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AMEND SECOND LIBERTY BOND ACT, AS AMENDED, ETC.

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

REPORT

[To accompany H. R. 4304]

The Committee on Finance, to whom was referred the bill (H. R. 4304) to amend the Second Liberty Bond Act, as amended, and for other purposes, having considered the same, report thereon favorably without amendment and recommend that the bill do pass.

GENERAL STATEMENT

The purposes of the proposed bill are to permit more flexible and economical Government financing, to authorize the issue of obligations in amounts necessary to meet such expenditures as may be required and to conduct refunding operations, to authorize the issue of a new type of Government bonds, and to make bonds the interest and principal of which are guaranteed by the United States acceptable as security in lieu of surety bonds.

The bill will have no effect on the total of the debt outstanding, as this amount will depend upon expenditures made in pursuance of law. It does permit the Secretary of the Treasury to issue securities best suited, at the time, to meet the conditions of the market and the needs of the Government within the limits of the bill. There are outstanding some $5,000,000,000 Liberty issues bearing high rates of interest which may be called and refunded. In addition, there will be a need for additional sums for the Government and for payment of short-dated obligations.

The Secretary of the Treasury recommends the early enactment of this bill. He has pointed out to your committee that the proposed amendments are essential to enable the Treasury to continue its efforts to finance the needs of the Government in the most economical manner possible. As the authority to issue bonds has been exhausted except for about $2,500,000,000 and the authority to issue notes has been exhausted except for about $400,000,000, conversion and refunding operations together with any new financing might be delayed if action upon the bill were long postponed.

EXPLANATION OF THE BILL

Under the present law, bonds in an aggregate amount of $28,000,000,000 may be issued under section 1 of the Second Liberty Bond Act, as amended. There have been issued $25,450,487,115 of such bonds, of which $11,975,539,465 have been retired. Since, under the present law, bonds once retired may not be replaced by new issues without reducing the remaining amount which may be issued, the amount of bonds now issuable is $2,549,512,885. Section 1 of the bill proposes to authorize not in excess of $25,000,000,000 of bonds to be oustanding at one time. The effect of this provision is to establish a maximum based upon the amount of bonds outstanding, rather than upon the aggregate amount issued, thus applying to bonds the principle which has been applicable to all other securities of the Government since 1917. Since there are now outstanding $13,474,947,650 of bonds under the Second Liberty Bond Act, the additional amount of bonds authorized to be outstanding under the proposed amendment, would, at the present time, be $11,525,052,350. Section 1 also amends the first paragraph of section 1 of the Second Liberty Bond Act so as to incorporate provisions of law, heretofore enacted, which were in substance amendments of the paragraph. The rewritten section also omits obsolete provisions of the paragraph.

Sections 2, 3, 4, and 5 apply to short-term obligations principles somewhat similar to the purposes outlined in connection with section 1. These sections authorize the issuance of notes, certificates, and Treasury bills in an amount which may be outstanding at any one time not in excess of $20,000,000,000. This amount is the same as the amount of all such securities which may be outstanding under the present law. The effect of the proposed sections is to consolidate the aggregate of $10,000,000,000 of notes and the aggregate of $10,000,000,000 of certificates and Treasury bills so that the new $20,000,000,000 limitation applies to both classes. The amount of each class which may be outstanding will be determined by the needs of the Government and the maturities most suitable at the time of issue. At the present time there are outstanding $9,586,377,400 in notes and $2,112,468,000 in certificates and Treasury bills. Under the proposed amendment no increase in total amounts of both classes is authorized, but each class may be increased to an amount which, when added to the amount of the other, does not exceed the maximum for both. Other amendments to existing law made by these sections incorporate previous legislation amending the sections of the Second Liberty Bond Act, as amended, referred to.

Section 6 adds a new section to the Second Liberty Bond Act, as amended, which authorizes the issuance of United States savings bonds. The amount of these bonds outstanding is included for the purposes of applying the $25,000,000,000 limitation on all bonds provided in section 1 of the bill. These United States savings bonds are designed to meet the needs of certain individuals who desire to put their savings into such a bond. As some investors will wish to keep their interest as well as their principal invested and will not want to have the inconvenience of cashing coupons and reinvesting the proceeds, these bonds are authorized to be issued on a discount basis. The bonds will thus increase in value annually until maturity. They are to mature not less than 10 nor more than 20 years from the date as of which the bond is issued. The Secretary of the Treasury is authorized to make provisions for the redemption of any or all of these bonds before maturity and the Secretary stated in committee that it was his intention to have these bonds redeemable at the option of the holders before maturity at values increasing at regular intervals to maturity. The issue price of the savings bonds and the terms upon which they may be redeemed prior to maturity are required to be such as to afford an investment yield not in excess of 3 percent per annum, compounded semiannually.

