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PUBLIC DEBT ACT OF 1941

HEARING

BEFORE A

SUBCOMMITTEE OF THE
COMMITTEE ON FINANCE
UNITED STATES SENATE
SEVENTY-SEVENTH CONGRESS

FIRST SESSION

ON

H. R. 2959

AN ACT TO INCREASE THE DEBT LIMIT OF THE UNITED STATES, TO PROVIDE FOR THE FEDERAL TAXATION OF FUTURE ISSUES OF OBLIGATIONS OF THE UNITED STATES AND ITS INSTRUMENTALITIES, AND FOR OTHER PURPOSES

FEBRUARY 12, 1941

Printed for the use of the Committee on Finance



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PUBLIC DEBT ACT OF 1941

WEDNESDAY, FEBRUARY 12, 1941

UNITED STATES SENATE,
COMMITTEE ON FINANCE,
SUBCOMMITTEE ON H. R. 2959,
Washington, D. C.

The subcommittee met, pursuant to call, at 10 a. m., in room 312, Senate Office Building, Senator Prentiss M. Brown (chairman) presiding.

Senator BROWN. The committee will be in order. We have for consideration H. R. 2959, commonly known as the debt limitation bill. This is a subcommittee of the Finance Committee. We are somewhat handicapped by the fact that the Foreign Relations Committee, which has, of course, a great deal of business before it, will be in session this morning, but Senator Byrd, Senator Clark, and Senator Capper are here now, Senator La Follette will be in shortly, and Senator Bailey will be in later in the morning. H. R. 2959 will be inserted in the record at this point.

(H. R. 2959 is as follows:)

[H. R. 2959, 77th Cong., 1st sess.]

A BILL To increase the debt limit of the United States, to provide for the Federal taxation of future issues of obligations of the United States and its instrumentalities, and for other purposes

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That this Act may be cited as the Public Debt Act of 1941.

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

"SEC. 21. The face amount of obligations issued under the authority of this Act shall not exceed in the aggregate \$65,000,000,000 outstanding at any one time."

(b) The authority granted in the following provisions of law to issue obligations is terminated:

(1) Section 32 of the Act entitled "An Act to provide ways and means to meet war expenditures, and for other purposes", approved June 13, 1898, as amended (U. S. C., 1934 edition, title 31, sec. 756) (authorizing the issue of \$300,000,000 certificates of indebtedness);

(2) Section 6 of the First Liberty Bond Act, as amended (U. S. C., 1934 edition, title 31, sec. 755) (authorizing the issue of \$2,000,000,000 certificates of indebtedness); and

(3) Section 6 of the Second Liberty Bond Act, as amended (U. S. C., 1934 edition, title 31, sec. 757) (authorizing the issue of \$4,000,000,000 of war savings certificates).

(c) Section 301 of title III of the Revenue Act of 1940 (54 Stat. 526) (creating a special fund for the retirement of defense obligations) is repealed.

SEC. 3. Section 22 of the Second Liberty Bond Act, as amended (U. S. C., title 31, sec. 757c), is amended to read 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,

United States savings bonds and United States Treasury savings certificates, the proceeds of which 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 and the savings certificates shall be in such forms, shall be offered in such amounts, subject to the limitation imposed by section 21 of this Act, as amended, and shall be issued in such manner and subject to such terms and conditions consistent with subsections (b), (c), and (d) hereof, and including any restrictions on their transfer, as the Secretary of the Treasury may from time to time prescribe.

"(b) Savings bonds and savings certificates may be issued on an interest-bearing basis, on a discount basis, or on a combination interest-bearing and discount basis and shall mature, in the case of bonds, not more than twenty years, and in the case of certificates, not more than ten years, from the date as of which issued. Such bonds and certificates may be sold at such price or prices, and redeemed before maturity upon such terms and conditions as the Secretary of the Treasury may prescribe: *Provided*, That the interest rate on, and the issue price of, savings bonds and savings certificates and the terms upon which they may be redeemed shall be such as to afford an investment yield not in excess of 3 per centum per annum, compounded semiannually. The denominations of savings bonds and of savings certificates shall be such as the Secretary of the Treasury may from time to time determine and shall be expressed in terms of their maturity values. The Secretary of the Treasury is authorized by regulation to fix the amount of savings bonds and savings certificates that may be held by any one person at any one time.

"(c) The Secretary of the Treasury may, under such regulations and upon such terms and conditions as he may prescribe, issue or cause to be issued, stamps, or may provide any other means to evidence payments for or on account of the savings bonds and savings certificates authorized by this section, and he may make provision for the exchange of savings certificates for savings bonds.

"(d) The provisions of section 7 of this Act, as amended (relating to exemptions from taxation), shall apply to savings bonds issued before the effective date of the Public Debt Act of 1941. For purposes of taxation any increment in value represented by the difference between the price paid and the redemption value received (whether at or before maturity) for savings bonds and savings certificates shall be considered as interest. The savings bonds and the savings certificates shall not bear the circulation privilege.

"(e) 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 savings bonds, savings certificates, and stamps or other means provided to evidence payment therefor.

"(f) 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.

"(g) 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, safekeeping, redemption, or payment of the savings bonds and savings certificates, or in connection with any stamps or other means provided to evidence payments."

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

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

Sec. 5. This Act, except sections 2 (b) and (c), shall become effective on the first day of the month following the date of its enactment.

Senator BROWN. Mr. Secretary, we will hear you.

STATEMENT OF HON. HENRY MORGENTHAU, JR., SECRETARY OF THE TREASURY (ACCOMPANIED BY HON. DANIEL W. BELL, THE UNDERSECRETARY OF THE TREASURY, AND HON. JOHN L. SULLIVAN, ASSISTANT SECRETARY OF THE TREASURY

Secretary MORGENTHAU. I am appearing before you today in support of H. R. 2959, which raises the debt limit to \$65,000,000,000, provides for the elimination of the present partition in the debt limit, provides greater flexibility in our financing operations, and provides that the income from all future issues of Federal securities, both direct and indirect, be subject to all Federal taxes.

The 1942 Budget submitted to the Congress last month indicates that our contemplated national-defense program has now been increased to approximately \$28,500,000,000 in appropriations, contract authorizations, and recommendations. It also indicates that the estimated expenditure programs will result in combined deficits for the fiscal years 1941 and 1942 of \$15,400,000,000. The balance of the borrowing authority on January 31, 1941, was \$1,123,000,000 under the general limitation and \$1,628,000,000 under the national-defense limitation. This combined total of \$2,751,000,000 provides the Treasury with borrowing authority sufficient only for the next 4 months, and even in that period we would be restricted to short-term obligations for a larger part of our financing operations than seems advisable at this time.

Short-term securities would for the most part be purchased by commercial banks, thereby causing a further increase of deposits. The Treasury would like to avoid further increases of deposits as far as possible, and to some extent this can be accomplished by issuing obligations attractive to permanent investors outside of the banking system. In times such as these, it is our desire to borrow as much as possible from real savers rather than from banks.

The bill, among other things, proposes to amend the Second Liberty Bond Act so as to limit the face amount of public debt obligations issued under the authority of that act to an amount not to exceed in the aggregate \$65,000,000,000 outstanding at any one time. This provision as written will repeal section 21 (b) of that act, which authorizes the issuance of \$4,000,000,000 face amount of national-defense short-term securities.

Another matter of vital importance in connection with the financing of the national-defense program is the tax-exemption feature of the debt obligations of the Federal Government and its agencies.

I said last year that if it were within my power I would issue national-defense securities subject to all Federal taxes. As you know, the discretionary authority of the Treasury to issue securities subject to all Federal taxes is confined to Treasury notes with a maturity of from 1 to 5 years. As to all other types of Government securities, the law itself definitely fixes the exemptions from taxation, and there is no dis-

cretionary authority in any executive officer of the Government to vary these exemptions.

Anticipating that the Congress would consider the question of tax exemptions in this session, it seemed to me highly desirable that the Treasury make no further offers of long-term tax-exempt securities until the Congress had had an opportunity to consider the question again in the light of the huge defense financing program before us. I began in December to issue fully taxable short-term obligations for cash to meet our immediate requirements and deferred our March 15 refunding program, which ordinarily would have been concluded 3 months in advance, pending the decision of this Congress on the question of eliminating tax exemptions from all future issues of Federal securities. I conferred with some Members of the Senate and of the House and discussed with them what I had in mind. It was my hope that Congress would promptly enact legislation to make the income from all future issues of securities of the Federal Government or any of its agencies subject to all Federal taxes. The program met with their hearty approval.

The principle involved is not new. Every administration for the past 20 years has recommended the complete elimination of tax-exempt securities. The bill now before you proposes that the United States Government actually take the first step to eliminate this undesirable feature from our financing. It is particularly appropriate that this should be initiated in connection with the financing of the national-defense program. All will be called upon to share in this task. This makes it urgent, from an equitable point of view, that all subscribers be treated alike. This is impossible if the securities are issued with tax-exemption privileges which are worth nothing to the poorest subscribers but a great deal to the more wealthy subscribers. Such exemptions are incompatible with the democratic financing of the defense program and should be removed.

Our whole economy and effort should be concentrated on national defense. I once again want to urge economy in Federal expenditures. I believe, therefore, that all Federal nondefense expenditures should be reexamined with a magnifying glass to make certain that no more funds are granted than are absolutely essential in the existing circumstances.

In view of the enlarged program facing the Treasury, it is desirable to have greater flexibility in the types of securities which may be offered to meet the requirements of various types of investors. Therefore, this bill further amends the Second Liberty Bond Act so as to broaden the authority under which United States savings bonds are issued and to provide for a new class of security to be called Treasury savings certificates. The statutory limit on the term for which savings bonds may be issued would continue to be 20 years, as at the present, while a limitation of 10 years would be placed on the Treasury savings certificates. It would also provide that both classes of securities may be issued on an interest-bearing basis, on a discount basis, or on a combination interest-bearing and discount basis, and that the Treasury may fix by regulation the amount of savings bonds and savings certificates which may be held by any one person at any one time.

In addition, the Treasury would be authorized to issue stamps or provide other means to evidence payments for savings bonds and

savings certificates, and to provide for the exchange of savings certificates for savings bonds. This would permit the Treasury to carry on a program encouraging more popular participation in the financing. In this connection, the Treasury wishes to be able to offer securities of a character which should facilitate and promote thrift and savings. We hope that a substantial part of the defense program for which we have to borrow funds can be financed out of the real savings of the people. However, in bringing these offerings to public attention I can assure you that there will be no high-pressure salesmanship or coercive propaganda.

One of the most important services the American people can render at this time is to cooperate in supplying the means for national defense. We ought to make it possible for workers and farmers no less than bankers and businessmen to contribute to the financial needs of the Government, not only through their tax payments but through their savings as well. The bill therefore provides authority to issue securities on such terms and in such denominations as will enlist support from the largest number of subscribers. There is every reason why a substantial part of the savings resulting from the current increase in employment should be conserved by investment in United States Government securities. The small investor who puts his savings in Government securities will in this way contribute not only to national defense but also to his own individual security.

Senator BROWN. Mr. Secretary, there are three Senators here who will have to attend the Foreign Relations Committee which is meeting in executive session this morning. I thought perhaps first I would ask them if they have any questions, before Senators Byrd, Bailey, and I, who can be here longer, question you.

Senator LA FOLLETTE. Mr. Secretary, I have been ill and I have not had a chance to study this bill or to read your testimony before the House committee. You have not this morning, in your statement, gone into the question of how the figure of \$65,000,000,000 was arrived at. Would you care to go into that briefly, for the benefit of the committee?

Secretary MORGENTHAU. I would be very glad to. If it is agreeable to you, could Mr. Bell do that for you?

Senator LA FOLLETTE. Certainly; just so we get the information.

Senator BROWN. Mr. Bell.

Mr. BELL. We arrived at it on the basis of the appropriations made and on the books, the estimates of all appropriations now pending before Congress and those that were estimated for in the Budget to be submitted as supplementals, less the estimated receipts for the 2 fiscal years 1941 and 1942, and adding to that figure the gross debt June 30, 1940, subject to the limitation on arriving at a debt limitation of \$64,896,000,000, and I understand now from the Budget Bureau that estimates of supplemental items will now be much in excess of the figure of \$3,500,000,000 given in the Budget document, so the \$65,000,000,000 will probably not cover the appropriations made and now estimated to be made for 1942.

Senator LA FOLLETTE. The thing that prompted my question was the experience that we had at the last session of Congress, where we were constantly confronted with requests for appropriations which were greatly in excess of the Budget requirements. Already, as I

understand your testimony, the present Budget which was submitted has been expanded in certain respects, so that now, before this bill even gets through Congress, you are right up to the ceiling of \$65,000,000,000, are you not?

Mr. BELL. So far as the appropriations are concerned.

Senator LA FOLLETTE. Now there is one other factor that I wanted to take into consideration. Have you weighed at all the possibility, or the factor of the actual expenditures which can be made regardless of what authorizations for contracts or appropriations may be made by this Congress?

Mr. BELL. Yes, sir; as we now see the situation we feel that the \$65,000,000,000 will be ample to cover all of the expenditures that can be made under the program to June 30, 1942.

Senator LA FOLLETTE. In other words, no matter if Congress goes ahead in this session, as it has in the last session, and exceeds the Budget many times over, you feel the \$65,000,000,000 will take care of all of the actual demands upon the Treasury for payment?

Mr. BELL. Yes, sir; we do.

Secretary MORGENTHAU. Well, I assume you mean up to the fiscal year ending June 30, 1942?

Senator LA FOLLETTE. Yes.

Secretary MORGENTHAU. That is the Budget program.

Senator LA FOLLETTE. That is the Budget program, and this \$65,000,000,000 is all the money that can be pumped out of the Treasury regardless of how much Congress may appropriate in excess of the Budget, and you therefore feel we will not be confronted with the necessity of increasing this debt limit at this session of Congress?

Secretary MORGENTHAU. That is right; yes, sir. You may be confronted with the problem of increasing it next session, but that will be for the fiscal year 1943.

Senator BYRD. May I interject one question?

Senator BROWN. Yes.

Senator BYRD. As a matter of fact, Mr. Secretary, the actual debt on July 1, 1942, is estimated to be \$58,367,000,000, is it not?

Secretary MORGENTHAU. That is right. That is based on the Budget as submitted in January.

Senator BYRD. That gives you a leeway of approximately \$7,000,000,000 over the expenditures you now ask?

Secretary MORGENTHAU. The expenditures out of the appropriations already contemplated or authorized to be submitted; yes.

