Secretary proposes, any taxes imposed by the United States hereafter, but not to apply to the taxes we have now. In other words, if there is some form of taxation that the Government wants to impose, that is not imposed under present law, then they would not be exempt from that taxation.

Secretary McADOO. No; we propose to exempt them from stamp taxes and from normal income taxes. Suppose you increased the normal tax, or decreased it, they would be still exempt from that.

Senator GORE. Your idea was not to exempt in express terms from surtaxes.

Secretary McADOO. My idea was instead of giving a dragnet exemption from all taxation except so-and-so, as in the House bill, to

say they were exempted from specific taxes enumerated in the bill. I think the exemption should be specific and the contract absolutely definable, but my point is that under the House provision we give exemptions from every unknown factor that might arise in the future, which is not of calculable value now, so that the Government would not get any consideration for such undefinable exemptions. We can not tell what they would amount to, and we are tying our hands absolutely with respect to the future.

Senator SMITH. The difference between your provision and the House provision is that you exempted only from stamp taxes and normal income taxes, naming those specific taxes, while the House bill exempts them from all United States taxes except estate or inheritance taxes, and income surtaxes, excess profits, and war-profits taxes.

Secretary McADOO. Yes, sir.

Senator SMOOR. Under the Secretary's provision the purchaser of the bond will know just what tax he has to pay at time of purchase, but it does not exempt from future taxes which may be imposed.

Senator STONE. Mr. Secretary, I am not discussing the question or expressing an opinion as to the merits or demerits, but looking to this one thought that you have to offer these bonds. You are to sell them at not less than par. Now, here is a bond you offer which on its face and by the terms of the law is subject to certain specified taxes and to none other. That is the form of the House bill. Now, that goes out and it is offered to me; I know just what taxes that bond is subject to pay. If you put it in the other form wherein the law provides that it shall be exempt from—

Secretary McADOO. Every kind of tax except those specified.

Senator STONE. Now, that is the House bill.

Secretary McADOO. That is the House bill.

Senator STONE. But you wish to change that.

Secretary McADOO. I want to state the specific exemptions they will get.

Senator STONE. You want to put it in the law and in the bond that it shall be exempt from certain taxes—a, b, c. whatever it is—and leave it there so that the bond will be subject to any other kind of tax that may be levied by the Congress.

Senator GORE. That is the way it ought to be.

Senator STONE. That would not affect the value of the bond on the market?

Secretary McADOO. I think it would be better to put the amendment in the form I have suggested it here, because I do not think the purchaser of one of these bonds will hesitate to buy what certainly is an advantageous investment at this time, because of the possibility that some form of taxation might be devised in the future from which this bond would not be exempt, any more than he would hesitate to buy the bond of a railroad or any other corporation for the same reason. He has not any guaranty against taxation when he makes a private investment.

Senator STONE. Where does this amendment you propose come in; have you indicated it?

Secretary McADOO. It is here. We will leave a copy of it, Senator. Senator McCUMBER. I want to see just what you could tax under the amendment.

Secretary McADOO. It would apply the superincome taxes and the excess or war profits taxes.

Senator McCUMBER. Take a specific case: Here is an individual who owns a given amount of bonds, and under the law the interest on those bonds is not to be sufficient to levy your surtax. Therefore, if he held those bonds only, then the surtax would not apply. But suppose that he had an income outside of that, and then the bonds and the interest is added to his other income and they would be sufficient to subject him to the provisions of the surtax; would, under your amendment, the interest on the bonds then have to pay a surtax.

Secretary McADOO. Yes.

Senator McCUMBER. In other words, he can not take it from his general income and say, "This interest is not subject to the surtax, and therefore I will not return it as part of my income subject to taxation."

Secretary McADOO. He would have to pay the supertax, but not the normal tax.

Senator McCUMBER. That will apply to the other provision of the same section, contained on lines 16 to 21 of the Senate bill, providing that the interest on \$5,000 of bonds be exempt.

Secretary McADOO. I am going to take that up next.

Senator McCUMBER. I will finish my question, and you can answer it, and that is this: If a party owns \$5,000 worth of those bonds, then it would not be subject to that surtax or that graduated additional income tax, but if he owns \$6,000, the interest on the whole \$6,000 would be subject to the provisions.

Secretary McADOO. No; unless it was liable to the surtax—that is, unless his income was such that the interest on the \$6,000, added to his other income, would subject him to surtaxes—then, of course, the surtax would apply.

Senator LODGE. Suppose a man holds some bonds as a part of his property and he has surtaxes to pay under several brackets. In which bracket is he to pay surtaxes?

Senator GORE. That would not make any difference.

Senator LODGE. Yes; the surtaxes vary according to the brackets.

Secretary McADOO. But it is all taken together.

Senator GORE. It is blended with the mass.

Secretary McADOO. Suppose he has a \$25,000 income; suppose his income above \$15,000 is subject to surtaxes—I am just taking an arbitrary case. Suppose that \$5,000 of his \$25,000 represented interest from Government bonds. Then he would return his \$5,000 as a part of his total income for the purpose of surtaxes, but that \$5,000 would not, of course, pay any normal tax. It becomes a part of his general income for surtax purposes.

Senator McCUMBER. For the purpose of surtaxes he counts it in the whole amount, and it makes no difference where it comes in?

Secretary McADOO. Yes.

Senator STONE. I want to ask you this: If I had \$10,000 of these bonds issued under this act, would \$5,000 of the \$10,000 be exempt?

Secretary McADOO. You mean if this bill passed?

Senator STONE. Yes.

Secretary McADOO. Yes; the income from \$5,000 would be exempt from all taxes anyway.

Senator STONE. This bill says a person holding \$5,000 of these bonds shall not pay—

Secretary McADOO. Exactly.

Senator STONE. But, suppose I own more than \$5,000. Now, do I exempt \$5,000?

Secretary McADOO. Yes.

Senator STONE. No matter what the holding may be, I could segregate or take out \$5,000 of it?

Secretary McADOO. Yes. Take the same man with \$25,000 income. If he had \$5,000 of Government bonds, the income at 4 per cent would be \$200. Now, his total income, we will say, was \$25,000, a part of which was subject to surtax. He would take the \$200 from the \$25,000, and it would be eliminated in calculating surtaxes. I think that is a very unwise provision, which is of no value, and will lead to a great many complications. I shall now take that up.

The last sentence in section 7 of the act, which was added in the House and appears on lines 6 to 21, on page 10 of the Senate bill, providing that the interest on \$5,000 of bonds be exempt, should be struck out. It is confusing and difficult of interpretation. It is hard to conceive of surtaxes on incomes of \$200 or less. The only effect of the insertion of this sentence will be to suggest to those to whom we must sell the bonds the notion that the interest on bonds in excess of \$5,000 owned by any individual, partnership, association, or corporation will not be exempt even from normal tax. They might think there was a distinction there, and there was doubt as to whether bonds in excess of \$5,000 were exempt from the normal tax.

Senator SMOOT. I think there is a conflict between the two provisions.

Secretary McADOO. As stated by the Secretary of the Treasury to the Committee on Ways and Means of the House, securities have fallen into three classes—wholly exempt, exempt from normal taxes, and wholly taxable. If the United States is to get the benefit of whatever exemption is conferred by this act in selling the bonds, it should place these bonds simply and clearly in one of the three categories. Bonds may be sold at a price as of any one of the three classes named. It is merely a question of the rate of interest and the price we are going to take for them. In other words, the character of the exemption determines the rate of interest the bonds ought to bear. To attempt to place them in a class by themselves is to confuse the whole matter and derogate from the salability of the bonds without any corresponding advantage to the United States.

The only possible value that that provision could have would be in the case of a man who is subject to surtaxes and who wanted to have \$200 of his income free of surtax.

Senator SMITH. If the surtax was extended below \$5,000.

Senator LODGE. Your proposition is to strike that out?

Secretary McADOO. Strike it out. If you can conceive of a time when we are going to impose surtaxes on incomes of \$200, then this would have a value, but it would be very confusing in selling the

bonds to explain what this \$5,000 meant, and it would be very confusing in other ways.

Senator SMITH. We exempt incomes below \$5,000 from excess taxes and they are preserving that right.

Senator McCUMBER. It is simply confusing; it is in conflict with the other portions of that paragraph.

Secretary McADOO. I want to pass on to section 10 on page 12. The Secretary of the Treasury asked an appropriation of one-fifth of 1 per cent of the amount of bonds and war-savings certificates, and one-tenth of 1 per cent of the amount of certificates of indebtedness to pay expenses. The House reduced the appropriation to one-seventh of 1 per cent on the amount of bonds and war-savings certificates, and retained one-tenth of 1 per cent on the amount of the certificates of indebtedness, and inserted the following proviso in lines 17 to 21:

Provided, That the amount that may be expended for expenses for each said class of obligations shall not exceed the per cent herein stated for each total issue of said bonds, war-savings certificates, and certificates of indebtedness herein authorized.

Senator SMOOR. Mr. Secretary, let me ask if the rate of one-tenth of 1 per cent allowed in the existing law for the selling of the Liberty Bonds was sufficient?

Secretary McADOO. It was not sufficient and it will be less sufficient, increasingly less sufficient as these successive installments of bonds have to be sold. I shall come back to that in just a moment, Senator.

Senator LODGE. You have not included advertising?

Secretary McADOO. No, sir. Referring to the proviso inserted by the House, the language of this proviso is far from clear. If it is intended to deprive the Secretary of the Treasury of the benefit of any saving upon the appropriation made for the sale of one class of securities against a deficiency under the appropriation made for another, the proviso is very unfortunate, and, taken with the reduction in the amount of the appropriation against bonds and war-savings certificates, will gravely hamper the Secretary of the Treasury in his efforts to sell the bonds. The character of operations in which the Government is now obliged to engage is this: We can not offer successive installments of Liberty Bonds at short intervals; we must allow a reasonable time between issues for recuperation and for the accumulation of savings so that the people may invest in the successive issues of bonds. In addition to all of that, where such colossal amounts are involved, two or three billions of dollars at a time—and those amounts may be larger upon these next issues; they may of necessity have to be larger—the period of adjustment of the credit situation is a very important thing. We must shift these moneys from one part of the country to another and then have time to get them back into the channels of trade again.

In order to put the Treasury in a position to allow an essential interval between the successive installments of liberty bonds, the short-time certificate of indebtedness was authorized by the first act. They can be outstanding for not more than one year at a time, and under the present law there could not be outstanding more than two billions of certificates at any one time. Under the pending bill we have had to ask that the amount be increased from two to four billions of

dollars. These certificates have to be sold from time to time and they are not separable things from the liberty bonds themselves. They are a part of the essential process or the evolution of the bond which finally goes into the hands of the investor. These are sold in installments of two or three hundreds of millions of dollars, as the necessities of the Treasury require. They are sold as thirty or sixty or ninety day or four-month certificates, as the case may be, dependent upon the necessities of the Treasury. As soon as the liberty bond installments are paid by the public, these certificates which have been issued in anticipation of the sale of the liberty bonds are taken up and paid. Some of them will be issued in anticipation of taxes. Under our new laws the bulk of the taxes will be payable at the end of the year, in the month of June or at such other time as Congress may determine. So we have to have some means of temporary borrowing for the Government until these taxes are paid. These certificates are thus intended to be used in anticipation of taxes. It is easier to sell the short-time certificates of indebtedness because usually they are taken up by the banks, and the cost of selling them may be less than one-tenth of 1 per cent. Up to the present time it has been less than that.

On the other hand, the campaign for the sale of liberty bonds must be a popular offering, because you can not sell these without the help of the people of the United States. The banks alone can not take them. The men of means could not take them alone; these great financial operations can only be successfully carried out with the cooperation of every element in the community. Every man must help with his means and every man must help with his services and his efforts. We have a vast extent of territory in the United States and we have a vast population. That population is not educated to buying Government bonds. The first issue we made of two billions of dollars was made in the face of the very firm conviction of men of great ability and knowledge about investments that such an issue could not be sold to the people of the United States. They did not think it could be done. I think I am correct when I say that the estimate of the number of investors in this country, of people who would buy bonds and were accustomed to buying bonds, was between three and four hundred thousand people only. When the decision was made to offer two billions of liberty bonds—and that decision I may say was not arbitrarily made; it was made because we had to get the money, we had to have it—every man turned in and worked with great enthusiasm and it was really an inspiring spectacle to see men of all classes in the country, bankers and business men and individuals, women as well as men, pulling together earnestly and enthusiastically to make that issue a success. It never could have been made a success in any other way.