The section makes it unlawful for any one person at any one time to hold savings bonds issued during any one calendar year in an aggregate amount exceeding $10,000 (maturity value). The provisions of section 7 of the Second Liberty Bond Act, as amended, which relate to the exemptions from taxation as to principal and interest of bonds issued under authority of section 1 of that act, as amended, are made to apply as well to the United States savings bonds, and it is provided that for the purposes of determining taxes and tax exemptions the increment in value represented by the difference between the price paid and the redemption value received (whether at or before maturity) should for such purpose be considered as interest. The provisions of existing law carrying permanent appropriations for the expenses of loans are extended to the expenses of savings bonds. The authority to issue bonds upon the surrender of Postal-Savings deposits as authorized by section 10 of the act approved June 25, 1910, is withdrawn as to the original issue of such bonds after July 1, 1935. As a substitute therefor, provision is made for the withdrawal of Postal-Savings deposits for the purpose of acquiring savnigs bonds, and further provision is made for the sale of the new bonds through the Postal Service. The committee amendments to this section are clerical.

Section 7 amends the provision of the Revenue Act of 1926 which authorizes the posting of Government bonds as security in lieu of surety bonds, cash, or other security so as to authorize the acceptance of all public-debt obligations of the United States, and bonds, notes, and other obligations which are unconditionally guaranteed as to both interest and principal by the United States. Thus obligations such as those of the Home Owners' Loan Corporation and the Federal Farm Mortgage Corporation, which are so guaranteed, are made eligible. The amendment also permits the Secretary of the Treasury to limit, in certain cases, the effect of the section to the acceptance of obligations maturing more than 1 year after their deposit so that frequent substitutions of short-term securities may be avoided.

CHANGES IN EXISTING LAW

In compliance with paragraph 2a of rule XIII of the Rules of the House of Representatives, changes in existing law made by the bill are shown as follows: Existing law proposed to be omitted is enclosed in black brackets; new matter is printed in italics; existing law in which no change is proposed is shown in roman.

First paragraph of section 1 of the Second Liberty Bond Act, as amended:

[That the] *The* Secretary of the Treasury, with the approval of the President, is hereby authorized to borrow, from time to time, on the credit of the United States for the purposes of this Act, *to provide for the purchase, redemption, or refunding, at or before maturity, of any outstanding bonds, notes, certificates of indebtedness, or Treasury bills of the United States,* and to meet expenditures authorized for the national security and defense and other public purposes authorized by law, [not exceeding in the aggregate $28,000,000,000,] *such sum or sums as in his judgment may be necessary,* and to issue therefor bonds of the United States: *Provided, That the face amount of bonds issued under this section and section 22 of this Act shall not exceed in the aggregate $25,000,000,000 outstanding at any one time* [, in addition to the $2,000,000,000 bonds already issued or offered for subscription under authority of the Act approved April twenty-fourth, nineteen hundred and seventeen, entitled "An Act to authorize an issue of bonds to meet expenditures for the national security and defense, and, for the purpose of assisting in the prosecution of the war, to extend credit to foreign governments, and for other purposes": *Provided,* That of this sum $3,063,945,460 shall be in lieu of that amount of the unissued bonds authorized by sections one and four of the Act approved April twenty-fourth, nineteen hundred and seventeen, $225,000,000 shall be in lieu of that amount of the unissued bonds authorized by section thirty-nine of the Act approved August fifth, nineteen hundred and nine, $150,000,000 shall be in lieu of the unissued bonds authorized by the joint resolution approved March fourth, nineteen hundred and seventeen, and $100,000,000 shall be in lieu of the unissued bonds authorized by section four hundred of the Act approved March third, nineteen hundred and seventeen].

Subsection (a) of section 5 of the Second Liberty Bond Act, as amended:

(a) [That in] *In* addition to the bonds and notes authorized by sections 1 [and 18], *18, and 22* of this Act, as amended, the Secretary of the Treasury is authorized, *subject to the limitations imposed by section 21 of this Act,* to borrow from time to time, on the credit of the United States, for the purposes of this Act, to provide for the purchase [or redemption], *redemption, or refunding, at or* before [maturity of] *maturity, of* any *outstanding bonds, notes,* certificates of indebtedness or Treasury bills [issued hereunder] *of the United States,* and to meet public expenditures authorized by law, such sum or sums as in his judgment may be necessary, and to issue therefor (1) certificates of indebtedness of the United States at not less than par (*except as provided in section 20 of this Act, as amended*) and at such rate or rates of interest, payable at such time or times as he may prescribe; [or (2)] *or, (2)* Treasury bills on a discount basis and payable at maturity without interest. Treasury bills to be issued hereunder shall be offered for sale on a competitive basis, under such regulations and upon such terms and conditions as the Secretary of the Treasury may prescribe, and the decisions of the Secretary in respect of any issue shall be final. Certificates of indebtedness and Treasury bills issued hereunder shall be in such form or forms and subject to such terms and conditions, shall be payable at such time not exceeding one year from the date of issue, and may be redeemable before maturity upon such terms and conditions as the Secretary of the Treasury may prescribe. Treasury bills issued hereunder shall not be acceptable before maturity in payment of interest or of principal on account of obligations of foreign governments held by the United States of America. [The sum of the par value of such certificates and Treasury bills outstanding hereunder and under section 6 of the First Liberty Bond Act shall not at any one time exceed in the aggregate $10,000,000,000.]

