CONFIDENTIAL

PAYMENT OF ADJUSTED-SERVICE CERTIFICATES

HEARINGS

BEFORE THE

COMMITTEE ON FINANCE UNITED STATES SENATE

SEVENTY-FOURTH CONGRESS

SECOND SESSION

ON

S. 3653 and H. R. 9870

BILLS TO PROVIDE FOR THE IMMEDIATE PAYMENT OF WORLD WAR ADJUSTED-SERVICE CERTIFICATES, FOR THE CANCELATION OF UNPAID INTEREST ACCRUED ON LOANS SECURED BY SUCH CERTIFICATES, AND FOR OTHER PURPOSES

JANUARY 13 AND 14, 1936

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PAYMENT OF ADJUSTED-SERVICE CERTIFICATES

MONDAY, JANUARY 13, 1936

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

The committee met, pursuant to call, at 2 p. m. in the Finance Committee room in the Senate Office Building, Senator Pat Harrison (chairman) presiding.

Present: Senators Harrison (chairman), George, Walsh, Barkley, Connally, Gore, Costigan, Bailey, Clark, Byrd, Lonergan, Black, Gerry, Guffey, Couzens, Keyes, La Follette, and Capper.

Also present: Brig. Gen. Frank T. Hines, Administrator of Veterans' Affairs, D. W. Bell, Acting Director, Bureau of the Budget, and L. H. Parker, Chief of Staff, Joint Committee on Internal Revenue Taxation.

The committee had under consideration H. R. 9870 and S. 3653, relating to payment of adjusted-service certificates. The bills are as follows:

[H. R. 9870, 74th Cong., 2d sess.]

AN ACT To provide for the immediate payment of World War adjusted service certificates, for the cancelation of unpaid interest accrued on loans secured by such certificates, and for other purposes

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That notwithstanding the provisions of the World War Adjusted Compensation Act, as amended (U. S. C. '34 ed., title 38, ch. 11), the adjusted service certificates issued under the authority of such Act are hereby declared to be immediately payable. Payments on account of such certificates shall be made in the manner hereinafter provided upon application therefor to the Administrator of Veterans' Affairs, under such rules and regulations as he may prescribe, and upon surrender of the certificates and all rights thereunder (with or without the consent of the beneficiaries thereof). The payment in each case shall be in an amount equal to the face value of the certificate, except that if, at the time of application for payment under this Act, the principal with respect to any loan upon any such certificate has not been paid in full by the veteran (whether or not the loan has matured), then. the Administrator shall (1) pay or discharge such unpaid principal in such amount as is necessary to make the certificate available for payment under this Act, (2) deduct the same from the amount of the face value of the certificate, and (3) make payment in an amount equal to the difference between the face value of the certificate and the amount so deducted.

SEC. 2. In the case of each loan heretofore made pursuant to law by the Administrator of Veterans' Affairs and/or by any national bank, or any bank or trust company incorporated under the laws of any State, Territory, possession, or the District of Columbia, upon the security of an adjusted-service certificate, any interest that has been or, in consequence of existing law, would be charged against the face value of such certificate either shall be canceled or not so charged, as the case may be, notwithstanding any provision of law to the contrary. Any interest on any such loan payable to any such bank or trust company shall be paid by the Administrator of Veterans' Affairs.

In the case of any such loan which is unpaid and held by a bank or trust company at the time of filing an application under this Act, the bank or trust company holding the note and certificate shall, upon notice from the Administrator of

Veterans' Affairs, present them to the Administrator for payment to the bank or trust company in full satisfaction of its claim for the amount of unpaid principal and unpaid interest, except that if the bank or trust company, after such notice, fails to present the certificate and note to the Administrator within forty-five days after the mailing of the notice, such interest shall be paid only up to the forty-fifth day after the mailing of such notice.

SEC. 3. (a) An application under this Act for payment of a certificate may be made and filed at any time before the maturity of the certificate (1) personally by the veteran, or (2) in case physical or mental incapacity prevents the making or filing of a personal application, then by such representative of the veteran and in such manner as may be by regulations prescribed. An application made by a person other than a representative authorized by such regulations shall be held void.

(b) If the veteran dies after the application is made and before it is filed it may be filed by any person. If the veteran dies after the application is made it shall be valid if the Administrator of Veterans' Affairs finds that it bears the bona fide signature of the applicant, discloses an intention to claim the benefit of this Act on behalf of the veteran, and is filed before the maturity of the certificate, whether or not the veteran is alive at the time it is filed. If the death occurs after the application is filed but before the receipt of the payment under this Act or if the application is filed after the death occurs but before mailing of the check in payment to the beneficiary under section 501 of the World War Adjusted Compensation Act, as amended, payment shall be made to the estate of the veteran irrespective of any beneficiary designation.

(c) Where the records of the Veterans' Administration show that an application, disclosing an intention to claim the benefits of this Act, has been filed before the maturity of the certificate, and the application cannot be found, such application shall be presumed, in the absence of affirmative evidence to the contrary, to have been valid when originally filed.

(d) In case application under this Act for payment of any certificate is filed before April 6, 1937, payment shall be made by the Administrator of Veterans' Affairs upon approval of the application. In case application for payment under this Act is filed on or after April 6, 1937, payment shall be made on the 1st day of May, September, or January, whichever month first follows the date of filing the application, except that if payment on such application is made to the estate of the veteran pursuant to subsection (b), payment shall be made upon approval of the application.

(e) If at the time this Act takes effect a veteran entitled to receive an adjusted-service certificate has not made application therefor he shall be entitled, upon application made under section 302 of the World War Adjusted Compensation Act, as amended, to receive, at his option, under such rules and regulations as the Administrator may prescribe, either the certificate under section 501 of such Act, as amended, or payment under this Act.

SEC. 4. If an application under this Act for payment of the certificate of any veteran is not made prior to maturity of the certificate or is not filed prior to April 6, 1937, interest shall accrue on such certificate at the rate of 3 per centum per annum Such interest shall be computed on a principal amount equal to the face value of the certificate less any indebtedness of the veteran on account of the principal of any loan or loans secured by such certificate. Such interest shall begin to accrue on the day after the date of enactment of this Act, or the date of issuance of the certificate, whichever is the later date, and shall continue to accrue until January 1, 1945, death of the veteran, or payment of the certificate upon an application therefor under this Act, whichever is the earliest date. The accrued interest shall be paid by the Administrator of Veterans' Affairs upon payment of the certificate under this Act or the World War Adjusted Compensation Act, as amended.

SEC. 5. The Secretary of the Treasury is authorized and directed to redeem from the United States Government life insurance fund all adjusted service certificates held by that fund on account of loans made thereon, and to pay to the United States Government life insurance fund the amount of the outstanding liens against such certificates, including all interest due or accrued, together with such amounts as may be due under subdivision (m) of section 502 of the World War Adjusted Compensation Act, as amended. The Secretary of the Treasury is authorized and directed to make such payment by issuing, to the United States Government life insurance fund, bonds of the United States which shall bear interest at the rate of 4½ per centum per annum. No such bonds shall mature or be callable until the expiration of a period of at least ten years from date of issue, except that any such bond shall be redeemed by the Secretary of the Treasury and the principal and accrued interest thereon paid to the United States Government life insurance fund at any time upon certification by the Administrator of Veterans' Affairs that the amount represented by such bond is required to meet current liabilities. Bonds issued for the purposes of this section shall be issued under the Second Liberty Bond Act, as amended, subject to the provisions of this section.

SEC. 6. Amounts in the Adjusted Service Certificate Fund are hereby authorized to be appropriated and made immediately available to the Administrator of Veterans' Affairs for making payments authorized to be made by this Act. The Administrator of Veterans' Affairs shall from time to time advise the Secretary of the Treasury as to the amount of funds necessary to make such payments.

SEC. 7. There is hereby authorized to be appropriated such sums as may be necessary to carry out the provisions of this Act.

SEC. 8. If any provision of this Act, or the application thereof to any person or circumstance, is held invalid, the remainder of the Act, and the application of such provision to other persons or circumstances, shall not be affected thereby.

SEC. 9. This Act may be cited as the "Adjusted Compensation Payment Act, 1936."

Passed the House of Representatives January 10, 1936.

Attest: SOUTH TRIMBLE,
Clerk.

[S. 3653, 74th Cong., 2d sess.]

A BILL To provide for the immediate payment of World War adjusted-service certificates, for the cancelation of unpaid interest accrued on loans secured by such certificates, and for other purposes

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That notwithstanding the provisions of the World War Adjusted Compensation Act, as amended (U. S. C., 1934 edition, title 38, ch. 11), the adjusted-service certificates issued under the authority of such Act are hereby declared to be immediately payable. Payments on account of such certificates shall be made in the manner hereinafter provided upon application therefor to the Administrator of Veterans' Affairs, under such rules and regulations as he may prescribe, and upon surrender of the certificates and all rights thereunder (with or without the consent of the beneficiaries thereof). The payment in each case shall be in an amount equal to the face value of the certificate, except that if, at the time of application for payment under this Act, the principal and unpaid interest accrued prior to October 1, 1931, with respect to any loan upon any such certificate has not been paid in full by the veteran (whether or not the loan has matured), then the Administrator shall (1) pay or discharge such unpaid principal and interest as is necessary to make the certificate available for payment under this Act, (2) deduct such unpaid principal and so much of such unpaid interest as accrued prior to October 1, 1931, from the amount of the face value of the certificate, and (3) certify to the Secretary of the Treasury as payable an amount equal to the difference between the face value of the certificate and the amount so deducted.

SEC. 2. In the case of each loan heretofore made pursuant to law by the Administrator of Veterans' Affairs and/or by any national bank, or any bank or trust company incorporated under the laws of any State, Territory, possession, or the District of Columbia, upon the security of an adjusted-service certificate, any interest unpaid accrued subsequent to September 30, 1931, that has been or, in consequence of existing law, would be charged against the face value of such certificate shall be canceled insofar as the veteran is concerned, notwithstanding any provision of law to the contrary. Any interest on any such loan payable to any such bank or trust company shall be paid by the Administrator of Veterans' Affairs.

In the case of any such loan which is unpaid and held by a bank or trust company at the time of filing an application under this Act, the bank or trust company holding the note and certificate shall, upon notice from the Administrator of Veterans' Affairs, present them to the Administrator for payment to the bank or trust company in full satisfaction of its claim for the amount of unpaid principal and unpaid interest, except that if the bank or trust company, after such notice, fails to present the certificate and note to the Administrator within fifteen days after the mailing of the notice, such interest shall be paid only up to the fifteenth day after the mailing of such notice.

SEC. 3. (a) An application under this Act for payment of a certificate may be made and filed at any time before the maturity of the certificate (1) personally by the veteran, or (2) in case physical or mental incapacity prevents the making or filing of a personal application, then by such representative of the veteran and in such manner as may be by regulations prescribed. An application made by a person other than a representative authorized by such regulations shall be held void.