The cost of that campaign upon the returns we have thus far had of actual expenditures and upon the estimates that the department has made as to items not yet returned was about \$2,600,000. A part of that is estimated. The full returns are not in. That, you will observe, is more than one-tenth of 1 per cent of the two billions, which would be two millions. We paid for no advertising in that campaign. We had the enthusiastic support of everybody, banking houses and bankers not only contributed the services of their employees in many instances for nothing, but they actually printed

circulars at their own expense and distributed them. Many of them suggested that they ought to have the franking privilege, and I myself should have been glad to have let them have it, but of course it was impracticable.

Senator GORE. Have you published how many purchasers there were?

Secretary McADOO. We had over 4,000,000 subscribers to the first loan.

Senator GORE. Ten times as many as estimated?

Secretary McADOO. Ten times as many as estimated. But free advertising space was given to the Government in the campaign, some of it by newspapers themselves, which they furnished. I asked for no free advertising myself, on the theory that it was not altogether fair for the Government to request the newspapers to furnish advertising free. Many newspapers could not afford to do it, and those which could have furnished it free would have put those who could not in a class by themselves. Some newspapers, however, furnished free advertising, and many department stores, banking houses, and others which advertise in the newspapers used their space for liberty bonds. So, as a matter of fact, we got an immense amount of free advertising which was of inestimable value. A great deal of free advertising was given on street cars, billboards, etc.

Senator STONE. And in theaters.

Secretary McADOO. And in theaters. I confidently believe the amount contributed by individuals and banking houses and others on the first liberty-loan campaign—I do not mean only in money, but in volunteer service and in advertising of the character I have described—amounted to \$2,500,000, and I should not be surprised if it was not worth more than that to the Government. If that be true, then it cost about \$5,000,000, or a quarter of 1 per cent to sell the first two billions of liberty bonds. It is true we had an over-subscription. I felt that I could not accept the amount over-subscribed.

When the loan was announced everybody, of course, looked upon an operation of such a large character with a certain degree of apprehension and bankers had to prepare themselves for the shifting of these vast credits. I felt obliged, therefore, to announce for the Treasury Department that we would accept subscriptions of two billions of dollars only.

We had sold something like nine hundred millions of Treasury certificates of indebtedness in anticipation of this liberty bond issue and those were taken up and discharged when the bonds were sold. The tenth of 1 per cent on the nine hundred million dollars of debt certificates, plus the tenth of 1 per cent on the two billions of bonds sold was sufficient, but if this provision of the House bill should pass, assuming it means what it may mean, although it is not fully clear, then we could not avail ourselves of the tenth of 1 per cent upon the certificates of indebtedness we sell between bond issues, and which are an essential part of such bond issues.

I am satisfied that future issues of these bonds are going to cost a great deal more than the first.

I want to say to you gentlemen with all the gravity I can command and as seriously as I know how to express it, that with these large

issues of bonds to be sold before June 30, 1918, that it will be a monumental mistake, in my judgment, to tie the hands of the Secretary of the Treasury in such a way that he can not perform the task you may put upon him.

Is it wise, gentlemen, to shut our eyes deliberately to the essential expenditures that must be made to sell these bonds as a whole and tie the hands of the Secretary of the Treasury so that it is practically impossible for him to sell securities to provide the necessary money to take care of the demands upon the Government. A fifth of 1 per cent is the irreducible minimum with which we could undertake the sale of these bonds.

Senator STONE. What will you do with it?

Secretary McADOO. It costs a twentieth of 1 per cent to engrave these bonds when you have 4,000,000 of subscribers. We are asked already upon the returns made to turn out of the Bureau of Engraving and Printing 8,000,000 pieces. Those 8,000,000 bonds are of different denominations. We are selling them in denominations of \$50 and upward, and we have not got them out yet.

There is a campaign on for paid advertising in the newspapers. I have not committed myself to any sort of advertising campaign, but I wish to say if it becomes necessary to sell these bonds, within the appropriation you may allow me for the purpose, to pay for advertising what difference does it make whether it goes to the newspapers or as compensation to people for services in helping us, so long as we sell the bonds for a fifth of 1 per cent, if we can sell them for a fifth of 1 per cent, which is a monumental task. Others could not do it; Canada could not do it. In Canada they paid the bankers three-eighths of 1 per cent, which on our last loan would have amounted to \$7,500,000. That is what Canada would pay now.

She is paying that percentage to the bankers and brokers and various agencies as compensation. We pay nothing to our bankers and brokers. And I may say I think it is small of our Government to refuse to pay them actual out-of-pocket expenses for the services they render in a campaign of this character. We can not imperil the ability of this Government to carry forward these great financial operations because we hesitate to spend a small amount on campaigns and tie the hands of men who are carrying forward these campaigns. I do not know what direction they will have to take, except to a certain extent, but I do know that whatever is necessary to be done within the limit you prescribe for the sale of these bonds, the Secretary of the Treasury ought to be in a position to do, and I want to beg with all the earnestness I can command that you give to the Secretary of the Treasury an appropriation of one-fifth of 1 per cent, which is certainly less than any other government has required.

Senator GORE. Do you feel obliged in each instance to agree not to accept over-subscriptions?

Secretary McADOO. Well, Senator, that is a debatable question.

Senator GORE. The advertising that brought the surplus goes to waste, but you can not prevent it?

Secretary McADOO. Let me explain this to you. It is very important to the financial community and to trade and commerce in the country, the banks particularly, that they shall know each time how much must be raised and within what period and upon what terms, because the shifting of these credits is a pretty large matter. The banks must

be kept liquid so that the commerce of the country shall not be interrupted. It is consequently of great advantage to tell the financial communities what the Government's operation is going to be, I mean the limit exactly for each one of these loans.

There is still another advantage. Our bonds under the act of Congress must not be sold for less than par. If there is an unsatisfied demand in the market for the bonds it tends to keep these bonds up at par, or at a premium, and so I think, and a great many able men think, that it is a good thing to have the amount determined.

Secretary McADOO. Reverting to the bill, I have suggested, and the House has adopted the suggestion, to issue war-savings certificates of small sums, so that a man with \$4.10 may buy a certificate, upon which the interest will accumulate at the rate of, say, 4 per cent, and at the end of five years turn it in and receive \$5 from the Government. It is necessary in these matters that the Government should let the interest accumulate rather than pay the interest of 10 cents to each holder every six months, which would be manifestly impossible. There are 2,000,000,000 of war certificates authorized in this bill. The extent to which we can sell those two billions of dollars will reduce the amount of higher denomination bonds that will have to be sold. But do you realize that in order to make this go we have got to organize in every town and factory and business house and everywhere else in America, and we shall be able to do that successfully only because of the volunteers who are offering to effect those organizations. You can hardly expect those volunteers to serve if we will not even pay the postage or the cost of printing circulars and doing all those things that are reasonably necessary to be done—the out-of-pocket expenses—and an organization on that scale is bound to cost money.

There is another great difficulty about these successive campaigns. As I said before, each campaign is in a sense a sporadic one. It is hard to maintain the organization for one until the next campaign. When they have nothing to do in the meantime, the tendency is to disintegration. You have always got to reorganize each campaign and get momentum. If I had everybody who worked for liberty bonds on the pay roll of the Government, it would be a different thing.

All I ask, gentlemen, is that I may have your cooperation, and if Congress adjourns soon you can all render inestimable service to the country in helping in these liberty bond campaigns, because you men who stand as the representatives in your States and in your districts can go back and tell the people about these bonds and how necessary it is that they shall buy them and help provide the Government with means of carrying on these essential operations.

Senator SMOOT. Are you going to try to apportion the amount to each State on the basis of population?

Secretary McADOO. No, sir; we did not do that before. What we did do before was to make a tentative allotment based upon the banking capital and resources of the different Federal reserve districts and that in turn was apportioned among the different communities or districts.

Senator SMOOT. I know that in some communities that subscribed all that they were asked to and sometimes more, and at the same time

subscribing money for the Red Cross, are now beginning to feel the effect of it in their business. The money paid was not deposited in banks of those communities and it was taken out of the channels of business. I know that in my own State money is tighter to-day than it has been for many past years, and we can trace it directly to the amount that was paid for liberty bonds and donations for the Red Cross subscription. None of it was redeposited. It was transferred to the larger money centers; and, in so doing, the larger money centers do not feel the pinch nearly so badly as the small communities in the West.

Secretary McAdoo. That is very true. That, of course, brings up another phase of this matter—the question of the redeposit of the funds from the sale of bonds. I, as you know, have asked for the elimination of the provision which the Senate put in the last bill requiring automatic distribution of the deposits. That was—as I saw it would be—a very awkward thing for the department to handle. Many of the banks in the country would not take the Government deposits because they could only remain there a short time, anyway, and to get them they have to give security, to pledge securities that conform to the regulations of the department, those having been made again in conformity with the law of the land. There was not sufficient inducement to many banks to receive Government deposits.

Senator Smoot. They may not have the securities.

Secretary McAdoo. Let us take Salt Lake City, to illustrate. Suppose half a dozen banks turn in subscriptions of a hundred thousand dollars each. Suppose five of them say, "We do not care for these deposits; we have not the securities," or for any other reason. Suppose the sixth bank had said, "Yes; we will give you all the securities you want and take the entire \$600,000 of deposits and keep them until the Government wants the money." I could not leave the money there; I had to take it out of the community because the act required me to deposit with any one bank not more than that bank subscribed itself or for its customers, which, of course, was a very unfortunate provision. It was made with the best of purposes, but it operated very badly. In a case like that I had to take that money out of Salt Lake and put it, say, in San Francisco, and leave it to percolate back in the ordinary channels of trade. It is very true that in communities which are not directly involved or are not engaged in the production of things that enter immediately into the war, so that when the Government disburses the money from these loans it does not go right back to that community to pay for the things; in such communities they have been deprived to some extent of their resources.

My idea is that, so far as it is in the power of the Secretary of the Treasury to do so, he should redeposit funds in these different communities according to their necessities. In other words, he ought to have a free hand. In fact, gentlemen, you must give the fiscal department of this Government as much latitude as you can in handling the finances of the country to meet these extraordinary conditions. The Secretary of the Treasury must be prepared to make quick decisions, and it is for those reasons that I should be very glad if you would give me the latitude about deposits and the right to deposit with or without any such conditions. What difference

does it make? The question of interest on deposits during the time the funds are going to be left in these banks is a small one so far as the Government is concerned, and yet we are not compensating bankers but are requiring them to give specific security for the funds, and it may be very wise to let them have the money for a few days without interest. We must succeed, and we must not put needless impediments in the way of our success by these hampering restrictions that make it difficult for the department to carry on the work of the Government. I hope you will excuse me for making a speech, but it is only because I feel so intensely the seriousness of the necessities that I want to get the matter properly before you.

Senator LODGE. You have got one-tenth of 1 per cent for certificates. How much do you estimate for that?

Secretary McADOO. I am willing to leave that at a tenth; but I do not want it restricted so that I can not use any excess.

Senator SMOOR. It will not cost one-twentieth of 1 per cent.

Senator LODGE. Take out the first proviso.

Secretary McADOO. Yes; and change the one-seventh to one-fifth. I am going to submit a bill with these amendments.

Senator LODGE. I want to know about advertising, because we have got people coming here who want to advertise and ask a lot of money.

Senator STONE. In connection with Senator Lodge's question. I had in mind to ask you something, and I ask it because they run together and you can answer both at once. The expenses to which you would be put will cover, you say, various things. One of the main items relates to the printing of the bonds and certificates?

Secretary McADOO. Yes.

Senator STONE. That is necessary. That we understand. Now, beyond that what are the items, in your judgment, of expense, including particularly advertising; and did you go to any expense in advertising the liberty-bond loan?

Secretary McADOO. We did not. We spent nothing for advertising the first liberty loan.

Senator LODGE. Your advertising is not included in your fifth of 1 per cent?

Secretary McADOO. No. The fifth of 1 per cent I want to be permitted to expend in whatever way will be necessary to sell these bonds.

Senator LODGE. Certainly; but I did not know whether you intended to cover advertising or not or whether you needed more for advertising.

Secretary McADOO. If advertising is necessary, I want to be free to advertise.

Senator SMITH. But you propose to do it out of the one-fifth?

Secretary McADOO. My suggestion is, if you allow me one-fifth, I am going to use it to sell the bonds, and if some advertising would help sell them, use a part of it for advertising, but I will not exceed the appropriation whatever it may be.

Senator LODGE. I will say frankly that it seems to be unwise to put in any provision of law as to advertising. It seems to me that ought to be left to the sellers of the bonds.

Secretary McADOO. I think it would be extremely unwise to put that in. That is only to be determined by the progress of each campaign.

Senator JONES. If you put a provision like that in there you would be worried to death.

Secretary McADOO. The department can not discriminate if it goes into newspaper advertising; it must advertise in every newspaper of the land. Now, the estimates submitted to me show that a newspaper campaign of fairly respectable proportions would cost anywhere from a million and a quarter to two and a half millions of dollars for each campaign. That would exceed the present appropriation. The last estimate I had for an advertising campaign was \$2,600,000 for one bond issue.

