To Amend the Second Liberty Bond Act

HEARING

BEFORE

THE COMMITTEE ON FINANCE
UNITED STATES SENATE

SEVENTY-FOURTH CONGRESS

FIRST SESSION

ON

H. R. 4304

AN ACT TO AMEND THE SECOND LIBERTY BOND ACT, AS AMENDED, AND FOR OTHER PURPOSES

JANUARY 29, 1935

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TO AMEND THE SECOND LIBERTY BOND ACT

TUESDAY, JANUARY 29, 1935

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

The committee met, in executive session, at 10 a. m., in the Finance Committee room, Senate Office Building, Senator Pat Harrison (chairman) presiding.

Present: Senators Harrison (chairman), King, Walsh, Costigan, Bailey, Clark, Lonergan, Black, Gerry, Guffey, Couzens, Keyes, La Follette, Metcalf, and Hastings.

Also present: Hon. Henry Morgenthau, Jr., Secretary of the Treasury; Hon. T. J. Coolidge, Under Secretary of the Treasury; Hon. D. W. Bell, Acting Director of the Budget; and Hon. William S. Broughton, Commissioner of Public Debt.

The CHAIRMAN. The committee will come to order.

(The committee had under consideration H. R. 4304, which is here printed in full, as follows:)

AN ACT To amend the Second Liberty Bond Act, as amended, 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 Second Liberty Bond Act, as amended, is further amended as follows:

The first paragraph of section 1 is amended to read as follows:

"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, to provide for the purchase, redemption, or refunding, at or before maturity, of any outstanding bonds, notes, certificates of indebtedness, or Treasury bills of the United States, and to meet expenditures authorized for the national security and defense and other public purposes authorized by law, such sum or sums as in his judgment may be nesessary, and to issue therefor bonds of the United States: *Provided*, That the face amount of bonds issued under this section and section 22 of this act shall not exceed in the aggregate $25,000,000,000 outstanding at any one time."

SEC. 2. The first sentence of subsection (a) of section 5 is amended to read as follows: "In addition to the bonds and notes authorized by sections 1, 18, and 22 of this Act, as amended, the Secretary of the Treasury is authorized, subject to the limitation imposed by section 21 of this Act, to borrow from time to time, on the credit of the United States, for the purposes of this Act, to provide for the purchase, redemption, or refunding, at or before maturity, of any outstanding bonds, notes, certificates of indebtedness or Treasury bills of the United States, and to meet public expenditures authorized by law, such sum or sums as in his judgment may be necessary, and to issue therefor (1) certificates of indebtedness of the United States at not less than par (except as provided in section 20 of this Act, as amended) and at such rate or rates of interest, payable at such time or times as he may prescribe; or, (2) Treasury bills on a discount basis and payable at maturity without interest."

SEC. 3. Section 5 is further amended by striking out the final sentence of subsection (a) thereof, reading as follows: "The sum of the par value of such certificates and Treasury bills outstanding hereunder and under section 6 of the First Liberty Bond Act shall not at any one time exceed in the aggregate $10,000,000,000."

SEC. 4. Subsection (a) of section 18 is amended to read as follows:

"In addition to the bonds and certificates of indebtedness and war-savings certificates authorized by this Act and amendments thereto, the Secretary of the Treasury, with the approval of the President, is authorized, subject to the limitation imposed by section 21 of this Act, to borrow from time to time on the credit of the United States for the purposes of this Act, to provide for the purchase, redemption, or refunding, at or before maturity, of any outstanding bonds, notes, certificates of indebtedness, or Treasury bills of the United States, and to meet public expenditures authorized by law, such sum or sums as in his judgment may be necessary and to issue therefor notes of the United States at not less than par (except as provided in section 20 of this Act, as amended) in such form or forms and denomination or denominations, containing such terms and conditions, and at such rate or rates of interest, as the Secretary of the Treasury may prescribe, and each series of notes so issued shall be payable at such time not less than one year nor more than five years from the date of its issue as he may prescribe, and may be redeemable before maturity (at the option of the United States) in whole or in part, upon not more than one year's nor less than four months' notice, and under such rules and regulations and during such period as he may prescribe."

SEC. 5. The Second Liberty Bond Act, as amended, is further amended by adding a new section, as follows:

"SEC. 21. The face amount of certificates of indebtedness and Treasury bills authorized by section 5 of this Act, certificates of indebtedness authorized by section 6 of the First Liberty Bond Act, and notes authorized by section 18 of this Act shall not exceed in the aggregate $20,000,000,000 outstanding at any one time."

SEC. 6. The Second Liberty Bond Act, as amended, is further amended, by adding a new section, as follows:

"SEC. 22. (a) The Secretary of the Treasury, with the approval of the President, is authorized to issue, from time to time, through the Postal Service or otherwise, bonds of the United States to be known as "United States Savings Bonds." The proceeds of the Savings Bonds shall be available to meet any public expenditures authorized by law and to retire any outstanding obligations of the United States bearing interest or issued on a discount basis. The various issues and series of the Savings Bonds shall be in such forms, shall be offered in such amounts within the limits of section 1 of this Act, as amended, and shall be issued in such manner and subject to such terms and conditions consistent with subsections (b) and (c) hereof, and including any restriction on their transfer, as the Secretary of the Treasury may from time to time prescribe.

"(b) Each Savings Bond shall be issued on a discount basis to mature not less than ten nor more than twenty years from the date as of which the bond is issued, and provision may be made for redemption before maturity upon such terms and conditions as the Secretary of the Treasury may prescribe: *Provided*, That the issue price of Savings Bonds and the terms upon which they may be redeemed prior to maturity shall be such as to afford an investment yield not in excess of three per centum per annum, compounded semiannually. The denominations of Savings Bonds shall be in terms of their maturity value and shall not be less than $25. It shall not be lawful for any one person at any one time to hold Savings Bonds issued during any one calendar year in an aggregate amount exceeding $10,000 (maturity value).

"(c) The provisions of section 7 of this Act, as amended (relating to the exemptions from taxation both as to principal and as to interest of bonds issued under authority of section 1 of this Act, as amended), shall apply as well to the Savings Bonds; and, for the purposes of determining taxes and tax exemptions, the increment in value represented by the difference between the price paid and the redemption value received (whether at or before maturity) shall be considered as interest. The Savings Bonds shall not bear the circulation privilege.

"(d) The appropriation for expenses provided by section 10 of this Act and extended by the Act of June 16, 1921 (U. S. C., title 31, secs. 760 and 761), shall be available for all necessary expenses under this section; and the Secretary of the Treasury is authorized to advance, from time to time, to the Postmaster General from such appropriation such sums as are shown to be required for the expenses of the Post Office Department, in connection with the handling of the bonds issued under this section.

"(e) The board of trustee of the Postal Savings System is authorized to permit, subject to such regulations as it may from time to time prescribe, the withdrawal of deposits on less than sixty days' notice for the purpose of acquiring Savings Bonds which may be offered by the Secretary of the Treasury; and in such cases to make payment of interest to the date of withdrawal whether or not a regular interest payment date. No further original issue of bonds authorized by section 10 of the Act approved June 25, 1910 (U. S. C., title 39, sec. 760), shall be made after July 1, 1935.