(b) If the veteran dies after the application is made and before it is filed it may be filed by any person. If the veteran dies after the application is made it shall be valid if the Administrator of Veterans' Affairs finds that it bears the bona-fide signature of the applicant, discloses an intention to claim the benefits of this Act, and is filed before payment is made to the beneficiary. If the death occurs after the application is filed but before the receipt of the payment under this Act, or if the application is filed after the death occurs but before mailing of the check in payment to the beneficiary under section 501 of the World War Adjusted Compensation Act, as amended, payment under this Act shall be made to the estate of the veteran irrespective of any beneficiary designation. If the veterans dies without making a valid application under this Act no payment under this Act shall be made. If the veteran dies on or after the passage of this Act without having filed an application under section 1, in making any settlement there shall be deducted on account of any loan made on an adjusted-service certificate only interest accruing prior to October 1, 1931.

(c) Where the records of the Veterans' Administration show that an application, disclosing an intention to claim the benefits of this Act, has been filed and the application cannot be found, such application shall be presumed, in the absence of affirmative evidence to the contrary, to have been valid when originally filed.

(d) If at the time this Act takes effect a veteran entitled to receive an adjusted-service certificate has not made application therefor he shall be entitled, upon application made under section 302 of the World War Adjusted Compensation Act, as amended, to receive, at his option, under such rules and regulations as the Administrator may prescribe, either the certificate under section 501 of such Act, as amended, or payment under this Act.

SEC. 4. The amount certified pursuant to section 1 of this Act shall be paid to the veteran or his estate on or after June 15, 1936, by the Secretary of the Treasury by the issuance of bonds of the United States, registered in the name of the veteran only, in denominations of $50 or multiples thereof having a total face value up to the highest multiple of $50 in the amount certified as due the veteran, and the difference between the amount certified as due the veteran and the face amount of the bonds so issued shall be paid to the veteran or his estate by the Secretary of the Treasury out of the fund created by section 505 of the World War Adjusted Compensation Act, as amended. The bonds shall be dated June 15, 1936, and shall mature on June 15, 1945, but shall be redeemable at the option of the veteran or his estate at any time, at such places, including post offices, as the Secretary of the Treasury may designate. Such bonds shall be issued under the authority and subject to the provisions of the Second Liberty Bond Act, as amended, and shall not be transferable, assignable, subject to attachment, levy, or seizure under any legal or equitable process and shall be payable only to the veteran or, in case of death or incompetence of the veteran, to the representative of his estate. Interest on each bond issued hereunder shall accrue at the rate of 3 per centum per annum from June 15, 1936, to date of maturity or payment of the principal of the bond, whichever is earlier, and will be paid with such principal: *Provided, however,* That no interest will be paid on any bond redeemed prior to June 15, 1937. The provisions of this section shall be carried out subject to regulations of the Secretary of the Treasury to be issued from time to time to effectuate the purposes of this Act.

SEC. 5. The Secretary of the Treasury is authorized and directed to redeem from the United States Government life insurance fund all adjusted-service certificates held by that fund on account of loans made thereon, and to pay to the United States Government life insurance fund the amount of the outstanding liens against such certificates, including all interest due or accrued, together with such amounts as may be due under subdivision (m) of section 502 of the World War Adjusted Compensation Act, as amended. The Secretary of the Treasury is authorized and directed to make such payment by issuing, to the United States Government life insurance fund, bonds of the United States which shall bear interest at the rate of 4½ per centum per annum. No such bonds shall mature or be callable until the expiration of a period of at least ten years from date of issue, except that any such bond shall be redeemed by the Secretary of the Treasury and the principal and accrued interest thereon paid to the United States Government life insurance fund at any time upon certification by the Administrator of Veterans' Affairs that the amount represented by such bond is required to meet current liabilities. Bonds issued for the purposes of this section shall be issued under the Second Liberty Bond Act, as amended, subject to the provisions of this section.

SEC. 6. The adjusted-service certificate fund is hereby made available for payments authorized by this Act.

SEC. 7. Notwithstanding the provisions of Public Law Numbered 262, Seventy-fourth Congress, approved August 12, 1935, no deductions on account of any indebtedness of the veteran to the United States, except on account of any lien against the adjusted-service certificate authorized by law, shall be made from the adjusted-service credit or from any amounts due under the World War Adjusted Compensation Act, as amended, or this Act.

SEC. 8. There is hereby authorized to be appropriated such sums as may be necessary to carry out the provisions of this Act.

SEC. 9. If any provision of this Act, or the application thereof to any person or circumstance, is held invalid, the remainder of the Act, and the application of such provision to other persons or circumstances, shall not be affected thereby.

SEC. 10. This Act may be cited as the Adjusted Compensation Payment Act, 1936.

TESTIMONY OF BRIG. GEN. FRANK T. HINES, ADMINISTRATOR OF VETERANS' AFFAIRS

The CHAIRMAN. Gentlemen, you have before you two bills relating to the bonus question. One is the so-called Vinson bill, which has passed the House. The other is a bill which was introduced today and referred to this Committee, the authors of which were Senator Clark, Senator Byrnes, Senator Steiwer, and myself. We worked largely in collaboration with Senator Robinson and he gave the bill his approval.

The bill which was introduced today is the outgrowth of many conferences between the heads of the veterans' organizations, and numerous Representatives and Senators. It differs from the House bill—as will be explained by General Hines, who is thoroughly familiar with this matter—in the main in two particulars. There are some other differences.

The House bill did not call for any particular method of payment, except it provided for an authorization of appropriations, presumably to be paid in cash. The bill which was introduced today provides for the payment of the face value of the certificates in bonds of $50 denomination, nonnegotiable, drawing 3 percent interest, but to be cashed at full face value at any time at the option of the party holding the bonds.

Senator WALSH. Does the 3 percent interest extend indefinitely?

The CHAIRMAN. The 3 percent interest extends to 1945, the maturity date of the certificates. The bonds are to be issued as of the date of June 15, 1936, because that is the time the Government does its refinancing. We thought it was better for the Government, and there is no objection to that upon the part of the veterans' organizations. If the bond is cashed before June 15, 1937, the holder gets no interest. He has to wait until June 15, 1937, in order to get the 3 percent interest. After that, the same condition does not obtain. The Treasury had their views with reference to that. They thought it would be an encouragement for the ex-service men to hold the bonds, and so forth.

Senator GEORGE. If cashed within the first year——

The CHAIRMAN. If cashed within the first year, they get full face value.

Senator GEORGE. But no interest?

The CHAIRMAN. But no interest. If the holders of the bonds wait until June 15, 1937, they can get the full face value plus the 3-percent interest.

Senator GEORGE. As I understand, Mr. Chairman, the interest after June 15, 1936, if payable for more than a year, until 1945, is cumulative, not payable annually or semiannually?

The CHAIRMAN. That is right.

Senator CONNALLY. Wait a minute; let me understand that. If a man holds his bond from the 1st of July 1936, until the 1st of July 1937, he then gets interest from the date of issue?

The CHAIRMAN. From the 15th of June 1936.

Senator BARKLEY. If he cashed the bonds on the 15th of June 1937, he would get 1 year's interest.

The CHAIRMAN. That is right.

Senator BARKLEY. At any time before that he would get no interest, but would get full face value?

The CHAIRMAN. That is right.

Senator BARKLEY. Then after June 15, 1937, he would get cumulative interest until 1945, or such other time as he held it?

The CHAIRMAN. Yes.

Senator CONNALLY. Compounded?

The CHAIRMAN. No; simple interest.

That is one of the main differences—in fact, the main difference. The other is that the so-called Vinson bill, passed by the House, canceled all interest. This bill does not cancel all interest, but does cancel the interest prior to 1931.

Senator BAILEY. It is the interest subsequent to September 30, 1931; is it not? I refer to the bottom of page 2 of this unnumbered bill?

General HINES. I think you have covered the two main differences.

The CHAIRMAN. If it is interest due the Government prior to 1931, they have to pay that interest?

General HINES. Yes; all interest that has accrued.

The CHAIRMAN. But if it is interest that has accumulated since that date, it is canceled.

Senator WALSH. On the theory that it was difficult for the veteran to pay during the depression, I suppose?

General HINES. No; it is on the theory that if the basic credit without the $60 deduction had been paid when it was really earned, and a 6 percent rate of interest allowed up until October 1, 1931, that would have been about the date that the certificates would have matured. That is the theory of it.

Senator CONNALLY. Let me ask you a question, General. You cancel all the interest that is due; but suppose a party has borrowed, and has been paying his interest: What do you do for him?

General HINES. There is no refund of interest. That has been taken out. It was originally in the Vinson bill, and was taken out by the House committee.

Senator CONNALLY. If you do not refund to the fellow who paid his interest when you refund to the other fellow who did not pay his, you are penalizing the thrifty man who discharged his obligations, and you are giving a reward to the sorry fellow who did not.

General HINES. I will say something about that as I go along.

Senator BARKLEY. General, what is the date of the last loan act, providing for a 50-percent loan?

General HINES. February 27, 1931.

The CHAIRMAN. There is another difference. In the House bill, if an ex-service man owning a certificate was indebted to the Government, whether the H. O. L. C., the Federal Land Bank, or what not, this money would not be paid to him until that debt was cleared up. We did not think that was fair; so now it exempts the man who owes the Government except where the certificate is actually put up to the Government as security for some loan that has been made, and so forth. To that extent the bill liberalizes the measure in favor of the ex-service man.

Senator BARKLEY. None of those certificates have been put up for other loans, except those involving the borrowing of money on the certificates; have they?

General HINES. That is all.

The CHAIRMAN. No; but the Vinson bill would have given that interpretation to it.

Senator BARKLEY. In other words, if the ex-service man has borrowed money from the Home Owners' Loan Corporation, or the Farm Credit Administration, or any other, he would not get his pay.

The CHAIRMAN. No; they could take it out.

Now, General Hines, will you make a statement to the committee explaining those two bills?

General HINES. Mr. Chairman and gentlemen of the committee. I doubt if the committee would desire that I should review the history of the bonus legislation. I think you are familiar with it. You have had extensive hearings on it. I will simply remind you of the basis of the credit.

As you will recall, almost immediately after the armistice the first bill that you voted out was a bonus of $60 to these men, presumably to enable the men who had no funds, or not sufficient funds, to equip themselves, to fit themselves out with a suit of clothes, and enable them to get a start.

Then from that time until 1924 you had various measures before the Congress. Finally, in 1924 a bill was passed allowing a basic adjustment of $1 for every day served in the United States, and $1.25 a day for every day served over-seas, with a limitation of $500 for home service and $625 for overseas service.

Many methods of payment were discussed—cash payment, rehabilitation, etc.—but finally it was concluded by the service organizations and the Congress that the best form at that time was to take the basic credit, which was a dollar a day or a dollar and a quarter a day for the total number of days served, deducting from that the first 60 days on the theory that $60 had been paid in the first bonus, adding to that 25 percent, using the aggregate amount as a net single premium, and purchasing for these men at the particular age, according to the American experience table of mortality, with 4 percent interest compounded annually, a paid-up 20-year endowment insurance policy. The value indicated on the certificates was not the basic value of the bonus which you originally voted, but it was the value that the certificate would have 20 years from that date. Most of these certificates were issued with the date of January 1, 1925. Therefore, they would mature January 1, 1945.

It was originally provided that loans would be made to the veterans after the certificates had been issued 2 years. It was contemplated originally that the loans would be made by banks and trust companies, and that the rate of interest would be 2 percent above the discount rate in the Federal reserve district for 90-day paper.

