Calendar No. 708.

65th Congress, 3d Session. | SENATE. | Report No. 786.

VICTORY LIBERTY LOAN AUTHORIZATION.

February 28, 1919.—Ordered to be printed.

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

REPORT.

[To accompany H. R. 16136.]

The Committee on Finance, to whom was referred the bill (H. R. 16136) to amend the Liberty bond acts and the War Finance Corporation act, and for other purposes, having had the same under consideration, report it back to the Senate without amendment and recommend that the bill do pass.

The report of the Committee on Ways and Means of the House, which is deemed a full and fair presentation of the purposes and provisions of the bill, is hereto attached and made a part of this report.

[House Report No. 1131, Sixty-fifth Congress, third session.]

The Committee on Ways and Meams, to whom was referred the bill (H. R. 16136) to amend the liberty bond acts and the War Finance Corporation act, and for other purposes, having had the same under consideration, report it back to the House without amendment and recommend that the bill do pass.

At the present time our expenditures for the fiscal year ending June 30, 1919, are estimated to be at least $19,000,000,000 and our estimated receipts $14,000,000,000, divided as follows: Fourth liberty loan, $7,000,000,000; war savings certificates, $1,000,000,000; and taxes, $6,000,000,000, thus leaving a deficit of $5,000,000,000, which it is contemplated will be met from the sale of the notes provided for in section 1 of this bill. Of course, there are $5,000,000,000 of bonds authorized under existing law and available to be issued, but it is the opinion of your committee that those bonds could not be sold now under the terms of their authorization. The Treasury Department concurs in this view and has no intention of trying to sell those bonds now upon the terms provided in existing law. The Treasury and your committee believe that out of abundance of caution we should authorize the issue of $7,000,000,000 of notes, since the excess over $5,000,000,000 will doubtless be required early in the next fiscal year.

THE PROPOSED BILL.

Section 1.—Note Authorization.

Because of the unsatisfactory condition of the bond market due to the unsettled conditions here as well as throughout the world, your committee deems it preferable at this time to issue short-time notes to finance the needs of the Government rather than to authorize a further issue of long-term bonds. The Treasury Department concurs in this decision. It is believed that such notes, should it become advisable or necessary, can be converted at or before maturity into long-time obligations of the Government bearing lower rates of interest than if long-time obligations were issued at the present time.

This section amends the second liberty-bond act by adding a new section authorizing an issue of $7,000,000,000 of notes maturing in not less than one year nor more than five years from the date of issue. These notes are to be issued at not less than par, in such form or forms and denomination or denominations and at such rate or rates of interest as the Secretary of the Treasury shall prescribe. They are 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.

These notes are to be issued in any one or more of the following series as the Secretary of the Treasury may prescribe:

1. Exempt from all taxation, except estate or inheritance taxes.
2. Exempt from all taxation, State or Federal, except (*a*) estate or inheritance taxes, and (*b*) surtaxes and excess-profits and war-profits taxes now or hereafter imposed by the United States.
3. Exempt from all taxation, State or Federal, except (*a*) estate or inheritance taxes, and (*b*) surtaxes, and excess-profits and war-profits taxes now or hereafter imposed by the United States, and with an additional exemption from surtaxes and excess-profits and war-profits taxes of the interest on an amount of such notes owned by any taxpayer the principal of which does not exceed $30,000.
4. Exempt from taxes imposed by the States, possessions of the United States, and local taxing authorities, except estate or inheritance taxes; but subject to estate or inheritance taxes, income taxes (both normal and surtax), and excess-profits and war-profits taxes now or hereafter imposed by the United States.

If the notes are offered in more than one series bearing the same date of issue, the holder of the notes of one series will have the right of having his notes converted at par into notes of any other series offered at the same time bearing the same date of issue.

These notes will not bear the circulation privilege.

The Secretary of the Treasury is authorized to deposit the proceeds from the sale of these notes in designated depositaries in the same manner as provided under section 8 of the second liberty bond act in the case of the proceeds arising from the sale of bonds and certificates of indebtedness and war-savings certificates.