Senator SMOOR. They are asking for \$3,000,000; that was the estimate of the Publishers' Association.

Secretary McADOO. The last figure I had was \$2,600,000. Obviously, I could not engage in an advertising campaign at that rate, even with an allowance of one-fifth of 1 per cent. But it may be necessary to use some advertising. I do not know whether it will be in the newspapers or in some other form, but whatever form it is going to take it would have to be paid out of the appropriation that you make. I think a fifth of 1 per cent would be enough to enable me to see daylight.

Senator LONGE. You want us to give you the money for the expense incident to selling the bonds?

Secretary McADOO. Precisely. I will tell you what these expenditures are.

Senator STONE. On the floor of the Senate, if some Senator gets up and asks for what purpose will this money be expended I would like to be able to give some intelligent answer to him. What would the answer be?

Secretary McADOO. One-twentieth of 1 per cent will be required for engraving, judging from the experience we have already had. That is based upon the assumption that we should have practically the same distribution of the bonds as we had on the first issue—that there would not be a requirement of over 8,000,000 pieces. That would mean 16,000,000 pieces for \$4,000,000,000 bonds. My own judgment is that it will exceed that, because we have got to reach the smaller investors in this country.

Senator SMOOR. Do you mean 7,000,000 pieces for each campaign?

Secretary McADOO. I mean 8,000,000 pieces for \$2,000,000,000. You can multiply it by the number of billions issued. That is the number of pieces that you have got to print and engrave.

Senator SMITH. If they want these converted to other bonds, you must print the new bonds for them.

Secretary McADOO. That is true. Then you must provide that every one of these bonds may be exchanged into other denominations. For instance, if a man gets ten \$50 bonds he wants to convert them into one \$500 bond. We must do it, and practically without charge, though we reserved the right to impose a small charge in such cases. My judgment is that we have got to do it for nothing, at least in the first instance.

Senator GORE. And if they want to split them you would have to do that?

Secretary McADOO. A man may want to divide a bond into small denominations. Then you have the expense of all of that reprinting.

That is a tremendous task. Not only that—a hundred million of people have got to be reached, and they have got to be given buttons, and, by the way, it is extraordinary what a factor the button is in selling a bond of a small denomination. I was amazed at the demand for liberty-bond buttons in the last campaign. We have got to distribute them by the millions to the people who buy, and every person who puts a button on helps to sell other bonds.

There are millions of posters and circulars to be printed; there is an immense correspondence to be conducted—an overwhelming correspondence. I must organize in the Treasury—I have no room in the Treasury to put anybody, and it is almost impossible to get space in Washington for clerks—I must organize an immense clerical force to cover this job, and every reserve bank in this country has had to increase its force enormously for the purpose of handling these operations, because I have made each one of them, as fiscal agent, the representative of the Government in its Federal reserve district for the purpose of carrying on the campaign in the district. All of those expenditures have got to be met, and innumerable others that I can not for the moment recall. The provisions of the bill require that a detailed statement of expenditures of each of these issues shall be made to Congress in each December. That will be submitted in due time.

Senator SMOOT. Mr. Secretary, is it possible to give, not a detailed statement, but a statement of what the expenditures consist of generally that have already been made on the sale of bonds already made?

Secretary McADOO. Yes, sir.

Senator SMOOT. So that the committee would be in a position to say: "These are the general line of expenditures that have been necessary to sell the issue that has already been sold, and then state that based upon those expenditures the issue to be made will require so much," thus enabling the committee to inform the Senate on this subject, because I am quite sure the Senate will require that information.

Secretary McADOO. I have given the statement. The first issue cost the Treasury something like two and a half million dollars.

Senator SMOOT. Could you give some kind of general itemized statement, in classes rather than in specified items?

Secretary McADOO. I should be glad to furnish all we have. The full returns have not yet come in, however.

Senator LODGE. We want to give them an idea of the items.

Senator SMOOT. In other words, so much for printing certificates, and so many certificates printed, etc.

Senator STONE. It is not so much the question of amount but the general items.

Senator LODGE. The items and what they cost. I do not think the amount for each item is important.

Senator SMOOT. I think that would be important.

Secretary McADOO. We can give it to you in general terms without any difficulty.

Senator STONE. You had better furnish that to us in the morning.

Senator SMOOT. It will be of great assistance on the floor of the Senate, particularly if we provide for one-fifth of 1 per cent.

Secretary McAdoo. There is no difficulty about that; I shall furnish that.

Senator Stone. I would like to ask you a question. It interests me very much. Here we are to provide in round numbers about thirteen billions of bonds or securities. I am not at all clear as to how that is to be divided between taxation—I mean in raising this thirteen billions of money, between taxation and bonds. There is a provision in here for four billions of certificates of indebtedness. Now, do I understand your idea to be that these certificates of indebtedness are convertible into bonds, that they do not run more than a year, and would you limit all of them to a single year?

Secretary McAdoo. Yes, sir; the act specifically provides that they must be—

Senator Stone. I know what the present law is, but I am speaking about what we are to do now, to limit them all to a single year, and then are they to be converted into bonds running for a long period, the bonds we are providing for here, and as they mature; and if so, what part of the whole sum of thirteen billions is to be levied in the form of taxes, if any?

Secretary McAdoo. No part of this is, Senator. You have asked several questions. First, I will deal with the certificates of indebtedness. This bill authorizes the issue of four billions of Treasury certificates of indebtedness which can not have a longer maturity than one year, and not more than four billions may be outstanding at any one time. Those are issued merely in anticipation of bond sales or tax payments. For instance, we are now carrying on the financial operations of the Treasury in anticipation of the next issue of liberty bonds by the sale of these temporary certificates of indebtedness. Suppose that the next issue of liberty bonds were paid for on the 1st of next November. Suppose that in order to carry on the operations of the Government until the proceeds of those bond sales were available I had to issue meanwhile three billions of certificates of indebtedness. They will be taken up out of the sales of liberty bonds. That not only enables us to time the installments of the liberty bonds, but it is also a very effective means of gradually selling the bonds, because we finance them very largely in advance of the sales of the bonds, and that eases the pressure on the financial resources of the country.

Senator Smith. Instead of taking up these 12-month certificates and merging them into bonds—

Secretary McAdoo. They are retired and they are available to carry us over another period when we have not got any other means.

Senator Smith. That is not a part of the permanent indebtedness?

Secretary McAdoo. No, sir; not at all.

Senator Stone. Not paid for by taxation but from the proceeds of the sale of the bonds?

Secretary McAdoo. Either that, or they could be issued in anticipation of taxes that are authorized to be collected at a certain time, and then as soon as the taxes are paid they would be retired.

Senator Stone. All these questions will come up in the Senate, and I am trying to get at the view of it. The plan here does not, however, as I understand it, contemplate the levy of taxes to meet the certificates of indebtedness that you are to issue.

Secretary McAdoo. No, sir.

Senator STONE. Although when a certificate of indebtedness is out you can take it up with any available money in the Treasury no matter from what source it comes.

Secretary McADOO. Precisely.

Senator STONE. But primarily the theory is that the certificates of indebtedness will be taken up with the proceeds of bond sales?

Secretary McADOO. Of bond sales or with taxes when paid in.

Senator STONE. Although no taxes are levied in anticipation for that specific purpose?

Secretary McADOO. These are merely a facilitating process of finance until taxes are paid.

Senator SMITH. You have your bonds to raise money, and this is a utilization of your credit while you are getting your money in.

Secretary McADOO. Yes, sir. I wanted to say further that this particular bill has reference more especially to the further extension of credit to foreign governments than to anything else. At the same time it repeals the act of April 24, 1917, as to all bonds unissued. If this bill should become a law, the Government could extend credit to foreign governments to the extent of \$1,000,000,000 additional within the remainder of this fiscal year, or expend \$1,000,000,000 until it was exhausted. It is not limited to the fiscal year, but the maximum additional authorization is \$1,000,000,000.

Senator SMITH. Seven billions in all?

Secretary McADOO. Ultimately if all should be loaned to foreign governments, seven billions, for which we take back their obligations.

It means two billions and a half of bonds authorized under the act of April 24, 1917, available for the expenditures of our own Government would not be issued under that act, but would be issued under this act and would be applicable to our own expenditures for this fiscal year. The amount of taxation you are providing in your revenue bill is not sufficient, plus the bonds authorized under this bill or under the act of April 24, 1917, to make up the deficiency. That we shall have to deal with by such means as you may prescribe at the next session of the Congress. I think we shall have a clearer picture of the whole situation in December than we have now. I imagine you will resort to bond issues to make up the deficiency for this fiscal year for our own expenditures. We shall certainly know in December better than now just what that deficiency is likely to be, and you will legislate with reference to it with more certainty, so that this bill does not undertake to go further than to convert the unissued bonds in the act of April 24, 1917, into the bonds of this series and authorize four billions of additional credit to foreign governments and to increase the amount of temporary certificates the Secretary of the Treasury is authorized to issue and to authorize two billions of war savings certificates. They, by the way, would be available for the expenditures of our own Government or for any other purpose that the act might authorize.

Senator STONE. After you have taken up all certificates of indebtedness that may be issued, so that the four billions are wiped out of the equation, what will be the amount of the bonded indebtedness up to date under this bill and under the previous bill?

Secretary McADOO. If we expend the entire seven billions of credit that would be authorized by this and the previous bill to foreign

Governments, and if we issue the two billions of war-savings certificates and the two and a half billions of bonds authorized under the act of April 24, 1917, for the uses of our own Government, we would then have a total outstanding indebtedness under this bill and the act of April 24, 1917, of about eleven and a half billions of dollars.

Senator GORE. Itemize that amount.

Secretary McADOO. Eleven and a half billions in round figures, of which seven billions would be allowed for loans to foreign Governments and four and a half billions for our own necessities.

Senator STONE. That would be the total of the bonded indebtedness outstanding under these bills.

Senator GORE. Does this bill give you the power you require for repositing the money in the bank?

Secretary McADOO. This bill gives me the power I want about deposits, except it compels me to charge interest. I feel that that ought to be omitted, although I said to the House committee if they insisted upon making it compulsory I would undertake it.

Senator GORE. You think it would be better to make it discretionary?

Secretary McADOO. I think it ought to be discretionary. We are making it really pretty hard for the banks under the circumstances. We not only pay nothing for the services they perform, but if we leave the money with them—

Senator SMITH. Do you not bear the extra expense of that?

Secretary McADOO. We have not borne it all.

Senator SMOOR. The banks have sent millions upon millions of circulars throughout the country.

Secretary McADOO. If you leave it to my discretion—

Senator LODGE. You would leave the deposit there to pay for that?

Secretary McADOO. We have had to leave the deposit only a few days in some cases.

Senator LODGE. They have gotten nothing?

Secretary McADOO. Except they have got some measure of reimbursement from the Federal reserve bank.

Senator SMITH. You reimburse the Federal reserve banks?

Secretary McADOO. Yes, of course.

Senator STONE. Can Mr. McCoy furnish the committee through you just a statement in two or three lines, to this effect: Showing, the total bonded indebtedness under the act of April 24, 1917, and the pending bill. Now, per contra, can he furnish us with a statement showing the amount to be raised for the prosecution of the war by taxation under the pending revenue bill. That bill raises approximately two billion four hundred million dollars.

Secretary McADOO. Senator Simmons had a statement about the estimated receipts under the revenue bill.

Senator STONE. What I want is a definite statement to put in this record so that we can turn to it on a certain page of the record and read it.

Secretary McADOO. Mr. McCoy will give you a statement about the bonds and about probable revenues.

Mr. McCoy. Yes, sir.

(The statement referred to is printed in full at the end of this volume.)

Senator Smoot. I want to ask if the Treasury Department now has any short-time obligations of foreign governments?

Secretary McAdoo. Yes, sir.

Senator Smoot. In what shape are they?

Secretary McAdoo. Senator, they are like our own short-time obligations of indebtedness, the Treasury's own short-time obligations. I will say this, I notice a question was raised by Mr. Cooper in the House which was based, I think, upon a misconception as to what the power under the law is. We are to take from these foreign Governments obligations which in their essentials are the same as those we issue to our own people. We wished to finance them temporarily until we could sell liberty bonds, just as we did ourselves, and of course the short-time certificates of indebtedness and the long-time liberty bonds are available not only for our own financing but for the foreign loans, so that we took back the obligations of the powers in their essence the same as the short-time obligations we issued to our own people, with a provision that those short-time obligations should be converted into longer time obligations upon demand when we issued our liberty bonds. In substance, that is what it is. I preferred to get the obligations of the foreign governments in the form in which we could determine more definitely just what kind of denominations or what forms we should require them to convert these bonds into ultimately. In other words, we ought to be in a position to require them at any time to not only convert their obligations into higher interest-bearing obligations if we issue such obligations, but also to deliver such denominations as we thought desirable in lieu of a single denomination.