Senator LA FOLLETTE. One other question. Does this bill do away with the statutory fiction that was established previously, that we are going to try to segregate the indebtedness with relation to national defense as distinguished from expenditures in nondefense appropriations?

Secretary MORGENTHAU. Yes, sir; it does.

Senator CLARK. But if we pass the lease-lend bill it would be necessary to remove the debt limit entirely and make the sky the limit; will it not?

Secretary MORGENTHAU. I would not say that, Senator.

Senator CLARK. With no limitation in the bill.

Secretary MORGENTHAU. We feel the \$65,000,000,000 will cover any expenditures that can be made up to June 30, 1942, including the lease-lend bill.

Senator CLARK. Now, Mr. Secretary, as you know, I am very much in favor of your proposition of taxing all these governmental securities and the issues of all governmental agencies. I am also very much in sympathy with the statement that you just read, that is the idea of making these Government issues attractive to the farmers and laborers, and people of that sort. I want to ask you whether it is feasible in any way to protect the interests of those people? You know in the last war, when we were selling various Liberty Loan issues, that they sold them to small investors, farmers, laboring men, and we know that they sold them to the soldiers, that every company commander in the Army was haranging his company to buy the issues, and then when the war was over they hammered down the issues, I think in some cases as low as 82.

Secretary MORGENTHAU. Yes.

Senator CLARK. The little fellow who could not hold on, the soldier who came home and was out of a job, the laboring man and farmer were forced to sell out on that low basis and to lose part of their hard-earned savings, and as soon as the bankers got them in control again they put them up above par. Is there any way that it is feasible, from a financing standpoint, to make a provision for the Government itself redeeming those bonds at par? You recognize the situation which I am describing, I know.

Secretary MORGENTHAU. I recognize it, and we have been studying it very hard, to try to avoid the mistakes which were made in the World War. One thing I can guarantee, there will not be high-pressure salesmanship which was used the last time, because if you force people to buy bonds they buy beyond their means. It is not their savings. I mean, they buy them and then they go around to the store and try to cash them, so forth and so on.

Senator CLARK. There was a great deal of distress selling among these small purchasers, the returning soldiers, farmers, laboring people, after the last war, was there not?

Secretary MORGENTHAU. There was. There was also a lot of selling almost immediately after a county or town reached its quota. I mean, they made these people feel they were slackers if they did not buy them, so they would buy them and they would immediately trade them in to the storekeeper, who in turn would sell them for any price he could get. I think, in the first instance, if we avoid high-pressure salesmanship, if the men will not be forced to buy them beyond their means, that we will avoid this forced selling, and then we are going to try to make it possible for the small person—we have not worked it out entirely yet—we are going to try to make it possible for the small person, I mean the man of moderate means, to cash his security he buys at 100 cents on the dollar.

Senator BROWN. That is true of the savings bonds now, is it not?

Secretary MORGENTHAU. That is after 60 days from their dates of issue.

Senator CLARK. That was the point I wanted to make, Mr. Secretary.

Secretary MORGENTHAU. We are very conscious of it. I hope we can learn by the mistakes which were made the last time, and try to avoid doing the same thing. I think it would be a tragedy if we made the same mistakes right over again.

Senator BROWN. Is that all, Senator Clark?

Senator CLARK. That is all.

Senator BROWN. What are the necessities of the present moment with regard to your financing, Mr. Secretary? I ask that question in connection with what I understand to be the need for rapid consideration of the bill.

Secretary MORGENTHAU. The necessities are these, Mr. Chairman: We have approximately \$1,200,000,000 worth of securities falling due on the 15th of March, and if we had the authority in this bill, we would do this financing the first week in March. I mean, that would be the normal procedure.

We also have to raise, early in March, somewhere between \$800,000,000 and \$1,000,000,000 in cash.

Senator BROWN. The first operation you described is refunding?

Secretary MORGENTHAU. Refunding of a bond and a note which is falling due on the 15th of March.

Senator BROWN. The one you are now describing is the necessity for present cash?

Secretary MORGENTHAU. For cash, and if the market stays about where it is, we might do the two things simultaneously, about the first week in March. This means that we have to go to the market both for refunding and for new cash, amounting to about \$2,000,000,000. We would do it normally in the first week of March. If the bill does not pass, frankly we are going to be pushed pretty hard and we will end up by selling short-term securities, and the last short-term issue, after it had been out a few days, went down to—well, just around par. The market seems to be fairly well saturated with these short-term notes.

So, from our standpoint, we are right up against the gun, and if there is any way that Congress could get this legislation through fairly soon, it would be most helpful to the Treasury. We are absolutely right up against the gun.

Senator LAFOLLETTE. Mr. Chairman, I very much regret that I must leave.

Senator BROWN. I think we may meet again at 2:30 o'clock, if it is necessary, and if you gentlemen are not in session in the Foreign Relations Committee you might be here again at 2:30 o'clock.

Senator CLARK. Mr. Chairman, I must go to the Foreign Relations Committee, but if it is just a routine discussion of procedure, I would be glad to come back here. I am very much interested in this matter.

Senator BROWN. Thank you. The United States Housing Authority represented to me that their maximum limitation with respect to the financing of their program, because of a construction of their limitation, was \$800,000,000 upon their right to operate. As I get it, the Treasury has held that that \$800,000,000 is an outside limitation covering all of their successive borrowings, whereas they had supposed that Congress intended that they might have a total of \$800,000,000 outstanding at all times if it were necessary, and they have suggested an amendment to this bill. My feeling is, if that is controversial and would cause delay, that we ought not to amend the bill in the committee, but if the amendment is not controversial, and if what they represent to me is the fact, that the original intention of Congress was

to give them a total over-all limitation or authorization of \$800,000,000, and there is no objection to it, why, I am agreeable to adding it to the bill.

Have you any comment to make on that, Mr. Secretary?

Secretary MORGENTHAU. I would endorse 100 percent what you said. I mean, I could not add anything to it. If it can be done without delaying this bill, all right, but if it means delay, I think our own Treasury problem is a much more acute one than the Housing Authority problem.

Senator BROWN. I understand. The Treasury agrees with the view that it was originally intended that the outside limitation should be \$800,000,000, and that they might at any time have outstanding that amount?

Mr. BELL. That is consistent with the rest of the act, because Congress has authorized the United States Housing Authority to enter into contracts up to \$800,000,000 and to borrow the money with which to meet those contracts, but in writing the act the limitation unfortunately was put on the amount of issues rather than the amount outstanding at any one time.

Senator BROWN. I understand how it happened.

Mr. BELL. The amendment they suggest will place their borrowing authority on the same basis as the limitation on our authority.

Senator BROWN. The subcommittee has not had any opportunity to consider that, but we wanted your views before we considered it in executive session.

Mr. BELL. It has got to be done, Mr. Chairman, sometime during this session, as they are reaching the limit of their authority under our interpretation of their borrowing limitation.

Senator BROWN. I assume, Mr. Secretary, upon the general proposition of the elimination of all tax-exempts that your feeling is that progress could perhaps better be made by having the Federal Government set an example in this bill and take up at a later time the consideration of the elimination of tax-exempts of the State and local governments?

Secretary MORGENTHAU. That is the way I feel about it.

Senator BROWN. Is that the way you feel about it?

Secretary MORGENTHAU. Yes.

Senator BROWN. The Treasury still feels that all tax-exempts should be eliminated. I think you so stated.

Secretary MORGENTHAU. Very definitely.

Senator BROWN. Of course you and I both recognize that that would bring a great deal of controversy into this bill, and I suppose the necessity of the present moment would induce you to keep it out of this particular legislation.

Secretary MORGENTHAU. That is the way I feel.

Senator BROWN. I read in Chairman Doughton's speech yesterday before the House a very good statement covering the present debt limitation, and I want to say, in spite of the fact that I have been fairly familiar with the larger aspects of Government financing, that I could not fully understand those limitations in excess of the \$49,000,000,000 figure that we wrote into the statute a year ago. I think, for the purpose of the record, it would be well if you would state for this committee, so we could report fully to the Finance

Committee what those additional limitations are over and above the \$49,000,000,000.

Secretary MORGENTHAU. If it is agreeable to you, I would like Mr. Bell to do it.

Senator BROWN. Yes.

Mr. BELL. There was a \$300,000,000 limitation on certificates of indebtedness authorized by the act of June 13, 1898, which was to finance the Spanish-American War. It has been on the books ever since that date, and we have never used it.

Senator BROWN. I was going to make the suggestion, it does seem to me that "authorization" would perhaps be a better word instead of "limitation," wherever they have used it, because it is not limitation so much as it is authorization to go over and above the \$49,000,000,000 figure. Am I right about that?

Mr. BELL. That is right.

Senator BROWN. So we have \$300,000,000 in that Spanish-American War Act.

Mr. BELL. Yes, sir. And then there was an authorization to issue up to \$4,000,000,000 of war-savings stamps under the Second Liberty Bond Act, which, of course, we have not used since 1921, and have no intention of using it, so for practical purposes we have never considered it in our debt limitation.

Senator BROWN. Is that those stamps that used to be sold for four dollars and some cents?

Mr. BELL. That was part of the program, yes. That brings out total debt limitation to \$53,300,000,000, if you add these additional items to the \$49,000,000,000 figure under which our current financing has been carried out.

There was another item under section 6 of the First Liberty Bond Act of \$2,000,000,000 on certificates of indebtedness. As the limitation has been worded for a number of years, or as it is in the act now, that \$2,000,000,000 is included in the \$49,000,000,000. The wording in this bill would not include that \$2,000,000,000, so it is necessary to repeal section 6 of the First Liberty Bond Act. If you did not, you would have \$2,000,000,000 outside of the \$65,000,000,000. That is the reason for it.

Senator BYRD. Mr. Bell, this \$65,000,000,000 is an over-all limitation?

Mr. BELL. The \$65,000,000,000 will be, when this bill becomes law, an all-inclusive figure.

Senator BROWN. What becomes of the \$4,000,000,000 authorization for war savings?

Mr. BELL. That is repealed.

Senator BYRD. And the \$300,000,000 is also repealed?

Mr. BELL. Yes; and the \$2,000,000,000 is repealed.

Senator BROWN. The \$2,000,000,000 is repealed?

Mr. BELL. Yes; the \$2,000,000,000, however, was within the limitation of \$49,000,000,000.

Senator BROWN. So you had \$53,300,000,000 over-all limitation?

Mr. BELL. Yes.

Senator BROWN. We have it today?

Mr. BELL. Yes, sir.

Senator BYRD. At least \$4,300,000,000 of that was not workable?

Mr. BELL. That is something we would not use, Senator Byrd, because certainly the war-savings stamps are not applicable to the present situation and we would not use them.

Senator BROWN. Senator Byrd, do you have any questions?

Senator BYRD. Mr. Secretary, we had certain taxes that were segregated to amortize the \$4,000,000,000 of defense obligations authorized last year?

Secretary MORGENTHAU. Yes.

Senator BYRD. Is it your purpose later to recommend a repeal of those taxes, insofar as the amortization is concerned?

Secretary MORGENTHAU. As I understand the bill, as it is written, Senator Byrd, that would all be repealed.

Senator BYRD. Then all revenues from those taxes would go into the general fund?

Secretary MORGENTHAU. There would be no earmarking.

Senator BROWN. You mean it is repealed in this bill?

Secretary MORGENTHAU. It is repealed in this bill.

Senator BYRD. I never favored that so-called segregation.

Secretary MORGENTHAU. It all would be repealed and we would be back to where we were originally.

Senator BROWN. Would you point out to me, Mr. Bell, where that is in this bill as it passed the House? Line 16 on page 2?

Mr. BELL. Yes.

Senator BYRD. The taxes remain, but they would go into the general fund?

Secretary MORGENTHAU. That is right.

Senator BYRD. The 10 percent additional taxes.

Secretary MORGENTHAU. The taxes are not repealed.

Senator BYRD. They are not affected. The only change is that they go into the general fund?

Secretary MORGENTHAU. Yes.

Senator BYRD. In other words, the bonds would be on an equality, so far as the revenue with which to pay the bonds is concerned?

Secretary MORGENTHAU. That is correct.

Senator BYRD. Mr. Secretary, I want to ask you some questions in regard to the debt limit that you may expect, say, within the next few years, up to July 1, 1943. You estimate the debt on July 1, 1942, as approximately \$58,000,000,000. Well, of course, that may be a little conservative, because more than that has been appropriated or authorized. Suppose we take the figure of \$60,000,000,000 as of July 1, 1942, what is your estimate of the additional contingent liability of the Government by reason of the guaranteeing of the obligations of the Federal corporations?

Secretary MORGENTHAU. Just a moment, please, Mr. Bell informs me that it is \$5,900,000,000 as of January 31, 1941.

Senator BYRD. The report that was just made to the Senate in response to Senate resolution 292, 76th Congress, showed that the bonds, notes, debentures issued by these corporations, amounted to \$6,800,000,000 as of July 1, 1941.

Mr. BELL. I think you are including the Federal land bank bonds, Senator. They are not guaranteed, but I assume you are treating them as a moral obligation.

Senator BYRD. Yes; exclude perhaps a billion of Federal land bank?

Mr. BELL. Yes. You also include about \$450,000,000 of other nonguaranteed obligations.

Senator BYRD. Then the figure would be approximately \$6,000,000,000 for the wholly guaranteed obligations.

What is your estimate, Mr. Secretary, of the cost of the aid to Great Britain during the year beginning July 1, 1941, in the event the lease-lend bill is passed?

Secretary MORGENTHAU. Senator Byrd, I cannot give you a direct answer to that question. I was asked that question both in the Foreign Relations and Foreign Affairs Committees. I am unable to answer it.

Senator BYRD. Would you estimate it to be \$5,000,000,000?

Secretary MORGENTHAU. I would rather not guess.

Senator BYRD. We are about to vote on the bill. Do you not think in the immediate future the Treasury Department should make some estimate of the cost?

Secretary MORGENTHAU. I think what will happen is that the Army and Navy will have to appear before the Appropriations Committee, and I believe that they will submit a figure at that time. I think it will be the Army and Navy.

Senator BYRD. I saw an estimate in the newspapers which credited, I think, the Treasury Department with saying the estimate was \$3,500,000,000.

Secretary MORGENTHAU. Nobody in the Treasury, including myself, could make any estimate, but I believe the procedure will be that if and when the bill passes, the Secretary of War and Secretary of the Navy will appear before the Appropriations Committee. I doubt if I will. I do not believe it comes under my responsibility.

Senator BROWN. Of course, all we are doing under this bill, as far as debt limitation or authorization is concerned, is fixing an outside limit beyond which the Treasury may not go, and as far as the expenditures of money by way of aid to Britain, or any other country, is concerned, that will have to be authorized by the Appropriations Committee of the Congress from time to time.