Subsection (a) of section 18 of the Second Liberty Bond Act, as amended:

[That in] *In* addition to the bonds and certificates of indebtedness and war-savings certificates authorized by this Act and amendments thereto, the Secretary of the Treasury, with the approval of the President, is authorized, *subject to the limitation imposed by section 21 of this Act,* to borrow from time to time on the credit of the United States for the purposes of this Act, to provide for the [purchase or redemption of any notes issued hereunder] *purchase, redemption, or refunding, at or before maturity, of any outstanding bonds, notes, certificates of indebtedness, or Treasury bills of the United States,* and to meet public expenditures authorized by law, [not exceeding in the aggregate $10,000,000,000 at any one time outstanding] *such sum or sums as in his judgment may be necessary* and to issue therefor notes of the United States at not less than par *(except as provided in section 20 of this Act, as amended)* in such form or forms and denomination or denominations, containing such terms and conditions, and at such rate or rates of interest, as the Secretary of the Treasury may prescribe, and each series of notes so issued shall be payable at such time not less than one year nor more than five years from the date of its issue as he may prescribe, and may be redeemable before maturity (at the option of the United States) in whole or in part, upon not more than one year's nor less than four months' notice, and under such rules and regulations and during such period as he may prescribe.

The following new sections are added to the Second Liberty Bond Act, as amended:

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

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

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

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

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

(e) The board of trustees of the Postal Savings System is authorized to permit, subject to such regulations as it may from time to time prescribe, the withdrawal of deposits on less than sixty days' notice for the purpose of acquiring Savings Bonds

which may be offered by the Secretary of the Treasury; and in such cases to make payment of interest to the date of withdrawal whether or not a regular interest payment date. No further original issue of bonds authorized by section 10 of the Act approved June 25, 1910 (U. S. C., title 39, sec. 760), shall be made after July 1, 1935.

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

Section 1126 of the Revenue Act of 1926:

DEPOSIT OF UNITED STATES BONDS OR NOTES IN LIEU OF SURETY

SEC. 1126. Wherever by the laws of the United States or regulations made pursuant thereto, any persons is required to furnish any recognizance, stipulation, bond, guaranty, or undertaking, hereinafter called "penal bond," with surety or sureties, such person may, in lieu of such surety or sureties, deposit as security with the official having authority to approve such penal bond, United States Liberty bonds or other bonds or notes of the United States in a sum equal at their par value to the amount of such penal bond required to be furnished, together with an agreement authorizing such official to collect or sell such bonds or notes so deposited in case of any default in the performance of any of the conditions or stipulations of such penal bond. The acceptance of such United States bonds or notes in lieu of surety or sureties required by law shall have the same force and effect as individual or corporate sureties, or certified checks, bank drafts, post-office money orders, or cash, for the penalty or amount of such penal bond. The bonds or notes deposited hereunder and such other United States bonds or notes as may be substituted therefor from time to time as such security, may be deposited with the Treasurer of the United States, a Federal reserve bank, or other depositary duly designated for that purpose by the Secretary, which shall issue receipt therefor, describing such bonds or notes so deposited. As soon as security for the performance of such penal bond is no longer necessary, such bonds or notes so deposited shall be returned to the depositor: *Provided*, That in case a person or persons supplying a contractor with labor or material as provided by the Act of Congress, approved February 24, 1905 (33 Stat. 811), entitled "An Act to amend an Act approved August thirteenth, eighteen hundred and ninety-four, entitled 'An Act for the protection of persons furnishing materials and labor for the construction of public works,'" shall file with the obligee, at any time, after a default in the performance of any contract subject to said Acts, the application and affidavit therein provided, the obligee shall not deliver to the obligor the deposited bonds or notes nor any surplus proceeds thereof until the expiration of the time limited by said Acts for the institution of suit by such persons or persons, and, in case suit shall be instituted within such time, shall hold said bonds or notes or proceeds subject to the order of the court having jurisdiction thereof: *Provided further*, That nothing herein contained shall affect or impair the priority of the claim of the United States against the bonds or notes deposited or any right or remedy granted by said Acts or by this section to the United States for default upon any obligation of said penal bond: *Provided further*, That all laws inconsistent with this section are hereby so modified as to conform to the provisions hereof: *And provided further*, That nothing contained herein shall affect the authority of courts over the security, where such bonds are taken as security in judicial proceedings, or the authority of any administrative officer of the United States to receive United States bonds for security in cases authorized by existing laws. The Secretary may prescribe rules and regulations necessary and proper for carrying this section into effect. *In order to avoid the frequent substitution of securities such rules and regulations may limit the effect of this section, in appropriate classes of cases, to bonds and notes of the United States maturing more than a year after the date of deposit of such bonds as security. The phrase 'bonds or notes of the United States' shall be deemed, for the purposes of this section, to mean any public-debt obligations of the United States and any bonds, notes, or other obligations which are unconditionally guaranteed as to both interest and principal by the United States.*

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