350-4

PUBLIC DEBT ACT OF 1945

HEARING

BEFORE THE

COMMITTEE ON FINANCE
UNITED STATES SENATE

SEVENTY-NINTH CONGRESS

FIRST SESSION

ON

H. R. 2404

AN ACT TO INCREASE THE DEBT LIMIT
OF THE UNITED STATES, AND
FOR OTHER PURPOSES

MARCH 15, 1945

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THURSDAY, MARCH 15, 1945

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

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

Present: Senators George, Walsh, Byrd, Gerry, Johnson, Lucas, McMahon, Butler, Millikin, Brewster, Bushfield, and Hawkes.

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

Some members of the committee have other engagements but we have more than a quorum. If any of you gentlemen wish to move around so that you will be more directly in front of the witness, come right around.

The committee has for consideration H. R. 2404, an act to increase the debt limit of the United States, and for other purposes.

(H. R. 2404 is as follows:)

[H. R. 2404, 79th Cong., 1st sess.]

AN ACT To increase the debt limit of the United States, and for other purposes

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That this Act may be cited as the "Public Debt Act of 1945".

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

"SEC. 21. The face amount of obligations issued under authority of this Act, and the face amount of obligations guaranteed as to principal and interest by the United States (except such guaranteed obligations as may be held by the Secretary of the Treasury), shall not exceed in the aggregate $300,000,000,000 outstanding at any one time."

SEC. 3. Subsections (h) and (i) of section 22 of the Second Liberty Bond Act, as amended, as added by the Public Debt Act of 1943, are hereby amended to read as follows:

"(h) The Secretary of the Treasury, under such regulations as he may prescribe, may authorize or permit payments in connection with the redemption of savings bonds to be made by commercial banks, trust companies, savings banks, savings and loan associations, building and loan associations (including cooperative banks), credit unions, cash depositories, industrial banks, and similar financial institutions. No bank or other financial institution shall act as a paying agent until duly qualified as such under the regulations prescribed by the Secretary, nor unless (1) it is incorporated under Federal law or under the laws of a State, Territory, possession, the District of Columbia, or the Commonwealth of the Philippine Islands; (2) in the usual course of business it accepts, subject to withdrawal, funds for deposit or the purchase of shares; (3) it is under the supervision of the banking department or equivalent authority of the jurisdiction in which it is incorporated; and (4) it maintains a regular office for the transaction of its business.

"(i) Any losses resulting from payments made in connection with the redemption of savings bonds shall be replaced out of the fund established by the Government Losses in Shipment Act, as amended, under such regulations as may be prescribed by the Secretary of the Treasury. The Treasurer of the United States, any Federal Reserve bank, or any qualified paying agent authorized or permitted to make payments in connection with the redemption of such bonds, shall be relieved from liability to the United States for such losses, upon a determination by the Secretary of the Treasury that such losses resulted from no fault or negligence on the part of the Treasurer, the Federal Reserve bank, or the qualified paying agent. The Post Office Department or the Postal Service shall be relieved from such liability upon a joint determination by the Postmaster General and the Secretary of the Treasury that such losses resulted from no fault or negligence on the part of the Post Office Department or the Postal Service. The provisions of section 3 of the Government Losses in Shipment Act, as amended, with respect to the finality of decisions by the Secretary of the Treasury shall apply to the determinations made pursuant to this subsection. All recoveries and repayments on account of such losses, as to which replacement shall have been made out of the fund, shall be credited to it and shall be available for the purposes thereof. The Secretary of the Treasury shall include in his annual report to the Congress a statement of all payments made from the fund pursuant to this subsection."

SEC. 4. The Second Liberty Bond Act, as amended, is further amended by adding at the end thereof the following sections:

"SEC. 23. A finding of death made by any official or agency of the United States authorized by section 5 of the Act of March 7, 1942, as amended (U. S. C., Supp. III, title 50, Appendix, sec. 1005), or by any other law to make such a finding, or by the Secretary of War or the Secretary of the Navy, shall be a sufficient proof of death to support the allowance of credit in the accounts of any Federal Reserve bank or accountable officer of the Treasury Department in any case involving the transfer, exchange, reissue, redemption, or payment of bonds and other obligations of the United States, including those obligations guaranteed by the United States for which the Treasury Department acts as transfer agent.

"SEC. 24. Whenever any direct obligation of the United States, bearing interest or sold on a discount basis, is donated to the United States, is bequeathed by will to the United States, becomes the property of the United States under the terms of a trust, or is by its terms payable upon the death of the owner to the United States or any officer thereof in his official capacity, the Treasurer of the United States upon receipt of such obligation shall effect redemption thereof. If under applicable law such gift, bequest, or other transfer to the United States is subject to a gift or inheritance tax, the Treasurer shall pay such tax out of the proceeds of redemption and shall deposit the balance in the Treasury as miscellaneous receipts or as otherwise authorized by law. If no tax is payable the entire proceeds shall be so deposited."

SEC. 5. (a) Notwithstanding the provisions of section 3749 of the Revised Statutes, as amended, the Secretary of the Treasury is authorized to sell, exchange, or otherwise dispose of any bonds, notes, or other securities, acquired by him on behalf of the United States under judicial process or otherwise, or delivered to him by an executive department or agency of the United States for disposal, or to enter into arrangements for the extension of the maturity thereof, in such manner, in such amounts, at such prices, for cash, securities, or other property, or any combination thereof, and upon such terms and conditions as he may deem advisable and in the public interest. No such bonds, notes, or other securities of any single issuer having at the date of disposal an aggregate face or par value, or in the case of no-par stock an aggregate stated or book value, in excess of $1,000,000, which may be held by the Secretary of the Treasury at any one time, shall be sold or otherwise disposed of under the authority of this section.

(b) Nothing contained in this section shall be construed to supersede or impair any authority otherwise granted to any officer or executive department or agency of the United States to sell, exchange, or otherwise dispose of any bonds, notes, or other securities, acquired by the United States under judicial process or otherwise.

Passed the House of Representatives March 8, 1945.

Attest:

SOUTH TRIMBLE, *Clerk.*

The CHAIRMAN. Mr. Bell will speak for the Treasury Department. Tell us, if you will, Mr. Bell, the facts that require a favorable consideration of this proposal.

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

Mr. BELL. The House bill before you, Mr. Chairman, would, among other things, increase the borrowing authority of the Treasury, as provided under the Second Liberty Bond Act, from $260,000,000,000 to $300,000,000,000.

The public debt on February 28, 1945, was $235,000,000,000, and that includes the guaranteed debt outstanding in the hands of the public, which will be brought under the limitation by the bill before you.

According to the Budget estimates which were submitted to you in January in the President's budget message, the public debt will be $251,800,000,000 on June 30, 1945, and on June 30, 1946, it will be $292,300,000,000.

After making provision for the future accruals on savings bonds, which we must do in view of the wording of the limitation, we had on February 28, under existing law, about seventeen and a half billion dollars of borrowing authority left. We estimate that on March 31, on the basis provided in the pending bill, we will have about sixteen and a half; on April 30, fourteen and a half; and on June 1 it would be down to less than $10,000,000,000.