"(f) At the request of the Secretary of the Treasury the Postmaster General, under such regulations as he may prescribe, shall require the employees of the Post Office Department and of the Postal Service to perform, without extra compensation, such fiscal agency services as may be desirable and practicable in connection with the issue, delivery, safe-keeping, redemption, and payment of the Savings Bonds."

SEC. 7. Section 1126 of the Revenue Act of 1926 is amended by adding at the end thereof the following: "In order to avoid the frequent substitution of securities such rules and regulations may limit the effect of this section, in appropriate classes of cases, to bonds and notes of the United States maturing more than a year after the date of deposit of such bonds as security. The phrase 'bonds or notes of the United States' shall be deemed, for the purposes of this section, to mean any public-debt obligations of the United States and any bonds, notes, or other obligations which are unconditionally guaranteed as to both interest and principal by the United States."

We have a bill here, H. R. 4304, which is an act to amend the Second Liberty Bond Act, and the Secretary of the Treasury is here, also the Under Secretary of the Treasury and the Director of the Budget.

Mr. Secretary, will you proceed, please?

STATEMENT OF HON. HENRY MORGENTHAU, JR., SECRETARY OF THE TREASURY

Secretary MORGENTHAU. Mr. Chairman and gentlemen of the committee: I will be as brief as possible.

The draft of bill under discussion appears more complicated than it really is, due to the fact that it repeats whole sections of existing legislation with the amendments which the Treasury proposes. The bill does four things only:

First: It replaces the present authority to issue up to $28,000,000,000 of bonds with authority to issue bonds up to a total amount outstanding at any one time of $25,000,000,000. This is the more satisfactory manner of fixing the maximum amount to be borrowed upon bonds and follows the laws authorizing the other classes of securities since 1917.

Senator CLARK. It reduces the amount of the authorization from $28,000,000,000 to $25,000,000,000?

Secretary MORGENTHAU. What has happened in this: At present, every time we call in a billion dollars' worth of bonds, it reduces our authority by that much, until at present our authority is reduced to $2,500,000,000.

The CHAIRMAN. What act is that?

Secretary MORGENTHAU. 1917.

The CHAIRMAN. And specifically, it gave you authority at that time to issue up to what amount?

Secretary MORGENTHAU. To $28,000,000,000.

The CHAIRMAN. But it did not give you authority, if you took any of them in, that it might be a credit on the proposition; it just reduced it to that amount?

Secretary MORGENTHAU. Yes, sir.

The CHAIRMAN. What you are seeking to do is to put it in a revolving manner?

Secretary MORGENTHAU. Yes, sir.

The CHAIRMAN. So that when they are released you can issue others if necessity arises, but at no time to an outstanding amount in excess of how much?

Secretary MORGENTHAU. $25,000,000,000. It does not give us the authority to issue any bonds other than if we are given the authority by Congress.

The CHAIRMAN. Does that include short-term notes?

Secretary MORGENTHAU. A little bit further down I explain about the short-time notes.

The CHAIRMAN. I see.

Secretary MORGENTHAU. Under the law as it now stands we have issued approximately $25,500,000,000 in bonds, leaving approximately $2,500,000,000 which may still be issued; yet, only about $13,500,000,000 are in fact outstanding.

Second: As I have stated, securities other than bonds may now be issued up to fixed maximum amounts outstanding at any one time. In the case of notes the amount is $10,000,000,000, of which about $9,500,000,000 is now outstanding.

The CHAIRMAN. That is not included in this $25,000,000,000?

Secretary MORGENTHAU. No.

In the case of certificates of indebtedness and Treasury bills the amount is also $10,000,000,000, but only about $2,000,000,000 is outstanding. As you gentlemen know, the demand in the market shifts from time to time from securities of one maturity to those of another. It is the belief of the Treasury that the Government may be saved substantial amounts and may work toward lengthening the maturities of a larger portion of its public debt if more flexibility is granted in the issuance of the notes, certificates, and bills. For this reason it is suggested that the two authorities, each for $10,000,000,000, be consolidated into a single authority permitting $20,000,000,000 of these three classes outstanding at any one time.

The first five sections of the bill, then, have no other effect than the two I have just described, except that while we were amending the law we eliminated certain obsolete language. The succeeding sections of the bill contain entirely new matter which would accomplish two things.

Third: The first new proposal is an authorization for the issuance of a series of bonds which we have called United States savings bonds.

The CHAIRMAN. Before we come to that, are there any questions which any member of the committee wishes to ask with reference to these certificates or short-time obligations?

Senator KING. There is no authority in this bill for issuing bonds, long term or short term, other than as grants may be made by Congress?

Secretary MORGENTHAU. Only that.

Senator KING. You would not look to this for a specific grant to incur additional indebtedness?

Secretary MORGENTHAU. Positively not.

Senator KING. It would not give you authority to issue another dollar of indebtedness other than that authorized by Congress heretofore?

Secretary MORGENTHAU. No.

Senator CLARK. It gives you, however, flexibility in issuing from one class to another of these securities?

Secretary MORGENTHAU. Yes. We have the right to issue $2,500,000,000 more bonds. We have $1,800,000,000 of the Fourth Liberties which come due on the 15th of April. That would leave us an authority of only $700,000,000, and if we wanted to call any more of these Fourth Liberties and refinance at a lower rate, we could not do it because our authority is exhausted.

Senator KING. When you call bonds and they are retired, then you have no authority to make reissue for a shorter or longer period or for conversion?

Secretary MORGENTHAU. As we call these, each time it is deducted from the $25,000,000,000 until our authority is now down to $2,500,000,000, and we have called $1,800,000,000, which we have to refinance between now and the 15th of April, and our authority is now down to $2,500,000,000, and if we wanted to call the balance of the Fourth Liberties, we could not do it.

Senator HASTINGS. Are you limited in the rate of interest that you may pay?

Secretary MORGENTHAU. Four and a quarter.

Senator GUFFEY. That is the maximum?

Secretary MORGENTHAU. Four and a quarter on the bonds.

The CHAIRMAN. What are you paying now?

Secretary MORGENTHAU. The average rate of interest—I have a statement on that, and I might as well give it now.

The average annual interest rate on the interest-bearing debt on January 31, 1933, was 3.407 percent, whereas on December 31, 1934, the average rate was 2.96 percent, a reduction of 0.447 percent. The interest charge on January 31, 1933, amounted to $697,000,000, whereas on December 31, 1934, it amounted to $827,000,000. The gross debt on January 31, 1933, was $20,801,000,000, and on December 31, 1934, was $28,478,000,000.

If the average annual rate of 3.407 percent on January 31, 1933, had continued up to the present time, the amount of the annual interest charge would today be approximately $952,000,000 instead of the actual charge of $827,000,000, or a savings of $125,000,000 as a result of the reduction in the average rate. On December 31, 1933, with a gross debt of $23,814,000,000, the average annual rate was 3.296 percent. If this latter rate had continued up to the present time, the annual interest charge today would be $921,000,000, or a saving of about $94,000,000.

In other words, the rate of interest during this past year has come down about one-half of 1 percent.

Senator WALSH. Are you asking for authority in this bill to recall at your convenience or at your wishes the new issues?

Secretary MORGENTHAU. We have been calling them just as rapidly as we can.

Senator WALSH. These are past issues?

Secretary MORGENTHAU. Old issues.

Senator WALSH. What about the future that you are going to issue as a result of this legislation?

