Amendment of the Second Liberty Bond Act, As Amended

HEARING

BEFORE THE

COMMITTEE ON FINANCE
UNITED STATES SENATE

SEVENTY-FIRST CONGRESS

THIRD SESSION

ON

H. R. 16111

AN ACT TO AMEND SECTIONS 1 AND 7 OF THE SECOND LIBERTY BOND ACT, AS AMENDED

FEBRUARY 25, 1931

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AMENDMENT OF THE SECOND LIBERTY BOND ACT, AS AMENDED

WEDNESDAY, FEBRUARY 25, 1931

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

The committee met, pursuant to call, at 10.15 o'clock a. m., in its committee room in the Senate Office Building, Senator Reed Smoot presiding.

Present: Senators Smoot (chairman), Watson, Reed, Shortridge, Couzens, Bingham, La Follette, Thomas of Idaho, Harrison, King, George, Barkley, and Connally.

The CHAIRMAN. Will the committee come to order.

I have asked Mr. Mills of the Treasury Department to come before the committee this morning while we consider H. R. 16111, an act to amend sections 1 and 7 of the second Liberty loan act, as amended. Mr. Mills is here. And, Mr. Mills, we would like to have you proceed with any statement you desire to make in regard to this particular bill. This passed the House on February 20, 1931.

(The bill under consideration is here printed in full, as follows:)

[H. R. 16111, Seventy-first Congress, third session]

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That section 1 of the second Liberty bond act, as amended (Public, Numbered 43, 120, and 192, Sixty-fifth Congress, September 24, 1917, April 4, 1918, and July 9, 1918, respectively), is hereby amended by striking out the figures "$20,000,000,000" and inserting in lieu thereof the figures "$28,000,000,000."

SEC. 2. That section 7 of the Second Liberty bond act, as amended (Public, Numbered 43, Sixty-fifth Congress, September 24, 1917), is hereby amended by adding thereto the following sentence: "Bonds authorized by section 1, and certificates authorized by section 6, of this act, as amended, hereafter issued, shall be exempt from graduated additional income taxes, commonly known as surtaxes, and excess-profits and war-profits taxes, now or hereafter imposed by the United States, upon the income or profits of individuals, partnerships, associations, or corporations, if and when the Secretary of the Treasury shall so prescribe in connection with the issue thereof."

STATEMENT OF HON. OGDEN L. MILLS, THE UNDERSECRETARY OF TREASURY

Undersecretary MILLS. Mr. Chairman and gentlemen of the committee, there are two parts to this bill. The first part simply authorizes the amount of long-term bonds to be issued at increases from $20,000,000,000 to $28,000,000,000.

Under the terms of the second Liberty loan act, as amended, the Secretary of the Treasury has authority to issue up to $20,000,000,000 of bonds. That is, all told. That does not mean, necessarily, $20,000,000,000 outstanding at any one time. In the course of the past

40 years, the Treasury Department has issued, by way of direct issue, or refunding operations, approximately $18,500,000,000, so that there is still authority in the Secretary of the Treasury to issue $1,500,000,000 of bonds.

Senator COUZENS. Right there, Mr. Secretary, may I ask you this: That does not refer to these short-term certificates?

Undersecretary MILLS. No; because the law provides there shall not be exceeding $20,000,000,000 of bonds.

But there is a certain amount to be issued now, and we are approaching the limit. And as I pointed out to you gentlemen a while ago, we have bonds that are callable to the amount of $2,800,000,000 in the next two years, and it is obvious that the limit of $20,000,000,000 is not sufficient to take care of the needs of the Treasury later.

Senator COUZENS. Will you define the difference, so far as the Government is concerned, between the short-term bills, notes, and certificates, and the bonds?

Undersecretary MILLS. The certificates and bills are short-term paper that may be issued for a definite short time by the Treasury. A note is an obligation of the Government that runs for five years, or less. And a bond is an obligation that runs for a period exceeding five years.

Senator COUZENS. What I would like to know is, what is the difference, so far as the Government is concerned, as to whether you call it a certificate, a note, or a bond. I just want to know the difference.