Secretary MORGENTHAU. Absolutely.

Senator BROWN. And coming down to the lease-lend bill, since Senator Byrd brought it up, as far as the gifts of any property is concerned, that is not true, is it?

Secretary MORGENTHAU. That is not true.

Senator BROWN. Suppose we give them a battleship, or 10 destroyers, as Mr. Willkie suggested, Congress would have nothing to say about that matter whatsoever if the lease-lend bill passed.

Secretary MORGENTHAU. Well, within the limitations of the amendment as it was passed in the House—I think I am correct—there is a provision limiting those articles to \$1,300,000,000.

Senator BROWN. Something of that kind.

Secretary MORGENTHAU. Something of that kind, within those limitations. We understand the limitation amounts to \$1,300,000,000 that could be transferred from articles procured prior to the effective date of the act.

Senator BYRD. Of course, there will be large cash purchases made by Great Britain in this country, which our Government will finance under the lease-lend bill.

Secretary MORGENTHAU. That is correct.

Senator BYRD. That is the purpose of it.

Secretary MORGENTHAU. That is the purpose of it.

Senator BYRD. The main purpose.

Secretary MORGENTHAU. Yes.

Senator BYRD. What I am attempting to do is to arrive at some debt limitation and I am trying to estimate the total debt which may be reached within the next 2 years. Let us, for the sake of argument, take this proposition—and I will use my figures: Let us say that \$5,000,000,000 is expended for Great Britain between now and July 1, 1942, that will give us a total debt then, including the contingent liability, of approximately \$71,000,000,000. What would you estimate the deficits and continued aid to Great Britain, in the event the war continues, would be for the next year?

Secretary MORGENTHAU. Well, I haven't got a crystal handy, Senator Byrd, so I could not give you a very good answer.

Senator BYRD. The deficits will not be less than they have been. For the year 1943, ending July 1, 1943, the deficit will not be less than for the year which we are considering now, which is the 1942 year?

Secretary MORGENTHAU. It would be just a guess. If you do not mind, I would rather not guess.

Senator BYRD. It would not be less, would it? You do not expect to increase taxes to the extent of financing any greater proportion of the national defense expenditures than you have now, do you?

Secretary MORGENTHAU. Well, if the Congress would adopt a program under which we could raise through revenues an amount sufficient to finance two-thirds of all expenditures, and one-third from borrowing, I think it would be a very wholesome method to follow.

Senator BROWN. I read your statement along that line. I am not sure that I fully understood it. You do not mind my interrupting?

Senator BYRD. No.

Senator BROWN. You mean by that two-thirds of all expenditures, ordinary expenditures of the Government, plus extraordinary defense expenditures?

Secretary MORGENTHAU. That is right, all expenditures.

Senator BROWN. Your hope is that we can pay two-thirds of our running expenditures plus defense expenditures as we go along and borrow one-third?

Secretary MORGENTHAU. That is right.

Senator BROWN. That was my understanding of it, but I was not sure.

Secretary MORGENTHAU. I do not blame you for misunderstanding it, because when I read it in the printed hearings of my testimony before the subcommittee of the House Appropriations Committee on December 17, 1940, I did not feel it was clear.

Senator BYRD. That would necessitate an increase in taxation of approximately \$3,000,000,000 a year?

Secretary MORGENTHAU. That is about right on the basis of the Budget program for 1942.

Senator BYRD. How would you propose to raise \$3,000,000,000 more than you raise now?

Secretary MORGENTHAU. Well, a good portion of it might come from increased business. Business has been increasing very, very rapidly

during the last few months, and a considerable amount of additional revenue will come from this increased volume of business. I take it that after the 15th of March, this committee and the Ways and Means Committee in the House will want to consider increasing taxes. I do not think that it is impossible, Senator Byrd, say, both from an increase of the business activity and possibly increased taxes, that we could get another \$3,000,000,000. I mean, it is within the possibilities.

Senator BYRD. Between the revenues of 1941 and 1942, you estimate an increase of \$1,300,000,000?

Secretary MORGENTHAU. Yes.

Senator BYRD. A part of that was due to increased taxation, was it not?

Mr. SULLIVAN. The revenue estimate in 1941, Senator Byrd, was \$7,300,000,000, and in 1942, \$9,000,000,000, an increase of \$1,700,000,000.

Senator BROWN. That includes the social-security taxes?

Mr. SULLIVAN. That is right. Part of that is due to the taxes imposed in the first Revenue Act of 1941, but without contemplating any further taxes, those figures are the estimates.

Senator BYRD. What part of this estimated increase is due to the improvement in business?

Mr. SULLIVAN. That type of figure is not available. It would be very difficult to separate the revenue effects of tax changes and business changes.

Senator BROWN. The social-security taxes are, in my recollection, about \$80,000,000 or \$900,000,000.

Mr. SULLIVAN. \$756,000,000 and \$816,000,000 for 1941 and 1942.

Senator BROWN. Call it \$700,000,000. That, of course, is a sort of trust fund, that really could not be counted in estimating to cover all our running expenses.

Mr. SULLIVAN. That is correct. They are already earmarked to the extent of \$640,000,000 in 1941 and \$696,000,000 in 1942.

Senator BROWN. I had that in my mind.

Senator BYRD. If you increase the revenues from \$8,200,000,000 to \$11,000,000,000, at least \$2,000,000,000 of that will have to come from new taxes, will it not? I mean approximately.

Secretary MORGENTHAU. Senator Byrd, I am not prepared today to discuss new taxes. All I can say, I repeat, I think an ideal situation would be that if the total expenditures of the National Government could be financed in this emergency period two-thirds from revenue and one-third from borrowing, I think that would be a very nick mark to shoot for. Whether we can attain that, I do not know. As I say, we did not come here prepared today with estimates as to business activity beyond the end of this coming fiscal year, or as to any recommendations or suggestions for taxes. As I say, as a sound formula, I think it would be something which would be worth trying for.

Senator BRYD. In other words, the Treasury will attempt to present a program to Congress designed to raise that additional revenue. That means an increase of \$3,000,000,000 in the present revenue, \$2,000,000,000 of which will have to come from new taxes I do not mean that you support it to the point that you feel it can be done, but that is your objective.

Secretary MORGENTHAU. I will put it this way: We would be delighted to be invited to work with Congress to try to attain that end. Whether it can be done, I do not know, but I would like to work toward it.

Senator BYRD. I want to say, Mr. Secretary, that I will cooperate with you to the utmost degree. I have cooperated with respect to increasing the revenue.

Secretary MORGENTHAU. Yes.

Senator BYRD. Because, as I see it now, within perhaps 2 years, or maybe a little longer, we will have a total debt in this country, including obligations of the corporations, of between \$90,000,000,000 and \$100,000,000,000. That, in my judgment, is reaching the danger point, if it is not already reached. You certainly are going to have a total indebtedness, including the contingent liabilities, of over \$70,000,000,000 on July 1, 1942. It will not be long after that, if these expenditures continue without the effort to meet them by increased revenue, and reduced normal expenditures, that we will reach the point that we will have a \$90,000,000,000 to \$100,000,000,000, or maybe more than \$100,000,000,000 indebtedness. Have you given any thought to that? How high is it safe to go without jeopardizing the solvency of the country?

Secretary MORGENTHAU. Again I am sorry I cannot give you a direct answer. I have had to adjust my thinking, I would say, quarterly as to what the debt might be.

Senator BYRD. Do you think that that is a matter that the Treasury ought to give earnest thought to?

Secretary MORGENTHAU. I wake up in the middle of the night thinking about it.

Senator BYRD. Haven't you surveyed the situation and come to some conclusions as to how much money this country can owe and still maintain our democratic system of government?

Secretary MORGENTHAU. As I say, it is a constant source of worry to me. I am always thinking about it. All I can say is, with the situation as it is today, I think it is within manageable proportions.

Senator BYRD. It will not be manageable long if we continue these tremendous expenditures, without reducing peacetime spending. I know I, as a member of the Finance Committee, would be glad to get the benefit of your investigations, investigations by your experts, as to how high this debt can go and still not impair the solvency of the country and impair our democratic institutions. There must be some limit somewhere.

Secretary MORGENTHAU. I would be very glad to give you everything we have got, but, as I say, how long this world situation is going to continue, this tremendous race in armaments, I do not know.

Senator BYRD. Well, there are other things, Mr. Secretary, that we can do. We can cut the nondefense spending, as you so very ably suggest this morning. This we have not done, to any consequence, and we can increase the revenue. Those two things can be done to reduce this impending colossal indebtedness—two things which have not up to this time been done to the extent they could be. There has been a reduction of only \$64,000,000 in nondefense spending in this last Budget. That is inconsequential, and I predict there will be a deficiency appropriation for this reduction made in relief. There always has been, and there will be now. So the probability is we

may spend more for nondefense spending in 1942 than in 1941. Certainly a \$64,000,000 margin is nothing to go on.

I think this is a matter of tremendous concern to the country, nearly as vital as the question of our defense matter, because, after all, we have got to pay for the defense. If we do not pay for it, we cannot have defense.

You say here in your statement that you think the nondefense expenditures should be examined with a magnifying glass. Has the Treasury examined this last Budget with a magnifying glass?

Secretary MORGENTHAU. We have looked it over pretty carefully.

Senator BYRD. In view of the current colossal defense spending, do not you think you can save more than \$64,000,000 in nondefense spending as compared to the previous year?

Secretary MORGENTHAU. I am not the Director of the Budget.

Senator BYRD. I know. You said it ought to be examined with a magnifying glass. That means you should examine it, I should examine it, and everybody interested should examine it.

Secretary MORGENTHAU. I think so.

Senator BYRD. It would take a magnifying glass to find this \$64,000,000 saving out of your normal expenditures of \$7,000,000,000.

Secretary MORGENTHAU. If you do not mind my saying so, Senator, the responsibility is yours and your associates', because you vote the money, and the way the situation is now, my responsibility is simply to collect the taxes and borrow the money that you gentlemen vote.

Senator BYRD. It is your responsibility to warn Congress, when the solvency of the country is imperiled. That is your responsibility, to tell us when we are reaching the danger point no matter where the cause lies.

Secretary MORGENTHAU. If I have not said it—I think I did say it—I repeat myself, I say the present situation, as we see it in the Treasury, is within manageable proportions. I said we have to readjust our thinking. If you had asked me this a couple of years ago—in fact, I did testify before the Committee on Appropriations in the House more than a year ago that I thought up to \$50,000,000,000 was safe. Now I am prepared to say we can still maintain our democratic government and go up to \$65,000,000,000.

Senator BYRD. Why have you changed your judgment on that in the past 2 or 3 years?

Secretary MORGENTHAU. Well, I changed my judgment as the facts have changed.

Senator BYRD. What facts have changed, as far as the fundamental wealth of this country is concerned?

Secretary MORGENTHAU. It seems possible to have a debt of \$65,000,000,000 without having bankruptcy and without having inflation.

Senator BYRD. What has changed you about it? You testified that \$50,000,000,000 should be the debt limit. What are the practical conditions that have occurred to change your mind since your testimony to that effect?

Secretary MORGENTHAU. We will soon pass the \$50,000,000,000 with safety, and now I can see us approaching \$65,000,000,000 with safety.

Senator BYRD. Well, you haven't a safe debt until you have devised ways and means to pay that debt off. I admit the Government can

pay the interest on the debt; nobody questions that. Would you regard a debt of \$100,000,000,000 as dangerous to this country?

Secretary MORGENTHAU. I am not prepared to say.

Senator BYRD. You testified \$50,000,000,000 was not dangerous. You were prepared to say it then. Why do you hesitate to venture it now?

Secretary MORGENTHAU. I can only see as far as \$65,000,000,000, which is a year and a half off. If I can see 3 months off today, I think I am pretty smart.

Senator BYRD. I do not believe, Mr. Secretary, that you intend the country should think or believe that, with your patriotism and with the high ability that you have conducted your office, you are only looking 3 months ahead in meeting these colossal expenditures we have got to meet.

Secretary MORGENTHAU. I do not think I am half as smart as Congress is.

Senator BYRD. Of course, some may differ with you on that.

Secretary MORGENTHAU. Well, I still say if I was half as smart as Congress, I would be smarter than I think I am. Now we appeared here some time last June and July, and at that time—I am sincere now—Congress seemed to feel that \$4,000,000,000 for national defense was sufficient, and now we have a program of \$28,500,000,000 on the books. I just use that as an illustration. Something happened between last July and today.

Senator BYRD. Nothing has happened to our ability to pay between last July and today. We are no more able to pay this debt now than we were last July.

Secretary MORGENTHAU. I am trying to explain. I say, if I can see 3 months ahead I am pretty smart. Last July Congress thought \$4,000,000,000 was enough for national defense, and today they think it takes \$28,500,000,000.

Senator BYRD. All of which has been appropriated upon the recommendation of the executive branch of the Government.

Secretary MORGENTHAU. I have got to adjust myself as conditions change.

Senator BROWN. May I interrupt you?

Secretary MORGENTHAU. I can wait.

Senator BROWN. I was going to say, as to the recommendation of \$28,000,000,000 on the part of the executive department, that I think it comes from a higher authority than the President. I think the American people demand it.

Secretary MORGENTHAU. I think so, too.

Senator BROWN. If the executive department did not go along with it, it would not be doing its duty.

Senator BYRD. I am not questioning that, Senator. What I am attempting to do is to find out how to pay for this defense. There is nobody more anxious for national defense than I am. I voted for all of it. I do think it is part of the duty of the Secretary of the Treasury—I have no doubt he has already done so—to examine the situation and ascertain how far we can go in creating this debt, because there are other ways that we can take care of this situation: We can raise this money by reducing the nondefense expenditures, and we can raise this money by increased taxes.

Secretary MORGENTHAU. Senator, I tried to explain, as well as I know how, my remark about the 3 months. I appeared here in the middle of last summer, and Congress was talking about a \$4,000,000,000 national-defense program, and they asked us to make the study to see whether we could finance it. The answer was we could. Then Congress increased it to \$28,500,000,000, and I am asked the question again: Can we finance it? I say, "Yes, we can."

Now if you will tell me what Congress is going to do the next 3 months, then I would be able to say what I can do, but I do not know what Congress is going to do, and I do not know, as Chairman Brown said, what the American people are going to demand that Congress do.

Senator BYRD. We all know we have to be in this defense for some years to come. It does not make any difference what Congress has in mind or what Congress does not have in mind. It is a matter of plain, common knowledge, at least it should be to every citizen of this country, that we ought to look forward to the time that we may reach the danger point in this debt and make some plans to avoid that critical situation that may then occur. If you are going to have an over-all debt of \$71,000,000,000 on July 1, 1942, it is conceivable you may have a \$90,000,000,000 debt on July 1, 1943, and then you would go to \$100,000,000,000 and over \$100,000,000,000.