We are now in the process of making rather extensive preparations for the Seventh War Loan, the first part of which begins on April 9, when we start out with an intensive campaign to sell series E bonds under the pay-roll savings plan. The over-all individual drive will begin on May 14, and the corporation drive will begin on June 18. We would like to have the increase in borrowing authority before we start the drive on April 9, and we certainly would need it before we finish the drive, because we will no doubt exhaust the balance under the present limitation before the drive is ended. That is the urgency of the matter.

Now, there are a number of provisions of the bill. If you would like for me to go over each section I will be glad to, or I will stop at this point and try to answer any questions.

The CHAIRMAN. Does any member of the committee desire to question Mr. Bell?

Senator BYRD. I would like to ask a question.

The CHAIRMAN. Senator Byrd.

Senator BYRD. Mr. Bell, assuming that the European war lasts for 90 days longer and the Japanese war for a year, what would you estimate the debt would be at the end of that time after liquidating the obligations of the Government?

Mr. BELL. You mean, Senator, at the end of the fiscal year 1946?

Senator BYRD. Of course, there will be commitments maybe after that.

Mr. BELL. That is rather difficult to estimate at this time. We would have very large expenditures even after the war in Europe ends because of the backlog of outstanding obligations, and it is difficult to say just how fast they would be liquidated.

It was estimated last fall that there would be cut-backs equivalent to about 40 percent if the European war should end by December 31, 1944, but that has been changed.

Senator BYRD. You mean cut-backs at the end of the European war?

Mr. BELL. Yes. They were anticipating that the war might end at the end of last year, and it was estimated that there would be a 40-percent cut-back in commitments.

Senator BYRD. You are speaking of cut-backs in war expenditures?

Mr. BELL. Yes; and contracts, which is the same thing. But you have got the Japanese war now as a major war; it is consuming as much equipment, almost, if not more than, the European war, and there is some feeling that the expenditures for the Japanese war alone might stay on a very high level.

Senator BYRD. We are spending on the basis of about seven or eight billions a month; aren't we?

Mr. BELL. It is running about seven to seven and a half billion dollars at the present time, for war expenditures alone.

Senator BYRD. Yes. In January we spent eight billion two hundred and two million.

Mr. BELL. That is right. That is the total over-all expenditures. Our total expenditures, including outlays for corporations, for the fiscal year 1945 are estimated at $99,700,000,000, and that is a little over $8,000,000,000 a month as an average.

The CHAIRMAN. That is the fiscal year?

Mr. BELL. Yes, sir; the fiscal year, ending June 30, 1945; and for the fiscal year 1946, which is the year beginning next July, it is estimated by the Budget that we will spend $83,100,000,000; $70,000,000,000 of that is for war activity alone.

Senator BYRD. We will have very large unexpended balances if the war ended. Would the Treasury recommend that these balances be canceled? For instance, as of October 1, 1944, there were unexpended balances then of $151,000,000,000; I mean, appropriated, that hadn't been spent. Then you have your Budget bill, this time about $87,000,000,000.

Mr. BELL. $83,000,000,000 are the total estimated expenditures for 1946.

Senator BYRD. When that is passed, you will have large balances on hand. I assume that when the war ends those balances ought to be canceled by Congress, should they not?

Mr. BELL. They could be. They don't need to be canceled by Congress. You have already passed an act setting up an organization to handle contract cancelation, and as soon as the contracts are canceled the appropriation credits will eventually be written off in to the surplus fund.

Senator BYRD. Could not be written off at the end of each fiscal year?

Mr. BELL. An appropriation available for a fiscal year cannot be obligated after the end of such year, but it remains available for 2 full additional fiscal years to liquidate obligations incurred in the fiscal year for which the funds are appropriated. After that time the balance is written off to the surplus fund.

Senator BYRD. They revert to the General Treasury then?

Mr. BELL. Yes, sir.

Senator BYRD. The end of the year following that fiscal year?

Mr. BELL. It is the end of the second fiscal year.

Senator BYRD. What would be your estimate, Mr. Bell—you estimate $292,000,000,000 debt on July 1, 1946—it is not conceivable that it will be less than $300,000,000,000 before the Budget is again balanced?

Mr. BELL. You mean eventually?

Senator BYRD. Yes; the total debt.

Mr. BELL. We have no figures beyond the end of the fiscal year 1946. We can't tell you what will happen after the war ends—what size the Army and the Navy will be or what our obligations in other directions will be. So we can't tell whether we will have a large deficit in the year following the war or not. We assume it will take at least a year to liquidate the obligations we have.

Senator BYRD. How large a debt do you think this country can economically stand?

Mr. BELL. I don't think I can answer that question. I think the interest obligation at the present time is running about 2 percent of the net national product—that is the gross national product less depreciation and depletion—and I wouldn't say that that was unbearable. I couldn't tell you where the debt could go. Somebody estimated a few years ago that we could stand $75,000,000,000, and we have long since passed that.

Senator BYRD. Do you expect an increase in the future in the interest rate?

Mr. BELL. I hope not, and I think all the machinery of the Government ought to be used to keep it from increasing.

Senator BYRD. Of course, when you keep the interest rate down you keep the rate down on everything else.

Mr. BELL. There is a relationship between the rate the Government pays and outside business.

Senator BREWSTER. The chief economist of the Foreign Economic Administration stated that the national debt might go to four thousand billion dollars without seriously upsetting things.

Have you ever entertained any stratospheric estimate such as that?

Mr. BELL. No, sir. I have not.

Senator BREWSTER. He contemplates such a possibility.

You would think that was serious, would you not?

Mr. BELL. I would hate to see it.

Senator BYRD. Who was it that made that estimate?

Senator BREWSTER. The chief economist of the Foreign Economic Administration.

Senator BYRD. Who is he?

Senator BREWSTER. I can't give you his name.

Senator BYRD. He is not collaborating with your Department, Mr. Bell?

Mr. BELL. I don't know him. This is the first time I ever heard the estimate.

Senator BREWSTER. They apparently consider him an authority, to some extent at least.

Mr. BELL. I am sorry; I don't know him at all.

Senator LUCAS. The question of the increasing of the national debt will not make much difference as long as the war continues; it will be increased and increased and increased, depending on how long the war continues; isn't that right?

Mr. BELL. That is right. We have to finance the war, and there are only two ways of doing it—taxes and borrowing.

Senator BYRD. I think it is one of the greatest menaces our economic system is confronted with in the after-the-war years.

Senator BREWSTER. In the figures given in the House report, what is the distinction between bonds, Treasury notes, and certificates of indebtedness? Does that indicate the part that is of a rather short-term character?

Mr. BELL. Yes. Treasury bills and certificates have a maturity of 1 year and less; Treasury notes are from 1 year to 5 years; and Treasury bonds can be any term, but through long custom we have made them 5 years and longer.

Senator BREWSTER. That means that about 100 billion of our debt is short-term, under 5 years?

Mr. BELL. I think that is about the figure, including special issues to Government accounts.