Undersecretary MILLS. It so happens that the law limits us in the amount of bonds that may be issued, Senator. If, in the course of these refunding opreations we should issue, say, $1,500,000,000 of bonds, we should then be obliged to limit ourselves to the issuance of certificates or notes, and that does not seem to me to be a very desirable situation. In other words, the Secretary of the Treasury should have the discretion to issue the most suitable chacter of obligation, to meet the demands. Now he will be limited.

Senator HARRISON. In other words, you want elasticity?

Undersecretary MILLS. Yes; we want elasticity, Senator.

The CHAIRMAN. Your paper is mostly certificates and notes?

Undersecretary MILLS. Yes; for the most part.

Senator COUZENS. What is the difference between the two kinds of obligations, so far as the Government is concerned?

Undersecretary MILLS. I do not know whether there is much difference, Senator. The law defines these various kinds of obligations.

Senator COUZENS. You do not know what the purpose was in defining these various obligations? They are all equally valuable, are they not?

Undersecretary MILLS. They are all equally valuable. Mr. Hand may know that. Mr. Hand points that certificates were originally issued in anticipation of taxes, and were refunded when the taxes came in. I do not know why these particular periods of time were mentioned or selected, a note not to run not more than five years, and a bond to run more than five years. I can not tell you why those dates were originally selected.

Senator COUZENS. Then the difference between a bond and a certificate is a difference in maturity?

Undersecretary MILLS. Is a difference in maturity.

Senator COUZENS. There is no difference in value?

Undersecretary MILLS. No.

Senator WATSON. Is there a difference in the rate of interest?

The CHAIRMAN. The only difference is that the certificates may mature at a time when the interest rate is very much less; and, also, much more than when the certificate was issued. And if it were a bond, it would run to the end of the period.

Senator COUZENS. I understand, but sometimes bonds are callable before the end of the period, too.

Undersecretary MILLS. Generally speaking, bonds and certificates have a definite term to run.

Senator WATSON. Is there any difference in the rate of interest?

Undersecretary MILLS. That depends on the market conditions. Just now securities can be sold at a low rate of interest. Three years ago bonds were sold at 3½ and 4½. We sold one bond issue at 5½. It depends untirely on the conditions of the money market.

Senator COUZENS. As I understand, you want this authority to raise from $20,000,000,000 to $28,000,000,000 in the issuance of bonds only?

Undersecretary MILLS. Yes, sir.

Senator COUZENS. You do not ask anything for the issuance of certificates or notes?

Undersecretary MILLS. No; our authority is ample there.

Senator COUZENS. The only purpose of this is, then, to enable you to issue more bonds and less certificates?

Undersecretary MILLS. No; the only difference is, it would put us into a position to issue bonds, rather than notes, in the course of the refunding operations. The situation now, and if you do not do anything with reference to this, after we shall have issued $1,500,000,000 of bonds, the Treasury Department will be in a situation where it can not issue any more bonds and will be required to issue certificates or notes. We will have lost our opportunity to issue bonds, and we want to have the authority ot issue the most desirable securities. That will be the situation.

Senator COUZENS. You will not be confronted with that before the next session of Congress, will you?

Undersecretary MILLS. No.

Senator COUZENS. That is the reason I did not understand the occasion for haste.

Undersecretary MILLS. There is not any haste, Senator. It is a year and a half to the time of the refunding that will be necessary. But it was thought better to start in ample time to get the authority, so that in case something should happen next year, we would have the authority to go ahead.

Senator BARKLEY. You feel, whether it is done now or then, it should be done, Mr. Mills?

Undersecterary MILLS. Certainly, Senator. There can not be the situation of allowing the matter to run along. You can not have the Government with a necessity for refunding its debt and not make ample provision in time for it. That would not be good business.

Senator COUZENS. You do not contemplate increasing the National debt because of this bill?

Undersecretary MILLS. Oh, no; not because of this bill; but perhaps as the result of some other bill.