I am satisfied that any lawyer would say that the obligations I have taken from these foreign governments comply strictly with the requirements of the act.

Senator Smoot. The reason I asked the question was because I stated that we had short-time obligations of foreign governments and it was denied, and I based my statement upon no knowledge that I had received from the departments, but upon the fact that I knew money had been advanced to England before ever the bonds could have been engraved, or before it was possible to receive them from England.

Secretary McAdoo. Of course. We do not have to take an engraved bond. If we take the obligation of the Government in writing, it is just as good.

(The committee thereupon went into executive session.)

(At the expiration of the recess, at 5.40 o'clock p. m., the committee adjourned to meet at 10 o'clock a. m. to-morrow, September 12, 1917.)

WEDNESDAY, SEPTEMBER 12, 1917.

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

The committee met, pursuant to adjournment, at 10 o'clock a. m., Senator William J. Stone presiding.

Present: Senator Stone (acting chairman), Senators Smith, Lodge, McCumber, Smoot, La Follette, Gerry, Gore, and Williams.

Senator STONE. Mr. Leffingwell, will you proceed?

STATEMENT OF RUSSELL C. LEFFINGWELL.

The CHAIRMAN. What is your position in the Treasury?

Mr. LEFFINGWELL. I am helping the Secretary of the Treasury because he invited me to come down and do so. I had wanted to do something as my share in the war.

Senator STONE. What is your work?

Mr. LEFFINGWELL. I am a bankers' lawyer, from New York. For 15 years I have been trying to keep bond issues in order, write circulars so they said what they were meant to, and the Secretary thought I could be of some assistance.

On the top of page 2 of this bill a proviso was inserted regarding the old acts under which certain unissued bonds were authorized to be issued—Panama bonds and others. In putting in that proviso, which is perfectly proper, they struck out the provision in the bill as it had been reported by the Ways and Means Committee, which said that the \$7,538,945,460 mentioned at the top of the page was in addition to 2,000,000,000 bonds already issued or offered for subscription under the act of April 24. In the House there was some discussion of the point, and the question was raised whether it was clear that it was in addition, as it was intended to be.

Senator LODGE. Of course, it is in addition.

Mr. LEFFINGWELL. And the question having been raised and there being no reason why there should be any doubt, just as a matter of draftmanship, it is suggested that the language be restored which was in the bill as it was reported. The language is inserted before the proviso "in addition to the \$2,000,000,000 bonds already issued or offered for subscription under the authority of the act approved April 24, 1917, entitled 'An act to authorize an issue of bonds to meet expenditures for the national security and defense, and, for the purpose of assisting in the prosecution of the war, to extend credit to foreign governments, and for other purposes.'"

Senator LODGE. That ought to go in.

Senator SMITH. Why, in the first line, did you take seven billion and run it down to \$460?

Senator LODGE. Because it covers those old loans. I move that be inserted.

Senator GORE. I second the motion.

Senator SMITH. Without objection, we have agreed to it. Now, on line 3, after the word bonds, in this copy I have, is inserted "not already issued."

Mr. LEFFINGWELL. That is a clerical point, too. Some doubt seems to have been in the minds of various people, through the form of this proviso, as to whether we were not refunding under this measure old bonds. Of course, the point is that the bonds not already issued but authorized under the old acts should be issued under this new act.

Senator LODGE. Those odd lots have never been issued?

Mr. LEFFINGWELL. Not already issued. The way it was expressed in the act of April 24 was "not already issued authorized."

Senator WILLIAMS. Put in "already issued, but authorized."

Senator SMITH. Three billion and sixty-three million nine hundred and forty-five thousand four hundred and sixty dollars in lieu of the amount of the bonds not already issued. That is where you get those figures from.

Mr. LEFFINGWELL. Yes, sir. That is the total of these figures in the proviso, added to the four billion. The point recurs in three other places—line 6, line 8, and line 11.

Senator SMITH. Your next amendment is page 4.

Mr. LEFFINGWELL. Top of page 4, lines 2 and 3, after the words "not later than the bonds of the United States then last issued under the authority of this act." the suggestion is to insert "or of said act approved April 24, 1917."

Senator SMITH. Or "by said act."

Mr. LEFFINGWELL. I think "under the authority of this act or of said act approved April 24, 1917."

On page 6, thirteenth and fourteenth lines, you have an amendment of the kind suggested by the Secretary yesterday, permitting the United States to sell these foreign obligations if a subsequent law so provides. It would make lines 13 and 14 read, "such obligations (but not at less than the purchase price with accrued interest unless otherwise hereafter provided by law)."

Senator GERRY. Might not that be a dangerous proposition? Might not a situation arise in which it would be advisable to sell those bonds when Congress was not in session?

Senator SMITH. I do not think so. I do not think we ought to sell without action by Congress at less than par.

Mr. LEFFINGWELL. Unless otherwise hereafter provided by law.

Senator SMOOR. Unless otherwise authorized by law.

Senator STONE. The Secretary stated yesterday that he thought there ought to be some authorization for the disposition of these bonds at less than par.

Senator GORE. We ought not to foreclose our right to do that.

Senator STONE. Does this amendment of yours change the effect of the present law?

Senator SMITH. The Secretary of the Treasury suggested we ought in the act itself to preserve the declared purpose of selling at less if we saw fit by law to so provide at any time in the future.

Senator SMOOR. I would not like to have these suggestions acted upon at this time. Let us take them down and act on them later.

Senator LODGE. They are most of them formal.

Senator SMOOR. Let us take them all down and go over them and adopt them in the committee after the Treasury officials are away.

Senator STONE. I am in entire harmony with that proposition, only I would like to know, when we come to consider them in committee, whether in the opinion of the Secretary the suggestion now made by Mr. Leffingwell is in entire harmony with his suggestion of yesterday?

Secretary McADOO. Yes; I think that is what we ought to put in this act.

Senator STONE. What is the next amendment?

Mr. LEFFINGWELL. Page 7, line 6, at the middle of the line, after the word "in" insert the words "offering for subscription." The next amendment is that defining the conversion right which the Secretary explained yesterday, beginning at the bottom of page 7 and continuing over to the top of page 8, striking out that whole sentence and substituting the rider.

Senator LODGE. We adopted that.

Senator WILLIAMS. I would like to know what that is.

Mr. LEFFINGWELL (reading):

The bonds to be issued upon such conversion shall be substantially the same in form and terms as shall be prescribed by or pursuant to law with respect to the bonds of such subsequent series, not only as to interest, but also as to convertibility (if future bonds be issued at a still higher rate of interest) or nonconvertibility, and as to exemption from taxation, if any, and in all other respects, except that the bonds issued upon such conversion shall have the same dates of maturity, of principal, and of interest, and be subject to the same terms of redemption before maturity, as the bonds converted; and such bonds shall be issued from time to time if and when and to the extent that the privilege of conversion so conferred shall arise and shall be exercised. If the privilege of conversion so conferred shall once arise, and shall not be exercised with respect to any convertible bonds within the period so prescribed by the Secretary of the Treasury, then such privilege shall terminate as to such bonds and shall not rise again, though again thereafter bonds be issued bearing interest at a higher rate or rates.

Senator LODGE. That applies only to bonds in this law.

Senator McCUMBER. But it does not so state. I want it to be made certain.

Mr. LEFFINGWELL. Let me go back over the section. The first sentence of the section says "That in connection with the issue of any series of bonds under the authority of section 1 of this act the Secretary of the Treasury may determine that the bonds of such series shall be convertible." That means very clearly the seven and a half billion now authorized. That has nothing to do with the two billion $3\frac{1}{2}$ per cent bonds.

In any case of the issue of a series of convertible bonds, if a subsequent series of bonds (not including United States certificates of indebtedness, war savings certificates, and other obligations maturing not more than five years from the issue of such obligations, respectively, bearing interest at a higher rate shall, under the authority of this or any other act, be issued by the United States before the termination of the war between the United States and the Imperial German Government (the date of such termination to be fixed by proclamation of the President of the United States), then the holders of such convertible bonds shall have the privilege, at the option of the several holders, at any time within such period, after the public offering of bonds of such subsequent series, and under such rules and regulations as the Secretary of the Treasury shall have prescribed.

Then comes the rider.

Senator McCUMBER. Read the rider.

Mr. LEFFINGWELL (reading):

The bonds to be issued upon such conversion.

Senator LODGE. Why not say, "to be issued under this act"?

Mr. LEFFINGWELL. Would it not be more accurate to say, "the bonds to be issued upon such conversion of bonds issued under this act"?

Senator LODGE. I think "bonds to be issued under this act."

Senator LA FOLLETTE. That is the better phraseology which is stated by Mr. Leffingwell.

Mr. LEFFINGWELL. You have the suggestion made by the Secretary yesterday to strike out the last sentence of section 10, beginning on line 16 and down through line 21.

Senator LODGE. That ought to come out.

Mr. LEFFINGWELL. On the same page, in section 8, line 24, the question has been presented to the Secretary of the Treasury in operating under the old act, whether deposits may be made with mutual savings institutions, such as exist in Ohio and a good many other States, which are not technically banks in the opinion of the department. The Secretary has not felt he was free to make such deposits.

Senator LODGE. What do you mean by savings banks?

Mr. LEFFINGWELL. The mutual savings banks.

Senator WILLIAMS. Striking out the last sentence under section 7 strikes out the exemption of \$5,000. What is the reason for that?

Senator SMITH. We went over that fully before. The \$5,000 only allows \$200 exemption, and nobody is ever going to put any surtax on that anyhow. It is surplusage.

Senator WILLIAMS. How do you know that? It may be part of another income.

Senator STONE. Let us get Mr. Leffingwell's idea and then discuss these matters more fully later.

Senator SMITH. I would like the Secretary to tell us if he really wants us to put this money in any mutual institutions.

Senator LODGE. That act would cover our savings banks in Massachusetts, because they are incorporated.

Secretary McADOO. But it will not cover mutual savings associations which are not organized as corporations.

Senator SMOOT. Would you want to deposit in those banks under the present condition of business?

Secretary McADOO. In the State of Ohio particularly there are some very strong mutual savings banks. This situation might arise; I do not know, but suppose that it was desirable to deposit Government bonds in some such mutual savings associations.

Senator LODGE. Unincorporated?

Secretary McADOO. They have got to give the security that every other institution must give for Government deposits; and if they qualify under the terms of the act, the point is whether or not we should not permit them, as we are making this as general in its application as possible, so that we will enlist every possible interest—whether or not we should give them the benefit of depositing the same as other banks, provided they have proper security.

Senator WILLIAMS. Where would you draw the line if you started that principle? You might just as well let Senator Lodge or me take some of that if we give the security.

Secretary McADOO. I had in mind more particularly the organizations in the State of Ohio, which are very well organized under the mutual plan.

Senator LODGE. Are not they organized under any law?

Mr. LEFFINGWELL. They are organized under the authority of law, but they are not incorporated. The law authorizes the organization of these mutual associations.

Senator SMITH. If they are not incorporated, does not the death of any one of the members affect the status of the company?

Mr. LEFFINGWELL. I do not think so. We have in New York a mechanism for handling such situations in unincorporated associations.

Senator SMITH. While not strictly corporations, their status is very similar to incorporated banks.

Mr. LEFFINGWELL. Very similar; but the Secretary did not feel justified in saying they were banks within the meaning of the old act. Senator LODGE. What is their legal responsibility?

Mr. LEFFINGWELL. I do not know precisely, Senator.

Secretary McADOO. It is complete. It is fixed by law, except they are not organized as corporations.

Senator STONE. Have they individual responsibility?

Secretary McADOO. No. I think the resources of the association are liable. I do not care very much about this. A good many of the mutual associations have suggested that they ought not to be discriminated against as they are helping us with our bond issues, and if they can qualify under the law by giving securities we take no chances, of course. They must give specific collateral. I am willing to have the discretion if the committee is willing to give it to me. There is another point. We are proposing under this bill to issue bonds at 4 per cent. That will affect some of these savings associations. It is in competition with them. It is conceivable that a great deal of money might be drawn out of those savings institutions to invest in 4 per cent bonds, and in a case like that it might be of great importance to them as the depositors of these mutual institutions will draw a great deal of money to invest in these bonds. Temporarily while this process is going on, and these savings banks and savings institutions are not liquid like a commercial bank, it might be of the utmost importance to give them temporarily the relief of a deposit until they can adjust themselves. I have felt the discretion could be wisely placed with the Secretary, so that if such a situation might arise, he would be able to deal with it.

Senator SMITH. All you wanted was, "any savings institution."