Banks, however, were not particularly anxious to handle the loans. Therefore, we appeared before Congress and requested that authority be given to make loans from the Government's converted insurance fund. That is a trust fund providing for the payment of converted insurance, where the men have converted from the war-time insurance to commercial forms of insurance. The Veterans' Administration suggested to the Congress that that fund make loans to the veterans

To November 30, 1935, there had been issued 3,737,123 certificates. You will recall also that in the original act those men who had a basic credit of $50 or less were to be paid in cash. They were paid in cash either to the veteran or to his dependents, in the event of his death, in quarterly installments. The others who had a credit over $50 were issued the adjusted service certificates with a maturity or face value on November 30, 1935, of $3,683,536,660, the majority of which would mature in 1945, and the rest after that date, of course.

Of these certificates, 218,932 had become matured, due to the death of the person to whom they were issued, and $218,548,330 had been paid thereon. In other words, 218,932 certificates had matured and been paid, leaving 3,518,191 certificates in force, with a maturity or face value of $3,464,988,330.

The basic credit—that is, the adjustment at the rate of $1 and $1.25 per day—represented by the maturity value of the outstanding certificates is $1,377,950,134. The present value of these certificates, if they had a cash surrender value, on the same date—I am referring to all these as of November 30—would be $2,187,998,155, if only the earned portion of the additional credit granted because of the deferred payment was allowed; and if the full additional 25 percent which is added is allowed, the present value of the certificates on this basis would be $2,420,821,127.

The original act, as I have explained, permitted the loans on the certificates from banks and trust companies. Then afterward it permitted them from the Government converted insurance fund, and then finally from the adjusted-service certificate fund.

Senator BARKLEY. General, do you mean that after deducting the amount paid to the 218,000 veterans who died, amounting to $218,548,330, and deducting the amount borrowed under the 50-percent loan act——

General HINES. No; I have not quite reached that.

Senator BARKLEY. Go ahead, then.

General HINES. Effective February 27, 1931, you granted authority for making loans from the adjusted-service certificate fund. This is the fund which was created for the purpose of accumulating the necessary reserve in order to meet the maturity value of the certificates. This amendment discarded the actuarial basis upon which the loans were formerly made by authorizing, instead of the actuarial loan value as provided in the certificates, loans up to 50 percent of the face. At the time that was passed, the actuarial loan value was about 22½ percent of the face; so that you granted authority for the ex-service men to borrow up to 50 percent even though the certificate did not entitle the holder to borrow more than 22½ percent.

Senator CONNALLY. As a matter of fact, we permitted the men to borrow practically the then cash surrender value?

General HINES. In some instances more than the cash surrender value. Later on, the rate of interest was changed to 4½ percent. Then, finally, in July 1932, the interest charge was reduced to 3½ percent, which is the present rate.

This amendment had the effect of permitting veterans to borrow at a rate of interest the maximum of which was one-half of 1 percent less than that allowed on the adjusted service credit in accumulating the maturity value.

On December 31, 1934, 3,026,190 certificates had been borrowed upon, and the liens against these certificates aggregated $1,763,144,548

In taking up the Vinson bill I will cover the standing of the fund at this time.

The Vinson bill, in effect, declares the certificates immediately payable. The chairman has very well outlined its main provisions. The certificates in force are declared immediately payable. The interest that has accrued and that has not been paid by the veterans is forgiven, and authority is given for the Secretary of the Treasury to issue to the Government insurance fund, which holds $490,000,000 of these certificates, bonds paying the rate of 4½ percent to cover the loans on those certificates. It also provides that an appropriation be made to cover whatever is necessary to carry out the provisions of the bill.

Provision is made that any loans in the hands of the banks, after 45 days' notice, will be turned in to the Veterans' Administration, and the amount due for whatever loan is made by the bank, plus accrued interest, will be paid to the bank, but the veteran will only be charged with the amount that he has borrowed against the face value of the certificate.

Senator WALSH. What would the appropriations have to be to carry out the provisions of the Vinson bill?

General HINES. The maturity value of the outstanding certificates, as I have indicated, is $3,463,000,000. The interest to be forgiven, which we would add to that amount, is $297,350,000. That makes a total of $3,760,350,000.

Senator BARKLEY. That does not include the appropriation?

General HINES. I haven't reached the appropriation yet. The value of the adjusted-service certificate fund at this time is $1,471,000,000. The difference between the maturity value of the certificates, plus the interest to be forgiven, and the value of the adjusted-service certificate fund, leaves a balance of $2,289,350,000.

Now, I call your attention to this fact: Some 500,000 veterans have not borrowed on their certificates.

Senator GORE. That is 500,000?

General HINES. Five hundred thousand veterans have not taken advantage of the existing law to borrow on their certificates. How many of those, with the inducement given in the Vinson bill—and that inducement is that if the veteran holds his certificate from the date of the passage of the act he is allowed 3 percent interest, under the Vinson bill—how many of those will continue to hold those certificates I doubt if anyone can say accurately. Mr. Vinson, and those in the House sponsoring the measure, felt that those men who have not borrowed, and probably others who have borrowed, with the inducement of holding their certificates and receiving 3 percent interest, would not present their certificates for immediate redemption.

It is provided, as I stated, to cover the amount of $490,000,000 in the Government's converted life-insurance fund by the issuance of Government bonds. So we would have those two amounts, and that would approximate, as you can readily see, $1,000,000,000, if the 500,000 veterans did not cash in, and $490,000,000 was paid to the Government insurance fund by bonds which would be deductible from any amount to be raised.

You have another item that bears consideration and that is the amount due the banks, which we estimate at $60,000,000. Your new Vinson bill would require that to be turned in within 45 days.

Senator CAPPER. General, may I ask what is the amount required to be appropriated?

General HINES. We feel that the authorization should be for the full amount. How much cash would have to be raised and how rapidly would depend, of course, upon how many veterans in their applications indicated whether they were going to hold their certificates or ask for cash.

Senator BARKLEY. General, let me ask you, I haven't got it clear yet, how much the net balance is after deducting all the money that has been borrowed by veterans on their certificates?

General HINES. The net amount payable to the veterans would be $1,992,350,000.

Senator BARKLEY. That is after deducting what they owe the Government?

General HINES. That is after deducting what they owe the Government and banks. In other words, that would cover all the liens against the certificates.

Senator BARKLEY. And that $2,000,000,000 includes the 500,000 who have not borrowed it all and who may or may not cash their certificates, depending upon their own volition?

General HINES. That includes the total face value of all certificates outstanding and the forgiving of the interest.

Senator GEORGE. How many certificates are unissued for which application may be made?

General HINES. It is rather a difficult thing for us to estimate how many veterans are still eligible for their certificates.

Senator GEORGE. Who have not made application?

General HINES. Who have not made application for them, but I think Mr. Breining feels—and Mr. Breining has had a lot of experience with this—that it is somewhere between 200,000 and 250,000.

Senator GEORGE. Does this substitute bill make provision for the payment of this, whether they apply for them or receive them?

General HINES. Yes. The Vinson bill does not change that feature of the original act. A man could apply for and take cash, or he could take a certificate and hold it, whichever he wished. It in no way curtails those, and you can apply up to January 2, 1940, under a bill which we passed last year, that is, the last session of Congress.

Senator Gore. Is it not 200,000 that could do that?

General Hines. I would not say the exact number.

Senator Gore. Whatever the number is.

General Hines. It is somewhere between 200,000 and 250,000, I should say.

Senator George. Would they receive the face value of the certificates?

General Hines. Yes, sir.

Senator George. The veteran who has not applied for it up to now would receive that?

General Hines. Yes.

Senator George. He would not merely be compelled to take the adjusted certificates amount?

General Hines. He would have an option of either taking the certificate and holding it—I am speaking now under the Vinson bill—holding it and receiving 3 percent, compounded annually, or take cash for the face value. There would be no lien against it, therefore he would have a right to take cash.

Senator Barkley. If we could assume the 500,000 who had not borrowed but would hold to maturity in 1945, have you computed then how much would be required to pay the balance due on the certificates on which there have been loans made?

General Hines. I want to make sure I understand your question. Your question, Senator, as I understand it, is that if the 500,000 who have not borrowed held their certificates, and we pay the $490,000 to the Government's converted insurance fund, you want to know the amount of cash that would be required?

Senator Barkley. Yes.

General Hines. The amount of cash that would have to be raised assuming all the rest?

Senator Barkley. Yes.

General Hines. It would amount to $1,500,000,000 and some odd dollars.

Senator Gore. Let me ask you a question there, General. This Vinson bill, as I understand it, provides that those who have not borrowed from anybody else, and continued to hold their certificates, and all the unaccrued interest between now and 1945 is assumed to have been accrued, and the full face value, including that unaccrued interest, is to bear 3-percent compound interest?

General Hines. No; that is not exactly it. If a man has not borrowed on a certificate he has a $1,000 certificate that he has not borrowed on. If the Vinson bill became a law today he would have an option of holding his $1,000 certificate and receiving from today 3 percent interest, until January 1, 1945. Now, if a man has borrowed on his certificate, the Vinson bill provides that only the amount he has borrowed be deducted, and not the accrued interest, the accrued interest is forgiven from the amount to be paid him, or he still has the option of retaining his certificate and receiving interest at 3 percent, from the date of the passage of the bill, on the balance of his certificate, that is, the amount that he has borrowed, not deducting interest, at 3 percent, if he desires to hold it.

Senator Gore. Suppose a man has a certificate of $1,000 and has not borrowed on it. Under this Vinson Act would he draw 3 percent interest on that $1,000 until 1945?

General HINES. That is right.

Senator GORE. That is what my question was. One thousand dollars face value assumes that the unaccrued interest has been included.

General HINES. Now the other bill which the chairman has described to you differs from this bill in two particulars. In the first place, it declares that the face value of the certificates, with all interest forgiven after September 30, 1931, becomes due June 15, 1936.

Senator GORE. 1936?

General HINES. June 15 of this year. It forgives all of the interest after September 30, 1931. You will recall that a bill of that character passed the House and the Senate last year. The theory of fixing October 1, 1931, as the date upon which interest after that date would be forgiven is based on the thought that if the basic credit had been paid these men when it was due, say, the date of the armistice, although it carries it back before that, it is an average date, and they were allowed the same rate of interest that was paid on the adjustment of other Government contracts existing when we finished the war, that the certificates themselves would have been due October 1, 1931. Thereafter all interest is forgiven.

Senator CONNALLY. It does not disregard the 25-percent bonus?

General HINES. No; this takes in the 25-percent bonus. The basic credit is the same. This relates to the forgiveness of interest.

Mr. Breining corrects me. He says 25 percent is not in on the basic credit, but that it does take in the $60 deducted under the original act.

The next important feature in the bill is that instead of the payment in cash this provides that bonds of the smaller denominations, $50 bonds, in multiples of $50, will be paid to the men, they having the option, of course, of cashing those bonds in at any time after they are issued. If they cash them in before June 15, 1937, they do not receive interest. If they cash them in any time afterward they do receive interest.

The amounts under this plan differ with the Vinson bill in this respect: The matured value of the certificates as of June 15, which is a little different date than I used before, would be $3,456,000,000, and with the interest forgiven, which is a smaller amount than the other, $263,000,000, it would give a gross value of $3,719,000,000.