Senator WATSON. I want to ask you this question, Mr. Secretary, because it may be asked on the floor. If our debt was $10,000,000,000 greater than it is now, and you have authority to pay that off, why do you want authority to issue bonds to the extent of $28,000,000,0000

Undersecretary MILLS. Because at that time we will very nearly have approached the extent of our authority. This does not represent the amount that may be outstanding at any one time.

Senator WATSON. No.

Undersecretary MILLS. No; but it does represent the amount that may be issued.

Senator BARKLEY. This is the whole turnover.

Undersecretary MILLS. This is the whole turnover. In other words, it is cumulative.

Senator BINGHAM. You do not reach the limit of your authority until you have issued the amount you mentioned?

Undersecretary MILLS. No, sir.

Senator GEORGE. Mr. Mills, will you tell us, pelase—I suppose you have told the committee of the House, and we are more or less familiar with the debates. But I would like to ask you why is it necessary to exempt these bonds from the graduated additional income taxes?

Undersecretary MILLS. That is the second part of the bill. That is a separate and distinct question and, perhaps, should be submitted in a separate bill. This is the situation to-day: We have authority to issue bills and notes and certificates and bonds clear of taxes and surtaxes.

Senator COUZENS. Is that true so far as the notes are concerned?

Undersecretary MILLS. Yes; we have the authority. Now, there is no reason or logic in giving the Treasury authority up to five years to make them exempt, and make them only tax exempt as to the normal tax. But it goes further than the matter of strict logic. As a matter of fact, the Treasury, some years ago, you will remember, took the position, and a very strong position, that under the graduated income situation there should be no such thing as tax-exempt securities, and asked the Congress to pass an amendment which would do away with all tax-exempt securities issued either by the Federal Government, or by the State or municipal governments. I was in the House at the time, and I supported it vigorously, and we managed to carry it there after long and vigorous debate.

It eventually was beaten. I do not know whether it ever came up in the Senate. In any event, it is perfectly clear that such a constitutional amendment is required in order to compete with State and municipal tax-exempt securities. There are to-day outstanding tax-exempt securities to the extent of some $19,000,000,000, and they are increasing at the rate of $1,000,000 a year.

Senator WATSON. Of all kinds?

Undersecretary MILLS. Of all kinds. Those tax-exempt securities are in existence, and in order to compete with them, we must have an opportunity to issue tax-exempt securities. But we do not think there should be created islands of safety for rich men, enabling them to invest in these securities, and we think it is entirely against the theory of the income tax; it is not open to dispute that it should not be done, either from the theoretical standpoint or from the standpoint of principle.

Senator BARKLEY. I disagree with you on that, Mr. Secretary.

Undersecretary MILLS. Well, I should not have said, Senator, that it is not open to dispute.

Senator BARKLEY. I do not want to open an argument with you on the subject, but I do think it is open to argument.

Undersecretary MILLS. I should not have said, Senator, that it is not open to dispute. I did not mean that others might not differ with me on the question. However, from my standpoint, the graduated income tax is wholly inconsistent with the theory of an income tax. If I had my way, and from my way of thinking about it, I would not have a tax-exempt security in the entire country. But it is an academic question to-day. We have some $20,000,000,000 of them. And the only question is whether the Federal Government, from the standpoint of strict principle, is going to issue long-term obligations exempting the same from the income tax, and have higher interest rates by reason of so doing. That is the only question. I do not believe that we can lose anything by it, because it is perfectly obvious that a man who wants to escape the surtax has any number of municipal bonds or State bonds that he can invest in. He does not have to look to Federal bonds to-day.

Senator GEORGE. So it is a matter of parity that you want, to put you on an equality with the State and municipal governments?

Undersecretary MILLS. We want to put the Federal Government on a par with the State and municipal governments, and in order to do that, we want to have the same privileges as they have.

Senator COUZENS. I think the Secretary is wrong, because the Government bonds have a great many features of advantage, outside of the tax exempt feature.

Undersecretary MILLS. You mean they are of greater security?