Secretary McADOO. "Operating or conducted under and by virtue of the laws of any State of the United States."

Senator LODGE. Would you let in any benefit clubs?

Secretary McADOO. Savings associations are very different from a benefit association.

Senator STONE. Your collateral is ample to cover any loss?

Secretary McADOO. We would not give them a deposit unless we were thoroughly secured.

Senator WILLIAMS. Do you want to say, "authorized under the laws of any State"?

Senator SMITH. "Organized or conducted."

Senator WILLIAMS. "Under the authority of law of any State."

Senator McCUMBER. That would take them all in, because they will all be organized or conducting business under the laws of the State, of course. That does not limit it at all to the legal effect.

Secretary McADOO. You must remember that no Government deposit is ever made unless there is adequate collateral security deposited for it, so that if we take in the mutual savings associations they would have to secure the deposits completely.

Senator SMOOT. I do not know enough about the operation of those mutual savings banks to pass judgment on the amendment now.

Senator LODGE. It seems to me to open a very wide door.

Secretary McADOO. I do not insist upon it, gentlemen; but it may be wise.

Mr. LEFFINGWELL. The next technical amendment is on page 13, line 16, at the beginning of the line, where it is suggested to insert the words "the proceeds of the."

Senator SMITH. You have skipped page 12.

Mr. LEFFINGWELL. Those amendments were fully discussed yesterday, Senator.

Senator WILLIAMS. You say you skipped some amendments. Just call attention to them, please.

Mr. LEFFINGWELL. Yes. Line 10, page 12: The Secretary suggests that he should have one-fifth of 1 per cent instead of one-seventh, and he suggests striking out the proviso which was inserted in the House, and the meaning of which is not wholly clear but which may have the effect that he can not avail himself of any saving in connection with the issue of certificates to cover a deficiency in connection with the issue of bonds. He treats the certificates and bonds as one operation.

The next amendment proposed is to insert the words "the proceeds of the" at the beginning of line 16, page 13; that explains itself.

The next amendment is at the end of section 11 in line 19. It is suggested with a view to amending an old act which the Division of Loans and Currency in the department has called attention to, which provides that all United States certificates of indebtedness shall be exempt from all United States taxation; in order to avoid a conflict between the old act of 1910 and this act as to certificates issued under this act, it is proposed to amend that old act by inserting the words (but, in the case of certificates issued after Sept. 1, 1917, only if and to the extent provided in connection with the issue thereof).

The other technical amendments have to do with the auditing, and Comptroller Warwick had better explain those.

STATEMENT OF HON. W. W. WARWICK, COMPTROLLER OF THE TREASURY.

Mr. WARWICK. Page 16, the first three lines, merely a technical amendment to make it read:

That the Secretary of the Treasury is authorized to appoint an assistant comptroller and an assistant auditor, and to fix their compensation instead of "upon the nomination of the comptroller and auditor."

The next is on page 17.

Senator SMOOR. Did not the House want that nomination to be made by the comptroller?

Mr. WARWICK. I do not know, Senator.

Senator SMOOR. Did you follow the discussion, or was there any discussion?

Mr. WARWICK. There was no discussion. It was due to the fact that there were two drafts of a bill submitted to the committee. By mistake the copy was not an exact copy, and this correction is suggested to make it conform with the draft the Secretary gave to the committee.

Senator SMOOR. I wanted to know if the House had any reason for doing that?

Senator SMITH. It merely strikes out "upon the nomination of the" comptroller.

Mr. WARWICK. Page 17, at the end of line 6, insert a new sentence, as follows:

No administrative examination by the War Department shall be required of accounts rendered and settled abroad, and the time within which these accounts shall be rendered by disbursing officers shall be prescribed by the comptroller, who shall have power to waive any delinquency in the rendition of these accounts.

Senator WILLIAMS. That is pretty general.

Mr. WARWICK. The purpose of putting this sentence in is this: The present law requires every disbursing officer of the Army to send his account to the War Department at Washington.

Senator WILLIAMS. We do not intend to relieve them of that duty. The other thing we want, probably, is to relieve them of the duty of sending them at once. This is pretty broad language—"no administrative examination by the War Department shall be required of accounts rendered and settled abroad." That ought to be within some time or until after the expiration of the war or something else. Certainly we ought not to relieve them entirely of the duty of sending them to the Secretary of War.

Mr. WARWICK. The objection is to the administrative examination of those by the War Department, and this is to relieve them of the necessity of sending these accounts to Washington. The War Department is located only in Washington.

Senator SMITH. That is an administrative examination.

Senator WILLIAMS. That has a technical meaning.

Mr. WARWICK. The examination prior to the auditing. The existing law requires them to send them to Washington. This does not take away the power of the Commanding General to have an examination of any of the accounts, but only relieves them of sending them to Washington.

Senator WILLIAMS. Ought there not to be a law requiring examination of their accounts? Is there anything in the law that makes it some one's duty to do so? There ought to be.

Senator SMITH. Undoubtedly. If we relieve the administrative examination of the War Department we ought to create some agency in France to take its place.

Mr. WARWICK. The Secretary of War, I presume, will have the officers settle their property accounts there.

Senator SMITH. I think we ought to put into this act the specific provision giving responsibility to some one.

Mr. WARWICK. The administrative examination referred to here relates to the examination of the vouchers after they have been paid. The commanding general and the chief quartermaster abroad will supervise these before they are paid.

Secretary McADOO. They must do that.

Mr. WARWICK. They are bound to do that now, but to say that after the voucher has been paid it shall be required to be again added up is not in my opinion necessary, and I think that is the view of the War Department, that they have all the supervision before the expense is incurred and before the voucher is paid. After the vouchers for a month have accumulated, 10,000 of them, it is not necessary to good accounting to have them go back to the chief quartermaster until he can go over those vouchers and see whether they are properly paid. The administrative examination as conducted in Washington serves to see if the orders of the quartermaster general have been complied with by the disbursing officers, checking up the payment to officers and men, preventing duplication and things of that kind; but in the field they are not going to maintain that system which they have in Washington. in my opinion, because—

Senator WILLIAMS. Because they can't.

Mr. WARWICK. It would tie them up so that the accounts could not be settled. I think it is the intention of the War Department to ask that the comptroller's office in France and the auditor's office will keep the statistics for them instead of their keeping accounts out in the field. That would save the War Department.

Senator WILLIAMS. That is all right if there is an opportunity of making examination, but if you are going to rely on the previous examination of the commanding general, who has a whole army to attend to, it would be a pretty cursory examination.

Mr. WARWICK. I think the chief examination will be by the chief quartermaster in France.

Senator SMITH. Some legislative provision ought to be inserted if we do away with the administrative examination in the War Department in Washington, placing a duty equivalent to that in France, and it ought to be specified in this legislation.

Mr. WARWICK. It would be done by the chief quartermaster there and the chief of the engineer department and the ordnance department. Each of the bureaus will run their accounts. They will have the exact equivalent of an examination here, only I think they will do it better because it will be done right in the field.

Senator SMITH. Why is this done here if they do it better in the field?

Mr. WARWICK. This is an unusual situation. On account of the field service they are moving, and you can not regulate accounts in the same way, transmitting accounts by mail and taking all the time that is necessary. There will be the headquarters with an organized depot, maybe one place this month and another next month, and to require that these accounts shall go there for administrative examination after they have already been there preliminary to payment and they have approved them before payment is a duplication, and

there is nothing to see on the administrative examination except that the payment was made, and that the auditor does by comparing the check with the voucher.

Senator WILLIAMS. Why not make it the duty of the assistant auditor over there to do this work?

Mr. WARWICK. The administrative examination that is given by the department after payment is merged into the duty of the auditor to audit the voucher. There is not anything left to the administrative examination except to see that the disbursing officer paid the check in accordance with the order, and the auditor can see to that.

Senator WILLIAMS. But this act does not require him to do that.

Mr. WARWICK. Oh, yes; that is a part of his duty, to see that the voucher was properly approved and that the payment was made in accordance with the order. That will be a special duty of the auditor there as well as here. This makes it the duty of the auditor to audit the voucher. The first thing the auditor looks at is to see if the officer claiming credit has actually paid it. He does that by getting the check and matching it with the voucher.

Senator WILLIAMS. Let me understand it. If this administrative examination is considered a thing that ought to exist and does exist here and if it is abolished by this clause, what I want to know is what takes its place and what officer takes the place of the man who does the work here? It is perfectly clear that if a thing ought to be done here, it ought to be done there. The only thing I want to know is, who does it there, and instead of assuming that somebody will do it, put in the act the requirement that he shall do it, and hold him responsible.

Secretary McADOO. I think if Mr. Warwick would explain to the committee what the present method is about administration of these accounts in the War Department and how they are audited by the Treasury under existing law in the United States, and what it is proposed to do now with respect to this administration and audit in France, it would make the thing clear.

Senator WILLIAMS. I think we understand what is done here. What I do not understand is what machinery you are going to organize to take the place of what is done here and do the same thing there. Of course it can not be done in the same manner; it may be done in a retreat or an advance or a bombardment, but it ought to be somebody's duty to make the administrative examination; and the duty having been abolished here must be done in France; and a person ought to be designated, either your assistant comptroller or somebody else, and it ought to be made his duty to do it, and the duty of these people to furnish him vouchers upon which he can do it. Now, my inquiry was, therefore, whether this bill contained anything of that sort.

Mr. WARWICK. It does not contain any provision for an administrative examination in France for this reason: The present law requires all disbursing officers of the War Department to send their accounts, if they are monthly accounts, to the proper bureau of the War Department within 10 days after the end of the month, and then they have extended the time so that the bureau there can have time to transmit them to the Auditor of the Treasury. Now, those disbursing officers all over the United States are not directly under

the Quartermaster General in the sense that he knows what they are doing until their accounts come in. For that purpose his office examines to see what the officers are doing. That is the administrative examination, which has no legal effect so far as affecting the officer's right to credit is concerned. They can comment on the voucher, saying, "This voucher is in excess of the authorization," or give some other reason, and that goes to the Auditor for the War Department, and he does not have to follow any of their suggestions. He audits it according to law and settles the account.

With the large number of disbursing officers over the country, the Quartermaster General, not being in direct contact with them, makes this examination; but in a situation such as there will be in France—a small territory directly under the commanding general and under the chief quartermaster—they will settle these questions and say what is to be purchased and who is to pay the troops before the payments are made; and it is a very much better system where it can be operated than the system of administrative examination afterwards, which is somewhat of a duplication of what the auditor does, and does not accomplish any very great good in the way of preventing expenditures. If the Army officials in France pursue the policy they must pursue in case of war, of keeping their hand on the quartermasters scattered over a small territory in giving them specific authority to make purchases, they will have a better administration than they would ever have by examining afterwards what the quartermasters had done. The Auditor of the Treasury will make the examination afterwards.

Senator WILLIAMS. Provided the accounts ever get here and are not sunk by a submarine.

Mr. WARWICK. They are, under this law, to be audited in France and kept there until after the war. We have an auditor for the War Department who is a Treasury official. We will examine accounts over there and settle them as we would over here, except the papers will be kept there until after the war. That is what the assistant auditor is for.

Senator WILLIAMS. That is what the assistant auditor is assumed to do, but this act nowhere requires him to do it. The purpose of that examination is a check upon graft, and in every great war the graft goes up in the quartermaster's department. It existed in the Civil War to an enormous extent until it was checked by laws. That examination is chiefly for the purpose of checking up. Maybe the quartermaster in the field can not buy things upon previous authorization always. You are moving rapidly. The enemy is right behind you or you have just taken a sector, and you are advancing rapidly. The regimental and brigade quartermasters must be under a great deal of responsibility. They have not got time to go back to the Quartermaster General to get previous authorization for the purchase of a hundred head of cattle, or to take something out of a mill on the way to feed the troops, and somebody there ought to be required in this bill to perform this duty, which in ordinary times is done here. The necessity for a subsequent examination would be greater there than here, because there will be a great many irregularities that must take place and ought to take place, so that the subsequent examination is more important there than here, it seems to me.

Mr. WARWICK. Of course it was our idea that the army operating there would be supplied largely from this country, and that the purchases made there would be made at large depots and sent out to the front by truck or otherwise.

Senator STONE. Let me ask you this, following Senator Williams's insistent objection, which certainly has merit in it: Could you prepare a clause for this bill that would in words impose a duty upon some officer or officers, your assistant auditors, or somebody else—

Senator WILLIAMS. Assistant comptroller.

Senator STONE (continuing). To perform the duties that you are imposing?

Mr. WARWICK. If there were to be an administrative examination of the accounts of the Army officers it would have to be made by the Army officials.

Secretary McABOO. You can not throw that responsibility upon the Treasury Department.