Secretary MORGENTHAU. Under our present authority, if we wish to raise new money, we cannot do that either unless we get this additional authority from Congress.

Senator WALSH. I am wondering how fixed or stable the new issues will be that you may issue as a result of this legislation.

Secretary MORGENTHAU. It would have to be within the limits of the $25,000,000,000 worth of bonds or $20,000,000,000 of notes and certificates. It would have to stay within those two limits.

Senator WALSH. I understand that as to the amount, but suppose in another year you wish to refund some of those bonds, can you do it without coming before the Congress, or not?

Secretary MORGENTHAU. Oh, yes, sir; this will take care of us for quite a while.

Senator WALSH. You can as you please call and recall bonds?

Secretary MORGENTHAU. Up to the extent of $25,000,000,000.

The CHAIRMAN. But you could not do it if you did not have this legislation, except up to $700,000,000?

Secretary MORGENTHAU. That is right.

The CHAIRMAN. He says that they have reached the limit after this next issue of $1,800,000,000, and they will only have authority then to issue $700,000,000 more of bonds unless we pass this legislature. If we do, then they have the authority.

Senator HASTINGS. There is this difference also, if I understand it. Under the present law, when you have retired bonds, that automatically reduces the amount. This legislation proposes to change that so that if you retire bonds in the future, it does not reduce the maximum amount outstanding of $25,000,000,000. That is, if after the issue, you should call in $5,000,000,000, that does not reduce the amount from $25,000,000,000 to $20,000,000,000—and that is different from the old law.

Secretary MORGENTHAU. That is right.

Senator HASTINGS. That is as I understand it.

Senator WALSH. Is there any precedent, Mr. Secretary, for such wide latitude of power?

Secretary MORGENTHAU. If you don't mind my saying it, Senator——

Senator WALSH (interposing). You are asking for legislation to permit you—I am not criticizing your purpose—but to permit you to refund as you choose $25,000,000,000.

Secretary MORGENTHAU. Mr. Coolidge says we have that authority now in notes and certificates; but may I say it does not give us any authority other than to take advantage of the existing money rates and to refloat the Government debt and take advantage of a time of low-money rates. The situation changes rapidly. It was just a year ago that I borrowed for the Treasury for 13 months and paid 3 percent interest, and the last loan I was able to borrow, $1,800,000,000 at 3⅛, so the situation changes so fast that if the Treasury is tied down so that it cannot take advantage of the bond market when it is there, I think the Government would suffer through not being able to take advantage of the lowest interest rates available. The thing shifts so fast within a year.

Senator COUZENS. Is there any definition of the references as between bonds, certificates of indebtedness, and Treasury bills?

Secretary MORGENTHAU. Could Mr. Coolidge answer that?

Senator COUZENS. Yes; I would be glad to have an answer. That has never been done. I have never been able to see any authority for the definition.

Mr. COOLIDGE. The Government bonds must have a maturity in excess of 5 years.

Senator COUZENS. Is that provided by statute?

Mr. COOLIDGE. That is provided by statute, as I understand it. The notes must have a maturity between 1 and 5 years. The bills and certificates less than 1 year or not in excess of 1 year.

Senator COUZENS. Referring to section 21, page 4, there is reference to certificates of indebtedness and Treasury bills, but no reference to notes. Where do the notes take place in this bill? You have four classifications—bonds, notes, certificates of indebtedness, and Treasury bills. What do you refer to when you mention notes?

Mr. COOLIDGE. The notes have a maturity between 1 and 5 years.

Senator COUZENS. And when must Treasury bills mature?

Mr. COOLIDGE. They must mature not in excess of a year. At the present time we are selling 6-month Treasury bills.

Senator HASTINGS. What is a Treasury bill?

Mr. COOLIDGE. It is a bill sold on a discount basis and it is sold to the highest bidder. There is no interest attached to it.

Senator COUZENS. No coupon?

Mr. COOLIDGE. No coupon.

Senator COUZENS. What is a certificate of indebtedness then?

Mr. COOLIDGE. That is a note, except that it is less than a year and has a different name.

Senator COUZENS. Does that bear interest?

Mr. COOLIDGE. Yes; and the authorization provisions in the bill have minor differences.

The CHAIRMAN. The only difference between a certificate of indebtedness and a Treasury bill is that one bears interest and the other does not, and both are for not more than 1 year?

Mr. COOLIDGE. Yes; and for convenience they are sold in a somewhat different manner in practice.

Senator COUZENS. What objective do you have in mind for the issuance of certificates of indebtedness and Treasury bills? They both mature within a year, as I understand it. What is the purpose of having the two kinds of indebtedness?

Mr. COOLIDGE. The practice has been in the past to sell certificates of indebtedness in rather large amounts at a public offering. In the bills, the way has been to sell weekly to the highest bidder. In recent months we have sold no certificates of indebtedness, and there are none now outstanding except for private accounts.

Senator COUZENS. Can you tell us just by what process you arrived at the fact that you wanted a $25,000,000,000 limitation on bonds, and a $20,000,000,000 on certificates of indebtedness and Treasury bills?

Mr. COOLIDGE. The amounts were placed so that they would, under the conditions that we can foresee for the next year, we can give ample leeway to use whichever was best suited to the market conditions without exceeding those limits.

Senator COUZENS. Yes. How do you arrive at the $20,000,000,000 for these notes and bills and certificates of indebtedness?

Senator HASTINGS. And Treasury bills. There are three, aren't there?

Senator COUZENS. Notes are not referred to. There are only two.

Mr. COOLIDGE. In part, we use the same figures as already in the bill. At the present time we have a right to issue $10,000,000,000 each, and we combined those, not to change the terms of the bill, into $20,000,000,000. That amount is ample, because what it permits is the issuance if bonds are not promptly salable, of $8,000,000,000, which is enough to take care of any probable needs. If bonds are salable we would not use the full $20,000,000,000.

Senator COUZENS. May I ask you further——

Senator HASTINGS (interposing). Pardon me, Senator. Before you leave that point, I want to call your attention to the fact that the notes are mentioned. On line 15 it says, "And notes authorized by section 18." So that it includes three classes.

Senator COUZENS. It has been stated in discussions among financiers, as I understand, that the Government borrowing powers are hazarded by the fact that you have so many short-time securities out. Is that a fact?

Mr. COOLIDGE. That might be a question of opinion. I would feel that that was not the case. I would feel that it would be unwise to have too many additional short-time securities.

Senator COUZENS. What do you mean by "additional short-time securities"?

Mr. COOLIDGE. Well, I would very much prefer to raise a larger part of our money in the future in long-time securities.

Senator COUZENS. Why? That is what I want to get at. I do not see the purpose. I want to get enlightenment.

Mr. COOLIDGE. It is a matter of judgment that there might be two sides to. The short-time securities have to be paid at maturity in the near future by new borrowing. They are subject to change in the rates for money, and they are too large an amount to constantly refund. It gives an uncertain atmosphere.

Senator COUZENS. All right. The rates though are so much smaller on the short-time securities than they are on the long-time securities, and I still am unconvinced that there is a need for it.

Mr. COOLIDGE. That is true temporarily. We never know what may take place in 2 or 3 years. Rates may change.

Senator COUZENS. So you think there is a hazard; you agree with that philosopy that there is a hazard in having too many short-time securities out?

Mr. COOLIDGE. Too many. The question in my mind would be what amount is too many.