Senator REED. And the opportunity of borrowing money on them.

Under secretary MILLS. Yes; borrowing money, and they are better security.

Senator COUZENS. And also a better opportunity of sale, if desired.

Undersecretary MILLS. Yes; the sale of the security. But, if tax-exempt securities are to be allowed, why should we not have the same advantage as the State or municipal government?

Senator COUZENS. I will say that if the States and municipal governments are allowed to do it, they should all be allowed to do it. Obviously, one State should not do it unless they all have the same privilege, because then those who do not do it would be handicapped in the sale of their securities. One State could not carry it out. It would have to be every State.

Undersecretary MILLS. We have a practical situation?

Senator COUZENS. Yes.

Undersecretary MILLS. All the States, and the Government itself is issuing tax-exempt securities. Then why should we shy at issuing long-term securities in that way and getting the advantage?

Senator COUZENS. What advantage would it be now?

Undersecretary MILLS. I should say the most careful investigation we have been able to make would indicate that it would not amount to less than one-eighth, and might run as high as one-fourth on a 15-year bond. My own feeling is—well, it is more than a feeling. If you gave us the authority, say, before Saturday, we would offer the bonds which we are going to offer next Monday, at one-eighth less than we would without it. That is the best way I can answer it.

Senator BARKLEY. What portion of the bonds now will be refunded?

Undersecretary MILLS. The first ones will be the first 3½'s. They are the only ones that are tax-exempt. They amount to $1,300,000,000. And they become callable after June, 1932.

The CHAIRMAN. You said the first 3½'s are the only tax-exempt bonds?

Undersecretary MILLS. No; the first 3½'s are the first long-term bonds.

Senator COUZENS. You had authority, before we recently gave you authority, to sell discount notes and to issue 5-year notes tax exempt?

Undersecretary MILLS. Yes; we did. And then you recently gave us authority to issue bills, and so on.

Senator COUZENS. Yes; and prior to that time you had authority to issue notes all tax exempt?

Undersecretary MILLS. We did, Senator; but the Treasury did not avail itself of that authority, because it rather had the feeling that it was the policy of Congress that it should not be done.

Senator COUZENS. So, as a matter of fact, there are no 5-year bonds out now that are tax exempt?

Undersecretary MILLS. No.

Senator REED. Have you mentioned the difference, Mr. Secretary, between the tax-exempt features to the corporations and to individuals in the matter of these bonds?

Undersecretary MILLS. No, I have not, Senator Reed. There is the situation where corporations are large investors in the bonds, and those bonds are tax exempt as to the normal tax. Since the corporations are only paying a nominal tax, they are entirely tax exempt to them. Therefore, the corporations can afford to pay a higher amount than individuals can afford to pay.

Senator REED. It seems to me the result of that has been to squeeze the public out of the Government bond market almost entirely.

Undersecretary MILLS. That is true, Senator. The dealers in Government securities in New York estimate that 90 per cent of the 4¼'s are held by corporations, whereas as high as 20 per cent of the First 3½'s are held by individuals. The First 3½'s being entirely tax exempt, so they buy on a par with the corporations. They estimate that 90 per cent of the 4¼'s which are only exempt as to the normal tax, are held by corporations. To-day the corporation can afford to pay higher for Government bonds, so it means that we have a restricted market and can not distribute the bonds as widely as they should be distributed. The ideal situation would be to distribute them as widely as possible among all classes, and not give the corporations the advantage in that manner. But to-day, owing to the tax-exempt feature, the corporation has a distinct advantage over the individual.

Senator REED. That is what I meant. When you boil it down to the last analysis, the corporation holding bonds gets a larger yield than the individual?

Undersecretary MILLS. Most decidedly, because they are completely tax exempt to the corporations.

Senator KING. Mr. Secretary, do the investment trusts, or the banks, buy them, mostly?

Undersecretary MILLS. The banks, mostly.

The CHAIRMAN. Are there any other questions you desire to ask?