Mr. WARWICK. We make as complete an examination in the auditor's office and in the comptroller's office as they do, and the idea of the War Department is that their supervision in advance of payment is better than the examination after payment.

Senator SMOOR. Is it not true that the administrative examination here in Washington in no way affects the amount of money that will be paid for any purchase by the Government?

Mr. WARWICK. That is correct.

Senator SMOOR. That is audited, checked over at the time before this administrative examination is made. It is for another purpose entirely, and what you want to do by this amendment is to eliminate that examination in France, for the reasons that you have just stated?

Mr. WARWICK. Senator, the War Department use their administrative examination largely for statistical purposes. They must classify the expenditures to report to Congress and to defend before the committees. When the accounts come in they check them and put them on the books so that they can make reports to Congress.

Senator SMOOR. When you come before an appropriations committee, you have those and state what they were, how they were spent, and what they were for.

Mr. WARWICK. They propose in France to get the auditor's force to make up those statistics, saving them from doing the work now, and so far as possible we expect to comply with that request, so as to prevent duplication and to facilitate their work. It may be in the line of War Department duty, but if we can analyze the statistics for them we shall do it.

Senator SMOOR. The administrative examination in the War Department has not anything to do with the auditing of accounts in the Treasury.

Mr. WARWICK. None whatever.

Senator SMOOR. It is a report that comes in to the War Department for the general information of the department, rather than to check expenses.

Mr. WARWICK. For statistical purposes. The real action of the War Department is taken before the expenditures are made, and after they are made the only reliance is on the auditor, and they expect

that statistical work to be unloaded on the auditor and comptroller over there as a matter of convenience.

Senator WILLIAMS. If the only check is through the auditor and comptroller, it seems to me that check ought to be necessary on the part of the assistant auditor and comptroller who will be in France.

Mr. WARWICK. Page 16, in line 10, it says:

The assistant comptroller and assistant auditor shall have power to perform in a foreign country all the duties with reference to the settlement there of the accounts of the military establishment that the comptroller and auditor now have at the seat of Government and in foreign countries under the provisions of this section, and shall perform such duties in accordance with the instructions received from and rules and regulations made by the comptroller and auditor.

Senator WILLIAMS. Why not put in this language:

The assistant comptroller and assistant auditor shall have full power and are hereby required--

Secretary McADOO. It says that further down. It says, "shall perform."

Senator SMOOT. It says "rules and regulations made by the comptroller and auditor."

Senator WILLIAMS. Here is the language that follows, "and shall perform such duties in accordance with the instructions received from and the rules and regulations made by the comptroller and auditor." I think that covers it.

Mr. WARWICK. Page 18, there was inserted in the House the limitation of this appropriation to the fiscal year 1918. It may be exhausted by that time, but without that limitation it may run a little over the 1st of July. I think it will coincide pretty closely with the existence of the appropriation, so that we will have to put in an estimate this fall for the fiscal year 1919.

Senator SMOOT. Then it will not hurt.

Mr. WARWICK. I do not believe it will hurt.

Senator STONE. Then you mean to leave out the amendment?

Mr. WARWICK. Yes; I do not think it is worth any controversy.

Page 19, the last paragraph, marked "(1)." It is suggested that that be eliminated.

Senator WILLIAMS. Why ought that to be eliminated?

Mr. WARWICK. Here is the proposition: I would not expect to find men getting \$1,800 in Washington, civilians, that would want to go to France and leave their families and spend part of their salary without getting some compensation. Everyone in the military service gets additional pay when they go abroad.

Senator SMOOT. Do not we give them extra pay under section 12, subdivision g, providing that they shall have \$4 a day in lieu of subsistence?

Mr. WARWICK. They get \$4 for subsistence. They will get their personal expenses.

Senator WILLIAMS. We can not leave this question of salaries over there free and open to the whole world without any limitation designated.

Mr. WARWICK. It is left to the discretion of the Secretary.

Senator WILLIAMS. As highly as I regard the present Secretary of the Treasury, we can not leave that to any human being—discretion

as to salaries. If we are not going to provide these people shall receive the same salaries paid here, we ought to provide that they shall receive a certain percentage above their regular salaries. You might take the Army percentage, which is for foreign service 20 per cent, and you might provide that no person employed under this act shall receive more than 20 per cent more than they receive here, and then the Secretary would have that discretion within the 20 per cent. I do not agree that these people would not go.

Mr. WARWICK. Not the men you want.

Senator WILLIAMS. I think there are men who want the service and the experience and the novelty as well as the salary, and then the underlying ground of patriotism is somewhat underestimated. But at any rate there ought to be some limitation upon the amount that can be paid—10 per cent over what they are paid here or 20 per cent over or something so as to limit the discretion.

Senator McCUMBER. Why can we not make it by proper amendment, so that the salaries received shall be equivalent to the salaries paid for like services in this country, taking into consideration any extra cost of living or expenses where these services are required.

Mr. WARWICK. You have to remember, Senator, that men going in a civilian capacity over to the seat of war feel they are in a different position from men who go in the military service. They would be glad to get a commission and go in the military service with a uniform, but when you ask a man to go over to that country as a civilian it is a very different situation. I think he is entitled to a little more pay than he receives here.

Senator WILLIAMS. That I grant. Let us see how much more and put it in the act.

Mr. WARWICK. Well, it depends on the men. I do not find men wanting to go. This law has been pending for two or three weeks, and I have only found one man or two men who said they would like to go, but the most experienced men, those with families, are not anxious to go there and take the risk of a civilian. They would be glad to go with a commission.

Senator McCUMBER. Would not they prefer going to France than going from Washington to California to perform the same service?

Mr. WARWICK. I think not. A man would prefer, if he were to be drowned in this war, to have the uniform on. That is common experience.

Senator SMITH. Would you wish to get them all above 31?

Mr. WARWICK. We will have, I suppose, 95 per cent of any force we would take above that age. They are usually men of experience that we want; we try to get the best men available in the Treasury Department and in other departments who are experienced on accounts to go over there, and we do not want new men.

Senator LODGE. If this is simply stricken out, it leaves the authority to increase salaries here or anywhere.

Mr. WARWICK. I think not, Senator. Under this act the Secretary is authorized to employ the necessary persons for this work, and the appropriation of \$300,000 is given for that purpose. It provides also in one section that no one employed in Washington shall receive any other compensation than his regular salary.

Senator LODGE. It is limited to persons sent abroad?

Mr. WARWICK. Entirely. That is a part of the auditing section, and the provision is that the men shall be selected and their compensation fixed by the Secretary of the Treasury. As far as the comptroller's office is concerned, it has never had any discretion in fixing compensation or in spending any money. This would probably be the first experience of leaving to the Secretary the amount to be fixed, and as we pass on pretty large claims against the Government every day in the office I thought this discretion, if we needed a man immediately, to recommend him to be paid for this service at the rate of \$2,100 or \$2,400 was not at all unreasonable. We are not going to waste the money; that is not our habit. Our training is the other way in the comptroller's office.

Secretary McABOO. This is relatively a small matter, the amount that we might pay if the discretion is allowed for the purpose. When you consider the magnitude of these transactions of the War Department, which must be correctly audited by these men who are in France not under the eye of the department, it makes it essential that we should get men of extra character and honesty to go there, and we do not know what we have got to pay them to induce them to go there. It is not a very pleasant occupation. I think it is a mistake to tie the hands of the department so that we can not do what is necessary to be done in these situations to protect the public interest. I do not think the total amount of money, additional pay we would give these men in the aggregate, would amount to much as compared with the service that they have got to perform and the necessity for getting the character of men who have the ability to perform that service.

Senator SMOOR. The highest possible amount it could be would be \$60,000 if you advance them 20 per cent.

Secretary McABOO. Let us take \$4 per day. You would then give them \$4.80 a day. I do not know whether men can live in France on that or not.

Senator WILLIAMS. The cost of living is cheaper in Paris than in New York or Chicago.

Senator McCUMBER. Does it not allow them to purchase all they need from the commissary?

Senator WILLIAMS. From the commissary at cost price. It is cheaper, then, than in Washington.

Senator GORE. Do you not think we have discussed this enough to go on to something else?

Senator GERRY. Mr. Chairman, I would like to ask the Secretary a question before we close the hearing. I would like to turn to page 6 and ask him in regard to that amendment in reference to obligations of foreign government, acquired on behalf of the United States, whether he thinks the amendment goes far enough. The amendment reads, "unless otherwise hereafter provided by law." Does that go far enough? In other words, might not a condition arise where Congress had adjourned, say, by the 4th of March, and would not convene again until December, and might not a condition arise in which it would be necessary to sell those bonds, and the Secretary under that amendment would not have that power, unless Congress would grant it at a special session?

Secretary McABOO. I suggested to the House that the Secretary of the Treasury, with the approval of the President, be authorized to sell

these at less than cost, and it did not appeal to them, and, of course, I did not insist upon it, merely because it did not seem to me at the time to be of sufficient importance to press the matter. I think we can deal with it later on. We will not want to sell them in the near future, and I think that under the circumstances it would be better merely to have this saving clause, and that later on we might have subsequent legislation on that point.

Senator WILLIAMS. Did you enter yesterday fully into the reasons why you think we ought to make this change in the traditional policy of the United States not to tax bonds at all, and why you thought it would be easier to float the 4 per cent taxable bonds than the 3½ nontaxable bonds?

Secretary McADOO. I entered into it in my testimony before the Ways and Means Committee of the House, which I have referred to here and made a part of this record, and if you will read that I think you will find I have explained it about as fully as I can.

Senator WILLIAMS. Do you think that you could float more readily a 4 per cent taxable bond than, say, a 3½ nontaxable bond?

Secretary McADOO. You mean a partially taxable bond such as I am proposing?

Senator WILLIAMS. No; I mean a totally nontaxable bond, just like all bonds have been in this country ever since we first issued a bond.

Secretary McADOO. I feel that the 4 per cent bond subject to super-tax, as I propose, will appeal to a larger number of investors. The record of the last loan shows that the subscriptions for \$10,000 of bonds and less aggregated \$1,296,684,000. The maximum income on subscriptions in the class, the largest proportion of the issue, was \$350.

Senator SMOOR. That does not imply they would not have to pay an income tax or an excess-profits tax?

Secretary McADOO. Not at all. I am going to come to that. But the implication is that the bulk of those people are not benefited by the exemption from taxation, and especially by an exemption from the supertax on the bonds, and if in order to give the exemption from supertaxes you have to reduce the rate of interest on the bonds, then the appeal is not to such a broad class, because it does not benefit that class. In order to sell these bonds we have got to reach the largest possible number of investors in this country, and the 4 per cent rate subject to supertaxation, but exempt from normal taxes, is more likely to reach that class than the other.

I wished to call attention to the fact, as I did yesterday, that the exemption under the bill as it passed the House is broader than the exemption under the clause suggested by me to the Ways and Means Committee. I do not wish to press the matter, however.

Senator SMOOR. Let me call your attention to another phase of that question. If we had a 4 per cent bond against which there is a partial taxation, it is true that a great many of these people would prefer a 4 per cent, because they know in advance that they will not have to pay any taxes upon that bond, but we ought also to take into consideration that if we had a 4 per cent bond which is going to interfere greatly with the savings banks of the country, and particularly as they have to pay a tax upon that locally, whereas if they

put it in these bonds it would not pay any tax whatever; so it seems to me if we made that 3½ per cent there would be that one-quarter difference between the 4 per cent paid by the savings bank—the highest rate in the United States that is paid by any savings bank, I think—it would not interfere and yet be a popular bond.

Secretary McANOO. I do not think it would be a popular bond. I do not think it will reach far enough even if nontaxable. It would not reach the class we have got to reach to get this money. I have found in this first liberty loan campaign that throughout the South and West and other sections there was a very strong feeling that the 3½ per cent was too low for the small investor, who could get 4 per cent in a savings bank, and that was frequently why we had to appeal to them on the score of patriotism. Now, a 4 per cent bond exempt from normal taxation is an exceptionally fine investment even for the man who must pay supertaxes. There is not any investment in the world as good as a 4 per cent bond not subject to normal taxation but to supertax, and you will find in my testimony before the House committee that I have made an analysis of such a bond and other bonds.

Senator LODGE. They are exempt from State taxation, of course.

Secretary McANOO. That is a very important thing. As to the savings banks, I do not believe that is going to hurt savings banks as much as some of them seem to think; and, by the way, I have not had so very many protests from savings banks. I have had a few protests, but not very many; some of them feel it might hurt them. But we must bear this in mind, whether it hurts the savings bank or hurts some individuals or a great many individuals to have the Government preempt the investment field in this country during the progress of this war, we can not pay any attention to that. The paramount thing, gentlemen, is to offer an investment here by the Government which is going to attract the money the Government must have, and any local interest that happens to collide with that paramount interest of the Nation must give way.