Senator COUZENS. What percentage of the whole would you say was safe to have in short-time securities?

Mr. COOLIDGE. That is a very hard question and it depends a good deal upon what is called "short-time securities."

Senator COUZENS. What do you call "short-time securities"?

Mr. COOLIDGE. That is again a hard question. For instance, if you call, as would be quite proper, 3- and 5-year securities short time, you could stand a very much larger amount of 3 and 5 year with perfect safety than if you call short time less than a year.

Senator COUZENS. Take 90 days and those less than a year, and 3- and 5-year securities, do you call all of those short-time securities?

Mr. COOLIDGE. I ordinarily do, but it might vary, depending upon the topic of conversation. If I were talking to a banker and he was talking of his short, quick portfolio, he would go under a year. From the Government's point of view on short term, I would go up to 5 years.

Senator COUZENS. What do you call "long-time"? Ten years?

Mr. COOLIDGE. Our bonds. In my own mind, I sort of have a vision of bonds being long-time securities and others short-time securities.

Senator COUZENS. So all of this business is more or less hazy?

Mr. COOLIDGE. Elastic rather than hazy. It must necessarily be.

Senator HASTINGS. The recommendations, Senator Couzens, if you ask what proportion by percentage this $20,000,000,000 has against $25,000,000,000.

Senator COUZENS. That is why I asked it in the first place. I have not received an answer yet, but I must confess that I am in accord with his views that the whole picture is hazy. No one seems to have any definite views with respect to finance.

Mr. COOLIDGE. I think the answer is, Senator, that we placed considerable leeway to give the Treasury power to use their judgment from time to time as to what is best suited for sale.

Senator WALSH. Mr. Coolidge, the banks have to meet this same problem of how much they should take in short-time securities and how much in long-time securities?

Mr. COOLIDGE. Surely.

Senator WALSH. What percentage do they usually invest of their funds in short-time securities?

Mr. COOLIDGE. That varies enormously with the different banks.

Senator WALSH. It does?

Mr. COOLIDGE. Enormously.

Senator WALSH. There is no point at which they seek to invest in short-time securities?

Mr. COOLIDGE. I have had figures prepared from some of the capital statements which would indicate that perhaps—I am going from memory—that perhaps something over one-quarter of our Treasury bonds are held by banks, whereas close to one-half of the Treasury notes are held by banks.

Senator WALSH. That does not quite answer my question. What percentage? Take the First National Bank of Boston—what percentage of their assets is in short-time securities, on the average?

Mr. COOLIDGE. In Government short-time purchases?

Senator WALSH. No; in all short time.

Mr. COOLIDGE. Well, I have never looked at their statement exactly that way. When they show a quick statement, I should think, offhand, 60 or 70 percent would be short-time securities, although with their large holdings of Governments, most of their long-time securities would be in Government bonds, presumably.

Senator COUZENS. What is the amount of outstanding Government securities that are eligible for securing currency?

Mr. COOLIDGE. There are about $800,000,000 of the old 2-percent consols and Panama bonds that are eligible in themselves for currency. There is a law which is expiring this July making bonds yielding not more than 3⅜ eligible up to a bank's capital for the issuance of currency. That is at present in effect.

Senator COUZENS. Do you know how many of those are outstanding?

Mr. COOLIDGE. Those are outstanding far in excess of the power of the banks to use them; six and a half billion.

Senator COUZENS. You say there are 6½ billions which are eligible if the banks' capital permitted?

Mr. COOLIDGE. Yes.

Senator COUZENS. Do you intend to ask a continuance of the authority to use these securities for currency?

Secretary MORGENTHAU. No.

Senator COUZENS. Do you intend to let it expire?

Secretary MORGENTHAU. Yes, sir.

Senator COUZENS. So that these 6½ billion will not, after July, be eligible to secure currency?

Mr. COOLIDGE. That is right.

Mr. BROUGHTON. Except pre-war.

Senator COUZENS. I mean with the new securities that were authorized in the last banking act.

Mr. COOLIDGE. They will automatically cease on July 15.

Senator COUZENS. That is what I am trying to find out—if you intend to ask for authority to extend that.

Secretary MORGENTHAU. They say the $700,000,000 consols do not expire on the 1st of July.

Senator COUZENS. No; they have always been eligible for currency. I am talking of the authority given in the new banking act.

Secretary MORGENTHAU. They expire in July next.

Senator COUZENS. After July 1, those securities will not be eligible to secure currency?

Secretary MORGENTHAU. That is right.

The CHAIRMAN. Are there any further questions?

Senator KING. I suppose, Mr. Coolidge, the proposed appropriations, one for $4,880,000,000, and then the appropriations which will be made for the Home Loan and so on, will affect the market for securities and will call for increased borrowings, will they not?

Mr. COOLIDGE. As that money is spent, it will call for increased borrowings surely.

Senator KING. What do you anticipate may be the necessity or the amount of increased borrowings that will be required during the next 1 or 2 years?

Mr. COOLIDGE. There are outstanding today $5,000,000,000 of old Liberty bond issues. Those all bear rates of interest above prevailing rates, and if conditions stay as they are, they all should be refunded.

Senator KING. But I am speaking of new borrowings.

Mr. COOLIDGE. That is $5,000,000,000 there.

Senator KING. I am speaking of new indebtedness; not conversions, but new indebtedness.

Mr. COOLIDGE. That is a question of the expenses the Treasury has to pay from laws passed by this Congress.

Senator KING. I understand that; but I was just wondering if this bill had in contemplation very large increased borrowings, not conversions or transfers from one form of indebtedness to another.

Mr. COOLIDGE. We feel the authority is ample for anything that is expected to be required within whatever we may be asked to raise. We feel that bill has authority.

Senator KING. That would be within the $45,000,000,000?

Mr. COOLIDGE. Yes.

Senator KING. If this bill which is now before us passes in its present form, do you feel that there would be authority to make conversions of short-term to long-term or conversions from long-term to short-term or to increase borrowings up to $45,000,000,000 in the aggregate?

Mr. COOLIDGE. The authority is there if it is needed to meet the expenses of government.

Senator KING. If Congress makes the appropriations?

Mr. COOLIDGE. If Congress makes the appropriations.

The CHAIRMAN. You do not change, as I understand it, so far as the certificates of indebtedness, Treasury bills, and short-time notes—you do not change the right now of the Treasury? You have the right for $20,000,000,000.

Mr. COOLIDGE. That is correct.

The CHAIRMAN. And you do not change that?

Mr. COOLIDGE. No.

The CHAIRMAN. The only change that is made is made with reference to the amendment of this Liberty Loan Act that authorizes you up to $25,000,000,000 to have outstanding issues of bonds at any time; that is right, isn't it?

Mr. COOLIDGE. That is right.

Senator COUZENS. Is that quite correct? Because I understood you to say previously that you had increased the amount from $10,000,000,000 to $20,000,000,000 for short-time securities.

Mr. COOLIDGE. We combined the two amounts. At the present time we have a right to issue $10,000,000,000 notes and $10,000,000,000 certificates and bills. We have been issuing notes and we have not been issuing bills.

Senator COUZENS. So you are just combining the two?

Mr. COOLIDGE. We are combining the two so that we are able to issue notes in excess of the present amount outstanding.

Senator COUZENS. There is one other point, going back to these eligible Government securities for currency. Do you know how many of those new eligible securities have been used for currency?