Secretary MORGENTHAU. You and I have always differed on some things.

Senator BYRD. Let me make it clear. I am not attempting in any way to prevent the defense program. I have voted for all of it; all I want to do is reduce nondefense spending, as you now recommended in your statement, and also I would increase taxes so as to avoid this debt which may be a great peril to this country unless it is curbed in some way.

Secretary MORGENTHAU. You see, Senator, if you do not mind, where you and I have always differed, you have worried about the debt and I have always felt that the debt comes after the Congress has laid out a program. You said you voted for this defense program. You gentlemen tell me how many yards of cloth you are going to lay out on the table, and then you expect me to make a suit out of it.

Senator BYRD. Mr. Secretary, you know you recommended to the Congress the amount of taxes we should levy.

Secretary MORGENTHAU. No.

Senator BYRD. You have done it time and time again. You brought bills before us, and these bills were passed so as not to have a larger deficit.

Secretary MORGENTHAU. Since I have been Secretary I do not think we have made recommendation.

Senator BYRD. You mean to say your representatives have not come before the Finance Committee and advocated certain taxation on the theory we needed additional money?

Secretary MORGENTHAU. We recommended certain forms; certain methods.

Senator BYRD. You have not recommended any total amount of taxes that ought to be raised?

Secretary MORGENTHAU. I do not think so; not with my approval.

Senator BYRD. Mr. Sullivan is here. I heard him testify to that.

Secretary MORGENTHAU. As to the definite amount?

Senator BYRD. As to how much these bills should raise. He did it on the last bill for the Senate Finance Committee. He is here to speak for himself. The records of this committee will show he did.

Mr. SULLIVAN. We started our work, Senator, with the House Ways and Means Committee, in the subcommittee there. I think when I testified before the committee I answered inquiries as to how much revenue this, that, or the other change would produce.

Senator BYRD. I think the record will show, Mr. Sullivan, that you advocated a certain amount of taxes to be raised by these new tax bills, and that you objected to certain changes in those bills because they would reduce the revenue you thought should be raised.

Mr. SULLIVAN. I think, if my opinion were asked, I would be obliged to state that this, that, or the other change would have this, that, or the other effect.

Senator BYRD. Do I understand then, Mr. Secretary, that the Treasury does not feel a responsibility to recommend to the Congress a point that should not be exceeded in increasing the public debt?

Secretary MORGENTHAU. I will answer you in this way: If at any time I feel that Congress is taking certain steps which will lead to financial collapse and I feel I personally cannot handle the situation, I can draw it to the attention of Congress, and if I still do not feel I can handle the situation I have always got a perfectly good apple orchard to go home to and look after.

Senator BYRD. Maybe that apple orchard will not be worth much under those conditions.

Senator BROWN. Mr. Secretary, are there not certain economic factors that come with the growth and expansion of business that must be taken into consideration in a determination of how far we can go? One of the first danger signals that I think of would be a material decline in the value of Government bonds; or putting it the other way, a material increase in the rates that you would have to pay. That would be an indication on the part of the financial authorities of the country, I mean in a business sense, not in a governmental sense, that we were perhaps getting into a somewhat dangerous condition.

Senator BYRD. Mr. Chairman, would it not be pretty late, though, if we would have to wait for the danger signal to show in a decline of Government bonds?

Senator BROWN. I think the indication of it coming would be one of the danger signals that the Secretary would have to take into consideration. If that is a fact—and I do not ask you to answer it—have you seen anything of that kind in the present situation?

Secretary MORGENTHAU. If you gentlemen would permit me to make a very short statement, Senator Byrd has said here today that he voted for every national defense appropriation—

Senator BYRD (interposing). Connect that, please, Mr. Secretary, with the fact that I voted practically for every bill that has been presented to increase the revenue, and voted consistently to reduce the tremendous extravagance that now exists in nondefense spending. I voted that way to give the money for the purpose of national defense.

Secretary MORGENTHAU. I do not think that this country has ever faced a more critical situation than it does right now, from the standpoint of defense, and nothing has happened up to this moment that

makes me feel that, as chief fiscal officer of this Government, I cannot take care of the situation.

Senator BYRD. For how long?

Secretary MORGENTHAU. When that situation arises I certainly would come before you people and tell you so.

Now, Senator Byrd asked me how long. I would go back to the original statement. How can anybody say how long when within 6 months Congress goes from \$4,000,000,000 to \$28,500,000,000. I mean it is impossible until I know what Congress does. You people set the mark as to how high the jumps are going to be. We start at 4 feet high and go to 28½ feet—

Senator BYRD (interposing). I think you should tell us, Mr. Secretary—

Secretary MORGENTHAU (interposing). May I finish?

Senator BROWN. Let the Secretary finish. He is not quite through.

Senator BYRD. Excuse me.

Secretary MORGENTHAU. If within 6 months you go from 4 feet to 28½ feet, do I know how many more feet you are going to raise it within 3 months or within 1 month? All I can say is as the situation is today, after many, many hours and days of consultation, we feel the situation is still in control. By that I mean, we do not see any insurmountable hurdles that we cannot take, but I cannot see beyond that. I just do not know what Congress is going to do, and until I do know I cannot evaluate the situation. When I can I will let you know.

Senator BYRD. I have no desire to embarrass you, Mr. Secretary, but when you use the \$28,000,000,000 figure, as a matter of fact the Budget shows for 1941 you will spend \$6,000,000,000 for defense and in 1942 \$10,000,000,000. So far as Congress is to be blamed for the \$28,000,000,000, as a matter of fact the Budget only shows \$16,000,000,000 for defense.

Secretary MORGENTHAU. Senator Byrd, you and I, I believe, are in complete accord, with one exception. You want me to make a forecast beyond today, and I simply cannot do it with intelligence. That, it seems to me, is the only place where you and I differ.

Senator BYRD. I want to do a little more than that, Mr. Secretary. I want to try to create a feeling on your part and the part of the Treasury experts that we should examine this whole fiscal situation, and that you should say to Congress that more money must be raised by taxation and that we must reduce the nondefense spending. We now have a nondefense spending, as I estimate it—we have taken the entire cost of the Navy Department and the national defense out of the nondefense spending, even the ordinary maintenance of the Army and Navy—I estimate at a reasonable time, even in time of peace, for the Army and Navy that we spend in this present Budget \$8,000,000,000, which is practically the total income of the country; \$8,200,000,000 is your estimate of income.

Senator BROWN. You mean by that, Senator, you are not including a dollar of Army and Navy expenditures?

Senator BYRD. In the nondefense spending. We are spending \$6,674,000,000 for nondefense, and out of the nondefense spending we have taken the ordinary and normal cost of the Army and Navy, which we have to maintain even in times of peace, when there is no

war anywhere on the horizon. I say we are not collecting much more than is necessary to pay for our strictly nondefense spending. I think that is a dangerous situation confronting this country, in view of highly necessary colossal expenditures for national defense, which I very heartily favor. I would like to get the attention of the Treasury Department to that problem. I wish they would take Congress in their confidence, because we are not experts, while you are, and advise us as to how that situation can be relieved for the prevention of a great crisis that may come within the next few years.

Secretary MORGENTHAU. Mr. Chairman, about a year ago I did make a recommendation. I recommended that the Congress consider a joint committee of the taxing committees and the Appropriations Committees of the House of Representatives and the Senate, and that they sit as one and permit us to work with them. I think if such a suggestion were put into effect that we could accomplish some of the things that you want and Senator Byrd wants and that I want, but I think unless you get the two committees, the one that does the appropriating and the one that does the revenue raising and get them together, I do not think we can ever accomplish anything.

Senator BYRD. Would you renew that suggestion now?

Secretary MORGENTHAU. What is that?

Senator BYRD. Would you renew that suggestion now?

Secretary MORGENTHAU. I would. I do it with all the seriousness that I have.

Senator BYRD. I am not attempting to embarrass you. I differ with you about some of the acts of your administration, and I heartily commend you on others. I am in favor of national defense, every American must be under these conditions, but I think there should be a drastic reduction in the nondefense spending. I have been consistent in that, as you know. I not only introduced amendments but I did all I could, in my humble way, to bring about that situation. I further voted for increases in taxation. I think the Treasury should bring in a report that we could work upon for reducing the nondefense spending on the one hand and increasing the taxes on the other.

Secretary MORGENTHAU. If the day would come that the committees that have to do with taxation and the committees that have to do with spending would ever meet together, that we, the Treasury, would be entitled to appear before them, I think we could get somewhere, but as long as there are two entirely separate bodies, I do not see how we are ever going to get anywhere.

Senator BYRD. I am perfectly willing, as a Member of Congress, to take my full responsibility in these matters. It is a matter of record that all of these recommendations originated with the executive branch of the Government. The Budget controls the nondefense spending. I have had something to do with these matters in State government. I know it is practically impossible to reduce a budget once it has been submitted to the legislature of a State or the National Congress. The reduction has to be made before it is submitted. That is a practical matter. It is all well to say that Congress does it, but it is done on the recommendation of the executive branch.

Senator BROWN. Senator, I can think of a considerable expenditure of money that has been made since I came to Congress in 1933 that was not approved by the executive department.

Outstanding to me is the matter of paying something like \$2,000,000,000 for the soldiers' bonus. The President vetoed that, and I supported him in that veto, and I think you did too.

Senator BYRD. Yes; I make that exception, and I supported him in that veto.

Senator BROWN. You and I know a great many millions of dollars have been added to relief expenditures over on the floor of the Senate that did not meet with the approval of the Executive.

Senator BYRD. Yes; and when the Senate reduced the relief expenditures, the executive branch of the Government objected to it, sent a message to Congress objecting to it.

Senator BROWN. What has happened. The responsibility is both theirs and ours.

Senator BYRD. I am not trying to put the burden on the executive branch of the Government; I am simply saying at least we have joint responsibility.

Secretary MORGENTHAU. There was the \$212,000,000 of agricultural parity payments.

Senator BYRD. Would you object, Mr. Secretary, or would it be practical for Congress to adopt a resolution asking you for the best method of reducing the nondefense spending and best methods of increasing taxation, so as to avoid a larger increase in the public debt than is essential, or an increase that will imperil our credit? Would there be a practical way to obtain the detailed information?

Secretary MORGENTHAU. It would be embarrassing to me to this extent—that I would be sort of superseding the Director of the Budget; and I would rather not be placed in that position.

Senator BYRD. Could you do it if the Director of the Budget and the Secretary of the Treasury were included?

Secretary MORGENTHAU. I would have no objection; I cannot speak for the Director.

Senator BYRD. Mr. Secretary, I wanted to ask you about these recommendations of the Federal Reserve Board. I was much interested in them. Do they have the approval of the Treasury Department?

Secretary MORGENTHAU. Well, again you ask me a lot of difficult questions. I ought to be able to say, "yes" and "no." These recommendations of the Federal Reserve Board were shown to me by Chairman Eccles before he released them, and the understanding that I had with Chairman Eccles was that he would go ahead and release them, which he was very anxious to do; but that I in no way was committed to them, for or against, and that I was at liberty to discuss them at any time that I was called before the appropriate committee of Congress; and that is my position.

Senator BYRD. Are you prepared to discuss your May 5 recommendations?

Secretary MORGENTHAU. I do not understand your question.

Senator BYRD. Are you now prepared to discuss whether or not the Treasury differs with all of them or none of them?

Secretary MORGENTHAU. No; I am not prepared today. I did not come prepared.

Senator BROWN. Senator, would you mind, before you get away from the subject of contingent liabilities which you raised and which

you and I have often discussed? Have you figures now as to what they are? The loan corporation, and so forth?

Secretary MORGENTHAU. Surely.

Senator BROWN. I think it is quite material on this question of debt limitation.

Mr. BELL. Would you like to have me put a statement in the record?

Senator BROWN. Yes. Just read it to us now, so we can have a general idea in connection with this bill.

(The statement referred to is as follows:)

*Obligations of corporations and credit agencies guaranteed as to principal and interest
(as of Jan. 31, 1941)*

(In millions of dollars)

Corporation or agency	Limit of authority	Obligations outstanding ¹		
		Total	Matured ²	Unmatured
Commodity Credit Corporation.....	\$1,400.0	\$696.2	-----	\$696.2
Federal Farm Mortgage Corporation.....	2,000.0	1,269.6	\$0.2	1,269.4
Federal Housing Administration.....	4,000.0	12.5	2	12.3
Home Owners' Loan Corporation.....	4,750.0	2,613.6	13.8	2,599.8
Reconstruction Finance Corporation.....	5,533.0	1,096.9	-----	1,096.9
Tennessee Valley Authority.....	61.8	-----	-----	-----
U. S. Housing Authority.....	800.0	226.2	-----	226.2
U. S. Maritime Commission.....	600.0	-----	-----	-----
Total.....	-----	7,5915.0	14.2	5,900.8

¹ Exclusive of obligations owned by the Treasury.

² Funds have been deposited with the Treasurer of the United States for payment of all obligations guaranteed by the United States, representing outstanding matured principal amounting to \$14,200,000 and interest of \$3,200,000.

³ Limit of authority to insure mortgages. Debentures may be issued and tendered only in exchange for insured property acquired through foreclosure.

⁴ The Corporation was authorized to issue bonds for an amount not to exceed \$4,750,000,000 to be exchanged or sold to obtain funds for financing home-mortgage loans or for the redemption of any of its outstanding bonds. Its authority to make loans expired on June 13, 1936, and the above limit may be increased for the purpose of retiring its outstanding bonds by an amount equal to the amount of the bonds to be retired, which would not affect the net amount outstanding after June 13, 1936.

⁵ Limitation on amount issuable.

⁶ Limit which may be outstanding at any one time with respect to the insuring of mortgages and the issuance of debentures.

⁷ The total amount of assets of these corporations and agencies is in excess of the total amount of liabilities, including obligations guaranteed by the United States.

Mr. BELL. \$5,900,000,000 represents the amount of obligations of the United States outstanding which are guaranteed as to principal and interest.

Senator BROWN. The Home Owners' loan is how much a part of that?

Mr. BELL. \$2,600,000,000. The Reconstruction Finance Corporation, \$1,100,000,000. Federal Farm Mortgage Corporation, \$1,269,000,000.

Senator BROWN. I did not get that.

Mr. BELL. \$1,269,000,000. The United States Housing Authority, \$226,000,000. The Commodity Credit Corporation, \$696,000,000.