Senator BREWSTER. That is what the figures show—$95,800,000,000.

Mr. BELL. That is right.

Senator BREWSTER. Now, is that a part of the Treasury plan or are you forced to that? What is the theory on which that proportion is determined?

Mr. BELL. That is part of the Treasury plan, because a large part of that debt is in the banking system, and that ought to be of a more or less short-term character. We keep it in the short-term area for banking reasons. We don't want the banks to buy the long bonds, so we keep it of a short character. And, of course, the bills and the certificates, to some extent, are considered by the banks to be more or less in the nature of liquid reserves.

Senator BREWSTER. That is approximately 40 percent of your total debt in short term, which means that the Government is faced with a recurring problem every year or two to renew and extend?

Mr. BELL. We are faced with it almost every month. We have a refunding of some issue every month.

Senator BREWSTER. You would prefer to have the long-term, if you could, in hands other than banks?

Mr. BELL. Well, we would prefer to sell as much of our debt as possible outside of the banking system; but we are, of course, forced to sell a certain amount of it to the banks.

Senator BYRD. What percent does the banking system own now of the debt?

Mr. BELL. About ninety-seven billion, including the Federal Reserve banks.

Senator BREWSTER. About 40 percent. That is assuming all short term is in the hands of the banks?

Mr. BELL. Seventy-seven and a half billion dollars of the debt is in the hands of commercial banks and $19,000,000,000 in the hands of Reserve banks.

Senator BREWSTER. The Treasury sells to individuals and institutions all long-term bonds that they can; that is your plan, is it?

Mr. BELL. They are the ones who generally get the long-term bonds, but they can also buy the short-term debt, but the Treasury objective is to sell as much of the debt as possible outside the banking system.

Senator BREWSTER. And your running balances you can't dispose of on a long-term basis?

Mr. Bell. The amount we sell directly to the banks and the amount that drifts into the banks through the market and is later refunded we put into short-term debt. We have a survey which shows how much of the debt is in the hands of the banks as we come to refund it, so we know the type of security which should be used in refunding.

Senator Brewster. What do you estimate would be the situation if—a year from today—if the debt increases to around three hundred billion—would you expect the same proportions to hold?

Mr. Bell. I don't know. That depends, of course, on our war loan drives, how successful they are in selling outside of the banking system. Between twenty and twenty-five billion may go into the banking system if past trends are maintained.

Senator Brewster. If that happens, in the next year you will have something like a hundred and twenty-five billion in the hands of the banks, including the Federal Reserve?

Mr. Bell. That is difficult to tell; but, based on past experience, it is a reasonable estimate.

Senator Lucas. How much is the Government requesting in this next war loan drive?

Mr. Bell. $14,000,000,000. Seven billion from individuals and seven billion from corporations other than banks.

Senator Bushfield. How much from the banks?

Mr. Bell. Nothing. We gave the banks the privilege of subscribing to the shorter securities for their savings accounts, and in the last drive, under the same formula, they got a billion dollars, and that is about the potential amount that will be available to them

Senator Bushfield. Is part of this $14,000,000,000 you mentioned in that shorter security?

Mr. Bell. The basket of securities that we will offer in the Seventh War Loan is composed of the series E, F, and G savings bonds, series C savings notes, a 2½-percent long bond, and a 2¼-percent long bond, none of which can be purchased by banks. The 2½'s and the 2¼'s can't be purchased by banks until within 10 years of their respective maturity dates. We have a 1½-percent bond which is available only to individuals. But after the drive they can be sold on the market. The same is true of the ⅞-percent certificate. But the banks cannot subscribe for any of the 1½-percent bonds and the certificates in the drive except for their savings accounts; they can subscribe to 10 percent or $500,000, whichever is lower. That is not a part of the $14,000,000,000. The banking subscription will be outside of the $14,000,000,000 drive.

Senator Bushfield. Have you any estimate, Mr. Bell, of the saturation point in the short-term securities the banks can hold? Are they near the saturation point? Perhaps that isn't the correct term, but there is a certain limitation they can or should carry.

Mr. Bell. I don't believe there is a saturation point. It is about the same as making money.

Senator Brewster. That is what it amounts to.

Mr. Bell. Yes. There is really no saturation point. They credit our account, and we spend it, and it goes back to the banks in the form of private deposits.

Senator Byrd. I notice today, from a number of statements, that the banks have uniformly about 60 percent of their deposits invested in Government bonds. Is that about right?

Mr. Bell. That is about right; 58$\frac{8}{10}$ percent on June 30.

Senator BYRD. You will soon reach the saturation point, will you not?

Mr. BELL. The deposits go up along with the purchase of Government securities.

Senator BYRD. But suppose there is a recession. Suppose there is not as much money in circulation. Suppose that we have a depression.

Mr. BELL. There wouldn't be any change in the bank deposits except as the loans are paid off and the public debt is paid off. They merely shift between banks.

Senator BYRD. You think there is no limit then to the extent that the banks can safely invest in Government bonds?

Mr. BELL. I wouldn't say there is a limit beyond which we should go or shouldn't go. I just don't know what it is. We create the money as we borrow from the banks and the deposits are increased at the same time so it can really go on for some time.

Senator BREWSTER. It is really no different from the printing press?

Mr. BELL. It is all a part of the money supply.

Senator BREWSTER. Has there ever been so high a percentage of temporary loans heretofore in the Government's history?

Mr. BELL. Talking about the short-term loans?

Senator BREWSTER. Yes.

Mr. BELL. Not comparing volume.

Senator JOHNSON. Can a bank take their Federal notes to the Federal Reserve System and cash them in any time?

Mr. BELL. You mean their Government securities?

Senator JOHNSON. Yes.

Mr. BELL. No; but they can sell them on the market, and the market is supported by the Government.

Senator JOHNSON. They can borrow 100 percent, can't they?

Mr. BELL. That is right, they can borrow 100 percent.

Senator JOHNSON. It isn't 99 percent, it is 100 percent?

Mr. BELL. Yes, sir.

Senator BREWSTER. How do you assure equitable distribution among the banks?

Mr. BELL. It is entirely up to the banks. The banks, whenever we have a direct offering, can subscribe for the securities in whatever amount they want to. In recent years there has usually been a formula, a certain percentage of their deposits or capital. We haven't had any direct bank offerings in the last 2 years, except Treasury bills, and they are sold on a bid basis.

Senator JOHNSON. I am speaking of what the bank holds. Do they get a note saying, "On the basis of your deposits and capital you are expected to take" so much?

Mr. BELL. No; if we were having a public offering we would offer it to the people of the United States and anyone could subscribe, including the banks. We might say to the banks, "You can't subscribe for more than 10 percent of your deposits" or "a certain percentage of your capital." And then the Treasury would allot those securities to the various people on a percentage basis. If we asked for \$4,000,000,000 and got \$8,000,000,000 in subscriptions, then we would allot it on the basis of 50 percent of the subscriptions received.

Senator BYRD. Sixty percent of the deposits of the banks are invested in Government bonds.

Mr. BELL. That is right.