Senator SMOOR. But I think we ought at least, if we can, interfere with the regular channels of trade in this country as little as possible. That is why I referred to this. I recognize what you say as absolutely correct, if it becomes necessary we must take it out of any business whatever.

Senator GORE. Here is another point in this connection: This tax exemption is of very little significance to the small investor; it is of significance to the very large investor and might tend to tempt capital out of active business into this snug harbor.

Senator SMITH. But this tax exemption does not exempt from anything but the normal tax.

Senator GORE. My understanding was that the Secretary argued that the supertaxes ought to be exempted.

Senator SMITH. Oh, no; not at all.

Senator GORE. Then what are we arguing about?

Senator SMITH. I do not know. I am approving it thoroughly, and I was expressing the view that it encourages the small holder to take it if he does not have to pay a tax, and it tends to drive the bonds out generally among the people rather than having them held by a few people.

Senator GORE. I understood the Secretary said he would not insist upon his amendment.

Secretary McADOO. My wording for that exemption was what I would not insist on.

Senator McCUMBER. Your information is that you could sell a 4 per cent partially taxable bond, as provided in this bill, more readily than you could sell a 3½ per cent bond that is not taxable from any source.

Secretary McADOO. Yes, sir; I think it makes a much broader appeal.

Senator McCUMBER. Do you not fear you could not sell a 3½ per cent nontaxable bond in sufficient quantities to meet the requirements?

Secretary McADOO. I do. That is exactly the reason why I have offered this increase.

Senator WILLIAMS. Of course that depends very largely on the temperament of the man who wants to buy a bond. Speaking for myself, I had rather own a 3½ per cent nontaxable bond even though I never paid a supertax and never expected to pay one, because I would not want to be bothered with a spectre. But leaving that out, I feel sure you could sell a 3½ per cent bond.

Secretary McADOO. Before you ask any more questions, may I read a paragraph into this record from the statement I submitted to the Ways and Means Committee of the House on this question of taxation of bonds? [Reading:]

If the system of taxation which the United States has adopted and which imposed a heavier burden of taxes upon the rich than upon the poor is fair and right—and few can be found to-day to say that it is not—then the proposal now made is a sound one. It has been calculated that under the House bill, upon investments producing income in excess of \$2,000,000, the rich man would have to receive a return of 9½ per cent from taxable securities to equal the return on a 3½ per cent tax-exempt bond. The proposed limited exemption is not discrimination against the rich. They will share with the people of modest means the benefit of the exemption from normal taxes. They will not, however, be able to obtain, through the purchase of Government bonds, exemption from the burdens incident to the established policy of the United States of imposing taxes on an ascending scale graduated according to the means of the taxpayer. A grave risk would be involved in a continued policy of issuing billions of bonds carrying unlimited exemption from taxation. If the war continues for a long period and the bond issues increase greatly, there will, if the policy of total exemption is carried out, come to be a class of people of great wealth who are in the enjoyment of great incomes wholly free from tax burden. The continuance of such a policy would be fraught with great danger to the State and would be well calculated to produce discontent with tax burdens falling thus heavily on the many to the exclusion of the few. The effect would be to transfer in part the burden of taxation required to balance these exemptions and raise the revenues required to replace them to the masses of the people who get no benefit and will be, because of the exemptions, subjected to added burdens.

Senator LODGE. As a general policy, we must tax these bonds.

Senator GORE. I may say I misunderstood the Secretary. I thought he suggested the bill as submitted by the Ways and Means Committee with a view to exempting them.

Secretary McADOO. I was speaking more as to the language of the provision.

Senator LODGE. These bonds are exempted from the normal tax.

Secretary McADOO. Yes.

Senator LODGE. Therefore, in returning they have to put in the whole return. They are subject to credit given for the amount of bonds for the normal tax.

Secretary McADOO. For the normal tax they would deduct the income from these bonds.

Senator LODGE. The other question is what I asked yesterday, and that is that the $3\frac{1}{2}$ per cent liberty loan bonds may be converted into any series that is subsequently issued.

Secretary McADOO. Yes, Senator, I think we have to give the holder of a $3\frac{1}{2}$ per cent bond the privilege of a conversion into any subsequent issue.

Senator LODGE. That is the language of the law.

Secretary McADOO. The language of the law is not so plain as that, but, I think, as I said yesterday, they are entitled to make that conversion.

Senator SMITH. He can hold his bond and take any issue that comes, if he takes a new issue he changes his status.

Senator LODGE. Absolutely. My point is that he has a right to hold it for conversion into any series. The reason why I insist upon it is because I think it is of the utmost importance that the holders of the liberty loan should know that there is to be no diminution in any respect in their contract, because they are going to subscribe again.

Secretary McADOO. That is, of course, essential. We could not afford even to let it be suspected that the Government would not comply literally with every obligation.

Senator SMITH. And that you are not hunting an opportunity technically to limit their rights.

Senator WILLIAMS. If a man has a liberty loan bond and does not want to convert and prefers to keep the $3\frac{1}{2}$ nontaxable bond, he can do it.

Senator LODGE. And he can convert into any series that is subsequently issued.

Senator WILLIAMS. So that if he does go into the higher one, and the Government taxes his revenue from it, that is his own fault.

Senator STONE. We are not going to make much progress with this bill with conversations.

Senator WILLIAMS. I do not see why we can not report it with the amendments adopted.

Senator McCUMBER. That matter ought not to be a mere inference, but it ought to be definite in this bill, so that any holder who reads the bill will feel that his right to convert into any issue has not been infringed by the wording of the bill.

Secretary McADOO. I think the bill is very clear on that now, Senator.

May I just say one additional word about the expenses of these bonds. Perhaps you may be satisfied with what I have already said.

Senator GORE. I believe you made out a case yesterday.

Secretary McADOO. I remember what the judge told me the first time I tried a case before him. I proved the case three times and won it. So I asked him after the trial, "Judge, how did I try my case?" He said, "You proved your case three times; once is enough." So if I have proved that once I shall quit.

Senator LA FOLLETTE. Just one question: I understood you to say that the allowance which you suggested should be made for expenses in conducting this bond issue campaign at one-fifth of 1 per cent would enable you, if you decided to enter upon newspaper advertising as a part of the campaign, to pay for that advertising out of this amount, without crippling your activities in other directions?

Secretary McADOO. I said I did not think it would be sufficient to enter upon any comprehensive campaign of newspaper advertising of these bond issues, but I said it might give me some leeway, and if I found it necessary to make use of newspaper advertising locally I ought to have the discretion to do it. The latest estimate I have had on the cost of a campaign of newspaper advertising is \$2,600,000. Clearly, even a fifth of 1 per cent would not enable me to engage in any such campaign.

Senator LA FOLLETTE. I am in favor of the most liberal appropriation for prosecuting your campaign. I am not in favor of any of it being spent in newspaper advertising. I just wanted to understand what your outside limits of necessary supply money to conduct the campaign would be aside from the newspaper advertising.

Secretary McADOO. If we were to enter upon a policy of advertising in the newspapers it would have to be, as I said yesterday, universal. You would have to go into all the papers; you could not discriminate among them, and if you do it at all I think to get much effect you would have to do it very thoroughly. If such a policy were adopted, I should have to ask Congress to give me an appropriation in addition to this one-fifth of 1 per cent, because, as I said before, upon the payment of \$2,600,000 for advertising in one campaign, I would have to take a tenth of 1 per cent of a \$2,600,000,000 issue for advertising, so that I would not have any leeway under the amount allowed for conducting the campaign.

Senator LA FOLLETTE. Under the one-fifth of 1 per cent would you have sufficient money to use the other forms of advertising, some of which were used on the first campaign which you conducted; that is, billboards and window cards and circulars and all that sort of thing? You surely ought to have a liberal appropriation for that. That seems to be an entirely unobjectionable form of conducting your campaign, and I think you ought to have enough provided for that as a contingency, if you want to resort to it again.

Secretary McADOO. The one-fifth of 1 per cent is tentative. I can not tell in these succeeding campaigns what the cost is going to be. I think they are going to be increasingly more expensive, but in the one-fifth I have not taken into consideration the cost of billboard advertising. The last time all of that advertising was given free. If we have to resort to that I might hold that we would have enough to pay a reasonable amount in that direction. I think if we engage in paid advertising at all it is going to require an additional appropriation from Congress besides the one-fifth.

Senator SMITH. At the start you only wish a fifth?

Secretary McADOO. I am willing to try one more campaign on the basis of one-fifth for the bonds and a tenth of 1 per cent for the short-time certificates of indebtedness. Now, if I find that is not going to be enough because we can not cover the ground fully, or

because we shall have to adopt new methods, I shall come back and ask for another appropriation.

Senator SMOOT. We doubled the old rate we had; it will make a great increase.

Senator LA FOLLETTE. Assuming that Congress should adjourn some time in October, to meet not earlier than the regular session in December, would, you, if you care to state, have had time to conduct more than one of the campaigns contemplated before December?

Secretary McADOO. No; only one. We could not possibly conduct but one campaign between now and December.

Senator LA FOLLETTE. If you tried out one campaign at the rate you suggested and it was found to be insufficient for opening another campaign, would Congress be in session so that this provision might be altered by amendment for a second campaign and meet your needs?

Secretary McADOO. That is exactly what I have in contemplation. I understood you to say the rate of allowance for expenses, not the rate of interest on the bonds.

Senator LA FOLLETTE. Oh, no.

(Thereupon, at 12.05 o'clock p. m., the committee adjourned.)

APPENDIX.

EMERGENCY BOND ISSUE LAW OF APRIL 24, 1917.

[PUBLIC—No. 3—65TH CONGRESS.]

[H. R. 2762.]

AN ACT To authorize an issue of bonds to meet expenditures for the national security and defense, and, for the purpose of assisting in the prosecution of the war, to extend credit to foreign governments, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That the Secretary of the Treasury, with the approval of the President, is hereby authorized to borrow, from time to time, on the credit of the United States for the purposes of this Act, and to meet expenditures authorized for the national security and defense and other public purposes authorized by law not exceeding in the aggregate \$5,000,000,000, exclusive of the sums authorized by section four of this Act, and to issue therefor bonds of the United States.

The bonds herein authorized shall be in such form and subject to such terms and conditions of issue, conversion, redemption, maturities, payment, and rate and time of payment of interest, not exceeding three and one-half per centum per annum, as the Secretary of the Treasury may prescribe. The principal and interest thereof shall be payable in United States gold coin of the present standard of value and shall be exempt, both as to principal and interest, from all taxation, except estate or inheritance taxes, imposed by authority of the United States, or its possessions, or by any State or local taxing authority; but such bonds shall not bear the circulation privilege.

The bonds herein authorized shall first be offered at not less than par as a popular loan, under such regulations prescribed by the Secretary of the Treasury as will give all citizens of the United States an equal opportunity to participate therein; and any portion of the bonds so offered and not subscribed for may be otherwise disposed of at not less than par by the Secretary of the Treasury; but no commissions shall be allowed or paid on any bonds issued under authority of this Act.

SEC. 2. That for the purpose of more effectually providing for the national security and defense and prosecuting the war by establishing credits in the United States for foreign governments, the Secretary of the Treasury, with the approval of the President, is hereby authorized, on behalf of the United States, to purchase, at par, from such foreign governments then engaged in war with the enemies of the United States, their obligations hereafter issued, bearing the same rate of interest and containing in their essentials the same terms and conditions as those of the United States issued

under authority of this Act; to enter into such arrangements as may be necessary or desirable for establishing such credits and for purchasing such obligations of foreign governments and for the subsequent payment thereof before maturity, but such arrangements shall provide that if any of the bonds of the United States issued and used for the purchase of such foreign obligations shall thereafter be converted into other bonds of the United States bearing a higher rate of interest than three and one-half per centum per annum under the provisions of section five of this Act, then and in that event the obligations of such foreign governments held by the United States shall be, by such foreign governments, converted in like manner and extent into obligations bearing the same rate of interest as the bonds of the United States issued under the provisions of section five of this Act. For the purposes of this section there is appropriated, out of any money in the Treasury not otherwise appropriated, the sum of \$3,000,000,000, or so much thereof as may be necessary: *Provided*, That the authority granted by this section to the Secretary of the Treasury to purchase bonds from foreign governments, as aforesaid, shall cease upon the termination of the war between the United States and the Imperial German Government.

Sec. 3. That the Secretary of the Treasury, under such terms and conditions as he may prescribe, is hereby authorized to receive on or before maturity payment for any obligations of such foreign governments purchased on behalf of the United States, and to sell at not less than the purchase price any of such obligations and to apply the proceeds thereof, and any payments made by foreign governments on account of their said obligations to the redemption or purchase at not more than par and accrued interest of any bonds of the United States issued under authority of this Act; and if such bonds are not available for this purpose the Secretary of the Treasury shall redeem or purchase any other outstanding interest-bearing obligations of the United States which may at such time be subject to call or which may be purchased at not more than par and accrued interest.