Section 9 of the second liberty bond act, which provided "that in connection with the operations of advertising, selling, and delivering any bonds, certificates of indebtedness, or war-savings certificates * * * the Postmaster General, under such regulations as he may prescribe, shall require, at the request of the Secretary of the Treasury, the employees of the Post Office Department and of the Postal Service to perform such services as may be necessary, desirable, or practicable, without extra compensation" is made applicable to the sale of these notes.

The term "bonds," used in section 10 of the second liberty bond act, is made to include "notes." The effect of this is (*a*) to appropriate a sum not exceeding one-fifth of 1 per cent of the amount of notes authorized, or $14,000,000, in order to pay the necessary expenses, including rent, incurred in the sale of these notes; and (*b*) to require the Secretary of the Treasury, in addition to the reports required by law, on the first Monday in December, 1919, and annually thereafter, to transmit to Congress a detailed statement of all expenditures incurred in the sale of the notes.

The term "bonds," used in section 14 of the second liberty bond act, as amended by the third liberty bond act, is made to include "notes." The effect of this is to make any notes of the United States bearing interest at a higher rate than 4 per cent per annum, which have been owned by any person continuously for at least six months prior to the date of his death, receivable by the United States at par and accrued interest in payment of any estate or inheritance taxes now or hereafter imposed by the United States.

The term "bonds," used in section 15 of the second liberty bond act, as amended by the third liberty bond act, is made to include "notes." The effect of this is to make the bond stabilizing provisions, permitting the Secretary of the Treasury to purchase bonds to help stabilize the market, apply to the purchase of these notes for the same purpose.

The term "bond," used in sections 3702, 3703, 3704, and 3705 of the Revised Statutes, is made to include "notes." Section 3702 relates to the issue of duplicate bonds for destroyed bonds. Section 3703 relates to the indemnity required in the case of the issue of a duplicate for a destroyed bond. Section 3704 relates to the issue of a duplicate in the case of a lost registered bond. Section 3705 provides the indemnity that will be required in the case of a missing bond.

The term "bonds" used in section 5200 of the Revised Statutes as amended by section 6 of the supplement to second liberty bond act is made to include "notes." The effect of this is to provide that the purchase or discount of any note or notes secured by not less than a like face amount of notes of the United States shall not be considered as money borrowed within the meaning of section 5200. Section 5200 as amended provides that "the total liabilities to any association, of any person, or of any company, corporation, or firm for money borrowed, including in the liabilities of a company or firm the liabilities of the several members thereof, shall at no time exceed 10 per cent of the amount of the capital stock of such association, actually paid in and unimpaired, and 10 per cent of its unimpaired surplus fund" and provided, among other exceptions to this rule, that "the purchase or discount of any note or notes secured by not less than a like face amount of bonds of the United States issued since April 24, 1917, * * * shall not be considered as money borrowed within the meaning of this section."

SECTION 2.—EXEMPTION OF LIBERTY LOAN BONDS FROM TAXATION.

All the 3½ per cent bonds issued under the provisions of the first liberty bond act are tax free, except in the case of estate or inheritance taxes.

The interest from all of the liberty bonds is exempt from the normal income tax and the corporation income tax.

Section 7 of the second liberty bond act provided that each holder of liberty bonds could hold $5,000 of bonds, the interest upon which would be tax free from all income taxes and excess-profits and war-profits taxes.

Section 1 of the supplement to second liberty bond act gave an additional exemption (expiring two years after the end of the war) from surtaxes and excess-profits taxes of the interest on $30,000 of bonds of the fourth liberty loan owned by any person, partnership, corporation or association.

The section also provided that the interest from the converted first liberty bonds, the second liberty bonds, converted and unconverted, and the third liberty bonds should be exempt (until two years after the end of the war) from surtaxes and excess-profits or war-profits taxes to the extent of one and one-half times the amount of fourth liberty loan bonds subscribed for and held, upon the date of the tax return, by any taxpayer, but it provided that such exemption should not exceed $45,000 of such bonds.

Section 2 of the proposed bill grants a tax exemption (expiring five years after the end of the war) from surtaxes and excess-profits and war-profits taxes in addition to the aforementioned tax exemptions, of the first liberty bonds, converted, the second liberty bonds converted or unconverted, the third liberty bonds, and the fourth liberty bonds, held by any taxpayer, the principal of which does not exceed $30,000 in the aggregate. It is believed that this exemption will help to stabilize the bond market and to appreciate the market value of the bonds now outstanding.