Senator COUZENS. Did the Treasury Department approve before the House Ways and Means Committee the legislation being in such shape as to give the Secretary of the Treasury the right to issue them tax exempt or not, as he chose?

Undersecretary MILLS. That is the form the bill is drawn in. I do not know whether we gave that any particular thought. I suppose Congress could make it mandatory. But it seems to me it is better not to. In other words, when we refund the 3½'s tax exempt, it would be better to be able to offer them another tax-exempt bond. And it might be decided that it would be better not to. I do not want to insist on that. If you want to tell us that all future issues shall be tax exempt, there can be no real objection. But I think it would be a little better to leave it to the Secretary of the Treasury. But I do not think it would be unwise, Senator Couzens, from the standpoint of principle, to insist that the Government must issue a bond that shall be taxed with surtax when you consider the great amount of tax-exempt securities already outstanding; and when you consider that that necessarily means a discrimination between the corporation and the individual. I think it is too high a price to pay for the principle.

Senator COUZENS. I think that is too great an authority to give to a Cabinet officer, no matter who he is.

The CHAIRMAN. We have already given it to him.

Undersecretary MILLS. You have already given it to him in the short-term stuff. If you want to say, for this new $8,000,000,000 it shall be mandatory and tax exempt, there is no possible objection to that.

The CHAIRMAN. I do not think there would be any advantage to that.

Senator CONNALLY. Do not you believe that all long-term securities should be tax exempt? Would not the Government get back more in interest than it gets in the taxes?

Undersecretary MILLS. You mean, the Government should avail itself of the tax-exempt privilege?

Senator CONNALLY. Of the tax-exempt privilege.

Undersecretary MILLS. There was a time when there was an advantage to the Government not to issue securities tax exempt. But the volume of tax-exempt securities was not so great then as it is now. I think if we could issue them in that manner now it would save at least one-eighth of 1 per cent, and it might run as high as one-fourth.

Senator CONNALLY. You want to get that back. Everybody takes them, and they are exempt in the hands of the corporations.

Undersecretary MILLS. I think that one-eighth represents very nearly net gain to the Government.

Senator CONNALLY. Is it not a fact that when tax-exempt bonds were selling away above par, that the 4½'s and the 4¾'s were selling away below par?

Undersecretary MILLS. I do not know that there was so great a spread as that.

Senator CONNALLY. Were not some selling at 4½ when the First 3½'s were made all tax-exempt.

The CHAIRMAN. I think they went down during that period.

Senator CONNALLY. They did not go down as low as 3¼. The statistics of the Treasury showed you only got back about one-fifth as much income taxes as we were paying increased interest on those issues.

The CHAIRMAN. That was before the other issues.

Senator CONNALLY. The same principle obtains now, only a difference in amount.

The CHAIRMAN. No; I think if you will look at the quotations, you will find very little difference.

Senator CONNALLY. The Secretary says there is one-eighth.

The CHAIRMAN. The reason for that is explained because of the exceeding high taxes.

Undersecretary MILLS. I have got a table here which shows the difference between the First 3¼'s, which are completely tax-exempt, and the other period, which I would be glad to put in the record, if you care for it.

The CHAIRMAN. Yes; you may put that in.

(The table furnished by Undersecretary Mills is printed in full, as follows:)