Sec. 4. That the Secretary of the Treasury, in his discretion, is hereby authorized to issue the bonds not already issued heretofore authorized by section thirty-nine of the Act approved August fifth, nineteen hundred and nine, entitled "An Act to provide revenue, equalize duties, and encourage the industries of the United States, and for other purposes"; section one hundred and twenty-four of the Act approved June third, nineteen hundred and sixteen, entitled "An Act for making further and more effectual provision for the national defense, and for other purposes"; section thirteen of the Act of September seventh, nineteen hundred and sixteen, entitled "An Act to establish a United States shipping board for the purpose of encouraging, developing, and creating a naval auxiliary and a naval reserve and a merchant marine to meet the requirements of the commerce of the United States with its Territories and possessions and with foreign countries, to regulate carriers by water engaged in the foreign and interstate commerce of the United States, and for other purposes"; section four hundred of the Act approved March third, nineteen hundred and seventeen, entitled "An Act to provide increased revenue to defray the expenses of the increased appropriations for the Army and Navy and the extensions of fortifications,

and for other purposes"; and the public resolution approved March fourth, nineteen hundred and seventeen, entitled "Joint resolution to expedite the delivery of materials, equipment, and munitions and to secure more expeditious construction of ships," in the manner and under the terms and conditions prescribed in section one of this Act.

That the Secretary of the Treasury is hereby authorized to borrow on the credit of the United States from time to time, in addition to the sum authorized in section one of this Act, such additional amount, not exceeding \$63,045,460 as may be necessary to redeem the three per cent loan of nineteen hundred and eight to nineteen hundred and eighteen, maturing August first, nineteen hundred and eighteen, and to issue therefor bonds of the United States in the manner and under the terms and conditions prescribed in section one of this Act.

Sec. 5. That any series of bonds issued under authority of sections one and four of this Act may, under such terms and conditions as the Secretary of the Treasury may prescribe, be convertible into bonds bearing a higher rate of interest than the rate at which the same were issued if any subsequent series of bonds shall be issued at a higher rate of interest before the termination of the war between the United States and the Imperial German Government, the date of such termination to be fixed by a proclamation of the President of the United States.

Sec. 6. That in addition to the bonds authorized by sections one and four of this Act, the Secretary of the Treasury is authorized to borrow from time to time, on the credit of the United States, for the purposes of this Act and to meet public expenditures authorized by law, such sum or sums as, in his judgment, may be necessary, and to issue therefor certificates of indebtedness at not less than par in such form and subject to such terms and conditions and at such rate of interest, not exceeding three and one-half per centum per annum, as he may prescribe; and each certificate so issued shall be payable, with the interest accrued thereon, at such time, not exceeding one year from the date of its issue, as the Secretary of the Treasury may prescribe. Certificates of indebtedness herein authorized shall not bear the circulation privilege, and the sum of such certificates outstanding shall at no time exceed in the aggregate \$2,000,000,000, and such certificates shall be exempt, both as to principal and interest, from all taxation, except estate or inheritance taxes, imposed by authority of the United States, or its possessions, or by any State or local taxing authority.

Sec. 7. That the Secretary of the Treasury, in his discretion, is hereby authorized to deposit in such banks and trust companies as he may designate the proceeds, or any part thereof, arising from the sale of the bonds and certificates of indebtedness authorized by this Act, or the bonds previously authorized as described in section four of this Act, and such deposits may bear such rate of interest and be subject to such terms and conditions as the Secretary of the Treasury may prescribe: *Provided*, That the amount so deposited shall not in any case exceed the amount withdrawn from any such bank or trust company and invested in such bonds or certificates of indebtedness plus the amount so invested by such bank or trust company, and such deposits shall be secured in the manner required for other

deposits by section fifty-one hundred and fifty-three, Revised Statutes, and amendments thereto: *Provided further*, That the provisions of section fifty-one hundred and ninety-one of the Revised Statutes, as amended by the Federal Reserve Act and the amendments thereof, with reference to the reserves required to be kept by national banking associations and other member banks of the Federal Reserve System, shall not apply to deposits of public moneys by the United States in designated depositories.

Sec. 8. That in order to pay all necessary expenses, including rent, connected with any operations under this Act, a sum not exceeding one-tenth of one per centum of the amount of bonds and one-tenth of one per centum of the amount of certificates of indebtedness herein authorized is hereby appropriated, or as much thereof as may be necessary, out of any money in the Treasury not otherwise appropriated, to be expended as the Secretary of the Treasury may direct: *Provided*, That, in addition to the reports now required by law, the Secretary of the Treasury shall, on the first Monday in December, nineteen hundred and seventeen, and annually thereafter, transmit to the Congress a detailed statement of all expenditures under this Act.

Approved. April 24, 1917:

SECTION 39 OF THE TARIFF ACT OF 1909.

[PUBLIC—No. 5.]

[H. R. 1438.]

AN ACT To provide revenue, equalize duties and encourage the industries of the United States, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

* * * * *

Sec. 39. That the Secretary of the Treasury is hereby authorized to borrow on the credit of the United States from time to time, as the proceeds may be required to defray expenditures on account of the Panama Canal and to reimburse the Treasury for such expenditures already made and not covered by previous issues of bonds, the sum of two hundred and ninety million five hundred and sixty-nine thousand dollars (which sum together with the eighty-four million six hundred and thirty-one thousand nine hundred dollars already borrowed upon issues of two per cent bonds under section eight of the Act of June twenty-eighth, nineteen hundred and two, equals the estimate of the Isthmian Canal Commission to cover the entire cost of the Canal from its inception to its completion), and to prepare and issue therefor coupon or registered bonds of the United States in such form as he may prescribe, and in denominations of one hundred dollars, five hundred dollars, and one thousand dollars, payable fifty years from the date of issue, and bearing interest payable quarterly in gold coin at a rate not exceeding three per centum per annum; and the bonds herein authorized shall be exempt from all taxes or duties of the United States, as well as from taxation in any form by or under State, municipal, or local authority: *Provided*, That said bonds may be disposed of by the Secretary of the Treasury at not less than par, under such regulations as he may prescribe, giving to all citizens of the United States an equal opportunity to subscribe therefor, but no commissions shall be allowed or paid thereon; and a sum not exceeding one-tenth of one per centum of the amount of the bonds herein authorized is hereby appropriated, out of any money in the Treasury not otherwise appropriated, to pay the expenses of preparing, advertising, and issuing the same; and the authority contained in section eight of the Act of June twenty-eighth, nineteen hundred and two, for the issue of bonds bearing interest at two per centum per annum, is hereby repealed.

NAVAL CONSTRUCTION LAW OF MARCH 4, 1917.

[PUBLIC RESOLUTION—No. 56—64TH CONGRESS.]

[H. J. Res. 300.]

JOINT RESOLUTION To expedite the delivery of materials, equipment, and munitions and to secure more expeditious construction of ships.

Resolved by the Senate and House of Representatives of the United States of America in Congress assembled, That the Secretary of the Treasury is hereby authorized to borrow on the credit of the United States from time to time such sums as may be necessary to meet emergency expenditures directed by the President for naval construction or the expediting thereof, as may be authorized by law, not exceeding \$150,000,000, or to reimburse the Treasury for such expenditures, and to prepare and issue therefor bonds of the United States in such form and subject to such terms and conditions as the Secretary of the Treasury may prescribe: *Provided*, That the Secretary of the Treasury is hereby authorized to issue serials bonds of the United States maturing in equal amounts from date of issue to twenty years from date of issue, bearing interest payable semiannually at a rate not exceeding three per centum per annum: *Provided further*, That such bonds shall be issued at not less than par, shall bear interest not exceeding three per centum per annum, shall not have the circulation privilege attached, and that all citizens of the United States shall be given an equal opportunity to subscribe therefor, but no commission shall be allowed or paid thereon; both principal and interest shall be payable in United States gold coin of the present standard of value, and shall be exempt from all taxes or duties of the United States, as well as from taxation in any form by or under State, municipal, or local authority. In order to pay the necessary expenses connected with said issue of bonds a sum not exceeding one-tenth of one per centum of the amount of bonds herein authorized is hereby appropriated, out of any money in the Treasury not otherwise appropriated, to be expended as the Secretary of the Treasury may direct.

Approved, March 4, 1917.

SECTION 400 OF THE REVENUE ACT OF MARCH 3, 1917.

[PUBLIC—No. 377—64TH CONGRESS.]

[H. R. 20573.]

AN ACT To provide increased revenue to defray the expenses of the increased appropriations for the Army and Navy and the extensions of fortifications, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

SEC. 400. That the Secretary of the Treasury is hereby authorized to borrow on the credit of the United States from time to time such sums as in his judgment may be required to meet public expenditures on account of the Mexican situation, the construction of the armor-plate plant, the construction of the Alaskan Railway, and the purchase of the Danish West Indies, or to reimburse the Treasury for such expenditures, and to prepare and issue therefor bonds of the United States not exceeding in the aggregate \$100,000,000, in such form as he may prescribe, bearing interest payable quarterly at a rate not exceeding three per centum per annum; and such bonds shall be payable, principal and interest, in United States gold coin of the present standard of value, and both principal and interest shall be exempt from all taxes or duties of the United States as well as from taxation in any form by or under State, municipal, or local authority, and shall not be receivable by the Treasurer of the United States as security for the issue of circulating notes to national banks: *Provided*, That such bonds may be disposed of by the Secretary of the Treasury at not less than par, under such regulations as he may prescribe, giving all citizens of the United States an equal opportunity therefor, but no commissions shall be allowed or paid thereon; and a sum not exceeding one-tenth of one per centum of the amount of the bonds herein authorized is hereby appropriated, out of any money in the Treasury not otherwise appropriated, to pay the expenses of preparing, advertising, and issuing the same: *And provided further*, That in addition to such issue of bonds, the Secretary of the Treasury may prepare and issue for the purposes specified in this section any portion of the bonds of the United States now available for issue under authority of section thirty-nine of the Act entitled "An Act to provide revenue, equalize duties, and encourage the industries of the United States, and for other purposes," approved August fifth, nineteen hundred and nine: *And provided further*, That the issue of bonds under authority of this Act and any Panama Canal bonds hereafter issued under authority of section thirty-nine of the Act entitled "An Act to provide revenue, equalize duties, and encourage the industries of the United States, and for other purposes," approved August fifth, nineteen hundred and nine, shall be made redeemable and payable at such times within fifty years after the date of their issue as the Secretary of the Treasury, in his discretion, may deem advisable.

**STATEMENT OF BOND ISSUES AND REVENUES FOR FISCAL
YEAR 1918.**

Issued under act of April 24, 1917.....		\$2,000,000,000
Proposed issue under pending bill:		
Bonds not as yet authorized.....	\$4,000,000,000	
Bonds authorized by act of Apr. 24, 1917..	3,063,945,460	
Bonds authorized by act of Aug. 5, 1909 (Panama Canal bonds).....	225,000,000	
Bonds authorized by joint resolution of Mar. 4, 1917 (for naval purposes).....	150,000,000	
Bonds authorized by act of Mar. 3, 1917 (miscellaneous).....	100,000,000	
Total under pending bill.....		<u>7,538,945,460</u>
Total authorized under act of Apr. 24, 1917, and pending bill for issue in 1918.....		0,538,945,460
Certificates authorized under pending bill:		
Certificates of indebtedness payable within one year.....		4,000,000,000
War savings certificates (redeemable within 5 years).....		<u>2,000,000,000</u>
Appropriated for as loans to allies:		
Under pending bill.....	\$4,000,000,000	
Loaned and appropriated for, to be loaned under act of Apr. 24, 1917, or under pending bill.....	3,000,000,000	
Total loans to allies.....		<u>7,000,000,000</u>
Total bonds issued and authorized.....		9,538,945,460
Intended use of proceeds of bonds:		
Loans to allies.....	\$7,000,000,000	
To redeem loan of 1908-18.....	63,945,460	
Bonds sold to meet current expenditures..	2,000,000,000	
Bonds authorized to meet current expendi- tures.....	475,000,000	
Total.....		<u>9,538,945,460</u>
Estimated * expenditures for 1918 (not including postal appro- priations).....		11,782,370,920
Estimated revenues for 1918:		
Bonds.....	\$2,475,000,000	
War savings certificates.....	2,000,000,000	
Revenues under H. R. 4280.....	2,406,500,000	
Revenue under present law (not including postal receipts).....	1,333,500,000	
Total revenue.....		<u>8,215,000,000</u>
Balance to be provided for.....		<u>3,567,370,920</u>

* Estimated Aug. 23, 1917.