The sources of funds would be these: The adjusted-service-certificate fund on that date we estimate would be worth $1,482,000,000. Appropriation required would be $2,237,000,000.

The disposition would be made something along these lines:

To the veterans, in bonds, $1,836,213,950. In cash, which would be the odd amounts where the multiples of $50 did not exactly equal the total amount due, $87,786,050.

The amount due the Government life-insurance fund which would be paid in bonds would be $507,000,000, and the amount to be paid to the banks in cash would be $60,000,000. So that you would have approximately $147,000,000 in cash, and the balance in bonds.

The CHAIRMAN. How much cash is there in that fund now?

General HINES. $254,000,000. It is not in cash. It is in Government securities which are readily convertible into cash. That would have to be sold to provide cash, if the balance were needed.

The CHAIRMAN. The balance is mostly in these certificates or secured notes?

General HINES. The rest in the fund is made up of the notes, with your advances made to veterans. The bonds, as I have stated, in the fund, which would have to be converted into cash, are $254,000,000, and the liens are $1,228,000,000, which makes the net worth of the fund $1,482,000,000.

The question of how many veterans would immediately cash their bonds, of course, is conjectural, those who hold their certificates will receive 3 percent. These bonds are attractive. They are non-negotiable, registered in the name of the veteran. That is done for a reason which I think is apparent to the committee, for the purpose of not having any third party receive any benefit from the bonds. It is of no disadvantage to the veteran, unless it may be claimed that if the bonds were negotiable he would have the opportunity of selling a 3-percent bond at this time above par. He is guaranteed always par on his bond, and, of course, by not immediately throwing a large number of bonds on the market, I think he is protected in those bonds in a respect he might not otherwise be.

Senator BARKLEY. Would it also tend to prevent the possibility of private interests taking advantage of the veterans who might find a convenient place to cash their bonds at a considerable discount rather than to wait?

General HINES. It certainly would do that.

Senator CONNALLY. Does the Government set up any agencies where the veteran may get the money, if a large amount of veterans come in?

General HINES. After the bonds are issued, the veterans then proceed to cash them. The agencies that will be permitted to cash them will be set up, as I understand it, at places convenient to the veterans. It has been suggested that the post offices be permitted to cash them.

Senator BARKLEY. What is the maturity date of these baby bonds?

General HINES. The date of maturity would be June 15, 1945. They are 10-year bonds.

Senator CONNALLY. General, I want to ask you a question. What is the difference between the $1,000 certificate and what the veteran would have gotten if that amount had been calculated at 4 percent compound interest up to 1945?

General HINES. We worked that out last year, if you will recall.

Senator CONNALLY. I do not recall. That is the reason I am asking you.

General HINES. Under the Harrison bill, where we took the basic credit without the 25 percent, and added 4 percent of that amount compounded annually up to any date, we had it calculated from November 11 through 1945.

Senator CONNALLY. How much more would he have gotten if he had taken the straight 4 percent compound interest?

General HINES. He would not get any more than he does now.

Senator CONNALLY. He would not get as much, because the insurance gives him something.

General HINES. You see the 25 percent added increased the amount quite rapidly.

Senator CONNALLY. That was in lieu of interest from 1918 to 1925, which was 7 years.

General HINES. We have never felt that that was the purpose of the 25 percent. As I explained to the committee last year, there was a difference of opinion on it, but we have always felt, in looking back over the hearings, that the 25 percent was added having in view the deferred payment and somewhat of a sweetening process of the proposition, to get the veterans to save that amount.

Senator CONNALLY. It looks to me as if he had gotten the 4 percent from 1918 compounded up to 1945 that that would amount to more than the basic credit, because the basic credit, which is somewhat large, was made for the carrying of this insurance.

General HINES. That is a very small item, however The basic credit is $1 a day, or $1.25 a day, for the number of days the man served.

Senator CONNALLY. Plus 25 percent.

General HINES. Plus 25 percent. It has always been my theory—others differ with me, however—that that 25 percent was added because of the deferred payment. Instead of paying cash at that time, they deferred it 20 years; therefore it increased the amount by 25 percent.

Senator BARKLEY. General, if we could assume that every holder of these certificates would cash them, either under the Vinson bill, or cash the bond which is to be issued under the substitute bill, would there be any difference in the net amount required to pay them?

General HINES. Yes; there is a slight difference. In the first instance, the total amount, if they all cashed in, the total appropriation required would be $2,289,350,000. Now, I am assuming, of course, that in both cases you are going to pay the Government life insurance in bonds, which is $490,000,000, or we would call it $500,000,000, which would be deducted from that, which would give you $1,789,-350,000 in addition to the $254,000,000 available in the fund.

Now, in the other case, under this all-bond proposition, with odd amounts in cash, you have the total appropriation required of $2,237,-000,000, and under the same circumstances if the $507,000,000 is issued in bonds to Government life insurance you get approximately $2,000,000,000. They are very close together.

Senator BARKLEY. There is substantially no difference if we could assume that everybody would come in and get the cash?

General HINES. That is right.

Senator GEORGE. As I understand, under this bill, speaking of the Harrison bill, the full face value of the certificate is payable when that certificate is issued, even in the case where there has been no application made?

General HINES. The man would make application and at that time would indicate what he wanted to do.

Senator GEORGE. Suppose he dies before making the application?

General HINES. Then it would go to his estate.

Senator GEORGE. The full face value would go to his estate?

General HINES. The full face value would go to his estate.

Senator GEORGE. I wanted to get that clear. I am not sure that that is clear now in the language of the bill.

General HINES. Either the veteran or his heirs would make application.

Senator GEORGE. Now is the basic law in that respect changed, General? The basic law did not give you the full face value. If the veteran died without having made application, he only got his adjusted certificates.

General HINES. He got his basic credit.

Senator GEORGE. He did not get the full face value of the certificates.

General HINES. Not unless the certificate was issued.

Senator GEORGE. That is right. Now I am asking if, in the event a veteran dies without having made application, is he to receive the full face value of the certificate?

General HINES. The provisions of the original act have not been changed by this, as we have it now.

Senator GERRY. This new bill provides for the issuance of these bonds in $50 or multiples of $50. The mechanics, then, in the case of the man who had borrowed 50 percent, would be to find the balance due him, after forgiving interest?

General HINES. That is right.

Senator GERRY. There would be all sorts of odd sums that would not be multiples of $50. How do you work that out?

General HINES. Suppose he had $400 due in one case, then he would be entitled to eight $50 bonds. In another case, where we had one who had a credit left of $425, he would get eight bonds and $25 in cash.

Senator Connally, we will have that information for you. It is $1,115.

Senator CONNALLY. You mean, if it had been compounded at 4 percent it would be $1,115?

Mr. BREINING. That is only on the basic credit.

Senator CONNALLY. General, do not you think that the second lieutenants and first lieutenants who went in and joined the Regular Army and then quit after the war ought to be recognized in this bonus?

General HINES. We have had that up several times. Of course, the basic credit is certified to us by the War and Navy Departments. They have never felt those men should be included, because they at one time had the opportunity to become Regular officers, and for that reason they never included them.

Senator CONNALLY. They were not Regular officers, they were just provisional officers. They could have been Regular officers if they stayed in, but they did not stay in. I think they ought to be paid just like the other lieutenants.

General HINES. The Congress has considered that at one or two times, and has never brought out a bill.

Senator CONNALLY. I wish you would have somebody draw up an amendment, and I will offer it.

General HINES. We reported on several bills, and have indicated the cost, but I think the War Department has always put in an adverse report on it, as far as I know.

Senator BAILEY. It would take $112,000,000, on the actuarial basis, to mature these certificates in 1945. Am I right about that?

General HINES. That is not exactly correct, Senator. Originally we asked Congress each year for the actuarial amount, which would give us the proper reserve for the number of certificates issued.

Senator BAILEY. Would it not come to that?

General HINES. It does not. For instance, this year our estimate on bringing the fund up to date was $190,000,000.

Senator CLARK. That is because it has not been kept up.

General HINES. It might not have been $112,000,000. We based it on the number of certificates outstanding at the time our estimate went in.

Senator BAILEY. I understood it was not less than $100,000,000.

General HINES. They had appropriated, Senator, as small an amount as $50,000,000.

Senator BAILEY. Would it not require at least $100,000,000 a year to secure these certificates?

General HINES. It would require about $124,000,000 a year at present.

Senator BAILEY. Then, assuming that $124,000,000 a year would go out to pay $2,237,000,000, that is, under this combination bill, 2½-percent interest on that is $55,000,000.

General HINES. Under that; yes.

Senator BAILEY. Deduct the $55,000,000 from $124,000,000 and that gives you $69,000,000 surplus, after paying interest. You multiply that by nine.

General HINES. About 9½ years.

Senator BAILEY. That is about $700,000,000 that you save on your actuarial basis, is it not, on the principal?

General HINES. Senator, we have got to retire these bonds, to raise the cash.

Senator BAILEY. You say it is $124,000,000 a year. Now, if you borrow that money, you do not have to pay but $55,000,000 a year. Theither is a credit against the principal, in one way or another.

General HINES. But the original theory was we would put in each year, only, sufficient to keep the reserve so that the amount invested, or that would have been invested, in previous years, at 4 percent, would mature the certificates at the end of 20 years.

Senator BAILEY. I realize that was shot to pieces, but that is what was in contemplation. It seems to me on this proposition you make no additional burden on the taxpayer for the next 5 years. On the other hand, you accumulate in 9 years a fund amounting to over $700,000,000, which would relieve the burden on the taxpayer by taking it from this principal of $2,237,000,000, and leaves the extra cost of $1,500,000,000, in round numbers. Am I right about that?

General HINES. The total cost, Senator, is going to be determined by an entirely different basis.

Senator BAILEY. I am assuming the original basis.

General HINES. Assuming that that is correct, if your basis is correct, you start off originally with the thought that this basic credit appropriated here would mature the certificates.

Senator CLARK. You think that Congress has not appropriated an amount sufficient to keep this fund up to date, that is the reason you take this way of recommending $194,000,000 instead of approximately $120,000,000, to bring the fund up to date?

General HINES. No. We have estimated always the amount required in the fund. The question of how much Congress appropriates to that fund was a matter which necessarily had to be left to the Congress.

Senator CLARK. I understand. I am not asking you to criticize the Congress. It is a fact that the Congress has not kept the fund on the actuarial standard necessary to maintain the fund intact, is it not?

General HINES. That is correct. It is short $64,000,000. I would not want to put it exactly as the Senator did.

Senator BARKLEY. What difference would it make? What is the difference as to what appropriation the Congress has to make?

General HINES. It would make this difference, Senator:

The longer you delay in making an appropriation, the less the fund could earn, and the earnings of that fund were an important factor in maturing the certificates.

Senator CLARK. As far as the soldiers are concerned, it would not make any difference.

The CHAIRMAN. Did we not provide for that when we appropriated about $400,000,000 in the fund?

Senator CLARK. $424,000,000 in 1931.

General HINES. That was the time we were making the 50-percent loans.

Senator BAILEY. How much we would have to consider on January 1, 1945, to mature these certificates, according to the original proposition?