Mr. COOLIDGE. About $250,000,000. There is very little demand for it, because the banks have to pay a tax of one-half of 1 percent on the currency they issue, and they do not care to spend that.

Senator WALSH. The figures in this bill do not change in the authorization of the Treasury Department now in its hands?

Mr. COOLIDGE. Oh, yes.

Senator WALSH. How much?

Mr. COOLIDGE. They change in respect to the bonds. At the present time we have authority to issue only $2,500,000,000 additional bonds, and that prevents us from the conversions or from raising additional funds by bonds in excess of that amount.

Senator WALSH. How much more would this bill give you?

Mr. COOLIDGE. Under the present authority we would have authority to issue $11,000,000,000 in new bonds.

Senator WALSH. What do you think the effect is going to be upon the country at the present time to have it announced that the Treasury Department is asking for authority to issue $11,000,000,000 more than it has ever before been authorized to issue?

Mr. COOLIDGE. I think that this bill would have no effect upon the country to that extent, because it merely gives the Treasury the power that it needs very badly to refund in the proper manner.

Senator WALSH. Would it not be better for the sake of indicating safety of borrowing in the future to try to keep as close to the present authorization as possible? I am thinking of the psychological effect it would have.

Mr. COOLIDGE. We have in a sense reduced the present authorization. Back in 1917 the Treasury was given authority to issue $28,000,000,000. They did not give the revolving authority. We are now asking for $25,000,000,000 but are asking to be able to repay our present bonds with new bonds.

Senator WALSH. Yes; but as I understand, the total authorization here is $11,000,000,000 more than the Treasury has had in the past.

Mr. COOLIDGE. More than it has today; not more than it had before it began refunding. You see, what has happened is that we have been constantly reducing our authority by paying off old issues, which automatically reduced the authority.

Senator WALSH. I am disturbed about how that can be used.

Senator HASTINGS. Following Senator King's suggestion, as I understand it, this bill takes care of the Federal Treasury and the Federal debt up to $45,000,000,000.

Mr. COOLIDGE. I would not feel that, Senator, because——

Senator HASTINGS (interrupting). You would not feel that, but isn't it true?

Mr. COOLIDGE. It would not take care of a debt of $45,000,000,000 promptly. Our hands would be tied; we could issue the proper securities. It takes care of a debt of about $35,000,000,000.

Senator HASTINGS. But the limit would be, if you used all of this authority, you could not exceed $45,000,000,000; $25,000,000,000 in bonds, and $20,000,000,000 for the three other classes.

Mr. COOLIDGE. That is true.

Senator HASTINGS. That is what I wanted to bring out.

Mr. COOLIDGE. I would feel it took care of a debt of $35,000,000,000 in proper form.

The CHAIRMAN. I think you stated for the record there how much was outstanding now of these certificates of indebtedness and Treasury bills and short-time notes, didn't you? That is in the record, is it not?

Secretary MORGENTHAU. Yes; I think that was included in the statement which I read.

Senator KING. What was the highest amount of indebtedness at the close of the war or immediately following the war?

Mr. COOLIDGE. My recollection is in the neighborhood of $28,000,000,000.

Senator KING. And our indebtedness now is what?

Mr. COOLIDGE. About the same; slightly higher, I believe. I am told, Senator, that I was incorrect; that the peak was $26,500,000,000. I still would like to check those figures.

Senator KING. When you are speaking of the present indebtedness, does that include the loans to the R. F. C. and to the Home Loan?

Mr. COOLIDGE. No; the guaranteed obligations are not included in such statements.

Senator KING. How are they?

Senator COUZENS. It includes all of the R. F. C. but not the Home Owners' Loan?

Mr. COOLIDGE. No; not the Home Owners' Loan or the Farm Credit, and I believe it does not include about $200,000,000 R. F. C. owned notes.

Senator KING. I had supposed until the statement was made in the Senate a day or two ago, that all of the loans made by the R. F. C. and collected would either be used in a revolving fund or returned to the Treasury. I was informed that $500,000,000 of the loans, of the money loaned or advanced to the R. F. C. and which it had loaned and which had been repaid, had been used by Mr. Hopkins under the authority of the President, for relief, and that $500,000,000 more had been sequestrated or at least earmarked for that purpose, so that $1,000,000,000 that I had thought would be returned to the Treasury will not be returned to the Treasury but will be used for relief.

Mr. COOLIDGE. May I have the Director of the Budget answer that question? I am not familiar with it.

Senator KING. At any rate, you have not gotten that $1,000,000,000 back into the Treasury.

Senator COUZENS. And never will.

Senator KING. And never will, probably.

Mr. COOLIDGE. I would rather have the Director of the Budget answer that.

Mr. BELL. Last year, in the Emergency Appropriation Act in June, Congress gave us authority to take $500,000,000 of the unobligated balances of the R. F. C., which has been taken and used and will be exhausted the first week in February. In the $4,880,000,000 bill, now pending, it is contemplated—it gives the President authority to take a further $500,000,000 of the unobligated balances.

Senator KING. He has not the authority now?

Mr. BELL. No, sir; and every time he has taken it, it has been given to him by Congress. He has no authority otherwise.

The CHAIRMAN. Are there any other questions?

Senator HASTINGS. I want to ask one other question: Aren't there bonds issued by the Home Owners' Loan Corporation, Government bonds, or some other of these various agencies?

Mr. COOLIDGE. The Home Owners' Loan and the Farmers Credit are the two organizations which issue their own bonds, which are guaranteed both as to interest and principal by the Federal Government.

Senator HASTINGS. Then those bonds are not included in this?

Mr. COOLIDGE. They are not included in this.

Senator COUZENS. Are we quite correct in saying that the Farm Credit bonds are guaranteed by the Federal Government?

Mr. COOLIDGE. Not all of them; but some of them.

Senator COUZENS. Just what are issued? Are the consolidated bonds guaranteed?

Mr. COOLIDGE. Not the consolidated, but they have authority and are issuing bonds for new loans and to help the farmers repay their present indebtedness, and those bonds today are guaranteed by the Federal Government as to interest and principal.

Senator COUZENS. What would you think of it as a sound financial policy to include those in the Government obligations, those that are, like the Home Owners' Loan Corporation and the Farm Credit obligations? They are obligations of the Federal Government if they are guaranteed.

Mr. COOLIDGE. They show on our statements as contingent liabilities.

Senator COUZENS. But when any reference is made to the Government debt, they only refer to $28,000,000,000 that is outstanding, outside of those.

Mr. COOLIDGE. That is true, and that is very customary in other countries. It is true, for instance, as to the English public debt.

Senator COUZENS. You would not as a banker, though, look very favorably upon a statement that did not include the contingent liabilities.

Mr. COOLIDGE. I would expect the contingent liabilities would be shown, but as contingent liabilities and not to include them in the direct debt.

Senator KING. What would you say the total indebtedness of the Government today is, exclusive of the guaranteed obligations, and then I shall ask if you have the figures to give us the amount of the guaranteed or contingent liabilities, as you call them?

Mr. COOLIDGE. On December 1, the total gross debt was $28,478,-000,000 and odd.

The CHAIRMAN. Now, the contingent guaranteed.

Mr. COOLIDGE. This statement of the contingent liabilities is as of September 30. I will have to bring it up to date, but the total there at that time is $1,895,000,000, divided amongst the Federal Farm Mortgage $739,000,000; the Home Owners' Loan $908,000,000; and the Reconstruction Corporation $247,000,000.