Senator BYRD. There must have been some direction whereby the bank was told it ought to invest 60 percent in Government bonds, because I have noticed a number of statements and that same ratio apparently prevails, especially the large banks.

Mr. BELL. We certainly have not so indicated and I have not heard of any such indication from anyone else. The banks invest in Government securities because they are about the only thing available.

Senator BYRD. It must be a policy that they have adopted among themselves because they have all about the same percentage.

Mr. BELL. As far as I know there is no such policy.

Senator BYRD. It is correct, is it not, that it is approximately 60 percent in all the large banks?

Mr. BELL. I am not familiar with the individual banks. It is about 60 percent on an over-all total.

Senator BYRD. When the time comes that many of these individuals holding Government bonds will want to sell them to buy the things which they have been denied, does the Treasury have any plan whereby the value of those bonds will be maintained?

Mr. BELL. Those people who own savings bonds can come directly to the Treasury and get their cash.

Senator BYRD. And then the Treasury has to borrow again.

Mr. BELL. That is right. But we think we are in better position to do that refunding than the individual.

Senator BYRD. Suppose the bonds couldn't be sold on the market at par value, would the Treasury step in and buy them?

Mr. BELL. The Federal Reserve System would step in and support the market.

Senator BYRD. In other words, you are buying your own bonds?

Mr. BELL. Yes, sir.

Senator BYRD. Can you do that indefinitely?

Mr. BELL. The Federal Reserve supports the market. Not the Treasury.

Senator BYRD. Suppose there were $100,000,000,000 of bonds on the market and there was no market at par value. Could the Federal Reserve step in and buy that $100,000,000,000 without very disastrous results?

Mr. BELL. If offered all at once I suppose there would be some difficulty.

Senator BYRD. Say $10,000,000,000. Do you think they could continue that policy indefinitely?

Mr. BELL. I think, Senator Byrd, we have to get in and support the market after this war is over and keep these securities from depreciating to the point where the present interest rate pattern is thrown out of line.

Senator BREWSTER. What happened after the last war?

Mr. BELL. We didn't do it and the people lost money by being forced to sell their Liberty bonds in the market. They went down to 82. That is one reason we have issued the savings bonds, because the little fellow buying Government securities is not familiar with the market, and we want him to get back every cent he puts into the bonds.

We have told them that after they hold the savings bonds 60 days they can come in and get their money.

Senator BYRD. What percent of the total is in savings bonds?

Mr. BELL. Fifty billion maturity value. That is shown in the report.

Senator BYRD. Does your limit of 292,000,000,000 on July 1, 1946, include the unearned discount on savings bonds?

Mr. BELL. No. We would have to add something to that in order to get within the limitation; and, if the estimates are correct, we would need a limitation on June 30, 1946, of about 304,000,000,000 to cover the public debt plus the future accruals on savings bonds, but we are doing here what we have done in the past, asked for a limitation in round figures just slightly above the estimated public debt, knowing that we will have to come back to the Congress before the end of the fiscal year.

Senator BYRD. The Federal Reserve System, how much, how many bonds do they own now?

Mr. BELL. About $19,000,000,000.

Senator BYRD. Is there any limitation upon any future purchases that the Federal Reserve System could make?

Mr. BELL. The ratio of gold to their deposits.

Senator BYRD. How much would it be?

Mr. BELL. They must have not less than 40 percent in gold certificates against their outstanding Federal Reserve notes and not less than 35 percent in gold certificates or lawful money against their deposits.

Senator BYRD. What is it?

Mr. BELL. The ratio is now about 48 percent. We would have to figure out how much the system can buy. It is in the neighborhood of twenty-five to thirty billion under the present limitation.

Senator BYRD. They own how much now?

Mr. BELL. Nineteen billion.

Senator BYRD. They only have a margin of six billion.

Mr. BELL. At least that.

Senator BYRD. You said the Federal Reserve System could buy an unlimited amount of Government bonds. That wasn't correct then?

Mr. BELL. They would have to come back to you and get the ratio lowered.

Senator BYRD. When you change that ratio there may be harmful results, will there not?

Mr. BELL. I don't see why it should be disastrous.

Senator BYRD. What I think is going to happen is that a lot of these bonds are going to be put on the market.

Senator BREWSTER. Have you made an estimate of what you anticipate in the way of depletion of savings bonds in, say the 5 years after the end of the war?

Mr. BELL. No; we have not, but we would have to meet whatever is presented for redemption, and we will have to put on a campaign to try to get people to hold them.

Senator BREWSTER. You are proposing to cut that 40 percent to 25 percent gold reserve?

Mr. BELL. Yes, sir. There is a bill before the Senate.

Senator BREWSTER. How much would that increase your deposits?

Mr. BELL. I don't know. We would have to figure that out. We will try and do that and put it in the record. Of course, if that isn't enough we would have to come back and ask for a further reduction.

Senator MILLIKIN. The reduction is not intended to increase the amount of outstanding currency. It results from an increase in outstanding currency.

Senator BYRD. You have stated you will try to hold the interest rate down. That will have a bearing on it. If the interest rates go down too low there may be more bonds offered on the market. They will have to be purchased or the price goes down. As I understand it at the present time the Federal Reserve System can own $19,000,000,000 of bonds as they now do plus 25, is that correct?

Mr. BELL. Well, don't hold me to that figure.

Senator BYRD. No; but they can purchase up to $50,000,000,000 under the present law; is that correct, or about correct?

Mr. BELL. You mean if a reduction is made in the ratio?

Senator BYRD. No. Under the present ratio.

Mr. BELL. You mean they can hold $50,000,000,000 including the 19?

Senator BREWSTER. It is two and one-half times their gold holdings, isn't that correct?

Mr. BELL. There are some technical difficulties in computing it in such a simple manner.

Senator BREWSTER. So if you have $20,000,000,000 in gold you could have $50,000,000,000?

Mr. BELL. That is right on that basis.

Senator BREWSTER. That is about what it is but it is not quite that simple.

Mr. BELL. It is quite a complicated computation.

The CHAIRMAN. What is the present tendency to redeem the savings bonds, Mr. Bell? How is that curve going at the present time?

Mr. BELL. Well, the curve as based on the outstanding holdings, is holding rather steady and even going down a little. In January 1944, the redemptions that month were just under 1 percent of the total outstanding, and that decreased in February to 0.85 percent, and then increased to a little over 1½ percent of the outstanding, in October of last year, when we announced the new redemption procedure. Bear in mind the outstanding is going up all the time. And in February 1945 it was down from the October 1944 rate of 1½ to 1.10 percent of the total outstanding.

I am just talking about E bonds. At the end of February we had outstanding at redemption values $26,428,000,000 of those particular bonds and there were redeemed in that month $290,000,000, which is a little over 1 percent of the total. There is no relation between the sales in a given month and the redemptions in the same month. The bonds that are redeemed have to be at least 60 days old.

Senator BREWSTER. It has a direct relationship to how much ground we are gaining.

Mr. BELL. Yes, but I think it is wrong to say that the bonds redeemed represent 30 percent of the total sales for a given month.