General HINES. At the rate the fund is now earning, 3½ percent, Mr. Breining says it would be about $50,000,000 short. Then, of course, the act provides for appropriations up to 1946. We would have to make it according to the certificates outstanding. There are many factors involved, Senator, in the earnings on that fund. As you know, the maturity of the certificates, and the earnings on the fund, involve many factors. Now you know we are only charging on a great bulk of those investments one half of 1 percent less than we are paying on the fund.

Senator BARKLEY. Assuming under this bill that we are now considering that they are cashed, does either bill make provision with reference to the reduction of this annual contribution to this sinking fund, or what happens to it?

General HINES. It makes no reference to it.

Senator BARKLEY. Do you continue to go ahead and add to the fund?

General HINES. The fund is still left intact, but after the appropriation which I have stated as being necessary was made no further appropriations would have to be made to that fund.

Senator BARKLEY. As far as either one of these bills is concerned, that accumulation would continue until 1947?

General HINES. It might. On the issue of the bonds I am not sure what the Treasury would do, but I assume that the bonds would be appropriated for, because the bills contemplate whatever appropriation you mad es to the adjusted-service certificate fund.

Senator BARKLEY. Of course, if they were all paid off so there would be no need for that fund, then there would be that annual saving in the appropriation made by Congress.

General HINES. Provided you made no provision for the redemption of the bonds you are issuing to get the money.

Senator BARKLEY. Of course, you have got to pay for them. Presumably there would be $100,000,000 difference. The accumulation by January 1, 1945, would be sufficient to retire the bonds we are to issue in order to get the money to pay the cash.

General HINES. Not at the rate we are now appropriating. We would have to increase that.

Senator Barkley. It is a relatively small amount, compared to the $3,000,000,000?

General Hines. No; it would be a very sizeable amount.

Senator Capper. I am not clear yet as to the amount necessary to appropriate in this Congress to take care of the requirements of these two bills. What is the difference in the amount?

General Hines. Under the Vinson bill the amount you would have to appropriate would be, even if we assume that the 500,000 would not borrow, which would represent $500,000,000, or a half billion dollars, if they would hold their certificates, you would still have to appropriate $2,289,000,000, and we would feel justified in asking for the full appropriation of $2,289,350,000. Now, we have no way of telling how much of that would have to be called for in cash, until the veterans have indicated their choice of holding the certificates or receiving cash.

Senator Capper. You cannot say, then, which will would require more?

General Hines. Yes; I can definitely say that the bill suggested by the chairman, if it passes, the amount of cash outlay, of course, would be materially less, because it provides that there would be issued to the veterans bonds. Now, the immediate cash would be very much less; but if the veterans, when they receive the bonds, proceeded to cash them all in, there would be very little difference between the two bills.

Senator Gerry. What is the difference, taking into account the 500,000 veterans holding these certificates, under both bills?

General Hines. Are you assuming, Senator, that the veterans who have bonds of about an equal amount would hold the bonds the same as those that would hold the certificates?

Senator Gerry. Yes. I am just trying to get a general basis.

General Hines. I think there is this difference: There is the difference between $2,237,000,000 and $2,289,000,000. That is the difference between the two in the amounts required as an appropriation.

Now, if you deduct one of those amounts from the other, it would be $52,000,000, and that is accounted for, practically, in the interest and the different dates of the estimates.

Senator Gerry. In other words, by 1945 the amount you indicate would be about the same?

General Hines. It would be at present a difference in interest of about $61,000,000.

Senator Gerry. Which would cost $61,000,000?

General Hines. The Vinson bill.

Senator Gerry. The Vinson bill would cost $61,000,000 more?

General Hines. Yes.

Senator Gerry. At the same time, on the same basis, the amount would be about the same between the two bills?

General Hines. Yes.

Senator Gerry. In one case you would have to make an appropriation?

General Hines. In both cases you would certainly have to make an appropriation, but as to the amount of the bonds, until you get some idea as to how fast the bonds are going to be cashed, you could not tell exactly what amount of cash would be needed.

Senator Gore. The Vinson bill remits the interest?

General HINES. Mr. Breining tells me that the Treasury will want the money appropriated to that fund for the bonds just the same. If that is the attitude of the Treasury on this—and I expect Mr. Bell will be able to answer some of these questions—then the amount of the appropriation would just differ by $61,000,000. It would be $61,000,000 more in the Vinson bill than in the bill proposed in the Senate.

Senator BARKLEY. In either case, the amount which would have to be actually expended out of the appropriation would depend upon the rapidity with which these bonds or certificates were cashed?

General HINES. It would depend, in one case, in the case of the Senate bill, on the rapidity with which the veterans applied for their bonds; in the other case it would depend on how many veterans held their certificates and received 3 percent.

Senator BARKLEY. That is the same thing.

Senator COUZENS. Let me ask you this: Take for granted that we pass no legislation and the matters run as they are: What is the final additional cost to the Government through the enactment of either of these bills, assuming, of course, that there is no 3-percent paid for uncollected certificates?

General HINES. That is a very difficult thing to work out, but I should say it would amount to probably $1,300,000,000. In other words, you have to consider the fact that you are paying these certificates off 9½ years in advance of maturity.

Senator COUZENS. Whether the bonds are held or not, the Government finally has to liquidate the bonds?

General HINES. That is right.

Senator COUZENS. It is assumed, and, I think, correctly so, that either one of these bills is going to cost the taxpayers a very substantial amount more, in the final analysis, than if no law is passed now. I understand your estimate is $1,300,000,000.

Senator CONNALLY. It would cost about 3 percent for 9 years, that is all.

General HINES. If you take the present value as I have indicated here you get very close to $1,000,000,000 without considering the refund of interest.

Senator COUZENS. In other words, by this gratuitous increase to the veterans it is going to cost the taxpayers ultimately about $1,000,000,000 more, is that correct?

General HINES. That is about correct.

Senator BARKLEY. Why is it worth while, General Hines, to consider present values? Everybody knows the present value is not going to play any part in the payment of these certificates. Everybody knows that, in one form or another, they are going to be paid off before they are matured. Is it worth while to consider present value at all?

General HINES. The way I look at the proposition is this: The Congress in 1924 made a settlement. They have a right to revise that settlement if they wish and if, in their judgment, they feel that the original bonus was not sufficient. They desire now to revise that contract, which means the same as increasing the original bonus. Certainly that is the right of Congress in the matter. The veterans, I think, strongly feel that this amount should have been paid them immediately after discharge, and that the charging of interest and not paying them promptly justifies whatever additional cost is involved in the payment.

Senator Couzens. That additional cost is surpassing $1,000,000,000.

Senator Bailey. The argument, I think, is that back in 1924 we were prosperous and now we are in bad shape, and the only thing to do is to spend outselves out of it. Is that it?

General Hines. That would not be a fair statement for me to make.

Senator Barkley. Is it not true that in 1924, or thereabouts, we had enough surplus in the Treasury to have paid the then cash value of these certificates, almost without any additional appropriation?

General Hines. On that I cannot answer you, Senator. The judgment of those in authority at that time was that the cash was not available, and I think, coupled with that feeling on the part of those who handled it, was the fact that this form of settlement would be in the interest of the veteran in that it would give him something that would fall due at a time when it would be of more use to him, and I think the Legion took the stand then, in trying to pursuade the men to hold on to these certificates, that it would help them and their families later on.

Senator Barkley. I recall about that time we were reducing taxes every year, and in one of those years we had a surplus of over $900,000,000. I recall also, as a practical matter of legislation, we had to agree to a bill that could be passed, in view of the fact that thePresident would not sign any kind of a bill. We even had to pass this over the veto.

Senator Clark. The fact of the matter is the bonus was not paid when it was really earned, which was at the end of the war, when the men were discharged from the service and needed it, because of the haste of the Government to take off the excess profits tax and certain other taxes. If those taxes had been levied it would have paid off this bonus and obviated the payment of interest.

Senator Connally. Is it not true that the veteran organizations sponsored the bill?

General Hines. That might be said to be partly true. They accepted this settlement.

Senator Clark. That is not true.

Senator Connally. I say it is true, because I read it in hearings where they came before Congress and said they would be perfectly satisfied with that bill as it was drawn.

Senator Barkley. They took the position they were in favor of the cash bonus, but in lieu of getting that they accepted this.

Senator Gore. Is the interest that is due and unpaid to be remitted?

General Hines. Under the Vinson Bill the interest that has accrued is to be remitted or forgiven. That which has been paid is to remain paid, it is not refunded.

Senator Gore. The interest due is about $297,000,000?

General Hines. Yes, sir.

Senator Gore. What would that average on the soldiers who borrowed?

General Hines. Around about $85 a man.

Senator Gore. Now, the soldiers who have not borrowed, who have no interest accrued against them, would this be a discrimination against them?

General HINES. There is an inequality there, certainly, Senator Gore. I pointed out to the Ways and Means Committee that there were two inequalities that their attention should be called to: One, that the men who had not borrowed were being penalized, and the other was those 218,000 certificates that had not matured, that the accrued interest had been deducted. I suggested that they might give consideration to leaving the interest alone and paying the balance between the amount borrowed and the face value.

Senator CONNALLY. Well, they also penalized the man who borrowed and paid his interest.

General HINES. That is a small amount, after all, compared to the other.

Senator CONNALLY. It may be a small amount, but to the man himself it is an inequality.

General HINES. It is an inequality, nevertheless, gentlemen.

Senator BARKLEY. General, the passage of either of these bills finally disposes of the bonus question, does it?

General HINES. I would say, Senator, that you may have before you a proposition of equalizing interest between those that have not borrowed and those that have borrowed, and those who have paid.

Senator BARKLEY. I mean as far as the face value of the certificate is concerned, this is supposed to settle it?

General HINES. Oh, yes. That will settle it, so far as the certificates outstanding now are concerned, and the face value of them. It pays the face value in the certificate.

TESTIMONY OF D. W. BELL, ACTING DIRECTOR, BUREAU OF THE BUDGET

The CHAIRMAN. Mr. Bell, did you want to make any statement to the committee?

Mr. BELL. No, I do not. I have no statement to make.

Senator BARKLEY. I would like to ask Mr. Bell this: Do you anticipate any difficulty in the marketing of the bonds that will be required to pay the cash either under the Vinson Bill or under this substitute bill?

Mr. BELL. That is a rather difficult question to answer, Senator.

Senator BARKLEY. I realize you are not in a position to answer. Knowing the history of Government issues recently, do you anticipate any real difficulty in marketing these bonds?

Mr. BELL. It all depends, of course, on the economic conditions in the next 6 months.

Senator BARKLEY. Are the prospects that it will be very good?

Mr. BELL. Taking the past 6 months as a baiss and if payments are made gradually, probably there will not be great difficulty.

Senator COSTIGAN. Mr. Bell, what will be the procedure of paying the veteran who enters his bonds?

Mr. BELL. The two Senators are asking different questions.

Senator BARKLEY. He would not enter the bank to cash his bonds, he would enter some Government agency. The bank might handle it, but it cannot be negotiated.

Mr. BELL. If we pay in cash of course we would have to raise the money immediately by selling Treasury obligations. It would be necessary to sell such obligations on the market, just like any other

Treasury financing operation. If they come in gradually, say at the rate of $300,000,000 a month, it would take 5 or 6 months to complete the payment. If other Government financing were not heavy at the same time it would not in all probability have a material effect in the long range, but it would have some immediate effect. The immediate passage of this bill no doubt would create some shock to the market.