Senator COUZENS. Might I ask how it is that they claim that the H. O. L. C. authority has been extended, they have I understand up to $3,000,000,000, and you have less than $1,000,000,000 in your contingent liabilities statement.

Mr. COOLIDGE. This is actually issued as of September 30. They are constantly being issued and will continue to be issued. They have got commitments outstanding, but the bonds have actually not not been issued.

Senator KING. The commitments absorb the $3,000,000,000?

Mr. COOLIDGE. That is the information they give us.

Senator KING. Of course, if they issue bonds, then the contingent liability there would be the $3,000,000,000.

Mr. COOLIDGE. Yes, sir; surely.

Senator HASTINGS. I suppose it would be difficult for you to give us the direct Government commitments over and above this actual indebtedness, as well as the commitments on the guaranties?

Mr. COOLIDGE. I could not give it this morning. We would have to spend some time to figure that out.

Mr. BELL. We might put that in the record.

Senator HASTINGS. I would like to have the commitments to date, just as you would make it for a bank if you were going to borrow money.

Senator WALSH. You would have to get the total authorization as well as the $3,000,000,000 for the Home Owners' Loan by the authorizations.

Senator KING. Apparently they have exhausted the $3,000,000,000 and are going to ask for $125,000,000 more.

Senator LONERGAN. Has the Treasury Department estimated the maximum borrowing power of the United States?

Mr. COOLIDGE. Under the present?

Senator LONERGAN. Under existing conditions; yes, sir.

Secretary MORGENTHAU. May I answer that? All that you can do is this: In the President's Budget message he estimated that the public debt for the coming fiscal year ending June 30, 1936, will be increased by $4,000,000,000, or a total of $34,000,000,000. That has been stated in his message. The point I want to make is this, gentlemen, that, after all, the President's message has been out now for a couple of weeks. Our requesting this additional authority has been out and has passed the House, and since the President's message the bond market has steadily gone up, and by that I mean both with and without the gold clause, so it has nothing to do with the Supreme Court. So that if the country felt that what we are asking for, either in the President's message or this additional authority, were to undermine the Government credit, the bond market would have reacted unfavorably, but it has not; it has gone up.

Senator COUZENS. The higher it goes up, the less it costs you for your money?

Mr. MORGENTHAU. That is correct. So that I feel that I could say that up to the next fiscal year—and we cannot see beyond that—that we are well within the realm of sound Government credit.

Senator COUZENS. May I ask you about these Government savings bonds which are generally called "baby bonds"?

The CHAIRMAN. We stopped you when you got to that. Please go ahead, Mr. Secretary, with your explanation of the baby bonds.

Secretary MORGENTHAU. The first new proposal is an authorization for the issuance of a series of bonds which we have called "United States savings bonds." This issue of bonds is designed to meet the needs of the small investor who wants to put his savings into Government bonds. As these small investors will wish to keep their interest as well as the principal invested and not have the inconvenience of cashing and reinvesting their coupons, it is proposed to issue the bonds on a discount basis and pay what amounts to interest at the maturity of the bonds or on earlier redemption. To limit these bonds to the individual investor, the maximum amount which may be acquired in any one year was fixed at $10,000. This manner of meeting the needs of the investor has been very successful in Great Britain to the extent of $2,000,000,000, and it is hoped may meet with favor in our country. For the convenience of these investors it is proposed to make the bonds available at post offices and other convenient agencies. It is to be noted that in figuring the maximum amount of bonds which may be outstanding under the Liberty Loan Act, as amended in the first section of the draft bill, these saving bonds will be included in the $25,000,000,000 revolving fund.

In order to avoid confusion, it is provided that the issuance of Postal Savings bonds shall be discontinued after July 1935, of which there are about $88,000,000 now outstanding.

The CHAIRMAN. Is that proposed in this legislation?

Secretary MORGENTHAU. Yes, sir.

Fourth: The last section contains the other new proposal. Various departments of the Government have received requests to accept bonds guaranteed as to principal and interest by the United States just as United States bonds are acceptable in lieu of surety bonds. As there is no reason why these guaranteed bonds should not be accepted as security, this section amends existing law so as to permit the deposit of the wholly guaranteed bonds equally with the primary obligations of the United States.

Senator HASTINGS. Will you explain that $88,000,000 of Postal Savings bonds. What are they?

Secretary MORGENTHAU. They now have the authority to buy a 20-year bond from the Postal Savings. This has been out, but most people have forgotten about it. There are $88,000,000 of those outstanding. In order that, if Congress gave us the authority to issue this new amount of bonds, that there should not be confusion in the minds of the people who would go to the post offices, we suggested that we cancel the right to issue any more of that amount of the 20-year bonds and issue these instead.

Senator HASTINGS. What is the peculiarity of those bonds? Were they bonds that were payable in installments?

Mr. BROUGHTON. Any person who has money can deposit in the Postal Savings, and twice a year can elect to convert his savings into one 20-year bond.

Senator HASTINGS. In what amount?

Mr. BROUGHTON. He can deposit up to $2,500.

Senator HASTINGS. And how small an amount?

Mr. BROUGHTON. The denominations now issued are $20, $100, and $500.

Senator COUZENS. And you want to cancel that authority?

Secretary MORGENTHAU. Yes, sir.

Senator HASTINGS. On the theory that it is not necessary if we do this?

Secretary MORGENTHAU. Yes, sir.

Senator COUZENS. There is no limit in the bill to that amount? The baby bonds?

Secretary MORGENTHAU. Except that they will come under the $25.000,000,000.

Senator COUZENS. But there is no amount that you have in contemplation under that operation?

Secretary MORGENTHAU. No; except that it would come under the same authority of the $25,000,000,000. Do you mean how much there could be outstanding?

Senator COUZENS. Yes.

Secretary MORGENTHAU. No, sir.

Senator COUZENS. Have you in mind how many you can sell, from your investigation?

Secretary MORGENTHAU. There is a considerable difference of opinion. I happen to be more enthusiastic than some others. I think that over a period of a year or two we might get out between $500,000,000 to $1,000,000,000. Some of my associates think I am too enthusiastic.

The CHAIRMAN. What denominations will they be?

Secretary MORGENTHAU. From $25 up to $10,000.

Senator HASTINGS. What rate of interest?

Secretary MORGENTHAU. In the bill as we have suggested it, between 2 and 3 percent.

Senator COUZENS. Not more than 3 percent?

Secretary MORGENTHAU. Not more than 3 percent.

Senator HASTINGS. That would leave it to the Treasury to decide as between 2 and 3 percent?

Secretary MORGENTHAU. Yes. We would price them in accordance with what the interest was.

Senator COUZENS. On that discount bond, the sample of which you have shown us, that is figured at 2½?

Secretary MORGENTHAU. Two and a half; yes, sir.

Senator HASTINGS. Would you, for instance, issue these bonds beginning in June, we will say, at 2 percent, and then change it in July or August? Change it to, say, 2½?

Secretary MORGENTHAU. Senator Hastings, what we are proposing is to get out an issue on the first of each month. And the interest would be fixed. It would have to be fixed for the life of the bond. We could not vary it during the life of the bond.

The CHAIRMAN. Anybody could buy those? It would not be restricted to the people who had postal savings at all?