Senator BREWSTER. If it is a fact, why, you don't want to conceal it.

Mr. BELL. We don't conceal it. It speaks for itself. But we think it gives the wrong impression. And the sales per month differ.

Senator BREWSTER. What do you mean by "wrong impression"?

Mr. BELL. It gives the impression that everybody who buys a bond is turning it in. That one out of three are turning them in, which is not the case.

Let me explain that. In the month of February we sold $653,000,000 in series E bonds and $290,000,000 were redeemed.

Senator BREWSTER. February this year?

Mr. BELL. Yes, sir; but in December, we had a drive on, we sold $1,855,000,000, and $334,000,000 were redeemed.

Senator BREWSTER. The interesting figure would be to take a period covered by a drive, 4 months or so, to see what your redemptions were as compared with your sales. That would show the trend.

Mr. BELL. I have them by months and would be glad to insert them in the record.

Senator BREWSTER. What are your totals for the year?

Mr. BELL. Let's take the calendar year 1944. At the end of December 1943, the total outstanding was $15,957,000,000, and at the end of the year, December 1944, we had $25,514,000,000 outstanding. That is an increase of nine and a half billion.

Senator BREWSTER. Meanwhile how many had you sold and redeemed?

Mr. BELL. That is the net amount that we sold.

Senator BREWSTER. But what was your gross?

Mr. BELL. It would be the redemptions added to it.

Senator BREWSTER. Yes. What were the redemptions during the year?

Mr. BELL. I haven't got the total but it is about 3,000,000,000.

Senator BREWSTER. So you sold about 12,000,000,000 worth of bonds and redeemed about 3,000,000,000.

Senator BYRD. What is the total amount of the tax bonds, those that you can use to pay taxes with? What is that, C?

Mr. BELL. C notes, yes. You mean the amount outstanding.

Senator BYRD. Yes.

Mr. BELL. At the end of February, $9,927,000,000 outstanding. They are a 3-year note but can be turned in for cash or in payment of taxes.

Senator BYRD. They will be used mostly to pay taxes, won't they?

Mr. BELL. That is right. We have put out about $26,000,000,000 of those notes, a billion of them have been turned in for cash and 15,000,000,000 for taxes.

Senator HAWKES. Mr. Chairman, I wanted to bring out the fact that the reduction is, at the present time, when you have full employment, no evidence of what it will be after the war ceases and you have got a readjustment period. Isn't that true, Mr. Bell?

Mr. BELL. That is possibly true. Our redemptions may increase substantially after the war, and particularly if there is unemployment.

Senator HAWKES. I don't understand how the Federal Reserve will support this market.

Mr. BELL. The redemption of the savings bonds does not affect the market except through the Treasury borrowings.

Senator HAWKES. But it takes money out the Treasury.

Mr. BELL. If we needed funds with which to redeem the savings bonds we would borrow directly from the market. We would go to the market with the Government securities best suited to the market at the time, but if an individual holds a marketable security and wants to get his cash he has to either borrow on it or go to the market. Now, if a large volume of those securities are put on the market at one time it might depress the market in which case the Federal Reserve would step in and support it. They would take a certain amount out of the market to ease it and hold these prices stable. That has been the policy for the last 3 years and I can say that it has worked very well.

Senator HAWKES. Where do they get the money to do that with? That is the thing I am trying to get in my mind. How easy will it be to get the money.

Mr. BELL. They create their own money.

Senator HAWKES. That is the answer.

Mr. BELL. If the bank has a security to sell, and the Federal Reserve bank buys it, the Federal credits the amount to reserve account of the bank.

Senator HAWKES. Let's admit that you shouldn't have a loss of patriotism after the war, but certainly you will have a different attitude of mind among the people in buying Government securities. Now, if you raise the interest rate to make those securities attractive then you are going to make everybody that has the lower interest-bearing bonds unhappy; are you not?

Mr. BELL. There would be a tendency to get into the higher coupon, yes; no doubt about that, if we should issue higher rate securities.

Senator HAWKES. What is your plan on supporting that thing so that the whole thing doesn't fall?

Mr. BELL. The Federal Reserve System supports that market and with it the rate pattern.

Senator HAWKES. But the Federal Reserve System can only go so far. What are you going to do to avoid the thing that happened after the last war?

Mr. BELL. The Federal Reserve it seems to me has got to support that market. Nothing was done to support the market after the last war.

Senator HAWKES. You mean we have got to support the Federal Reserve with legislation?

Mr. BELL. If necessary; yes.

Senator BREWSTER. What you reduced to 25 percent you could reduce to 10, if necessary, and meanwhile you will hold the interest rate down. The two things are correlative.

Mr. BELL. I think it is important that we do that.

Senator JOHNSON. Or, Senator Brewster, you can raise the price of gold.

Senator BYRD. I would like to ask Mr. Bell to put in the record a statement from the Treasury as to what extent the Federal Reserve System owns bonds, the classes of bonds, and then, under the present law, how many additional bonds the Federal Reserve System can buy, and then how many additional they can buy if this pending legislation is adopted by Congress. I think we ought to have a clear statement of that from the Treasury.

(The information requested is as follows:)

Present and potential holdings of U. S. Government securities by the Federal Reserve System

[In billions of dollars]

1. Held on Mar. 14, 1945:	
U. S. Government securities:	
Bills	$12.0
Certificates	5.4
Notes	1.1
Bonds	1.1
Total U. S. Government securities	19.6
2. Maximum under existing Federal Reserve reserve requirements	30
3. Maximum under proposed reduction to 25 percent	54

Assuming other Federal Reserve accounts such as gold reserves, discounts and advances, are at March 14, 1945 levels and that in the expansion of Federal Reserve notes and deposits the ratio which prevailed on that date is retained.

Senator BREWSTER. I think the Treasury is in the position that there isn't anything else they can do.

Senator BYRD. I don't know, but I think this country ought to understand where it is going.

Senator BREWSTER. I agree fully.

Senator BYRD. I don't criticize the Treasury but am speaking of a condition.

Senator BREWSTER. It is a condition. Not a theory.

Senator LUCAS. What is the total amount of money in circulation?

Mr. BELL. About $25,000,000,000.

Senator LUCAS. That is an all-time high?

Mr. BELL. Yes.

Senator LUCAS. How much farther can we go without reaching the dangerous point?

Mr. BELL. Well, I don't think that I can answer that, Senator Lucas. I suppose 10 years ago you would have said $25,000,000,000 was a danger point.

Senator LUCAS. Yes. I heard that.

Mr. BELL. Apparently this money is largely being used in business. Some of it is being hoarded, on doubt, and that which is being hoarded, certainly so long as it is hoarded it isn't doing any harm, but the danger is in it being taken out of hoarding and spent.

Senator MILLIKIN. Following Senator Lucas' inquiry, isn't it a fact, Mr. Bell, that we would reach the danger point very quickly, certainly we would be at the danger point now if it were not for the price and other controls?

Mr. BELL. Certainly, if prices had been permitted to go up, I am not so sure you wouldn't have had much more money in circulation.