Senator BROWN. I do not know whether this matter should be kept in confidence or not, but I am going to ask the question. Have you made any estimate as to what the probability of the Government's responsibility would be financially? I mean what it is going to cost us. If you do not care to make a statement along that line, I will withdraw the question.

Mr. BELL. Well, it would be just an estimate, and that is all it could be. Last year when we sent our report to the Senate in response to Senator Byrd's Resolution No. 150, we included a table which showed an estimate of the probable losses on all of the outstanding loans carried by these agencies. It was not a large figure, only about \$290,000,000, but this was offset by reserves of about \$750,000,000 for loans in default, and so forth. There is no indication at this time that there will be losses to the Treasury under the guaranty of outstanding obligations, because the capital and earnings of the agencies will more than absorb all losses, and leave a substantial balance of proprietary interest on the basis of present figures.

Senator BROWN. Did you obtain the figure, Senator Byrd?

Senator BYRD. You mean the losses?

Senator BROWN. Yes.

Senator BYRD. I have got the last report here. Does the Treasury admit that there is going to be any actual losses? There has been no physical appraisalment, Mr. Chairman, of these assets. It is a very complicated question, of course. These corporations have vast properties all over the country.

Senator BROWN. Yes.

Senator BYRD. Take the Home Owners' Loan Corporation, speaking just from memory, they made a million loans to begin with and there are a large number of them in default, in the hands of the Corporation. There has been no physical appraisalment to ascertain what the losses could be.

Senator BROWN. That is the spot where you think the greatest losses might occur?

Senator BYRD. I think it would occur on a lot of these things.

Senator BROWN. I do not think you are going to have any losses in the R. F. C.

Senator BYRD. I do not know about that, Mr. Chairman. The R. F. C. has just created five new corporations, the Defense Homes Corporation, Defense Plant Corporation, Defense Supplies Corporation, Metal Reserves Co., and Rubber Reserves Co. No one can say to what extent losses will occur in those corporations.

Not to interrupt the chairman, but I would like to ask the Secretary if he can tell me to what extent these five new corporations will attempt to finance national defense from the R. F. C., in which event, of course, it would not appear in the regular Budget and would not be included in the expenditures.

Secretary MORGENTHAU. I am not prepared to answer.

Senator BYRD. I think it is an important question, Mr. Chairman, and it should be ascertained, because the debts of these corporations are not included in the public debt, and the expenditures are not included in the Budget. If it is proposed to use the corporations as a means of financing part of the national defense, I think Congress should be advised of it. My attention is called to the fact that they have just recently established five new corporations that have directly to do with national defense.

Secretary MORGENTHAU. I think that the R. F. C. gives Congress a statement once a month, I believe.

Senator BYRD. Of these activities?

Secretary MORGENTHAU. Yes. They certainly do it quarterly, but I was under the impression that they give some kind of a statement once a month.

Senator BYRD. The report submitted to Congress shows quite a large amount of the assets of the R. F. C. are in default. I do not know what that means, whether it means default on interest or the principal of the securities, or not. Before we can ascertain, Mr. Secretary, the losses of these corporations there would have to be a physical appraisalment of the property, would there not?

Secretary MORGENTHAU. That is right.

Senator BYRD. Which, as you wrote to me—and you are right about it—is a gigantic undertaking.

Secretary MORGENTHAU. That is right.

Senator BYRD. When you talk about the losses on properties of these corporations, there can be no statement made until a physical examination is made.

Secretary MORGENTHAU. Of course, as you know, the best way to follow this situation is the provision in the law relating to the Commodity Credit Corporation. In that case the Treasury makes an annual appraisal of the corporation's assets in accordance with a statutory formula and reports each year to the Congress.

Senator BYRD. It is incorporated in the appropriations bill.

Senator BAILEY. In that case they lost \$100,000,000.

Secretary MORGENTHAU. Up to March 31, 1940, they had a net loss of \$170,000,000.

Senator BAILEY. We have written that off twice, haven't we?

Secretary MORGENTHAU. That was the net loss following that formula, the Commodity Credit Corporation formula, which I think I was responsible for. The Congress at least knows once a year what the situation is, and the loss is written off once a year.

Senator BYRD. That is an excellent plan. Of course, it would not be applicable, though, to the Home Owners' Loan because they could not sell all these properties in 1 year and they could not ascertain what the loss is.

Mr. BELL. Even an actual appraisalment, Senator Byrd, of such properties would not reflect an accurate picture of the ultimate loss because the liquidation would spread over a period of 20 years, and the price of property might change materially in that period.

Senator BYRD. It is all very well to say we are not going to have losses, but many of these corporations are used for the purpose of meeting emergencies, and I think all of us recognize there will be losses. The losses cannot be avoided. We ought to face the fact that there are going to be losses, and very substantial losses.

Senator BROWN. I agree with you on that. You and I had considerable discussion on this once before in the Finance Committee. My contention is you cannot just take \$6,000,000,000 and add it to the total debt authorization of the United States, because the losses will not be that great.

Senator BYRD. I understand that. I am not claiming that of all these assets some are not recoverable. The majority of them, or a large measure are. If you go to the bank and borrow money and you endorse the note of another person, you have got to include that as a loss in your liabilities. This case is somewhat different from that,

because these corporations are completely Government owned. It is just as much an obligation of the Federal Government as if Mr. Morgenthau had issued a Treasury bond. There is no difference whatever, because the corporations are owned by the Government, they are guaranteed by the Government for interest and principal.

Senator BROWN. It is a question of degree, Senator Byrd. Would you carry the entire responsibility of the Federal Deposit Insurance Corporation on all the bank deposits in the United States up to \$5,000, my recollection is, as the responsibility of the Government of the United States?

Senator BYRD. No.

Senator BROWN. It actually is.

Senator BYRD. It is not carried in these figures.

Senator BROWN. Except that you have got a Government corporation standing between the Government and the depositor, but it is the responsibility eventually of the Government.

Senator BYRD. You have established a sinking fund to take care of the losses.

Senator BROWN. So have you in the R. F. C. They are making money. They show a profit from year to year. It is an estimate of contingent liabilities. I do not think you can just take the \$6,000,000,000 and add it to the total debt authorization.

Senator BAILEY. The Government is a guarantor, is it not, in these cases?

Secretary MORGENTHAU. Yes.

Senator BAILEY. It is not the endorser, it is the guarantor. Am I right about that, Mr. Secretary?

Secretary MORGENTHAU. Yes.

Senator BAILEY. The guarantor is liable only after the person guaranteed fails.

Secretary MORGENTHAU. That is right.

Senator BAILEY. The guarantor has the right to exhaust the security.

Secretary MORGENTHAU. That is right.

Senator BAILEY. The endorser does not; he is indirectly liable.

Secretary MORGENTHAU. That is right.

Senator BAILEY. That would predicate an appraisalment of the security.

Secretary MORGENTHAU. That is right.

Senator BAILEY. There is an actual liability, but the liability is a general one. The guarantor is generally liable after the exhaustion of the security.

Secretary MORGENTHAU. Using the case that Chairman Brown used, the Federal Deposit Insurance, they guaranteed something like \$27,000,000,000 worth of deposits, and they have got about \$500,000,000 worth of securities and other assets in their own reserve.

Senator BYRD. They act in the nature of an insurance company. It establishes the reserve guarantees and collects from the banks for them. Of course many of the other corporations are different from being a mere guarantor for the Government, because the Government owns the corporations, the Government created them. No one has a dollar of stock in them except the Government.

Mr. BELL. Speaking of losses, Senator Byrd, I think you should not lose sight of the fact that all of the capital funds of these agencies

have been charged to the Budget in the year in which they were spent. The capital funds which went to the corporations were borrowed funds included in our public debt. To that extent there is a reserve of that amount in the public debt.

Senator BYRD. You have recovered \$700,000,000 from several of these corporations and put it in the General Treasury, and use it against the expenses of the Government?

Mr. BELL. That is right, but they still have capital funds over and above such recoveries which are charged to the public debt.

Senator BYRD. You are taking a large part of them. You got \$700,000,000 last year.

Mr. BELL. There will still be about \$3,000,000,000 of capital funds left in the agencies.

Senator BAILEY. Are not you dealing, Mr. Secretary, with the fact that the Congress has no limitation upon its present or prospective expenditures?

Secretary MORGENTHAU. I am sorry, I did not get the first words.

Senator BAILEY. I say, are not you dealing with the fact that the Congress does not recognize it has any limitation upon expenditures? That is, we are now just about to underwrite Great Britain and perhaps other nations to see them through this war?

Secretary MORGENTHAU. That is correct.

Senator BAILEY. No man can tell what that would cost. The first cost is not going to be any measure of the ultimate cost, so I am going to vote for it, but I am voting for it knowing that there is practically in sight no limit to the expenditures. That is a situation that we ought to consider very seriously, I think, dealing with our public, the American people. That is an end to the Government credit. There is a point somewhere where it will break down.

I will agree the responsibility is upon the Congress. We claim that we hold the purse strings and we are responsible, but I do not believe Congress will respond unless somebody in authority gives them a very severe warning. I think that is what it has got to be. I think Senator Byrd here is imploring you to warn the Congress. Well, I think you, the President, the Congress, and all of us ought to warn the American people that there is a limit to the credit of the Government of the United States, and when you pass that limit the consequences will be just about as bad as to lose a war. I think the time has come when we should let them know that. I think that is what Senator Byrd is driving at. In the meantime he is asking for such reductions in nondefense spending as may be reasonable and practicable. I do not think Congress will ever act on that matter until it gets some very definite light from the authorities down the street.

Secretary MORGENTHAU. I do not think there is any difference between Senator Byrd or yourself and myself. The only thing I cannot do is to make a forecast.

Senator BAILEY. You cannot make a forecast now. When you pass this bill nothing this side of Almighty Providence itself can tell us how much we will have to spend to see Great Britain through.

Secretary MORGENTHAU. That is the point.

Senator BAILEY. I agree with you on that. I am going to vote for it with that understanding.

Secretary MORGENTHAU. I am not going to sit here and make statements which are just pure guesses.

Senator BAILEY. But in view of that certain fact, do not you think that all of us now, the President, the Secretary of the Treasury, and the Congress, ought to warn the American people that we must be thinking of ways and means to stop short of the exhaustion of credit of the Government of the United States, because we know, whether the people do or not, that the consequences will be unspeakable?

Secretary MORGENTHAU. I am in entire accord with what you say.

Senator BAILEY. That is what is troubling me.

Senator TAFT. Mr. Chairman, may I ask a question?

Senator BROWN. Surely.

Senator TAFT. I do not know whether Senator Byrd raised the question or not, but I wondered what the Secretary thought of the probability of having a separate debt limit for fully guaranteed Government obligations? That subject is in great confusion, as no doubt Senator Byrd pointed out. I tried to compile the figures from the borrowing authority of the R. F. C., but I do not think any human being can do it with any certainty today. I think that it has become an important means of financing, because while the R. F. C. has been conducted on a business basis and made a profit, as has been pointed out, that condition is not going to apply to the last appropriation we have made to the R. F. C. They have advanced within the last few months \$1,100,000,000 for defense; \$92,000,000 to the Wright Aeronautical Co., I know, in Cincinnati, Ohio, to a subsidiary of the company. That plant, in effect, belongs to the Government and they may never get it back. They are not running on the basis of getting it back. They are part of the defense machinery. So that \$1,100,000,000 is really part of our war cost.

The same thing is partly true, at least, of the \$500,000,000 appropriated for South America last spring. These are war appropriations, and this whole business has gotten to be a little different now from a business basis. I think we should put a limit on it, I mean from a practical standpoint, a legislative standpoint.

What would the Secretary think of such a limit, entirely apart and outside of this, a separate limit on fully guaranteed Government obligations? I do not know whether Senator Byrd raised that question.

Secretary MORGENTHAU. Not exactly in that form. There is a limit, and Mr. Bell is familiar with the details.

Senator TAFT. That is, there are separate limits for each corporation?

Mr. BELL. Yes.

Senator BROWN has asked me to put a table in the record, and in that table it will show the limitation of each corporation.

Senator TAFT. Would it not be at least advisable to rewrite in one brief clause the borrowing power of the R. F. C.? It has been changed, you know, retired, reduced, and raised. I tried last year to figure it out. It is extremely complicated. When I got through there were at least two or three places where I thought lawyers would differ on the question.

Senator BROWN. On page XXV of the Budget for 1942 is found a summary of the contingent liabilities and the express limitations placed upon various corporations of the Government, including the R. F. C. They are there given and a note is made to the effect that the R. F. C. is unlimited with respect to the purchase of preferred stock of bank-

ing and trust companies, and under section 5 of the A. A. A. Act and the National Housing Act, principally those, there seems to be a definite limitation, according to this statement.

Senator TAFT. I think Mr. Bell would agree there might be some doubt some place somewhere.

Secretary MORGENTHAU. Mr. Chairman, I think if the committee is contemplating anything of that nature, Mr. Jesse Jones should be given an opportunity to be heard.

Senator TAFT. Mr. Jones told me he did not know how much they could borrow. I do not think he would object to my saying so.

Secretary MORGENTHAU. I would suggest, if there is anything of that nature contemplated, he should be given an opportunity to be heard.

Senator TAFT. By all means.

Senator BROWN. I think, in view of the necessity of action in the next few days upon this bill, this question of contingent liabilities could not very well be included. This is a rather small matter, but it is a matter that has interested me for some years.

I think, since we are, by this bill, proposing to take the tax-exempt feature out of all Federal bonds, that we perhaps ought to have an estimate—I am sure we have it in the hearings we had in the special committee—as to what that will raise. I do not care for it right now, but I think we should have it in the printed hearing.

Mr. SULLIVAN. I will have inserted in the record a schedule comparable to the one presented to the special committee, showing an estimate of the eventual increased revenues and increased interest costs which the Federal Government may expect when the interest on all indebtedness authorized by this bill is subject to the Federal income taxes. We estimate that the net gain to the Federal Government will amount to between \$95,000,000 and \$100,000,000 a year under the assumptions set forth in the schedule.

Estimated net increase in Federal revenues if the interest from all future issues of Federal securities is made subject to all Federal income taxes while the interest from State and local governmental securities remains tax-exempt

[In millions of dollars]

	Conservative assumptions	Liberal assumptions
Increase in income-tax yield:		
Corporation.....	84.5	125.8
Individual.....	37.9	47.2
Total.....	122.4	173.0
Increase in interest cost of Federal Government.....	26.5	76.9
Net increase in revenue of Federal Government.....	95.9	96.1

Treasury Department, Division of Research and Statistics.