	Maturity	Price asked	Yield	Corporation tax equivalent
First 3½	[1] 6-15-47-32	101 24/32	3.08	3.56
First 4¼	6-15-47-32	103 16/32	3.40	3.98
Open-market valuation of tax-exempt feature Dec. 31, 1927, 0.42.				
June 30, 1928				
First 3½	[1] 6-15-47-32	100 4/32	3.47	3.95
First 4¼	6-15-47-32-	101 18/32	3.82	4.40
Open-market valuation of tax-exempt feature June 30, 1928, 0.45.				
Dec. 31, 1928				
First 3½	[2] 6-15-47-32	99 29/32	3.51	3.99
First 4¼	6-15-47-32	100 9/32	4.18	4.74
Open-market valuation of tax-exempt feature Dec. 31, 1928, 0.75.				
June 30, 1929				
First 3½	[3] 6-15-47-32	96 12/32	3.78	4.26
First 4¼	6-15-47-32	99 7/32	4.32	4.90
Open-market valuation of tax-exempt feature June 30, 1929, 0.64.				
Dec. 31, 1929				
First 3½	[4] 6-15-47-32	99 15/32	3.54	3.97
First 4¼	6-15-47-32	101 9/32	3.71	4.23
Open-market valuation of tax-exempt feature Dec. 31, 1929, 0.26.				
June 30, 1930				
First 3½	[5] 6-15-47-32	101 2/32	2.93	3.41
First 4¼	6-15-47-32	102 4/32	3.10	3.68
Open-market valuation of tax-exempt feature June 30, 1930, 0.27.				
First 3½	[6] 6-15-47-32	101 29/32	2.16	2.64
First 4¼	6-15-47-32	102 29/32	2.19	2.77
Open-market valuation of tax-exempt feature Dec. 31, 1930, 0.13.				

[1] Selling at premium yield computed to first call date June 15, 1932.

[2] First 3½'s selling at discount under par, therefore yield computed to June 15, 1947, but first 4¼'s still at premium—yield still computed to June 15, 1932.

[3] Both now selling at discount—therefore, both yields computed to June 15, 1932.

[4] First 3½'s at discount, yield computed to June 15, 1947. First 4¼'s at premium, yield computed to June 15, 1932. Competition of two new issues of totally tax free certificates which were issued Sept. 15, 1929, (June, 1930, 4⅞'s, $550,000,000) and Dec. 15, 1929 (September, 1930, 3⅝, $350,000,000) now apparently reducing the attractiveness of First 3½'s fully tax-exempt feature.

[5] Both at premium, both yields computed to June 15, 1932. Competition of $1,400,000,000 (Treasury certificates and bills) now appearing to lower the spread.

[6] Easy money conditions plus competion of $1,300,000,000 totally tax-free certificates and bills plus strong possibility of both being called and selling on money basis has narrowed the spread between totally tax free and partially tax free to 0.13 points only.

Senator REED. That is about one-eighth difference?

Undersecretary MILLS. It is one-eighth now. It has been as high as one and a quarter. To-day it is one-eighth. I honestly think that for the good of the Government—I do not want to exaggerate it—I think on the next issue it would make a difference of one-eighth of 1 per cent.

Senator COUZENS. Because of the great expansion of bonds issued by State and municipal governments, the difference is becoming less?

Undersecretary MILLS. Yes, sir.

The CHAIRMAN. That is the reason.

Senator COUZENS. So that there is not now so much advantage in the tax-exempt Government bonds as in the past.

Undersecretary MILLS. No, sir.

Senator CONNALLY. Mr. Secretary, is it not a fact that it is just in the State of the issue where they are tax free?

Undersecretary MILLS. Yes, sir.

Senator CONNALLY. Any one State may tax the bonds issued in another State?

Undersecretary MILLS. Yes, sir.

Senator CONNALLY. So the Federal Government is the only one that can issue completely tax-exempt bonds.

Undersecretary MILLS. Yes, sir.

Senator CONNALLY. And they infringe on each other.

Undersecretary MILLS. They do. The city of New York is offering next week $100,000,000 worth of securities with a fairly long maturity. I should assume they would have to sell them to yield either 4.10 or 4.15, whereas the bonds which we will offer at the same time will be at a rate considerably lower than that, tax-exempt privilege, or no tax-exempt privilege.

Senator COUZENS. Senator Connally overlooked the great value of the bond outside of the tax-exempt feature.

Senator CONNALLY. No; that is in it, at but the same time the only tax-free bond there is is a Federal bond, because New York can tax a Michigan bond.

Senator REED. I think the desirable thing to do is to give them very wide distribution. If you can scatter them as widely as possible among individuals, it would be most desirable.

The CHAIRMAN. Is there any amendment any member desires to offer to the bill? If not, a motion to report it out would be in order.