Senator MILLIKIN. You have this enormous buying power with an insufficiency of things to buy and that is held in line reasonably by controls and so if you let go of your controls prior to the time of equal purchasing power we are off; isn't that right?

Mr. BELL. Yes, that is right.

Senator MILLIKIN. The Senator from Virginia, it seems to me, has given the answer. I suggest another possible danger. If we go on multiplying our currency and go on reducing our gold we might reach a point of lost confidence among the people of the country, in which event these controls would be broken through.

Mr. BELL. The confidence and cooperation of the American people have been big factors in our controls.

Senator MILLIKIN. You have that to some extent now in the black market and in an increasing expense in black markets.

Mr. BELL. The black market does not, it seems to me, reflect a lack of confidence, but reflects the activities of certain people who want to make money out of the war.

Senator MILLIKIN. That would also follow from lack of confidence; would it not?

Mr. BELL. Yes.

Senator MILLIKIN. If you have currency in which you do not believe, you try to get rid of the currency.

Mr. BELL. Certainly the controls have worked well because of the public confidence and the public support.

Senator MILLIKIN. As much as I loathe the controls I am saying that were it not for the controls we would probably be in a bad position now and will be the moment they are taken off and your supply of goods is not equal to your purchasing power outstanding.

Mr. BELL. That makes it important to maintain the controls until consumer goods are available in sufficient volume to meet that situation.

Senator BYRD. I want to ask Mr. Bell if he has made any investigation and study of the effect on inflation of these various plans. For instance, the continued purchase of Government bonds and the printing of money to purchase them. What effect is that going to have on inflation. Have you made a study of the effect it will have on the value of money, on increased prices and inflation? Do you think the people are going to submit to these continued controls after the war is over? I think the Treasury should be making a complete study as to this policy because an inflation can lead us to disaster.

Mr. BELL. We are constantly studying the situation, Senator Byrd, but it is difficult to gazein to a crystal ball and see what will happen a year or two from now. But these studies resulted in our war loan drive emphasizing the sale of bonds outside of the banking system. That is one of the main objectives of our program.

Senator BYRD. You say that it is the policy of the Treasury to purchase the bonds that are offered for sale in the event that no one desires to purchase them at that time and price. If you continue to do that and print more money with which to do this it is inflationary; isn't it?

Mr. BELL. Potentially.

Senator BYRD. Actually.

Mr. BELL. You mean borrowing money from the banks?

Senator BYRD. Printing Federal Reserve money to purchase these bonds. That certainly is inflationary; isn't it?

Mr. BELL. It is potentially inflationary. It increases the bank deposits which are available to be spent by the individuals who own them. If they don't spend them it isn't inflation.

Senator BYRD. If that is a wise procedure why didn't we just let the Federal Reserve print the money to buy the bonds and never offer them to the public?

Mr. BELL. I think our controls would be more difficult under such conditions and confidence might be hard to maintain.

Senator BYRD. It is an inflationary policy we must admit, I think.

The CHAIRMAN. Are there any other questions?

Senator MILLIKIN. May I ask what is the amount of our time deposits at the present time?

Mr. BELL. The figures I have are for June 30, 1944. They were $33,440,000,000. And the demand deposits, $95,865,000,000.

Senator MILLIKIN. That has increased substantially since then?

Mr. BELL. That has increased since June 30; yes.

Senator MILLIKIN. Our time deposits at the present time are probably in the order of $50,000,000,000?

Mr. BELL. No; I wouldn't think so. They increased $3,000,000,000 in the 6-month period ending June 1944 and they would not increase as much as that in the 6 months ended December 31 last.

Senator MILLIKIN. The existence of those time deposits do help to steady your redemption line; do they not?

Mr. BELL. They are part of the savings of the country and are less likely to be spent than demand deposits. They probably ease pressure on the redemption, as most people would use their savings in the bank before redeeming their bonds.

Senator MILLIKIN. And if we reach a point where people are spending their savings that will increase pressure on your savings.

Mr. BELL. But they are likely to spend their demand deposits first.

The CHAIRMAN. Mr. Bell, suppose you tell us what has been added to existing law in the further provisions of the bill. You need not go over it section by section, if you will simply indicate what the purpose is. This is not a simple renewal resolution of a simple increase of the debt limit.

Mr. BELL. There are some additional provisions.

Section 2 amends the Second Liberty Bond Act to increase the borrowing power from $260,000,000,000 to $300,000,000,000, and the House added the amendment to include the guaranteed obligations outstanding in the hands of the public. They amount at the present time to about a billion dollars. So that the $300,000,000,000, after this bill becomes law, would include any guaranteed obligations outstanding in the hands of the public.

Senator BYRD. Speaking of R. F. C., and the others?

Mr. BELL. Yes, sir; all of the governmental corporations. A billion dollars is now outstanding in the hands of the public. The balance of the funds furnished to corporations out of the Treasury was $11,700,000,000 as of February 28 and that is a part of the public debt.

Senator BYRD. The corporations have borrowed some $11,000,000,000?

Mr. BELL. Yes, sir. They borrowed more than that but the amount of their indebtedness at the present time is that figure.

The CHAIRMAN. What does section 3 do?

Mr. BELL. You recall, Mr. Chairman, that 2 years ago in the Public Debt Act of 1943 you gave the Treasury authority to designate incorporated banks and trust companies to cash savings bonds. In other words, we needed some additional paying agents and so you gave that additional authority. We now have about 13,000 banks designated. Last year, and I am sure every one of you got a number of letters on it, several type of financial institutions not coming under the classification in the present law wanted to be designated, and the only way we could do it was to permit them to be subagents of the banks we had designated. They are desirous of being direct agents of the Treasury.

We have no objection and so we drafted this section to give us that authority. We have put some limitations on it. I think that covers the majority of those financial institutions which want to participate in this work. They have been doing a good job selling bonds in the past 3 years and they claim as long as they have been selling them they ought to be a redemption agency.

The next is an amendment necessary because of additions added by the previous section. You gave us authority to use the Government Losses in Shipment Act for any losses. It then only applied to incorporated banks and trust companies. Now it must be amended to include those additional institutions we are writing in.

Section 4. We have had a number of cases where a boy has been missing in action for say a year and the Secretary of War or the Secretary of the Navy has made a determination of death, under the act of March 7, 1942. We haven't any authority to accept that presumption of death to redeem that boy's savings bonds. We think that it would be quite proper for us to redeem any bonds that we might have payable to a person missing in action and where the head of the department, in most cases the Secretary of War and the Secretary of the Navy, determines that that boy is dead. That is the purpose of that.

Senator LUCAS. What is happening at the present time?

Mr. BELL. We require a bond of indemnity to be given by the parent or other person entitled to the estate. That is a hardship on those people and as long as you have given authority to the heads of the departments to determine if they are dead, and that determination is used as a basis for stopping allotments, and they pay the insurance on the basis of that, I think we ought to have that same authority.

The CHAIRMAN. That is all that does?

Mr. BELL. That is all; yes sir.