Senator COUZENS. Did not the President recently issue an order that the heads of departments were not to comment or state anything with respect to appropriations by Congress except that which was in accordance with the President's policy and approved by the Budget Bureau?

Mr. BELL. That is right.

Senator COUZENS. Is that true in this case?

Mr. BELL. Well, sir, I am here representing the Treasury and I am trying to give the committee information that they may want, subject to that rule.

Senator BARKLEY. That rule was promulgated in order to keep irresponsible heads of divisions in the different branches of the Government from issuing statements that had not been submitted to some higher authority. It certainly did not apply to the testimony of Government officials before the committee.

Senator CONNALLY. It applied only up to the time of the Government Budget appropriations.

Mr. BELL. It applied, Senator, to anybody appearing before a congressional committee, that they must, in appearing, state that they are appearing to furnish such information as they may have, but in no way expressing the views of the Administration on policy matters, unless before appearing they have ascertained those views.

Senator CONNALLY. Of course, we know that.

Mr. BELL. That is what I am doing. I am not expressing any Administration viewpoint on the merits or demerits of the proposed legislation.

Senator CONNALLY. What Senator Couzens had in mind was they were prohibited from coming here and testifying about financial matters or appropriations unless they had first consulted the Budget Bureau, and that their views were in accordance with them. I understand that rule did not apply after the Budget had been submitted to Congress.

Mr. BELL. It does apply.

Senator CONNALLY. After the budget had been submitted to Congress?

Mr. BELL. Yes.

Senator COUZENS. Sure; that is the purpose of it.

Mr. BELL. They are not prohibited from testifying, but when they do testify they are to state that they are before the Committee to give information and factual data, and they are not expressing the views of the Administration, unless ascertained beforehand.

Senator BARKLEY. It was not necessary to issue an order of that sort anyway.

Mr. BELL. That has been the policy for a good many years. It is not altogether a new policy.

Senator BARKLEY. That has been the policy all along. A man comes before the committee to give an expert opinion or to give facts. That is not the expression of policy.

Mr. BELL. That has been the policy for a good many years.

Senator BAILEY. If we pass this bill the Treasury would be called upon to pay $1,500,000,000 within a short time, is that not true?

Mr. BELL. If I understand General Hines' figures, yes; that is about correct.

Senator BAILEY. You represent the Treasury. Are you not willing to tell us? I would like to know.

Senator CONNALLY. How is the bond market?

Senator BAILEY. I do not think we ought to ask without the advice of the Treasury. If it is going to injure the credit of the Government or embarrass the Treasury I think the Treasurer ought to tell us about it.

Mr. BELL. I will tell you, Senator, it is very hard for anyone to say exactly what effect the passage of this bill will have on the credit of the Government.

Senator BAILEY. We borrowed five billion dollars last year, did we not, or four billion?

Mr. BELL. Less than three billion dollars in the calendar year 1935.

Senator BAILEY. Now, this two billion on top of that, that would be five billion, within the fiscal year, would it not?

Senator BYRD. There is a lot more to be borrowed between now and the first of July.

Senator BAILEY. That is five billion, without considering other appropriations. It will run to six or seven billions of dollars in one fiscal year. Will the addition of $2,200,000,000 to the public debt at this time, which must be realized in cash, embarrass the Treasury?

Mr. BELL. As stated previously, that is a difficult question to answer.

Senator BAILEY. I am going to ask the committee to send for Mr. Morgenthau. I think the Finance Committee of the Senate ought to know that fact before we take any steps. I want to know it. I am not going to take the risk. I do not know whether it will embarrass the Treasury or not. I sometimes think we cannot embarrass them.

Senator BARKLEY. In the first place I think the Senator made an unintentional error there in assuming $2,200,000,000 would be required. General Hines testified $1,700,000,000 would be the maximum required in new financing.

Senator BAILEY. Put it that way. That is on top of somewhere between three and five billions within this fiscal year.

Senator BARKLEY. The amount will depend upon how early P. W. A. goes forward with its project under the works program.

Senator BAILEY. They are supposed to finish that July 1st.

Senator GERRY. Mr. Bell, General Hines said that the Treasury would ask for the total appropriation under either bill. How much would the Treasury ask for?

Mr. BELL. I take it it will be $2,200,000,000 in either case. Approximately $2,200,000,000.

Senator GERRY. Even under Senator Harrison's bill?

Mr. BELL. Yes, sir.

Senator GERRY. It would ask for the same amount practically in either event?

Mr. BELL. I should think so; yes, sir.

Senator GERRY. Thank you.

General HINES. There is $61,000,000 difference.

Senator GERRY. It is $1,200,000,000.

Mr. BELL. $2,200,000,000.

General HINES. $2,237,000,000 in the Harrison bill, or the bill with which the Senate is concerned, and $2,289,000,000 in the other.

Senator BARKLEY. What is the present average market value of Government securities?

Mr. BELL. The average rate of interest on the interest-bearing debt today is about $2\frac{1}{2}$ percent.

Senator BARKLEY. What is the average price at which they are selling?

Mr. BELL. Of course, that depends on the maturity and the rate of interest. I will give you some prices and yields if you would like to have them. The $2\frac{3}{4}$ percent Treasury bonds, callable in 1945 and maturing in 1947 sold last week, that is January 11th, at $101\frac{11}{32}$.

The CHAIRMAN. They are negotiable?

Mr. BELL. Yes.

Senator BYRD. Have you got a 10-year bond there? About what rate of interest does that carry?

Mr. BELL. That is practically a 10-year bond. It is really 9 plus. That is just about what the market rate is at the present time. It is a little under $2\frac{5}{8}$ on the 9- and 10-year bond.

Senator BARKLEY. What is the last quotation on the highest bond that is now on the market?

Mr. BELL. The Treasury $4\frac{1}{4}$ percent, which matures in 1952, is callable in 1947, sold at $115\frac{15}{32}$, almost $115\frac{1}{2}$.

Senator BARKLEY. Was the first bond you read the lowest present quotation on Government bonds?

Mr. BELL. No; we have the $2\frac{7}{8}$ Treasury bond which is callable in 1955 and matures in 1960 selling at $100\frac{12}{32}$.

Senator BARKLEY. I say selling above par.

Mr. BELL. Yes; selling above par.

Senator CONNALLY. What is the average rate? How much are they paying for the bonds?

Mr. BELL. How much are we paying on bonds?

Senator CONNALLY. You have got the $4\frac{1}{4}$ which sells at 115, you have got the 3. What is the yield? On what basis is the yield on the $2\frac{7}{8}$ and $2\frac{3}{4}$?

Mr. BELL. The yield today on the $4\frac{1}{4}$ is 2.71 percent, and the yield on the $2\frac{3}{4}$, which is a shorter term bond, is 2.58, in other words, from about $2\frac{5}{8}$ to $2\frac{3}{4}$ percent.

Senator CONNALLY. That is what you can get money for, around that figure?

Mr. BELL. Yes.

Senator CLARK. What is the Government paying?

Mr. BELL. If we were selling a bond today these yield rates would be our guide in fixing the coupon rate on the bond to be sold.

Senator BYRD. Could the Government issue these $2,200,000,000 new bonds and pay these in cash and save anything on interest? The Government is now paying $2\frac{1}{2}$ to $2\frac{3}{4}$. The point I am making is that the veterans are bearing it. If the financial strength of the Government is sufficiently strong why not save a part of the interest now, why not sell the bonds and pay them in cash?

Senator COUZENS. You could not raise that amount of money at below 3 percent.

Mr. BELL. The 3-percent rate is an inducement to the veterans to keep the bonds and therefore keep them off the market.

Senator CLARK. The last bond issue was $2\frac{1}{8}$?

Mr. BELL. $2\frac{3}{4}$. That was a 10- to 12- year or a short-term bond.

The CHAIRMAN. Mr. Bell, as between these two plans, from the Government's standpoint, do you think it would be better for the Treasury to issue nonnegotiable bonds, such as the bill proposes that was introduced today, or that proposed in the other bill, in the Vinson bill?

Mr. BELL. I think that would depend, Senator, on how many of them were cashed in.

Senator BYRD. In my judgment a large proportion of them are going to cash in.

Mr. BELL. If we have the same proportion cash the bonds that would accept cash in the first place, then there would be no difference. There might be 2 or 3 months' delay in getting the bonds cashed, which would help some. There have been some estimates made that more of them will keep these bonds, that is to say, up as high as $500,000,000, of the bonds will be kept by the veterans.

The CHAIRMAN. I want to read to the committee a statement from representatives of ex-service men's organizations.

Senator BYRD. Could I just make one point clear? As I gather from Mr. Bell's answer, in his judgment, if you offer for sale $2,000,000,000 of new bonds that will break the bond market to the extent that the Government will pay more interest than indicated by the statement you read. Unless it does then it is to our advantage to issue the 2 billion dollars of bonds and pay the certificates in cash and save the interest, the difference in interest.

Senator GORE. But these bonds do not draw any interest.

The CHAIRMAN. What is your answer, Mr. Bell?

Senator BARKLEY. I did not understand Mr. Bell to say the market would break to that extent.

The CHAIRMAN. Make yourself clear on this, Mr. Bell.

Mr. BELL. I think it is very hard to say what the market would do when this bill is passed and when we undertake to raise a billion and a half dollars. I think a billion or a billion and a half dollars thrown on any bond market will have some effect.

Senator CONNALLY. Some depressing effect?

Mr. BELL. Some depressing effect. Whether it goes down $\frac{5}{32}$ or $\frac{15}{32}$ is anybody's guess. It depends upon the conditions at the time, whether or not the money rates are tightening or whether they are the other way. I can give you an instance in 1931 when you liberalized the loan provisions: we had to refinance some $800,000,000 of securities in the Adjusted Service Certificate fund. You hit it at a rather opportune time, because you had declining interest rates, rapidly declining interest rates. We sold a bond in March 1931 for $3\frac{3}{8}$ percent, and another one in June for $3\frac{1}{8}$, and another one in September for 3 percent. We had short-term certificates, 6 months and a year, on which the rates went gradually down. If you had that same situation today you would have an entirely different job of financing than if interest rates were going up. If your rates go up then placing an additional issue of bonds on the market just helps it to go up that much faster, naturally.

Senator BARKLEY. In view of the fact that this is somewhat different from the ordinary budgetary process, inasmuch as it does not add anything to the total debt of the Government and these have got to be paid off anyhow regardless of present financial methods, would there be as much of a shock in the process of exchanging one form of obligation for another as there would if it were entirely a new debt created in addition to the present outstanding bonds, plus these soldier bonuses, which are just as binding an obligation as the rest of them?

Senator BYRD. It adds a billion dollars to the debt in the sense it adds a billion dollars to the cost.

Mr. BELL. The adjusted-service certificates, Senator, to the extent of about $2,200,000,000, are not in the public debt of the United States Government. The published public debt is what is looked at.