Paragraph (b) of section 2 of the proposed bill provides that in addition to all the aforementioned tax exemptions the interest from the first liberty bonds, converted, the second liberty bonds, converted and unconverted, the third liberty bonds, and the fourth liberty bonds shall be exempt from surtaxes and excess-profits and war-profits taxes to the extent of three times the amount of notes of the victory liberty loan originally subscribed for and held, upon the date of the tax return, by any taxpayer, but it is provided that this exemption shall not exceed $20,000 of such bonds and that it shall expire five years after the end of the war. It is believed that this provision will help to make the notes authorized more attractive and also that it will help to appreciate the market value of the outstanding bonds and thereby tend to make the market more stable.

Under the bond acts and the proposed bill by complying with the provisions of the same, a taxpayer could hold the following amounts of Government obligations exempt from all income taxes and excess-profits and war-profits taxes:

Bonds absolutely tax free, in addition to the 3½ per cent first liberty bonds..	$5,000
Fourth liberty bonds, tax free until 2 years after the termination of the present war	30,000
First liberty bonds, converted; second liberty bonds, converted or unconverted; and third liberty bonds, until 2 years after the termination of the present war	45,000
First liberty bonds, converted; second liberty bonds, converted or unconverted; third liberty bonds, and fourth liberty bonds, until 5 years after the termination of the present war	30,000
First liberty bonds, converted; second liberty bonds, converted or unconverted; third liberty bonds, and fourth liberty bonds, so long as the owner holds $6,667 of notes originally subscribed for by him	20,000

SECTION 3.—$2,000,000,000 ADDITIONAL AUTHORIZATION OF CERTIFICATES OF INDEBTEDNESS.

This section amends section 5 of the second liberty bond act as amended by section 4 of the third liberty bond act by increasing the limit upon the amount of certificates of indebtedness that may be outstanding at any one time from $8,000,000,000 to $10,000,000,000. The Treasury now has outstanding nearly $5,000,000,000 of Treasury certificates. It is contemplated that it will have to borrow $1,400,000,000 a month in March, April, and May. That would mean $4,200,000,000 additional. Your committee believes that it is absolutely necessary to increase the authorization of short-time certificates of indebtedness that may be outstanding at any one time to $10,000,000,000 in order to place the Treasury in a position to meet its obligations. This authorization is necessary because under the installment payment plan not more than one-half of the income and excess-profits and war-profits taxes will be paid in by June 30, 1919.

These certificates can not run for more than a year and the money raised by the issue of them can not be spent except for appropriation made by Congress.

Such certificates are issued only to bridge over the interval between the liberty loans and until tax payments are made, and as soon as the next liberty loan and the taxes are paid the Treasury certificates will be retired. It is evident, therefore, that these certificates are not an outstanding indebtedness all the time, and that they are merely the means employed and an essential means of temporarily financing the needs of the Treasury.

In view of the above, it is evident that in speaking of our authorized bonded debt it is not proper to add to the $22,000,000,000 bonds authorized since the declaration of war ($17,000,000,000 of which have been sold) and the $7,000,000,000 of notes authorized by this bill, the certificates of indebtedness authorized, since they can not be issued for a longer period than one year, and since the only purpose that they serve is to bridge over the periods between liberty loans or the payment of income and excess-profits taxes.

Section 4.—Bonds Owned Abroad Exempt from State and Federal Taxation.

This section provides:

That, notwithstanding the provisions of the second liberty bond act or of the War Finance Corporation act or of any other act, bonds, notes, and certificates of indebtedness of the United States and bonds of the War Finance Corporation shall, while beneficially owned by a nonresident alien individual, or a foreign corporation, partnership, or association, not engaged in business in the United States, be exempt both as to principal and interest from any and all taxation now or hereafter imposed by the United States, any State, or any of the possessions of the United States, or by any local taxing authority.

This provision extends the exemption, granted by existing law in the case of bonds payable in foreign money, to include bonds payable in the American dollar as well. It is believed that this provision will make possible the sale of a substantial amount of our obligations in foreign countries, thus widening the market for our bonds.

Section 5.—Period for Conversion of 4 Per Cent Liberty Bonds Extended.