Senator COUZENS. I would like to offer an amendment to cut out section 2, Mr. Chairman.

Senator REED. To make it compulsory, Senator?

Senator COUZENS. To leave it as it is now.

Senator SHORTRIDGE. Are you opposed to that because of the discretionary power given to the Secretary?

Senator COUZENS. I am opposed to it.

Senator HARRISON. If you eliminate that, does that make it mandatory?

Undersecretary MILLS. No; it leaves it just where it is now.

Senator COUZENS. It does not change the present law.

Undersecretary MILLS. No; it leaves the law as is.

Senator COUZENS. I am not opposed to the extension from $20,000,000,000 to $28,000,000,000, but I am opposed to section 2. And

I want to leave the law as it is now, and I see no reason for changing it. That is the reason I move to cut out section 2.

Senator REED. I hope that will not be done. If it makes one-eighth of 1 per cent difference, it seems to me we should take advantage of it.

Senator SHORTRIDGE. What is the reason for section 2, Mr. Secretary?

Undersecretary MILLS. To save interest to the Government of from one-eighth to one-fourth.

Senator SHORTRIDGE. Is that well established as a result of experience?

Undersecretary MILLS. So well established that the bonds we will issue next week will be offered one-eighth lower if this bill becomes law.

The CHAIRMAN. And without that section we would lose that one-eighth.

Senator KING. Mr. Secretary, without further legislation than that contemplated in this bill, how could we facilitate a greater and wider distribution of bonds among individuals, and take them out of the portfolios of the corporations?

Undersecretary MILLS. This is the best way.

Senator KING. I was wondering whether there was any other way in which we could facilitate that.

The CHAIRMAN. Section 2 covers it.

Undersecretary MILLS. That is the most effective way.

Senator KING. That is the only effective way you have?

Undersecretary MILLS. Yes; because this being the law, it puts them on a parity.

Senator COUZENS. If the Secretary of the Treasury wants to.

Undersecretary MILLS. It is not obligatory.

Senator REED. Let us make it obligatory.

Undersecretary MILLS. If you make it obligatory, Senator, the Treasury would not object.

Senator SHORTRIDGE. If the corporations have an advantage over individuals, I think the Secretary should have discretion to issue securities in such a way that the corporations would not have the advantage over the private individual.

Senator REED. Mr. Chairman, I move that we eliminate—

Senator COUZENS (interposing). I call for a vote on my motion, Mr. Chairman.

Senator REED. I think my motion would come before yours, Senator, and that is the reason I would like to make my motion now. I move that on page 2, line 7, that we strike out the word "if", and all of lines 8 and 9, so as to make it compulsory on the Treasury to issue the bonds tax exempt.

Senator KING. Personally, I should like to vote, if we could control the States, to have no tax-exempt bonds.

Senator COUZENS. So would I.

Senator REED. That would take a constitutional amendment.

The CHAIRMAN. If we make that amendment, it seems to me this bill would have to go to conference, and whether we could get it back in time to get it passed at this session is the only question I have.

Senator COUZENS. There will be no great harm done if it is not passed at this time, Mr. Chairman.

The CHAIRMAN. There is just this harm, Senator, that if it is not passed now we may have to pay one-eighth more.

Senator COUZENS. I am going to vote for Senator Reed's amendment, and then I shall ask for a vote on my motion.

Senator HARRISON. I think the House will readily pass it.

The CHAIRMAN. I want you to understand that I have no objections to the amendment, other than I have stated.

Senator REED. I think the House will concur.

The CHAIRMAN. All in favor of the amendment offered by the Senator from Pennsylvania, to srrike out the word "if" on line 7 of page 2, and also lines 8 and 9, reading as follows:

if and when the Secretary of theTreasury shall so prescribe in connection with the issue thereof.

All in favor of the amendment say "Aye." Contrary "No." The ayes have it, and the amendment is carried.

Senator COUZENS. Now I want a vote on my motion on the section as amended.

The CHAIRMAN. Senator Couzens, the Senator from Michigan, moves to strike out section 2, as amended. All in favor will say "Aye." Those opposed, "No."