NOTE 1.—Both sets of estimates assume that (a) the direct Federal debt will amount to \$65,000,000,000; (b) all Federal issues have been refunded and made taxable; (c) the removal of tax exemption will not change the present composition or ownership of Federal securities; (d) the present income taxes (including defense tax) will be in effect.

NOTE 2.—The conservative estimate assumes that interest rates will increase by the minimum differentials measuring the value of tax exemption. In the liberal estimate, maximum differentials have been used. The conservative estimate assumes low-income (other than interest on Government securities) levels, while the liberal estimate assumes high-income levels.

Senator BAILEY. Mr. Secretary, let me make this one inquiry, to at least indicate what I am thinking about. Since it is true that practically every business in America, from the little corner grocery store to the greatest corporation, is now dependent upon the spending of public borrowed money, is it not a very serious question whether we can ever stop the spending process this side of ruin? You take the farmers, they are depending upon it. The little grocery store, he sells to people who are getting public money. General Motors is selling cars to people getting public money. The munition industry, United States Steel, the power people, the electric light people are getting this money. You created vested interests in public spending, and you have reached the point where you are borrowing far beyond your revenue. But can you stop it once you have borrowed this far? If you cannot stop it, what are the consequences? I would like for the Secretary to respond to that for me. That is one of the things he says he lies awake at night thinking about. That is one of the things that wakes me up in the middle of the night.

Senator BROWN. Let me give you a figure which supports your statement there, which was given to me the other day. Back in the early twenties, possibly before that, we had total bank deposits of \$33,000,000,000, and loans in the nature of notes and obligations of that kind to private persons, \$22,000,000,000. Now we have roughly \$60,000,000,000 in total deposits and the loans are still \$22,000,000,000 or thereabouts, which will illustrate your point.

Senator BAILEY. It will always increase your bank deposits.

Senator BROWN. And the difference is the Government borrowing.

Senator BAILEY. But that is no sign of prosperity, or a sound position.

Senator BROWN. No.

Senator BAILEY. I know the Secretary has thought about what I said before, but I would like for him to throw some light on that little problem.

Secretary MORGENTHAU. I wish I could comply with your request, Senator, but I am going to have to beg off.

Senator BAILEY. Here we are. We are responsible for the Government, temporarily—the President, the Secretary of Treasury, and the Congress. We are dealing with this reality, but we are ignoring it. We know where we are going but we are not telling anybody where we are going. I think the time has come when we might look the situation in the face and inform the public of the consequences.

Secretary MORGENTHAU. Well, I would prefer not to undertake to answer your question.

Senator BAILEY. I would not like to see the Secretary of the Treasury issue a statement that he feels might destroy the credit of the Government sooner than it might otherwise be destroyed.

Secretary MORGENTHAU. I still will ask you not to press for an answer.

Senator BAILEY. The real charity to the American people would be to tell them the truth just as it is. Now they will respond. I have still got my confidence in them. I think we led the American people to believe that the amount of money available to the Government was practically unlimited and that they can depend upon it without

paying the indescribable penalties that we know will have to be paid. For that reason I think we might inform them. We have got to deal with them. That applies to the Congress, the President, and the Treasurer. We have got to deal with the people.

Senator TAFT. Mr. Chairman, on the question of additional taxes, is it possible to make an estimate, or has the Treasury made an estimate, on the division of the defense costs between what you might call the capital costs, the expense of building new camps, the expense of building a new two-ocean Navy, and what might be called the permanent maintenance cost that we will probably have for the Army and Navy for the next 10 years? As I see it, this is not going to end probably, regardless of what happens to the war. We are going to have the maintenance of the Army and Navy in time of peace even very much larger than it was before. Is there any way to divide those costs? I think that furnished a guide, perhaps, to what we could provide in taxes and what we are justified in borrowing.

Secretary MORGENTHAU. I have never seen such a study, Senator. Before you came in I made a statement as to what I thought was an ideal formula to shoot for.

Senator TAFT. I understand. It is the two-thirds revenue and one-third borrowing.

Secretary MORGENTHAU. Yes.

Senator TAFT. I wonder whether they would be a practical thing. I tried to do it, roughly, myself, but I had no confidence in it.

Secretary MORGENTHAU. We would be very glad to see if it is possible.

Senator TAFT. I certainly would be very much obligated if you would.

Secretary MORGENTHAU. I will be very glad to.

NOTE.—It would be impossible under existing circumstances to estimate the annual maintenance of our Army and Navy. We would first have to know just how large they will ultimately be before such an estimate could be made.

Senator BROWN. Mr. Secretary, there has been suggested in one of the weekly magazines, which I think very well of, this argument—I do not agree with it, but I would like to hear what you have to say. As I suggested to Mr. Belle a few moments ago, each raise in the amount of the debt limit rather indicates to the appropriating authorities of the United States that the Congress, the Finance Committee, is agreeable to an expenditure up to that limit—\$65,000,000,000 in this case—and this editorial, I think it was the United States News, as I recall it, suggested that it might be desirable to lift the debt authorization off altogether, and if we did so there would not be that temptation on the part of the Appropriations Committee to go up to the limit that we had fixed. I myself do not agree with it, but I would like to know what you have in mind.

Secretary MORGENTHAU. I do not either. I do not know how many appropriations are voted on each year by Congress, but they must be by the thousands, and I am sure, the size of the debt limit is not a deterrent.

Senator BROWN. You think it is salutary to place a limitation upon it?

Secretary MORGENTHAU. I just feel this way: In coming here in favor of this bill, that the \$65,000,000,000 debt limit is what we need

to finance the Government expenditures which have already been authorized by Congress, and what we can already see; that is, in the mill, so to speak. I have never felt that the debt limit is a deterrent on expenditures. I have always felt, and I am repeating myself, that if the spending committees and the taxing committees would get together and meet together, that that is the place to meet the question of expenditures, and I do not feel that the debt limit is a deterrent on the spending.

Senator BYRD. But it does give Congress an opportunity to review the whole fiscal situation and look to the future. What Senator Brown quoted from the magazine is not correct in view of experience. We had a debt limit of \$45,000,000,000 since the last World War, and that was not any particular incentive to raise the appropriations and make the debt obligation up to that.

Senator BROWN. There was a general idea they could go that far.

Senator BYRD. I think it is a danger signal that we certainly ought to maintain.

Senator BAILEY. You can develop the general idea that we now can go to \$65,000,000,000, but we all know we are licked. Within 18 months we will be up here again. We will be lucky if it is that far off. But we know, when we get there, we cannot stop. The debt limit is merely a gesture. I am for the point, but I do not think it means a great deal.

Senator BROWN. There are one or two matters of detail in this bill that we ought to have discussed.

Senator BAILEY. Before you get to that, I would like to finish this. The President has repeatedly notified us, the American people, that we are in for severe sacrifices. Now the soldiers, the boys who have been drafted and sent to camp, are making sacrifices, but who else in America is making any sacrifices?

Secretary MORGENTHAU. Nobody.

Senator BAILEY. Now has not the time come when the whole body of the American people should realize that there are sacrifices to be made and if they are not made the penalties will be eventually greater than the sacrifices? The ultimate penalties will have to be paid in increased cost of living, and so forth.

Secretary MORGENTHAU. I am in complete accord with you.

Senator BAILEY. I am glad to see you are. I think if we could get something like that going we might create a state of mind in America that would tend to reduce public spending, in order that we may spend for this national defense whatever may be necessary.

Senator BROWN. I think, Senator Bailey, that the public generally is agreeable to substantial and material increases in taxes.

Senator BAILEY. Yes.

Senator BROWN. The Fortune magazine had a poll in its current issue of business executives.

Senator BAILEY. Have you seen anybody that was not in favor of increasing the expenditures for the thing he was interested in?

Senator BROWN. That is absolutely so, but I do think that the defense program, the necessity for spending money to meet this extraordinary international situation, has opened a way to do what Senator Byrd has consistently contended for; that is, substantially increase our income taxes and probably certain forms of consumption taxes, in order to meet the situation.

I made a speech over in Baltimore the other night, before the Baltimore Real Estate Board, in which I pointed out, I think upon good authority, that the elimination, the total elimination, of tax exemption, which I know Senator Bailey does not agree with, would in years to come, raise pretty close to a half billion dollars a year. The sales tax, which in my State has been highly successful and which has been shouldered by the people without very much complaint, the 3-cent sales tax, has raised, instead of the \$32,000,000 which we originally estimated in Michigan, close to \$60,000,000, which is a lot of money even in a big State like Michigan. A 2- or 3-cent manufacturers' sales tax would raise between \$700,000,000 and \$1,000,000,000.

I think it is an unfair tax, it is the last tax I would like to catch hold of in order to balance this Budget or come close to it; but if we imposed that kind of a tax, plus this total elimination of tax exemption, we come pretty close to the \$10,000,000,000, which is, roughly, the amount necessary to balance the ordinary nondefense expenditures of the Government of the United States. I know the President is against the sales tax, and very likely the administration is, but I think it is one of the things we have got to seriously consider in this country. I say it is the last tax I would like to levy, but it is a case where we have to do some things we do not like to do in order to meet the situation. I just bring that out, because I say the public is ready to pay bigger taxes.

Senator BAILEY. Between reducing expenditures for nondefense and imposing a sales tax on a product, which would you choose?

Senator BROWN. We must do both.

Senator BAILEY. I would rather reduce the expenditures first and see how far we would get with them. I think your sales tax is not right. It is one of the most cruel things the Government ever did. I notice in New York the price of milk went up 2 cents, that was the fixed price, and the number of quarts of milk that the people did not buy under that little raise was perfectly amazing. Did you see that statement from the Secretary of State?

Senator BROWN. I did not happen to.

Senator BAILEY. The figure was so large that I hesitate to depend on my memory, but there was an enormous quantity of milk that ceased at once to be sold, because people could not pay the extra 2 cents.

Senator BROWN. Of course, 2 cents on a quart is an enormous increase. That is somewhere around 10 or 15 percent.

Senator BAILEY. That illustrates your raise in price. The raise in price of 1 cent on a package of breakfast food will reduce the sales, and I know that from experience, I know that from the jobbers who sell it.

Senator BROWN. Look at your alternative there. We increase the income, we broaden the base of the income taxes. I am reliably informed by the Treasury that from the new taxpayer we will get \$14,000,000, and it costs us \$8,000,000 to collect it.

Senator TAFT. I would not favor reducing the limit, but it does seem to me the normal tax ought to start at 10 percent instead of 4 percent. Before you go to the sales tax, I think you ought to grade all the personal income taxes.

Senator BROWN. Mr. Secretary, in section 22, pages 2 and 3, you make considerable change in the matter of your savings certificates.

Heretofore, I have understood that corporations could not buy, or could only buy in a limited way, and that banks were limited to a total of \$10,000. Under this act you intend to lift the limit and make it discretionary with the Treasury Department as to what the terms and conditions are, and the amount that can be held by any one individual or institution.

Secretary MORGENTHAU. That is right, as to both savings bonds and savings certificates.

Senator BROWN. Do you feel it would aid the financing program to give you entire discretion to eliminate these limitations that have heretofore existed?

Secretary MORGENTHAU. I feel it is important, because I think before we get through we are going to have to try to not only go to the man of limited means, but also we will have to go to the insurance companies, and they will need different kinds of securities.

Senator TAFT. Do you think you can artificially maintain a different rate on any large volume of savings, a different rate on bonds to be sold to the public from what is maintained on bonds sold to the banks?

Secretary MORGENTHAU. Only if the conditions are different, Senator Taft. Let us say, for example, a long-term bond, if it had a higher coupon rate, say, than the going market, they might have to keep it for 5 years, or something like that; we might have a condition of that kind. I mean, there would be special conditions.

I have always believed that you could only borrow at what the market or the owners of the money are willing to lend. I would not be a party to forcing them.

Senator TAFT. I meant whether you would put the bank rate of interest down to the interest that you are willing to give everybody else.

Secretary MORGENTHAU. I do not believe you can hold the bank rates up or down artificially. I do not want to be a party to it.

Senator BROWN. As to these \$1,000 discount bonds, what do you pay? \$750 and then get \$1,000?

Secretary MORGENTHAU. If you hold them for 10 years.

Senator BROWN. It works out 3 percent?

Secretary MORGENTHAU. 2.9 percent, if you hold them to maturity.

Senator BROWN. How does that compare with the cost, the rate of your financing generally for bonds of a similar kind?

Secretary MORGENTHAU. It is considerably higher.

Senator BROWN. That is what I was thinking. It seems to me you would have from banks an unusual demand for those particular securities because of that high rate. That is one thing that bothered me in section 22.

Secretary MORGENTHAU. We found that to be true, and therefore early in 1940 we stopped any corporations from buying them. No corporation can buy these now.

Senator BROWN. They can if we pass this bill?

Secretary MORGENTHAU. That is granted, but what we are trying to do is to get sufficient flexibility. Let us say if we continue United States savings bonds at the same rate instead of increasing it we may want to lower the limit.

Senator BROWN. I see.

Secretary MORGENTHAU. We were talking of the possibility of lowering it to \$3,000, so that this high rate would be limited definitely to the savings people.

Senator TAFT. There is a fairly definite limit, is there not, in the amount of people who could buy a bond of that kind?

Secretary MORGENTHAU. Yes.

Senator TAFT. I mean, the big sales of Liberty bonds were made largely to large buyers.

Secretary MORGENTHAU. That is right.

Senator TAFT. You have got to charge about the same rate, and you have got to get an advance, too.

Secretary MORGENTHAU. To answer the Chairman, rather than increasing the limit, the Treasury is thinking of reducing the limit that any person can hold.

Senator BROWN. I am perfectly willing to leave that to your discretion.

Mr. BELL. That is now in his discretion, Mr. Chairman, as to the classes of people that can hold the bonds.

Senator BROWN. You generally fix it at a \$10,000 limit and let it go to anybody. For instance, a lot of small banks hold \$10,000 of these bonds.

Mr. BELL. That is right, but under our present regulation the banks cannot acquire any further savings bonds.

Senator TAFT. Do you have as much complaint from the banks as I have? The Government pays 2.9, while it prohibits the bank from paying more than, perhaps, 1 percent on savings.

Secretary MORGENTHAU. No; there were a few from savings banks, but I think as to the acceptance of United States savings bonds, we have had very few complaints.

Senator TAFT. I get a letter from a few banker friends every month.

Secretary MORGENTHAU. Do you get more than two or three?

Senator TAFT. I think probably two or three.

Senator BAILEY. The banks seem to be making pretty good money under this situation. I notice the annual reports of the national banks show up pretty well.

Secretary MORGENTHAU. They seem to be doing very nicely.