This section provides that the privilege of converting 4 per cent bonds of the first liberty loan converted and 4 per cent bonds of the second liberty loan into 4¼ per cent bonds may be extended by the Secretary of the Treasury for such period, upon such terms and conditions and subject to such rules and regulations, as he may prescribe. On January 15, 1919, the Secretary of the Treasury recommended the extension of the conversion privilege in the following letter to the chairman of the Ways and Means Committee:

WASHINGTON, *January 15, 1919.*

DEAR MR. KITCHIN: The total amount issued of 4 per cent bonds of the first liberty loan converted was $568, 318, 450, of which there remain outstanding as of December 31, 1918, in the hands of the public, unconverted, after deducting bonds purchased and retired by means of the bond purchase fund and bonds held by the War Finance Corporation, $200,680,900; the total amount issued of 4 per cent bonds of the second liberty loan was $3,807,862,350, of which there remain outstanding as of December 31, 1918, in the hands of the public, unconverted, after deducting bonds purchased by means of the bond purchase fund and bonds held by the War Finance Corporation, $866,999,900; total 4 per cent liberty bonds outstanding as of December 31, 1918, $1,067,680,800.

Under the terms of the contract with the holders of these bonds the conversion privilege expired on November 9, 1918, six months after it arose. Every effort was made by Secretary McAdoo to give publicity to the fact of the conversion privilege and its approaching expiration, and that privilege remained open for six months. My belief is that those who did not avail themselves of the conversion privilege within the period fixed by the terms of the contract which the Government made with them fall among the class of small holders who are unaccustomed to bond investments and who, on account of the very wide distribution of liberty loan bonds were not reached by general publicity, and could not, except in the case of registered bonds, be reached by department circular. Insistence upon the letter of the contract will result in loss to a group of patriotic bondholders toward whom a special duty of consideration exists. The United States has suffered nothing by their failure to act promptly in the exercise of the conversion right and it is my judgment that the conversion privilege should be extended. I propose to submit to your committee in connection with the bond bill, which it will be necessary for me to present at an early date for your consideration, a provision intended to extend the conversion privilege so that the higher rate of 4¼ per cent shall be effective from the semiannual interest payment date next succeeding the date of presentation for conversion.

I am writing this letter to you now and giving it to the press in order that the holders of these bonds may be informed of my views concerning the matter.

I am sending a copy of this letter to Senator Simmons.

Very truly, yours,

CARTER GLASS.

Hon. CLAUDE KITCHIN,
Chairman Committee on Ways and Means,
House of Representatives.

SECTION 6—NEW SINKING FUND CREATED.

This section repeals the old sinking fund provisions which amounted to no more than a book account, and creates a 2½ per cent cumulative sinking fund calculated to retire the whole war debt in 25 years. The advantage of a cumulative sinking fund is that it makes the amount to be set aside for the service of the debt, both on account of interest and sinking fund, substantially a permanent item at a fixed figure until the debt is retired. The bill provides that the sinking fund shall become operative July 1, 1920.

The following statement shows the annual payment into the cumulative sinking fund to retire $18,000,000,000 or $20,000,000,000 of indebtedness in 25 years:

TREASURY DEPARTMENT,
Washington, February 13, 1919.

The annual payment into a sinking fund with interest at 4¼ per cent, reinvested annually, in order to amount to $20,000,000,000 or $18,000,000,000 in 25 years, will have to be as follows:

For $20,000,000,000	$464, 290, 591	(2.32 per cent)
For $18,000,000,000	417, 861, 532	(2.32 per cent)

Respectfully,

JOS. S. McCOY, *Government Actuary.*

SECTION 7.—EXTENSION OF CREDITS TO FOREIGN GOVERNMENTS.

This section authorizes the Secretary of the Treasury with the approval of the President, until the expiration of 18 months after the termination of the present war, to establish credits with the United States for any foreign government now engaged in war with the enemies of the United States, *for the purpose only* of providing for purchases of any property owned directly or indirectly by the United States and not needed by the United States, or of any wheat the price of which has been or may be guaranteed by the United States. To the extent of the credits so established the Secretary of the Treasury is authorized to make advances to or for the account of such foreign governments and to receive at par their obligations hereafter issued, bearing interest at not less than 5 per cent per annum, and maturing not later than October 15, 1938. The Secretary of the Treasury is authorized to convert any short-time obligations of foreign governments taken under authority of this section into long-time obligations maturing not later than October 15, 1938. The conversion privilege provided in this section is substantially the same as the foreign obligation conversion privilege of section 3 of the second liberty bond act.