The noes have it.

Senator LA FOLLETTE. May I ask the Secretary a question, Mr. Chairman?

The CHAIRMAN. Yes.

Senator LA FOLLETTE. As I understand your testimony, Mr. Secretary, this section we amended has not anything to do with anything except refunding operations? I mean, you do not intend to use this authority for any other purpose than the refunding operations of outstanding obligations of the Government?

Undersecretary MILLS. Well, I would not want to make such a sweeping assertion, Senator.

Senator LA FOLLETTE. Well, I understand that to be the purpose.

Undersecretary MILLS. Of course, generally speaking, that is so, Senator, but it might so happen that the Government debt might increase in a given year, and it might increase by the amount of new bonds issued, for instance.

Senator GEORGE. There is no limitation.

Undersecretary MILLS. I would not want to limit the Treasury Department more than it is limited by law. But, generally speaking, with a public debt that ought to be diminished year by year, it is rather obvious that this authority would not be used except for refunding purposes.

Senator LA FOLLETTE. What I am anxious to know is, whether you have in mind any anticipated deficits, for instance, that might occur, and whether you intended to use this authority to take care of that deficit; or whether it is the purpose of this act merely to give the Treasury Department authority to refund the existing and outstanding obligations of the Government?

Undersecretary MILLS. That is the real purpose. However, incidentally, you might raise new money through bonds at a given quarter date.

Senator COUZENS. You have estimated that there would be a deficit of $500,000,000.

Undersecretary MILLS. Yes, sir.

Senator COUZENS. Would you issue bonds to take care of that deficit under this authority?

Undersecretary MILLS. How are you going to segregate it? That is why I find it hard to answer the Senator's question. If you want me to answer it with meticulous accuracy, I can say the main purpose is to have authority to conduct the necessary refunding operations, in connection with retiring the First and Fourth Liberty loans.

Senator LA FOLLETTE. Let me put it in another way, Mr. Secretary: If this bill is determining the question of whether or not we are to have increased income taxes to take care of the anticipated deficit, that presents one issue, because we are determining a very large question.

Undersecretary MILLS. That issue is not involved.

Senator LA FOLLETTE. But if it is merely for the purpose of refunding existing and outstanding obligations of the Government, and that is necessary, as you state, in view of the large amounts that are coming due shortly, that is another issue.

Undersecretary MILLS. Well, that is the real purpose, because if the purpose were to avoid increasing the taxes it would run a series of deficits, and you could plug that hole with notes and certificates just as easy as with bonds.

Senator KING. Have you authority now to plug the hole from the deficits?

Undersecretary MILLS. Yes; we are doing it right now.

Senator KING. And this gives you no additional authority?

Undersecretary MILLS. No.

Senator KING. Is your system of bookkeeping such that you can, when securities are issued, determine what part are applied to the deficits and what part to the refunding, whether bonds or outstanding notes?

Undersecretary MILLS. Yes; of course you can tell at the end of the year just what has happened. It is a little difficult to tell at any particular date, because the borrowing on quarter days is governed largely by the cash needs of the Government for the following three months' period.

Senator KING. Supposing it should appear that you will be several millions of dollars in the red in the next three months, what authority have you to meet that situation?

Undersecretary MILLS. We have authority to borrow money by issuing bills, bonds, and notes.

Senator KING. And does this give you any additional authority other than you now possess?

Undersecretary MILLS. No; it does not. We have authority to issue now $1,500,000,000 of bonds; but when we reach that, we can not borrow any more without additional authority from the Congress.

Senator COUZENS. Is that all this morning?

The CHAIRMAN. Yes. But we have not voted to report it.

Senator REED. I move we report it out.

The CHAIRMAN. All who are in favor say "Aye." Opposed, "No." The ayes have it and it will be reported.

Senator LA FOLLETTE. I want to reserve the right to offer amendments on the floor.

The CHAIRMAN. Yes.

(Whereupon, at 11 o'clock a. m., the committee resolved itself into executive session.)

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