Senator BARKLEY. It is an obligation that has got to be paid. Now, in figuring the credit of the Government, that is figuring it over a period of years—everybody knows that this $2,200,000,000 has got to be paid not later than 1945—would the mere swapping of one form of obligation for another due at the same time have as much of a shock on the bond market as the addition of $2,200,000,000 over and above the outstanding bonds, plus the bonus, which would be $2,200,000,000, or whatever this amounts to, due in 1945, or such other time as they might be redeemable for other ordinary purposes?

Mr. BELL. I do not think that just swapping of bonds for soldiers' certificates will have the effect on the market that you describe.

Senator GORE. It would have an effect to some extent?

Mr. BELL. The effect on the market is coming when we sell bonds, or rather securities on the market because of the necessity of the Treasury raising additional funds to cash those bonds given to the veterans.

Senator BARKLEY. What has been the largest single issue of bonds to raise money to provide cash out of the 4-billion dollar public works program?

Mr. BELL. Well, we have combined a good many of our public debt operations. It is difficult to say. We have had bond issues, certificate issues, Treasury bill issues, and so forth.

Senator BARKLEY. Let me ask it this way: Let us forget the refunding, what is the largest amount of new money you have required, as represented by a single issue of bonds, let us say, in the year 1935?

Mr. BELL. On December 15 of this year we had two issues, one of Treasury notes and the other of Treasury bonds, and we raised about $450,000,000 in cash on each, or a little over $900,000,000.

Senator BARKLEY. At what rates?

Mr. BELL. The bonds were 2¾ percent and the notes were 1½ percent.

Senator BARKLEY. What was the subscription for the amount asked?

Mr. BELL. I am sorry I haven't got that. I can furnish it to you.

Senator BARKLEY. It was several times oversubscribed, was it not?

Mr. BELL. Yes; as I recall it was more than four times oversubscribed, not as large as some issues in the past.

The CHAIRMAN. Gentlemen, let me read a statement issued by the heads of the veterans' organizations. They prefer not to appear before the committee unless the committee desires.

Senator CONNALLY. Let us desire it. Why do not they want to come in?

Senator COUZENS. Maybe they do not want to go on record.

The CHAIRMAN. No; they say they do not care to prolong consideration by inviting a lot of other people in.

Senator COUZENS. We do not have to invite anybody else in.

Senator BARKLEY. We can put the statement in the record.

The CHAIRMAN (reading):

The American Legion, the Veterans of Foreign Wars of the United States, and the Disabled American Veterans, have been in frequent conference with House and Senate leaders concerning the proposed adjusted-service certificate legislation. We are of the opinion that the Senate bill today introduced merits the support of all friends of payment of the adjusted-service certificates and we are united in support of the measure.

This bill has been introduced by Senators Harrison, Byrnes, Steiwer and Clark, and we are advised carries the approval of Senator Robinson, majority leader. The bill provides for the issuance to the veteran of nonnegotiable bonds of $50 denomination and for payment in cash of amounts less than $50. It provides for interest payment to the veteran who holds his bonds beyond June 15, 1937, thus all interest upon such bonds will accrue to the benefit of the veteran himself. Under the bill the veteran may cash one or more of his bonds at any time at such agency as has been designated by the Secretary of the Treasury. We are further advised that such bill, if it becomes law, will not require any taxes and that it is especially designed to ease strain upon the Treasury. We believe that the amount of cash out-lay required has by this bill been reduced to the minimum. In effect, the bill provides a refunding operation to discharge an existing obligation of the Government. If the bill becomes law, it will provide opportunity for the veteran in immediate need to obtain at his option all or part payment of his bonus at any time after June 15, 1937.

It will give incentive to the veteran who can do so to hold his bond until maturity. In principle, the Senate bill is consistent with H. R. 9870 as passed by the House with the support of our organizations.

We hope for enactment of the bill into law.

RAY MURPHY,
National Commander, American Legion.
JAMES E. VAN ZANDT,
National Commander, Veterans Foreign Wars of the United States.
M. A. HARLAN,
National Commander, Disabled American Veterans.

Senator BARKLEY. I move the statement be put in the record.

The CHAIRMAN. Without objection it may be put in the record.

Senator GORE. Now, Mr. Bell, this statement corresponds to my impression. I haven't had a chance to examine the bill, but I understand these bonds do not bear interest until June next year, that is, in 1937?

Mr. BELL. The veteran cannot get interest on the bond until June 1937. If he cashes it before then he does not get any interest.

The CHAIRMAN. He can cash the bond, though, Senator, after June 15, 1936, for the full value, but he does not get any interest before June 15, 1937.

Senator GORE. The interest would run but it would not be paid, is that the idea?

Senator BARKLEY. In other words, if he held it longer than a year and cashed it after that he would get interest after June 15, 1936, but if he cashed it within the year he would get no interest at all.

Senator GORE. Does that give us a year within which the Government can float bonds to obtain money, say, at 2¾, and retire these bonds at 3 before they begin to bear the 3-percent interest? I am not clear on that point.

Mr. BELL. It gives you a year for the interest, but it does not give you a year in which to finance the bond, if the veteran should submit it and ask for cash.

Senator GORE. I understand that. Any time the veteran presents his bond he is entitled to cash.

Senator CONNALLY. After the 15th of June of this year.

Senator GORE. After the 15th of June; is that right?

Mr. BELL. Yes, sir.

Senator GORE. He cannot present it until after the 15th of June?

Mr. BELL. He cannot get it until after the 15th of June.

Senator GEORGE. They are not issued until after the 15th of June. It is like the savings bank, you forfeit the interest if you take it out before the end of the year.

Senator GORE. Suppose a man presents his bond to be cashed the first of September, this 3-percent bond, and the Government issues bonds bearing 2¾ and gets the money to pay the bond off, will there ever be any 3-percent interest on this bond to be paid at any time in the future?

Senator CONNALLY. If he keeps the bond after the first year.

Senator GORE. Suppose he does not; suppose he decides to dispose of it prior to July 1 of next year, that is 1937, will the bond then bear interest from the time it is issued, that is June 15 of this year, will that interest be paid by the Government?

Senator CONNALLY. No; they would have to surrender the bond to the Government to get the cash.

Senator BYRD. If they surrender the bond in 1938 then the Government would have to pay interest at 3 percent.

Senator GORE. I do not think that will concern us. I do not think they will surrender the bond in 1938, I think they will all be presented within a year. If the Government borrows money at 2¾ and pays off the bond instead of paying the 3-percent interest on this bond, I think it is a good thing.

General Hines, do you know how many veterans are on relief?

General HINES. No, sir; I cannot tell you that. The nearest I can get to answering that question is that we estimate about 400,000 veterans out of employment. How many are on relief I have no way of telling.

Senator GORE. You have no way of telling how many veterans make income tax returns and pay income taxes?

General HINES. Very few.

Senator BARKLEY. How many of that 400,000 are drawing compensation, if you know?

General HINES. Of the 400,000 I have no way of telling that offhand, but we think approximately 360,000 are drawing compensation in some form.

Senator CLARK. That is not necessarily part of the 400,000?

General HINES. No.

Senator CLARK. You have no means of identifying the two groups?

General HINES. No.

Senator GORE. Would you care to express an opinion about cashing the certificates of soldiers who are drawing compensation?

General HINES. I would prefer not to go any further than I have always gone with this committee. I feel I am the administrative officer and I should give you facts, and what the bills will do. Personally I have no expression of opinion on the merits of either measure before you.

Senator BARKLEY. To what extent would the payment of interest after the year is up induce the holders who might need their cash at any time within the last half of the year to make out and hold them until the year was up, or a little more than a year so they could get the 3-percent interest?

General HINES. That is very difficult to figure. The veterans represent a complete cross section of our country. There are some with small amounts that undoubtedly will cash in as soon as they get the money. I think it is a fair assumption to assume a large portion of the 500,000 who have not borrowed during the depression period and probably some of those who have borrowed and have recently obtained employment, as some have, would take advantage of the interest on the certificate and hold them. How many it will be, I think one guess is as good as another. I have this feeling, that if the married veteran receives bonds and his wife gets hold of them he may get one of the 50's, but I think she will hold on to some of the others for safety sake.

The CHAIRMAN. What is the pleasure of the committee, gentlemen? You have heard this discussion. The administration expresses no opinion as to these bills at all.

Senator GORE. I would like to ask one question. Can you tell us, gentlemen, how much time elapsed before they began to borrow on those certificates, or how much time was it before a given percentage, say 75 percent, borrowed on those certificates?

General HINES. We have in our possession over 3,000,000 certificates that have been borrowed upon.

Senator GORE. Yes.

General HINES. Not all of them have borrowed the full 50 percent. Many of them borrowed more than once. I doubt if I could tell you offhand the total number that have borrowed the full 50 percent.

Senator GORE. That was not quite the point. How long a time was it after it was made possible to borrow that the bulk of the veterans did borrow?

General HINES. Within less than 6 months. We did a rushing business after you authorized the 50 percent, and it kept up for about 6 months.

Senator CONNALLY. You haven't seen a rushing business yet.

Senator GORE. You said a minute ago the veterans were a cross-section of our population.

General HINES. I think it is a fair cross section of our population, representing about 4 percent.

Senator BARKLEY. I move the chairman be authorized to report this bill, the substitute bill, to the Senate.

Senator GEORGE. Before you do that I move a suitable amendment be inserted in this bill so as to authorize the payment of the full face value of the certificate to the veterans who did not, prior to their death, make application.

The CHAIRMAN. The amendment that was drafted—did that take in that part of it?

Mr. BREINING. No.

The CHAIRMAN. If a man dies before making an application why should not his estate be permitted to get it?

Mr. BREINING. We have never done it; but, of course, that is no reason why it could not be done.

The CHAIRMAN. Without objection, the amendment will be properly drafted carrying out that idea.

Mr. BREINING. Just prospectively.

Senator GEORGE. Yes, sir.

Senator BAILEY. Mr. Chairman, I move that the Secretary of the Treasury appear before us in executive session and advise us as to the effect of this measure upon the credit of the country. I do not know that anybody here has said anything about that. I do not think anybody here knows.

Senator GERRY. I will second the motion.

Senator BARKLEY. I do not think anybody can tell. If we have the Director of the Budget here he can make an estimate as to that.

Senator BARKLEY. The chairman cannot report this until Friday, anyway.

The CHAIRMAN. We can get it out of our way one way or another.

Senator BARKLEY. I will say this, Senator, in that connection: There is a subcommittee of the Finance Committee that is now engaged in holding hearings on a very important administration measure which would be facilitated by getting this bill out of the way without having it drag 2 or 3 days.

Senator BAILEY. In answer to that, I am on that subcommittee; and moreover, we are at the beginning of the session. To hear the Secretary of the Treasury will not take more than 15 hours from the present time. I see no great haste about putting a $2,200,000,000 burden on the Government. I would like to get the information from him.

The CHAIRMAN. Those in favor of the motion made by Senator Bailey to invite the Secretary of the Treasury to appear before the committee in executive session will raise their hands. Those opposed will raise their hands. The motion prevails, so we will meet in the morning at 10 o'clock.

Now, is it the purpose of the committee to have any further hearings on this matter?

Senator GORE. I want to make this suggestion, Mr. Chairman—if you do not have hearings, that the chairman be authorized to permit others to file their views. I suggest that the chairman be authorized to receive communications on either side of the subject and to print them in the record.

The CHAIRMAN. Without objection, then, that order will be entered. We will close the hearings with Secretary of the Treasury Morgenthau in the morning.