For the purpose of extending the credits provided in this section there is appropriated the unexpended balance of the $10,000,000,000 of appropriations made under the other bond acts for the purpose of extending credits to foreign governments. Of this appropriation there is about $1,500,000,000 still available,. Your committee believes that this provision will enable this Government to sell its surplus war supplies in Europe to the various foreign governments and that it will also enable this Government to better dispose of the wheat, the price of which has been or may be guaranteed by the United States.

SECTION 8.—MATURITY OF FOREIGN OBLIGATIONS.

This section provides:

That the obligations of foreign Governments acquired by the Secretary of the Treasury by virtue of the provisions of the first liberty bond act and the second liberty bond act, and amendments and supplements thereto, shall mature at such dates as shall be determined by the Secretary of the Treasury: *Provided*, That such obligations acquired by virtue of the provisions of the first liberty bond act, or through the conversion of short-time obligations acquired under such act, shall mature not later than June fifteenth, nineteen hundred and forty-seven, and all other such obligations of foreign Governments shall mature not later than October fifteenth, nineteen hundred and thirty-eight.

SECTION 9.—AUTHORIZATION OF LOANS BY WAR FINANCE CORPORATION TO ASSIST IN THE EXPORTATION OF DOMESTIC PRODUCTS.

This section authorizes the War Finance Corporation to make loans to exporters and to banks, bankers, and trust companies until one year after the termination of the present war to assist in the exportation of domestic products. Because of exchange conditions, thereby necessitating some of the foreign governments putting restrictions upon our exports to them, as it is claimed, it is believed that this provision will materially help our industries in their production during the transition period and to maintain their export business.

This section authorizes the War Finance Corporation to make advances, for periods not exceeding five years, direct to any exporter engaged in the export business in the United States, if, in the opinion of the board of directors of the corporation, he is unable to obtain funds upon reasonable terms through banking channels.

Any such advance shall be made only for the purpose of assisting in the exportation of such products, and shall be limited in amount to not more than the contract price therefor, including insurance and carrying or transportation charges to the foreign point of destination if and to the extent that such insurance and carrying or transportation charges are payable in the United States by such exporter to domestic insurers and carriers. The rate of interest charged on any such advance shall not be less than 1 per cent per annum in excess of the rate of discount for 90-day commercial paper prevailing at the time of such advance at the Federal reserve bank of the district in which the borrower is located.

This section also authorizes the corporation to make advances for not to exceed five years to any bank, banker, or trust company in the United States, which after this section takes effect makes an advance to any exporter for the purpose of assisting in the exportation of domestic products. Such advances are to be limited to not to exceed the amount remaining unpaid of the advances made by the bank, banker, or trust company to the exporter for the purpose of exporting domestic products.

The corporation can not have outstanding under this section and unpaid at any one time advances in excess of $1,000,000,000.

The corporation at the time of making any advance must require the promissory note or notes of the borrower together with full and adequate security in each instance by indorsement, guaranty, or otherwise. It shall also retain power to require additional security at any time. Authority is also granted the corporation to extend the time of payment of any advance through renewals or the substitution of any obligations or otherwise, but in no case can it extend the time for payment of the advance beyond five years from the time the advance was originally made.

Under the original act the War Finance Corporation is only authorized to make loans for the purposes set out therein until six months after the termination of the present war. This bill does not change that limitation, but gives the corporation the power to make loans until 12 months after the termination of the war only for the purposes of assisting in the exportation of our domestic products.

Section 10.—Extension of Time of Winding Up the Affairs of the War Finance Corporation.

The only change this section makes in section 15 of the War Finance Corporation act is to increase the time from 6 months to 12 months after the termination of the war within which the corporation shall proceed to liquidate its assets and to wind up its affairs.

Section 11.—Short Title of the Act.

This section provides that the short title of the act shall be "Victory liberty loan act."

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