Senator HAWKES. I happen to know a case, Mr. Chairman, of that kind. I think that is a very wise provision. I happen to know a case where there was a great hardship worked.

Mr. BELL. We hate to ask these people to put out money for a surety bond protecting the United States Government, and it has caused some ill will, and we think it is a good provision and will eliminate a lot of this feeling.

Under section 4 we include another amendment. We have had a few cases where individuals have made the Treasury of the United States the beneficiary under a will, have bequethed bonds to the United States, and we think we will have more of this as time goes on, because we have seen quite a number of cases where people have bought securities and made them payable to the United States upon their death. We have a case at the present time where there is $6,500 involved, in the case of an estate, and the State is claiming their inheritance taxes, or estate taxes, and we have no authority to pay such taxes. This gives us authority to pay out of the proceeds of any bonds redeemed in that estate or for the individual entitled under the terms of the bond, to pay the estate tax to the State and turn the balance of the proceeds into the Treasury.

Senator LUCAS. This merely permits you to comply with the laws of the States?

Mr. BELL. That is right. We think the State is entitled to its taxes but we have no authority at the present time to pay them.

Section 5 was introduced in the House as a separate bill and the committee thought that it would be well to make it a part of this bill, and put it through at the same time. It gives the Treasury authority to sell, exchange, or otherwise dispose of any bonds, notes, or other securities, which have been acquired by the Secretary on behalf of the United States under judicial process or otherwise, or delivered to him by an executive department or agency of the United States for disposal.

We have some odd lots of securities taken in bankruptcy cases, compromise cases, tax tases, and the only authority we have to dispose of them is under 3749 of the Revised Statutes which requires the Secretary to advertise for a period of 3 months in the locality where the individual giving the security, or the company, is located. Now we have a market for most of these securities, and they could be sold on that market rather readily. We usually sell any securities we have through the Federal Reserve bank. Most of our securities are sold through the Federal Reserve bank in New York.

This is somewhat similar to the authority that you gave the Secretary to dispose of railroad securities that we acquired under the Transportation Act of 1920, and also to dispose of certain municipal securities that the R. F. C. acquired, I think under the Relief Act of 1932 or 1933. You may recall that in that case Congress authorized the R. F. C. to make loans to States and municipalities for relief purposes and then provided that that repayment of the loans to the States should be made by deducting the amount from the allocation of road funds subsequently made by Congress. Later Congress in passing a road bill repealed that provision for repayment as far as the States were concerned but never repealed it so far as the cities were concerned. You gave us authority to handle the securities of the municipalities.

Senator BUSHFIELD. Under this provision, Mr. Bell, how is the value of the securities determined if there does not happen to be a ready market, like the stock exchange? Apparently, from the provisions in this section, the Secretary must determine that matter, and I wondered how.

Mr. BELL. In most cases there would be a market. In cases where they are not on the exchanges we would have to get the balance sheets and books to determine a book value of the stock, and then we can sell it locally, people that have knowledge of the company, but largely based on the book value.

Senator BUSHFIELD. Are they sold at public sale?

Mr. BELL. We haven't had any of that kind. We haven't sold them except on the market.

Senator BUSHFIELD. I can readily understand how the sale would be handled if it was on an exchange price but there might be conditions where there was not such a price and I wondered if it was left solely to the Secretary to determine the value.

Mr. BELL. I find we did sell some railroad promissory notes at public invitation for bids, small amounts.

Senator HAWKES. I think the point that Senator Bushfield raises is quite an important point, because I don't believe book value always has very much relativity to the sale price of stocks and securities. I have seen securities sell for one-quarter of their book value. I think the point Senator Bushfield brought up, can this be done at a private sale, seems to me to be very good, and that some provision ought to be made in the bill that it has got to be a public sale, so as to avoid even the finger of suspicion that the thing has been sold at very much less than its real value.

Mr. BELL. As I say, I don't think we have had but one, and that was sold at public invitation to bid.

Senator HAWKES. Of course, I am talking about stocks and securities that have no market value.

Mr. BELL. Yes. Well, we would undertake to determine the real value of the security.

We did have a case of that kind a couple of years ago, where there was such a security. We didn't know the value and some of the individuals involved in the company tried to purchase it from the Treasury. We felt that the security was worth more than they were offering so we held it, and we have still got it. In the meantime they have gotten war contracts, and it is worth a good deal of money now.

Senator LUCAS. Where you have no market for securities, and I take it that situation will arise from time to time, wouldn't the Treasury be better off with a provision covering that situation?

Mr. BELL. I am sure that in any case like that we would ask for public bids.

Senator LUCAS. I am sure you would, too, and you have already demonstrated an example wherein you did it, although there is nothing in the law, as I understand it, to that effect, at the present time.

Mr. BELL. No; there is not. This gives us authority to take any other securities also and compromise in case there is a reorganization of a company, in which case we want to participate.

Senator LUCAS. You might get hold of securities on the reorganization that have no value.

Mr. BELL. That might be.

Senator LUCAS. That have no market value so far as the Exchange is concerned.

Mr. BELL. It is hard to tell what you will get in a reorganization. It depends upon the success of the company after reorganization. We participated in reorganization of a large railroad where we had $14,000,000 of securities. We took the same securities that everybody else took in that reorganization. Those securities have a substantial market value now.

Senator HAWKES. Mr. Chairman, the point that I had in mind, and I believe Mr. Bell is sympathetic with it, is that if it were impossible to sell the stock at something fairly related to its book value then some system whereby that stock should be sold or held should be a part of the law.

Mr. BELL. It is a relatively small amount involved, Senator Hawkes, compared with the other acts on which you have always given us such broad authority, and you notice there is a limitation of a million dollars even on this.

Senator BREWSTER. You are not likely to be corrupted for that.

Mr. BELL. No. That's too small.

The CHAIRMAN. This only relates to bonds that are acquired under judicial proceedings or taken over from some other agency of Government. In other words, it doesn't relate to all securities that come into the Treasury, and I suppose they would have some fair knowledge of value if it had market value.

Mr. BELL. Yes.

The CHAIRMAN. Any further questions from Mr. Bell?

Senator BREWSTER. Mr. Bell, suppose there is $25,000,000,000 of currency in circulation. Is any proportion of that included in the public debt?

Mr. BELL. About $190,000,000.

Senator BREWSTER. A negligible proportion.

Mr. BELL. Yes. There is more than that. I forgot the Federal Reserve bank and national bank notes. There are $190,000,000 of the so-called greenback notes. There are $346,000,000 outstanding, and a gold reserve behind them of $156,000,000 leaving $190,000,000 as part of the public debt. Then there is $679,000,000 of national bank notes and Federal Reserve bank notes for the redemption of which funds have been deposited in the Treasury. The law provides that whenever funds are deposited for the redemption of those notes they become a part of the public debt.

Senator BREWSTER. So that it is a negligible proportion. Is there any limit to the amount of currency that can be outstanding?

Mr. BELL. There is a limit under the Federal Reserve ratio. That limits it. That is one reason for asking for the decrease in the required ratio, together with the other requirements of the Federal Reserve System.