Senator TAFT. But their stocks are selling at about one-half of book value in most cases.

Secretary MORGENTHAU. That is something else again.

Senator BAILEY. Has the Treasury ever considered the matter of issuing bonds without maturity?

Secretary MORGENTHAU. You mean like the English consols?

Senator BAILEY. Yes; and the French rentes.

Secretary MORGENTHAU. We did issue some.

Senator TAFT. You did issue some?

Secretary MORGENTHAU. Yes.

Senator TAFT. When?

Mr. BELL. About 1900 there were some issued which had the so-called circulation privilege. Those bonds were called for redemption in 1935. That is pledged with the Government for circulating national-bank notes.

Senator BAILEY. If they were negotiable instruments, they could be circulated that way from man to man. A man could pay rent with the money.

Secretary MORGENTHAU. I think if this program continues, we are going to have to use every kind of device to attract the money into

the United States Treasury, and therefore I would like as much leeway as possible.

Senator BAILEY. There is something to be said for that type of bond. It has a stabilizing force.

Secretary MORGENTHAU. You are quite right.

Senator BYRD. This legislation, it is clear, removes a lot of restrictions that now exist. It gives you much more latitude.

Secretary MORGENTHAU. How is that?

Senator BYRD. I say, this bill gives you much more latitude in arranging your offerings to the public, and I am in favor of it. It removes all the restrictions which you think should be removed?

Secretary MORGENTHAU. If your gentlemen pass the bill the way it is now, we would be entirely satisfied.

Senator BYRD. I mean, you want to have a free hand.

Secretary MORGENTHAU. I think it is terribly important, when you figure we have got to borrow something in the order of about a billion dollars a month. I need latitude and lots of it.

Senator BYRD. This bill contemplates, of course, the borrowing of about \$20,000,000,000. Now, the latest figures show the banks hold \$19,000,000,000 of the present indebtedness. Is that accurate?

Secretary MORGENTHAU. Mr. Bell says yes.

Senator BYRD. And the insurance companies hold about \$6,000,000,000?

Mr. BELL. That is about right; yes.

Senator BYRD. Where is the balance held?

Mr. BELL. Individuals, corporations, trust estates, fiduciary institutions, and so forth.

Senator TAFT. About \$5,000,000,000 in insurance companies?

Mr. BELL. \$6,000,000,000.

Senator BAILEY. And commercial banks?

Senator BYRD. \$19,000,000,000. As to the issuance of this additional \$20,000,000,000 contemplated in this bill, have you made any plans as to where these bonds should be placed, how much with the banks and how much with the individuals?

Secretary MORGENTHAU. Senator Byrd, we are going to try to get every dollar we can, without any high-pressure methods, from the peoples' savings, and when that is exhausted, and I do not yet know how they will respond—

Senator BYRD (interposing). Excuse me one minute. In order to create that demand you are going to pay 2.9?

Secretary MORGENTHAU. No.

Senator BYRD. What is the interest rate?

Secretary MORGENTHAU. That is the rate for the present United States savings bonds?

Senator BYRD. Yes.

Secretary MORGENTHAU. We will have to get out new kinds of securities.

Senator BYRD. Yes; for which the interest rate now is to be 2½?

Mr. BELL. The average interest rate on the outstanding interest-bearing debt is now 2.54 percent.

Secretary MORGENTHAU. Just United States savings bonds, but we will have to get out bonds with coupons, and we expect to use the Postal Savings System very extensively, and their methods of stamps.

Senator BAILEY. Will you go along with the policy of subjecting the income from those bonds to taxation?

Secretary MORGENTHAU. They will be fully taxable.

Senator BAILEY. They will be fully taxable?

Secretary MORGENTHAU. Yes.

Senator BYRD. Everything issued from now on will be taxed.

Senator BAILEY. You do not mean property tax, but tax on income?

Secretary MORGENTHAU. Income tax.

Senator BROWN. That relates only to taxation by the Federal Government.

Secretary MORGENTHAU. That is right.

Senator BROWN. Right on that point, I refer you to line 14 on page 4. Many times I have said in our committee, and in our special committee, and in its report said that there would be absolutely no attempt to apply income taxation to any securities heretofore issued, and it seems to me that subsection (d) rather contravenes that principle laid down.

Mr. SULLIVAN. Section 7 protects them, and this continues that protection, sir.

Senator BROWN. As I read it—

The provisions of section 7 of this act, as amended (relating to exemptions from taxation), shall apply to savings bonds issued before the effective date of the Public Debt Act of 1941.

That is this act?

Mr. SULLIVAN. That is right, sir.

Senator BROWN [reading]:

For purposes of taxation any increment in value represented by the difference between the price paid and the redemption value received (whether at or before maturity) for savings bonds and savings certificates shall be considered as interest.

That is merely a profit from the sale; is it not? That is not income from interest?

Mr. SULLIVAN. That is treated as income.

Senator BAILEY. Is that exempted also?

Senator BROWN. No; that is not exempted. The idea, then, is just the contrary of what I supposed.

Mr. SULLIVAN. No; section 7, sir, grants the exemption, and section (d), line 14, on page 4, preserves that exemption to securities issued before the effective date of this bill.

Senator TAFT. That is not section 7 of this act, that is section 7 of the Liberty Loan Act.

Mr. SULLIVAN. That is correct.

Senator BROWN. Oh, I see. When you say "this act," that means section 7 of the Liberty Loan Act. I get it. That confused me.

Mr. SULLIVAN. This bill itself is an amendment to the Liberty Loan Act.

Senator BROWN. There is not an attempt made to apply the Federal income tax retroactively?

Mr. SULLIVAN. No.

Senator BROWN. On any bonds issued prior to the effective date of this act?

Mr. SULLIVAN. No; there is not.

Senator BROWN. That is in accord with our recommendations.

Senator BYRD. Mr. Secretary, would these bonds be subject to the ad valorem taxes imposed by the localities or States?

Secretary MORGENTHAU. I would say no.

Senator BYRD. Do you favor the Federal Government prohibiting a locality or a State from taxing bonds or securities of the Federal Government on the same basis as other bonds.

Secretary MORGENTHAU. I will have to ask one of my lawyers to answer that.

Mr. SULLIVAN. There is a constitutional prohibition of that, Senator.

Senator TAFT. The question is: How they could do it?

Senator BYRD. Would it contemplate a constitutional amendment, to permit the localities to tax United States bonds on the same basis?

Mr. SULLIVAN. There is nothing in this bill to do that.

Senator BYRD. I understand that. I mean, is legislation going to be proposed to provide for taxation of the income from the State's and local bonds. Does the Treasury, in other words, favor putting the Federal bonds on exactly the same basis as the local bonds in the event such legislation is consummated?

Senator BROWN. I think I can aid a little here. The Brown-Byrd amendment, as they called it, which was voted down in the Senate last session, provided that the situation, such as existed in Virginia and in two or three other States where there is no State income taxation, that they would be subject to the tax in the same manner that the bonds of the State of Virginia were subject to such taxation.

Senator BYRD. I am fully aware of that, Mr. Chairman. I am asking as to the attitude of the Treasury Department with respect to that matter.

Secretary MORGENTHAU. Our attitude has been consistently that we are opposed to any retroactive taxes.

Senator BYRD. I understand that. I am not in favor of it, either. Secretary Morgenthau. On any outstanding obligations.

Senator BYRD. I think it is very pertinent to know the attitude of the Treasury Department; if we should have legislation providing for the taxation of the income on all other bonds, other than Federal, I mean municipal and State bonds, would the Treasury likewise favor putting the Federal bonds on an equality with State bonds, insofar as ad valorem taxes are concerned?

Secretary MORGENTHAU. This is the first time I have ever heard it raised.

Senator BYRD. Have you heard it raised, Mr. Sullivan? It has been discussed in our committee.

Mr. SULLIVAN. We have come to no conclusion on that matter.

Senator BAILEY. The ad valorem taxes would be direct taxes?

Mr. SULLIVAN. They would be direct taxes. It is a question of sovereignty. It is a question whether the Federal Government would make that concession to the State.

Senator BAILEY. What we have been doing, we have been borrowing money to keep the people in the country going. We have been distributing it to towns, cities, counties, and States, which has had the very popular consequence of exempting lands and property in the States, counties, and cities from the burden of this depression under this law. That is why the public spending is so popular. A man who holds land has not had his taxes go up, but everybody else has had his taxes go up. He is secure under the present circumstances because of the rule of apportionment of the Constitution, the rule that bars direct taxes. But how long will it be, at the rate we are

going, before the burden does fall back on the counties and cities? If the Federal Government is broke, then somebody must carry on, then that burden goes right back in increased degree to the local property owner. Is not that one of the directions in which we are moving?

Secretary MORGENTHAU. Are you asking me?

Senator BAILEY. I would just like to know.

Secretary MORGENTHAU. Well, you have given me a lot of things to think about today, Senator.

Senator BAILEY. The dependence of the American people upon money borrowed by the Federal Government is a very logical thing. It exempts them from the direct burden of taxes. It delivers them, but the direct burden will ultimately come back to them when we have exhausted our credit.

Senator BYRD. Mr. Secretary, I would like to ask how many bonds the Federal Reserve System now holds.

Secretary MORGENTHAU. \$2,184,000,000.

Senator BYRD. Would it be your purpose to have the Federal Reserve System purchase any further bonds? I notice the Board is opposed to it.

Secretary MORGENTHAU. I can not sell them any bonds direct. Whatever they buy they have to buy in the open market. But if you had in your mind, am I thinking of financing this program through them, it just had not occurred to me and we do not have that authority.

Senator BYRD. Did not the Federal Reserve System recently express opposition to purchasing any more Government bonds?

Secretary MORGENTHAU. Not that I know of.

Senator BYRD. Did not Mr. Eccles?

Secretary MORGENTHAU. Not publicly. He may have privately, but I do not know about it.

Mr. BELL. In the statement they issued, they said they hoped the financing would be carried on more through individuals and corporations outside of the banking system.

Senator BAILEY. Mr. Secretary, we are now getting the gravy without paying for the pig, but the time will come when we will have to pay for two pigs to justify the gravy we have gotten. Will that be the situation?

Secretary MORGENTHAU. I will have to adjust myself to some of this North Carolina philosophy.

Senator BAILEY. I do not think the illustration is difficult.

Secretary MORGENTHAU. You could not put it in terms of apples, could you, or cider?

Senator BYRD. You and I could understand it.

Senator BAILEY. Would you get the hard cider without furnishing the apples?

Secretary MORGENTHAU. I am getting the kick anyway now.

Senator BAILEY. The time will come when you will have to furnish the apples.

Secretary MORGENTHAU. Well, it is a pleasant sensation while it lasts.

Senator BYRD. Mr. Secretary, you have been very patient and very pleasant. There is one other question that I would like to ask you. I want to ask you how much free gold there is in the Treasury today? By that I mean gold against which certificates have not been issued.

Mr. BELL. About \$54,000,000 on February 11.

Senator BYRD. How much?

Mr. BELL. \$54,000,000. That excludes, of course, the stabilization fund of \$1,800,000,000.

Senator BYRD. All the gold purchases, then, have been financed by the issuance of gold certificates?

Mr. BELL. That is right.

Senator BYRD. There is only \$54,000,000, not billion but million, of free gold?

Mr. BELL. That is in our working balance.

Senator BYRD. The stabilization fund, as I understand it, is about \$1,800,000,000. You have issued \$200,000,000 of gold certificates against the stabilization fund?

Secretary MORGENTHAU. That is right.

Senator BYRD. I thank you very much, Mr. Secretary.

Secretary MORGENTHAU. Thank you.

Senator BROWN. Thank you, Mr. Secretary.

I believe we have but one more witness, Mr. Marsh of the People's Lobby, and we will give him 15 minutes to make his statement.

Let me say to the Treasury experts that we will meet at 2:30.

All right, Mr. Marsh.

STATEMENT OF BENJAMIN C. MARSH, EXECUTIVE SECRETARY THE PEOPLE'S LOBBY, WASHINGTON, D. C.

Mr. MARSH. My name is Benjamin C. Marsh, and I appear as executive secretary of the People's Lobby on this measure, to oppose it in toto as superfluous and utterly unnecessary if we are a democracy.

I have personally enjoyed hearing the Treasury applesauce, but it seems to me you ought to recognize that what this bill is is an effort of some Democrats to have Congress repeal that part of the Democratic Platform of 1932, in which it pledged that we would have a balanced Budget. They have ignored it, and now they want to cover up.

Also, as my father was born in Tuceehy, Vt., I admire tremendously this statesmanlike discussion as to how near the edge of the precipice, going at 60 miles an hour, do we dare to go, when we have got a good road to travel on? The Secretary of the Treasury has his point of view, but if we are really afraid of inflation—and I do think we are—it seems to me that we might be realistic and just a trifle honest in facing this situation.

I went through it in the World War. I spent 20 minutes myself with Woodrow Wilson in the White House during the World War, begging him to adopt a decent tax system, and he said, "I do not dare."

Increasing the debt limit to \$65,000,000,000 is an invitation to the prevalent profiteering, and very great help to the Axis Powers, from whom the administration feels we are in danger of attack.

It is unnecessary to finance even the wild and woolly armament program which the President asked in the name of defense.

Now, of course, you gentlemen know you do not like, I mean some of you do not like to have it mentioned that you really should not consider this bill if you believe in democracy, and I do not want to accuse you of it, until you find out how much you can raise by current

taxation. That should have preceded the proposal here before you today, except it looks as though somebody else wanted to supersede J. P. Morgan as fiscal agent for the world's champion and oldest empire.

In 5 years, starting now, the Federal Government can obtain \$50,000,000,000 additional revenue as follows:

Corporation profits taxes—\$10,000,000,000. This is additional. You will not do it, because a lot of the Members of Congress own stock, as do others in the administration. It would be too brutal.

Taxes on corporation surpluses and undivided profits, \$15,000,000,000.

Increase of personal income taxes, \$17,500,000,000.

Taxes, on land values and natural resources, \$7,500,000,000, and I do not mean to put any tax on the little home owner or little farmer.

I bought a piece of land over in Virginia about 2 or 3 years ago, and my agent called me up last week and said, "You can sell it for a profit of 200 percent in 2 years or so."

I said, "I do not want to do it. I want to wait and see what this administration will do." Maybe I will get a thousand percent. That is the way they are acting.

The proposed heavy reliance upon borrowing for the defense program will confirm the charges of the Axis chiefs that financial interests control the Government of the United States. I am going to suggest that probably the cheapest defense we could get would be to convince the people of Germany that we want a decent economic system in America. And I say that knowing something of conditions there, as I was born of American parents in Turkey in Europe, now Bulgaria, and have been in Europe often. We are ignoring entirely the thing which Hitler used most effectively, that is, propaganda.