Secretary MORGENTHAU. Anybody could buy them.

The CHAIRMAN. Anyone?

Secretary MORGENTHAU. Anyone.

Senator HASTINGS. How do you enforce the provision that nobody should have more than $10,000?

Secretary MORGENTHAU. The names would be registered with the post office. They are nontransferable.

Senator HASTINGS. They are nontransferable?

Secretary MORGENTHAU. They are nontransferable. We do not want them dealt in.

Senator GUFFEY. What is the amount of the postal savings at the present time?

Secretary MORGENTHAU. About a billion and one.

Senator HASTINGS. Do you mean that a person who has bought one of these bonds when he is prosperous could not transfer it and get his money out if he got into trouble?

Secretary MORGENTHAU. What we propose is that he can come in at any 6-month period and we will cash it for him, but we do not want them dealt in.

Senator HASTINGS. The Treasury itself will cash them for the value that they then have?

Secretary MORGENTHAU. The face value.

Senator COUZENS. The value is on the face of the bond itself.

Secretary MORGENTHAU. Yes, sir.

The CHAIRMAN. They differ from those bonds in that respect?

Secretary MORGENTHAU. Yes. We thought it would be much wiser not to have them dealt in. They are really savings.

Senator HASTINGS. The criticism against them has been the possibility of their being dealt in; that is the criticism I have seen of them.

Secretary MORGENTHAU. There was that, but when we have explained that they would not be dealt in, and furthermore that the person that has not got a safe-deposit box, we propose to keep them for him and just give him a receipt like a money order. If a man wants to buy a $25 bond for his little child or for himself and has no safe keeping, he can leave it and we will take care of it and just give him a receipt.

The CHAIRMAN. That is a matter of regulation; that is not in the law.

Secretary MORGENTHAU. I do not think so.

Senator COUZENS. Do you contemplate issuing any with coupons, or all discount bonds?

Secretary MORGENTHAU. All discount bonds. We feel that in this way we can reach a small investors' class who want to invest their money. The savings banks are largely concentrated in the Northeast; there are lots of places where there are no savings banks, and at the same time it gives the Government an additional place to go to borrow money.

The CHAIRMAN. How does the Post Office Department feel about this? About the abrogation of this law?

Secretary MORGENTHAU. We have cleaned it all with the Post Office. It is agreeable.

The CHAIRMAN. It is satisfactory?

Secretary MORGENTHAU. Entirely so.

Senator HASTINGS. Did you consider the war saving policy that existed?

Secretary MORGENTHAU. This is something approaching that, except that the unit is $25 rather than what it was.

Senator COUZENS. Of course, the Treasury will make a lot of money, like they do in currency, if a lot of them are not cashed.

Secretary MORGENTHAU. You would not begrudge us that, Senator?

Senator KING. Won't there be a vast amount of detail work imposed upon the Treasury and its agencies, whether they be in the various towns and cities, with the banks, as a result of this plan?

Secretary MORGENTHAU. The paper work and clerical work would be entirely handled by the Post Office, like the Postal Savings.

Senator GUFFEY. It is very little more than the money-order system.

Secretary MORGENTHAU. The people are all there.

Senator GUFFEY. In the Postal Savings now they issue what is equivalent to a money order.

Senator HASTINGS. Are these Postal Savings bonds on the market?

Secretary MORGENTHAU. No.

Senator HASTINGS. Do you propose to redeem them?

Secretary MORGENTHAU. Surely. When they come due, the man will get his money.

Senator HASTINGS. Do you leave them out until they come due, or are you going to try to clean them up?

Mr. BROUGHTON. The board of trustees is prepared to purchase at par any offered for sale, as part of their investment.

Senator HASTINGS. And those that are not offered?

Mr. BROUGHTON. They can keep them until they are matured, and then they get their money back.

Senator HASTINGS. So that what you propose to cancel is the authority to issue more?

Mr. BROUGHTON. That is correct.

Senator KING. In giving the amount of the obligations of the Government, which was given here a few moments ago, were these Postal Savings obligations included?

Mr. BELL. The $88,000,000 of outstanding Postal Savings bonds were included in the gross debt.

Senator COUZENS. But not the deposits in the Postal Savings?

Mr. COOLIDGE. They are entirely secured either by bank balances or Government bonds, but they are not added to the gross.

Senator COUZENS. I was going to ask you a question in that connection. Because of the very low money rates at the present time, are the Postal Savings able to turn these all over to the banks and get their interest?

Mr. COOLIDGE. What has been happening is, the banks have been turning back the money, and the Postal Savings has been buying Government bonds, so they hold larger amounts of Government bonds and less of bank deposits.

Senator COUZENS. Do you know, out of that $1,100,000,000 of Postal Savings, how much of it is in the banks?

Mr. COOLIDGE. I am not up-to-date on that. A little while ago it was about half.

Secretary MORGENTHAU. May I say, Senator, I think I am right, that during the past year we were able to double the net earnings of the Postal Savings. We were able to double the net earnings of Postal Savings.

Senator COUZENS. How?

Secretary MORGENTHAU. Through investing them in long-term Governments.

Senator COUZENS. At what rate?

Secretary MORGENTHAU. At the market.

Senator COUZENS. The market does not seem to me to be in such a position to enable you to do that, if you were heretofore depositing these Postal Savings in the banks at 2½ percent.

Secretary MORGENTHAU. What happened was this: Each month for the last 6 months the banks returned from $30,000,000 to $50,000,000 of deposits because they had to pay the Government 2½ percent, and they did not want to pay it. As that $30,000,000 to $50,000,000 came in we invested it in long-term Governments.

Senator COUZENS. They are all below 3 percent, though, aren't they?

Secretary MORGENTHAU. The average earnings for Postal Savings now on their investment is just a fraction under 3, and they pay out 2, so they have a spread of not quite 1 percent, and in that way we have been able in this past year to double the earnings of Postal Savings.

Senator HASTINGS. This bill does not in any way affect the Postal Savings now in existence except for this right to purchase?

Secretary MORGENTHAU. That is correct.

Senator KING. I am not clear in respect to your bookkeeping; what the books should show with respect to this $1,100,000,000 in relation to which Senator Couzens just referred. Is that treated in any Treasury statement as a liability?

Mr. BELL. It is a contingent liability, and shown on our public-debt statement every month; just the same as the Home Owners' Loan and the Farm Credit Corporation.

Senator KING. What have you back of it to relieve the Government of any liability? Government bonds?

Mr. BELL. As an investment you have Government bonds, and where it is deposited in the banks you have collateral security issues of Government bonds and State bonds, usually.

Senator KING. Assume then, to get my mind clear, that all of this billion dollars plus deposits were demanded now by the owners of those deposits,, how would you pay them?

Mr. BELL. We would call them from the banks and sell Government securities.

Senator KING. So that there is a contingent liability there of over a billion dollars?

Mr. BELL. Yes; but secured.

Senator KING. What collateral have you that you could sell for the purpose of indemnifying the Government for the $1,100,000,000 which it would be compelled to pay to the depositors?

Senator HASTINGS. Money and Government bonds.

Mr. COOLIDGE. We have half a billion dollars in the banks of the country, and over $600,000,000, I am talking rough figures, in Government bonds that we bought in the market and can resell.

Senator HASTINGS. That is probably the best collateral you have for any contingent liability shown on your statement, isn't it?