Senator BREWSTER. You mean that is the gold reserve?

Mr. BELL. The gold reserve. They are required to keep 40 percent in gold certificates against Federal Reserve notes.

Senator BREWSTER. Are there any steps contemplated to curb the improper use of these currencies?

Mr. BELL. No, sir; there are not. We have given a great deal of thought to that and we don't think we could accomplish anything.

Senator BREWSTER. Do you feel there is quite a little of it being used for either purposes of tax evasion or purposes of illegal transactions?

Mr. BELL. We have no doubt about that.

Senator BREWSTER. The existence of bills larger than $100 indicates that.

Mr. BELL. Yes; but the largest amount outstanding over the $20 denomination is in $100 bills. Four billion and a quarter outstanding of that denomination.

Senator BRFWSTER. Those are convenient mediums for the boys outside of the law.

Mr. BELL. Yes.

Senator BREWSTER. You did pronounce the gold notes illegal, but you are not contemplating denouncing your $100 bills and those in excess of that and calling them in?

Mr. BELL. No, sir. I don't think that would do away with what you have in mind. If we called in the $100 bills, anybody that was operating with $100 bills would merely switch to whatever is available, tens and twenties.

Senator BREWSTER. And there is no other method by which you can discourage the abuse of that situation, is there?

Mr. BELL. No. We would like to catch a few of them.

Senator BREWSTER. Well, you are endeavoring to do that.

Mr. BELL. We are trying to enforce the law; yes.

Senator BREWSTER. A few examples of that would serve a salutary purpose.

Mr. BELL. I think so.

Senator MILLIKIN. What silver have you that you could monetize, Mr. Bell?

Mr. BELL. We have in the Treasury 1,465,000,000 ounces of silver at a monetary value of $1,893,000,000, against which there is outstanding silver certificates in the amount of $1,786,000,000; and there is in the Treasury free silver against which we could issue certificates of $107,000,000. Our policy is to issue silver certificates in an amount equal to the cost of the silver purchased.

Senator MILLIKIN. You could issue silver certificates against that?

Mr. BELL. Yes, sir; we are keeping that $107,000,000, however, as a sort of a reserve. You may recall that when we went into north Africa we used the yellow-seal dollar, so-called. That was the silver certificate with the seal made yellow instead of green. Of course, when we issued those we had to put silver behind them. And this reserve has been kept since then in case the Army should need the yellow-seal dollar any other place. It was also used in Sicily.

The CHAIRMAN. Are there any further questions?

Thank you, Mr. Bell.

There is no other witness that wishes to appear for the Treasury at this time?

Mr. BELL. No.

The CHAIRMAN. I would like to say to the committee that Mr. Burgess, of the American Bankers Association, is present and desires to make a brief statement to the committee.

Come up, Mr. Burgess. We are glad to have you.

STATEMENT OF W. RANDOLPH BURGESS, PRESIDENT OF THE AMERICAN BANKERS ASSOCIATION

Mr. BURGESS. Mr. Chairman and gentlemen, the raising of the debt limit is a necessary war measure. However, while we are passing this bill we ought to recognize its inflationary dangers and make such efforts as we can to lessen those dangers.

The banks of the country have a special interest and a special responsibility as to the increase of the debt. They are taking a leading part in the effort to sell to investors the Government securities representing the new debt. Whatever additional funds the Treasury needs beyond this must come from the banks themselves, and the banks are ready at all times to perform their traditional role of buying the amounts of Government securities that may be necessary and so maintain the credit of the Government.

There is no serious question about the country's capacity to finance this added debt load. There is a question as to the way in which it will be financed and what the consequences will be. To the extent that investors don't buy the bonds and the banks have to buy them, new credit—new money—is put into use, and that is the basic cause of inflation.

As the debt has grown the inflation pressure has increased. By the control of prices and interest rates and the rationing of goods we have been able partly to conceal the inflation, but it is smoldering underneath. The more the debt increases, the greater will be the danger.

The second danger of the rising debt is the danger to enterprise, and especially small enterprise. The higher the debt burden, the higher the taxes. Already the interest on the debt takes four and a half billion dollars of taxes. Small enterprise lives by plowing back profits into the business, and under high taxes small enterprise does not flourish. It is the activity of hundreds of thousands of small businessmen that may make the difference between adequate employment and underemployment.

We can't do much now about the war expenditures other than watch out for waste, but we can do something about nonwar expenditures now and looking ahead. We must see that the new debt limit is not an open invitation to incur unnecessary expenditures.

There are certain specific steps which could be taken immediately as brakes on unnecessary spending.

We ought to put Government corporations under closer fiscal control. Many of these corporations are in what the Secretary of the Treasury has termed "the field of commercial enterprise." Many of them were organized to fight deflation by the process of inflating the economy. Now the condition is entirely different. It is not deflation. The grave danger now is inflation.

Many of these corporations have done and are doing an essential and useful public service. They operate, however, under different rules from regular Government departments. Their budgets in most cases are not reviewed annually by the Congress. In many cases they secure their capital and working cash balances from the Government without cost. In addition, they pay no income taxes on the business they do. Some of these commercial corporations compete with private which must pay dividends on its capital and, in addition, pay income taxes to the Federal Government as well as taxes to local and State authorities. Many of these corporations have built up surpluses beyond what is needed in the conduct of their business.

For example, small banks in rural areas are now thrown into competition with Federal lending agencies in the agricultural credit field which have free Government capital, which pay no Federal income taxes. The country banks have no free capital. They pay interest on savings accounts to thirfty people and, in addition, are subject to Federal income taxes as well as local and State taxes. Country bankers are leaders in selling War bonds to farmers. In agricultural counties they serve as chairmen or active members of War bond committees. They are glad to give their time and put forth this effort without cost to the Treasury.

While it is necessary to pass this bill, would it not be wise in the same legislation, or at the same time, to return to the Government some of the unused capital and surplus in the hands of Federal corporations doing a commercial business and, in addition, require such corporations to pay interest or dividends on Federal funds they retain? Such action, it seems to us, is in the interest of fairness to those who conduct private business and pay taxes. Furthermore, such action would give assurance to the people of the country that Congress is determined to do what it can now to combat inflation and to provide for a sound fiscal policy.

A beginning has been made in this direction through the recent passage of the George Act, but there appears to be some question whether this applies to mixed ownership corporations as well as wholly Government owned corporations. A clarification of this point, making sure it applies to all, would be in accordance with conclusion No. 8 of the report of the Committee on the Reduction of Nonessential Federal Expenditures of August 1, 1944.

The CHAIRMAN. I believe, Mr. Burgess, that some legislation has been introduced.

That is so, is it not, Senator?

Senator BYRD. It is before the Banking and Currency Committee now. I discussed it with Mr. Burgess the other day. I think that legislation would do much to enable the return of these funds, of any of these funds that are not needed.

Mr. BURGESS. I think so. All we wish to do is to emphasize its importance.

The CHAIRMAN. Are there any further questions?

Thank you very much, Mr. Burgess.

The committee will go into executive session.

(Whereupon, at this point, the committee went into executive session.)

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