There are no profits at all for the economic royalists, whom this administration has saved, in this sort of thing, but I am considering, members of the committee, the young men whom you have conscripted and I recognize that you have commandeered the income of the next unborn generation.

I watched those thousands of young men and women at the American Youth Congress the other day. I do not agree with their position on a lot of things, but if I were in the shoes of most of them, I am afraid I would take the same position.

This is not an answer, this bill is an evasion. While the Federal debt will never be paid, whether it is \$49,000,000,000 or \$100,000,000,000, repudiation thereof can be done in only three ways, any one or more of which will create serious trouble in the inevitable post-war period. We can do so by currency inflation, repudiation, or drastic writing-down of private or interest rates, or both.

Such reliance on borrowing as contemplated will cause serious increases in prices, which will increase the cost of armaments, and hit people with small fixed incomes heavily.

Let me point out, the tax program I will suggest will make the members of our People's Lobby pay, in total, I am sure, several millions in additional taxes. I hope, however, when we are advocating that it does not stamp us as pro-German.

During the 17 months since the World War started its second aspect, commodity prices have increased about 15 percent, and no Government control by prosecution or denunciation can prevent further increases.

Attempting to prevent receivers of high wages or salaries, and large rents and dividends, from showing their patriotism by squandering their incomes, through consumption taxes and high prices, is not statesmanlike, nor, in the long run, effective.

The end of the present conflict will prove that this phase of World War, like the first which started in 1914, is a commercial war, and America will be in for strict competition in the world's markets, or more protection wars later as a substitute for protective tariffs, to protect markets for America's high-cost manufactured and farm products.

Paying most of defense, as well as ordinary costs of government, during the next 5 years by the tax program outlined above, will keep costs of production down materially, and put America in a much better competitive position, when the world gets over its present imperialistic jag, and also help moderate the domestic smash.

National income may drop a quarter to a half or more a year, but debt and interest charges do not follow suit.

Now I know this is old-fashioned stuff. We have gone on the theory that democracy consists in postponing the deluge. They went on that theory in Europe since the World War, and they are having the deluge now.

These charges, the debt and interest, like ground rent, are first charges on production.

Look at the provisions on the debt in the current Budget. Interest about one and a quarter billion—the next year's Budget—\$1,225,000,000, and retirement of debt around \$100,000,000, you might as well say nothing.

I would like to read into the record an analysis of incomes in America and by classes—nearly all Government figures—showing where you can get this additional income which I have suggested and most earnestly request you not to pass this bill but to revise the revenue act.

If the American people are not willing to pay more taxes they are not afraid that Hitler can emulate Christ on the Sea of Galilee and walk across the Atlantic or Pacific and drag his tanks after him. If they are not willing to pay more taxes they do not deserve to be protected, and I am not one of those extreme radicals who want America to get so badly in debt that we will have a revolution here and wipe everything out; I do not want that. Although I have been in Russia a couple of times, I do not want to see America build up a situation where violence and bloodshed in America is going to be inevitable.

I would like to read these figures into the record. Maybe you think I was fantastic in my suggestion that corporations could pay out of surpluses and undivided profits, but let me point out from Treasury reports and Commerce, that in 1937 the surpluses and undivided profits less deficit, of the four-hundred-and-sixteen-thousand-and-odd corporations submitted balance sheets to the Bureau of Internal Revenue were nearly \$46,000,000,000, and 394 corporations had surpluses of \$21,600,000,000. These are the corporations that are getting the big defense orders and are going to make their billions. Can they pay? Even when they do not make money they cannot.

I have some Government figures again. In the 3 years, 1931 to 1933, the deficit of reporting corporations was \$11,479,000,000, while total dividends paid were \$15,024,000,000.

Let me show you what that means. They are not all identical but substantially so. With deficits of about \$11,500,000,000, current deficits in 3 years, \$15,000,000,000 and over in dividends were paid out. I respectfully submit these corporations—and I own some stock, ought to pay more. When these corporations are making the huge profits they are, if they are afraid of invasion, if they are afraid Hitler is going to come over here and establish a totalitarian government, they ought to be willing to preserve what they call the American way of life, which means the highest profit you can skin the Government and people out of, by putting up money out of their receipts. This is not original. I got, I think this morning, a publication along the same line, which I will leave with the committee, from the Public Affairs Committee, How Shall We Pay for Defense, by Maxwell S. Stewart.

He said, "The two easiest ways—borrowing and inflation," and this bill means borrowing. I think he should not have said "borrowing and inflation," he should have said "borrowing to be followed by inflation." He said:

The two easiest ways—borrowing and inflation—are filled with dangers. Only the wealthy are in a position to lend large amounts of money to the Government, and it is natural that they should prefer to lend the money and obtain interest, rather than be taxed. If not enough money can be obtained from individuals, the temptation will arise to borrow from banks. Temporary borrowing from banks to meet a lag in tax collections would do no harm. But if used as a means of financing defense, this method is certain to lead to inflation. And inflation, we have seen, is the least satisfactory and most dangerous way of paying the costs of defense.

It is not likely that the defense effort will be helped much by voluntary savings. For studies of income distribution show that only a small part of the population is able to save under present conditions. It is probable that any savings that are made will be offset by the additional spending of families that have been living in the shadow of starvation during the long years of the depression.

But compulsory savings, as represented by the Keynes plan for "deferred wages," rationing, and outright prohibition of vital supplies for nonessential industries might strengthen the defense effort if they were not so drastic as to undermine the health, morale, or the productivity of the workers.

It will be readily seen that the issue as to which of these many ways will be used to finance defense has political as well as economic aspects. Some of the wealthy may seek by political means to encourage borrowing so as to avoid heavier taxes on incomes. Or they may seek a sales tax on the articles of everyday use. The poor, insofar as they are conscious of the issues, may seek increased income, corporation, and excess-profits taxes, and may be counted on to resist any increase in the cost of living.

But in times of crisis we dare not, as a country, allow political considerations to dominate our fiscal policy. It must be assumed that everyone is prepared to make major sacrifices for the security of the country. And it is obvious that such sacrifices must be made in relation to each individual's capacity to pay, and that they should not be made at the expense of the health and efficiency of the Nation's workers or their children.

Such sacrifices, we have every reason to hope, will be temporary. Once the defense program is well under way, we may, provided we

avoid war and Britain is not defeated, be able once again to expand our production of goods for everyday use and to raise our living standards.

I have almost exhausted the 15 minutes.

Senator BROWN. Very well.

Mr. MARSH. I do not want to impose upon the patience of the committee. Maybe you have some questions. I have about 2 minutes left. If not, I would like to make this additional statement.

Very few people I think appreciate the significance of this debt proposal. When you go on a jag you do not notice the first drink so much, at least I never did. The second is a little more, you might call, authoritative. By the time you get to the tenth—

Senator BROWN (interposing). I notice the witness is addressing these remarks to you two gentlemen.

Mr. MARSH. I am referring to human nature. By the time you get to the tenth you lose all sense of responsibility.

Senator BAILEY. Maybe the Members of Congress have never been on a jag, so they do not know.

Mr. MARSH. I wish I could share your optimism, but I give them credit for being human. That policy is what we are going on. The last 7 years we have been running behind and running behind.

The Democrats told us beer would balance the Budget, and it did, all except about \$30,000,000,000, which is just short, but not much, in the current astronomical and esoteric economies.

Senator BAILEY. Beer made it possible to employ more people.

Mr. MARSH. Yes; but we must be serious, gentlemen.

Senator BAILEY. That was serious. It employed a lot of people that had not had employment at that time.

Mr. MARSH. I am inclined to think Mr. Landon tried to cover that up with some of his remarks, when he was taxed with that yesterday. He said that was a campaign speech.

Senator BYRD. You mean Mr. Willkie, not Mr. Landon.

Mr. MARSH. Yes, Mr. Willkie. That was an awful slip.

Senator BROWN. We cannot remember as far back as Landon.

Mr. MARSH. Mr. Landon learned something that Mr. Willkie did not. But here we are facing this tragic situation. Since I saw your committee I have spoken from here to the Pacific coast, to tens of thousands of people. They are worried. The charge is made that this war is formented to cover up on the collapse of the New Deal, and millions of people believe that. I do not know positively, but I do know, and may I close with this, having been in Europe a good deal, Hitler did not create the chaos in Europe. He could not have done it. Hitler capitalized upon the existing chaos in Europe for which, as Wallaces' Farmer and Iowa Homestead recently stated all of us were responsible. It does not take a prophet, you do not even have to have graduated from Harvard to know that we are not on a sound economic basis.

You know, if you have studies history at all, that any government seeing trouble ahead realizes that war is a way of getting people to forget their troubles. They tried it, to some extent, in the first phase of the present war, starting in 1914.

I sincerely hope that Congress will face realities because it is not, frankly, up to the Executive or the executive departments to determine the policies of the Government if we are going to maintain

a democracy. I sincerely hope that the Congress of the United States will act with some foresight.

The House, I admit, passed this bill, I think without a roll call. You are going to debate it in the Senate, as you are going to debate the lend-lease bill in the Senate, and really debate it.

Strange as it may seem, when I first came here some years ago, they talked about the Senate as the rich men's club, and the House of Representatives as sort of a sackless Jerry Simpson branch. That is not true of either branch today, but in the House you do not have the opportunity to debate. Perhaps it is inevitable——

Senator BROWN. Let me just interject that when Michigan changed from James Couzens to me they went from top to bottom, financially.

Mr. MARSH. Maybe financially, but I would not concede it mentally much as I admired Senator James Couzens, but I believe you recognize, Senator Brown, that a compliment is a statement of what the one complimented is supposed to do, and govern yourself accordingly.

I hope you will debate these issues. None of us are inspired. Some of us have studied these questions more than some others, but America, it seems to me, cannot afford to ignore certain basic economics. As Bishop McConnell, president of the people's lobby said, you can produce chaos by a tax measure, and as he added, "if you have a totalitarian government, and only if you have a totalitarian government can you compel people to accept tax injustices." I know you do not want a totalitarian government, and I know you realize that a few years more of prevalent injustice in the United States will probably result, as it is probably going to result in Britain after the war, as it is in other European countries, not necessarily in a totalitarian government but an absolute authoritarian government. I believe in democracy and I hope we shall soon in America have real economic democracy.

Thank you gentlemen for your courtesy.

Senator BAILEY. Mr. Hitler is making war now for the same reason that Julius Caesar made war 2,000 years ago? Is that what you are telling us?

Mr. MARSH. No; I think Hitler must have read the speech of the late Lord Roberts of Britain. I wrote this in a book that I put out just before we entered the war, and I had to suppress it. Lord Roberts was asked this question: "How was this empire founded?" He said, "On war and conquest." He said it at that time. He said, "How can we blame the Germans for realizing that by that method alone,"—I am paraphrasing—"can they attain the same position?"

That is not the full answer. We have got to have international organization. As I see it, the Treaty of Versailles created buffer states to protect the British and French Empires which could not exist alone. I do not justify what Hitler had done, but I know Europe has got to be federated, just as the United States had to be federated, to survive.

Senator BAILEY. Either federated or dominated.

Mr. MARSH. I mean if you are going to have a democracy.

You cannot have the little states fighting each other with different currencies and tariff walls, and that sort of thing, without forcing a federation or domination that prevents it. No federation or attempted domination can work without the consent of the people themselves.

I am not worried over Hitler. If you haven't read it, I hope you will read an article by Peter Drucker in the November Harper's, pointing out where Hitler has bitten off more in Europe than God Almighty can chew, and Hitler has got to do the chewing.

I got back 5 days before war started in 1939. I was in four capitals only, London, Paris, Copenhagen and Stockholm. It was inevitable, what was going to happen, and they admitted that somebody would try to organize Europe if Britain and France insisted on maintaining the treaty, or the arrangement of the Treaty of Versailles and the following treaties of Trianon, and so forth. Hitler did it. The explosion came, and the explosion was the result of causes which, as I see it, are operating in most major countries. I did not mean to prolong it, but you asked the question.

Senator BAILEY. I was very much interested. I think it is said about Caesar, that he was seeing his people were desirous of a revolution, hence he invaded Gaul. I think that was the explanation of the invasion of Gaul.

Your suggestion about the little nations as buffer nations, I think they were erected around Germany with the view of being maintained by the League of Nations, but the League of Nations itself would not maintain them.

You compare that with what Maetternick did after the Napoleonic wars. With the aid of Britain and Russia, he did control Europe from 1818 to 1849, and they did have a great measure of peace. By the dominion of those three nations they regulated Europe. Then revolutions broke out afresh, the Germans began to come out forward and in 1870 they licked the French.

You are looking ahead at what may be done in Europe. Once there is an end to this war I think it is well worth looking into. I do not know what we can do. Certainly it is useless to carry on now and spend a lot of money unless there is going to be something done to stabilize Europe when this present phase of things is at an end.

Mr. MARSH. I was, as I said, in Europe in August, 1939. Up to the middle of that month British subjects were sending nickel and other materials to Germany, and of course, as we all know, Britain helped arm Germany. She made a great mistake. She thought Germany would turn against Russia.

Senator BAILEY. Germany thought Great Britain would turn against the French and the two together would run Europe, but it did not work.

Senator BROWN. Senator Bailey, if I may interrupt, the American people, when they were confronted with that precise issue through the medium of the League of Nations, I think in a referendum emphatically turned it down.

Senator BAILEY. I am not complaining of that.

Senator BROWN. I personally think they made a mistake. I am afraid we will get in the same situation again after this war.

Mr. MARSH. I am not justifying what is going on, but certain things are inevitable. It seems to me before this outbreak Poland was very anxious to do what Germany had done, but she did not have the backing.

Senator BAILEY. Is not everything that happens inevitable?

Mr. MARSH. If certain conditions obtain. Under certain conditions certain results follow.

Senator BROWN. I do not think Mr. Marsh should answer that question.

Mr. MARSH. I am going to bring this back home with a suggestion, if I may, Mr. Chairman, and I promise to close with this: We have great problems here, as well as in Europe. When I was a kid on a farm in Iowa, working my way through academy, there was a braggart of a hired man who told us how he could do everything better than the rest of us. One day when this fellow got to bragging another fellow rose up and said to him, "Jack, you had not ought to try to spit across the Mississippi if you cannot spit over your own chin." If we cannot save America, God knows we are not qualified to save the world.

Senator BROWN. I declare the hearings closed, and the subcommittee will meet at 2:30 in executive session.

(Whereupon, at the hour of 12:35 p. m., the hearings were closed.)