Senator KING. And those $600,000,000 bonds are shown on the books as a Government liability?

Mr. COOLIDGE. They show as a Government liability; surely.

Senator LONERGAN. Are the certificates issued to the ex-service men kept as contingent liabilities of the Government?

Mr. BELL. Only to the extent that Congress appropriates money every year for the sinking fund; in other words, the $3,500,000,000 issued is not a liability until 1945. Unless Congress appropriates for the sinking fund——

Senator COUZENS (interposing). We used to appropriate $200,000,000 a year.

Mr. BELL. $112,000,000 a year.

Senator COUZENS. As a fund to pay off those issues.

Mr. BELL. Yes.

Senator COUZENS. In the absence of that, there is no contingent liability shown on the books, as I understand it?

Mr. BELL. That is right.

Secretary MORGENTHAU. Could we take just a minute? We have a new thing in the Treasury for the last few months, a new kind of a statement which we issue once a month, and if Mr. Bell could take a minute to explain it, I think it might clear up a lot of misunderstanding. It has never been done before and we think we have everything out now in black and white.

Senator COUZENS. You could not have done anything that would have made it worse than it was.

Secretary MORGENTHAU. Then this is an improvement.

The CHAIRMAN. All right, Mr. Bell.

Senator KING. Does that statement go back to 2 years prior to this?

Senator COUZENS. It goes away back, as I understand it.

Mr. BELL. I am sorry that I have not one with me, but we had quite a demand for information as to just what the assets of the Government were in all of these corporations and agencies which have been created. We undertook to get out what was termed a "Government balance sheet" with respect to the assets in those corporations. We started that last August, and we issued every month, showing the various corporations and agencies, their assets and liabilities, the kind of securities they own, and the interest of Government, the Government's proprietary interest in those organizations.

Senator COUZENS. But no profit-and-loss items?

Mr. BELL. No profit-and-loss statement. But the proprietary interest in the capital and surplus is shown.

Senator HASTINGS. Do you make any estimate as to the value of those?

Mr. BELL. No, sir; they are the book value.

Senator COUZENS. When you say "book value", you mean the purchase value?

Mr. BELL. In some cases. In a few, they have reserve set up for losses. But we take the value on the books of the organization.

Senator COUZENS. In other words, if you bought Government bonds at a substantial premium, you would show the premium plus the face value and the book value?

Mr. BELL. We would show the book value, and that may be an amortized value in some cases.

Senator COUZENS. You mean where they have amortized the premiums?

Mr. BELL. That is correct.

Senator KING. How do you show the assets of the intermediate credit banks and those various financial structures that were set up by the Government for the relief of agriculture?

Mr. BELL. We show their balance sheets as it exists. We show the interest of the Government in the net assets.

Senator KING. Did you show the liability—that is, did the assets with respect to those intermediate banks show any loss, any book loss?

Mr. BELL. No, sir; they are making money. One organization has, since their creation.

Senator KING. Of which organization are you speaking?

Mr. BELL. The Federal Intermediate Credit Bank.

Senator KING. There was one farm bank which was set up under the auspices of the Government, or, rather, for which the Government was not responsible, that incurred a great deal of loss, heavy loss, did it not?

Senator BLACK. Is that not the Joint Stock Corporation you are referring to?

Mr. BELL. Some of them incurred losses; yes, sir. But they are being liquidated at the present time, as I understand it, and the production credit and the bank cooperatives.

Senator KING (interposing). Take the Joint Stock. Does the statement which you put out show the assets and the liabilities of that organization?

Mr. BELL. The Joint Stock?

Senator KING. Yes.

Mr. BELL. No, sir; we have no liabilities. We own no capital stock in the Joint Stock Corporation.

Senator KING. An effort was made, as I understood—I have a very dim recollection of it—to have the Government get behind those joint stock organizations.

The CHAIRMAN. We are behind the land banks, but not the joint stock.

Mr. BELL. We are not behind the land banks in the sense of a direct obligation. We own stock. They may be a moral obligation.

Senator BAILEY. That is printed on the back of the bonds, isn't it?

Mr. BELL. That is right. It is provided in the act.

Senator BAILEY. It was done with the knowledge and consent of the officials of the country.

Mr. BELL. As I understood, that was done for constitutional reasons.

The CHAIRMAN. Are there any other questions?

Senator HASTINGS. Mr. Secretary, may I inquire, does this form of baby bond provide for the Treasury redeeming it within 6 months of the bond itself?

Secretary MORGENTHAU. No; that would be a regulation.

Senator HASTINGS. Don't you think it would be helpful if it did?

Secretary MORGENTHAU. Those amounts stated on the face are the redemption values every 6 months.

Senator HASTINGS. And the Government itself agrees to redeem it within these various periods, on the face of it?

Secretary MORGENTHAU. Yes.

Mr. BROUGHTON. That text is tentative; it may be changed.

Senator HASTINGS. I understand that.

The CHAIRMAN. If there is no objection, this resolution will be reported out favorably.

We will meet tomorrow morning at 10 o'clock.

(Whereupon, at 11:15 a. m., the committee adjourned.)

SUPPLEMENT

Public debt data submitted by the Secretary of the Treasury

	Gross debt	Interest bearing debt	Annual interest charges	Annual average interest rate
			Percent	*Percent*
Jan. 31, 1933	$20,801,700,000	$20,454,100,000	696.9	3.407
Feb. 28, 1933	20,934,700,000	20,584,800,000	698.8	3.396
Mar. 31, 1933	21,362,500,000	20,991,600,000	719.2	3.427
Apr. 30, 1933	21,441,200,000	21,087,000,000	721.3	3.421
May 31, 1933	21,853,400,000	21,468,800,000	732.5	3.412
June 30, 1933	22,538,700,000	22,157,600,000	742.2	3.350
July 31, 1933	22,609,900,000	22,239,800,000	743.7	3.344
Aug. 31, 1933	23,098,500,000	22,732,600,000	754.9	3.318
Sept. 30, 1933	23,060,800,000	22,671,800,000	751.2	3.318
Oct. 31, 1933	23,060,300,000	22,668,900,000	750.3	3.313
Nov. 30, 1933	23,534,100,000	23,161,400,000	771.7	3.332
Dec. 31, 1933	23,814,500,000	23,450,800,000	773.0	3.296
Jan. 31, 1934	25,071,100,000	24,718,900,000	797.1	3.225
Feb. 28, 1934	26,055,100,000	25,707,300,000	822.5	3.200
Mar. 31, 1934	26,157,500,000	25,698,200,000	831.1	3.234
Apr. 30, 1934	26,118,300,000	25,599,100,000	817.1	3.192
May 31, 1934	26,155,000,000	25,587,800,000	813.0	3.178
June 30, 1934	27,053,100,000	26,480,500,000	842.3	3.181
July 31, 1934	27,189,200,000	26,604,600,000	845.1	3.177
Aug. 31, 1934	27,079,900,000	26,495,100,000	843.1	3.162
Sept. 30, 1934	27,189,600,000	26,626,100,000	830.2	3.115
Oct. 31, 1934	27,188,000,000	26,643,000,000	809.6	3.039
Nov. 30, 1934	27,298,900,000	26,761,000,000	806.4	3.021
Dec. 31, 1934	28,478,700,000	27,944,000,000	827.1	2.96[illegible]

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