Senator GORE. I do not mean to preclude a full hearing in the event you do not have any communications.

General HINES. May I insert in the record an answer to the question of Senator Gore?

The CHAIRMAN. Yes.

General HINES. Of the 3,000,000 who have borrowed, about 50,000 have borrowed less than 50 percent.

Senator CONNALLY. I want to make a motion that the three men who signed the paper that the chairman read be called tomorrow morning. The paper has so many qualifying clauses that I think we should have an explanation. I think every Senator here will find it will be to his future advantage to do it.

The CHAIRMAN. Gentlemen, you heard the motion. The Senator from Texas moved that the heads of these three ex-service men's organizations be invited to appear before the committee in the morning to briefly state their views. Is there any objection to the motion? All right; it will be ordered.

Senator CLARK. I was going to object if it is going to throw the bars open to a general hearing on this thing. We have had hearings as to the outline of this question repeatedly.

Senator CONNALLY. This will all be in executive session.

The CHAIRMAN. All right.

(Whereupon the committee recessed until 10 a. m. of the following morning, Tuesday, Jan. 14, 1936.)

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PAYMENT OF ADJUSTED-SERVICE CERTIFICATES

TUESDAY, JANUARY 14, 1936

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

The committee met, pursuant to adjournment, at 10 a. m., in the Finance Committee Room, Senate Office Building, Senator Pat Harrison (chairman) presiding.

Present: Senators Harrison (chairman), George, Walsh, Barkley, Connally, Gore, Costigan, Bailey, Clark, Byrd, Lonergan, Black, Gerry, Guffey, Couzens, Keyes, La Follette, and Capper.

Also present: Hon. Henry Morgenthau, Jr., Secretary of the Treasury; Brig. Gen. Frank T. Hines, Administrator of Veterans' Affairs; Mr. Harold Breining, Assistant Administrator, Veterans' Administration; Mr. Daniel W. Bell, Acting Director, Bureau of the Budget, and Mr. George C. Haas of the Treasury Department.

The CHAIRMAN. Secretary Morgenthau, we have before us the Bonus bill that was passed by the House and the one introduced in the Senate, and some of the members of the committee wanted to ask you some questions with reference to some of its provisions.

Senator Bailey.

Senator BAILEY. Mr. Secretary, I did not think on yesterday that we should cease further to consider either of these bills without having some advice from you, the Secretary of the Treasury.

I wish to ask you, assuming that either of these bills will require payment in cash this year, and almost immediately, $1,700,000,000, providing that eventually there is to be paid $2,200,000,000 but $1,700,000,000 to be paid right away, would the enactment of the bill, of either of them, calling for that amount of money embarrass the Treasury in any way?

TESTIMONY OF HON. HENRY MORGENTHAU, JR., SECRETARY OF THE TREASURY

Mr. Chairman, I wonder if the committee would bear with me in answering this question, because after all it is getting right down to the roots of the credit of the Government, that is, may I talk without a record being made?

The CHAIRMAN. Of course we are in executive session, but we are keeping a record here for our confidential information.

Gentlemen, you heard the request of the Secretary of the Treasury.

Mr. BAILEY. I would like, Mr. Chairman, very much to gratify the wishes of the Secretary, but public matters are public matters. I do not see what the value would be if the statement were kept secret.

Senator BARKLEY. I assume what the Secretary has in mind is he does not want any statement he might make here to be given publicity or to get out in the press, or to be revealed by anybody, that might have an effect, one way or another, on the bond market. I assume there are some confidential matters that he has in his possession as Secretary of the Treasury that it would not be wise for the public in general to know.

Senator BAILEY. I think the public in general is going to have to pay the taxes, not we and not the soldiers, and the public in general is interested in the Government of the United States and its future.

Senator BARKLEY. But the public in general is also interested in knowing whether some statement made by a high official is going to be misinterpreted and magnified.

Senator BAILEY. That is assuming, Senator Barkley, that somebody is going to misinterpret what the Secretary says. If you get a record down here of his statement they cannot misinterpret it.

The CHAIRMAN. Is it the desire of the Secretary that the rest of his remarks be taken down in the record and it be kept in executive session, a secret? I want to know in order to put the question before the committee.

Secretary MORGENTHAU. I feel this way: I have been before this committee for 2 years; I think I have always tried to answer all the questions honestly and to the best of my ability. I want to answer Senator Bailey the same way. I am here as the Secretary of the Treasury to answer his questions.

What I might say, if it became public property or was discussed on the floor of the Senate or the House, it might have a very adverse effect on the Government's credit. I just want to put that before you gentlemen. If you think that that should be disregarded and you want me to go ahead and talk, I will talk, but I just feel, after all, the question of the Government's credit is a question of confidence in one's own government.

Senator BAILEY. Now, Mr. Secretary, let me get that clear. Do I understand you to say that your answer to my question would be such that if it were made public it would adversely affect and seriously injure the Government's credit?

Secretary MORGENTHAU. What I am trying to say is it might be misinterpreted. Now, I have made statements before—not here, but to the press—and they will print half of what I say, or they print what they like, or they give an interpretation just as they want it. What I am afraid of is a misinterpretation of what I might say here once it becomes public property.

Senator BAILEY. On that basis no statement could ever be made, because all statements are liable to misinterpretation. There must be something unusual about the situation you have in mind that you fear to be misinterpreted. Why cannot we have a plain statement? I have got to vote one way or the other on this question. I would like to vote to pay these certificates, but the last thing I will do will be to vote to injure this Government. I wish to know the facts.

The CHAIRMAN. Suppose we put it to the committee as to whether or not this matter should be taken down in the record or whether it should be kept confidential?

Senator COUZENS. Mr. Chairman, before that vote is put, I want to be perfectly fair with my colleagues. I am not bound to keep any Government facts secret if I determine or desire to do otherwise.

The CHAIRMAN. In view of that I see no reason why it should not be taken down in this record, because the Senator has a right to do as he pleases with reference to that.

All right, proceed and answer such questions as you want to answer and make such statements as you wish to make.

Secretary MORGENTHAU. Might I ask one question, Mr. Chairman? Do I understand from Senator Couzens' remarks that whatever statement I make here he feels perfectly free to use as he sees fit?

The CHAIRMAN. He feels free to say what he pleases about it.

Secretary MORGENTHAU. Publicly?

The CHAIRMAN. Senator Couzens has stated on the floor of the Senate once or twice that whatever happened in an executive session he felt free to use as he saw fit.

Senator COUZENS. That is correct, if I believe it is in the public interest, and I think the public should be advised. I will not sacrifice my opinion for the benefit of any individual, or party, or Government department.

The CHAIRMAN. Proceed. Make just such statements as you desire.

Secretary MORGENTHAU. If I may have the question please?

Senator BAILEY. Restating the question: Either of the bills before us contemplate the payment of not less than $2,200,000,000 to the holders of the certificates known as the adjusted-service certificates, and either of them contemplates the payment in cash, without delay, certainly within the next 2 or 3 months, $1,700,000,000. Now, the question is: Would the enactment of either of these measures, the providing of that amount of money by the Treasury, embarrass or tend to embarrass the Treasury and the Government?

Secretary MORGENTHAU. Mr. Chairman, if I might answer this in my own way and then if my answer is not satisfactory when I get through with Senator Bailey's question I will be glad to answer other questions. If the committee would permit me to answer in my own way and then when I am through, if is not satisfactory, I will be glad to answer in further detail.

The CHAIRMAN. You have that right.

Secretary MORGENTHAU. Let me just give you gentlemen the picture from the Treasury's standpoint, the way it stands now. For the balance of the 5½ months of this fiscal year and the 12 months of the coming fiscal year beginning with July 1, 1936, our total public-debt obligations that come due are approximately $5,800,000,000.

Senator BAILEY. Now, let me just get this clear. That is $5,800,000,000 on current account, that is not on bonds coming due?

Secretary MORGENTHAU. That is all public-debt obligations that will come due in the next 5½ months of the current year and the 12 months beginning with July 1, 1936.

Senator CLARK. That is 17½ months?

Secretary MORGENTHAU. Yes, sir.

Senator CLARK. The next 17½ months.

Secretary MORGENTHAU. Yes, sir; the balance of this fiscal year and the next fiscal year beginning with July 1, the public-debt obligations of the United States Government that come due are appoximately $5,800,000,000.

Senator COUZENS. Included in that, of course, is not any additional expense of the Government?

Secretary MORGENTHAU. No, sir. I was going to come to that. For the rest of this fiscal year we estimate, after the decision of the

Supreme Court on the A. A. A., that we will have to raise in new funds about $1,000,000,000 between now and the first of July.

Senator BAILEY. That is this year?

Secretary MORGENTHAU. Yes, sir. A billion dollars in cash between now and the 1st of July. That is taking into account the loss of revenue through the decision of the Supreme Court on the A. A. A., and not allowing for any legislation to refund the Treasury in view of the Supreme Court decision. We do not know what Congress will do in that connection.

The CHAIRMAN. Is that assuming that the money that has been paid already on the processing tax can be recovered by them?

Secretary MORGENTHAU. No, but it does take into account the loss of impounded money.

Senator CLARK. It provides for paying off the contractual obligations of the Government and for disposing of the impounded money?

Secretary MORGENTHAU. No, sir; it does not take into account the money which is due the farmers for having carried out the 1935 contracts.

Senator CLARK. It does not take that in?

Secretary MORGENTHAU. It does not take that in.

Senator GORE. How much is that? Is that about $280,000,000?

Secretary MORGENTHAU. About $280,000,000, roughly. Agriculture uses the figure $236,000,000 for that, Senator Gore. $236,000,000 is the figure that Agriculture uses, but we are not including that. We are including the loss of the impounded money.

Senator GORE. That is $200,000,000?

Secretary MORGENTHAU. What I am trying to explain is just where the Treasury stands as of this morning, in view of the decision and not taking any legislation into consideration which is contemplated.

Senator BARKLEY. You do take into consideration the impounded money?

Secretary MORGENTHAU. That was included in the President's Budget as receipts.

Senator GORE. That is right, $200,000,000.

Secretary MORGENTHAU. The impounded money?

Senator GORE. Yes.

Secretary MORGENTHAU. About $200,000,000. I am trying to state it as I see it on this morning, with the Court's decision behind us and not taking into account new legislation which is being discussed by the Congress and the administration. So taking everything into account we figure we have to raise another $1,000,000,000 between now and the 1st of July.

Senator BAILEY. And in addition to that, $236,000,000 for the further appropriation to the farmers?

Secrtary MORGENTHAU. If the Congress votes it.

Senator BAILEY. That is money due to the farmers.

Secretary MORGENTHAU. This is the situation as of this morning.

Senator CLARK. In other words, you do not consider the figures until Congress appropriates the money?

Secretary MORGENTHAU. I do not think I should.

Senator CLARK. I agree with you entirely.

Secretary MORGENTHAU. I am not trying to give you what I think; I am just trying to report as a fiscal officer as the situation is today.

Now, starting in with July 1, 1936, as the President's Budget stood the morning he sent it to you, we would have had to raise $500,000,000 new money for the year beginning July 1, 1936. The President stated in the Budget message that he would send up the figures for relief in a couple of months, and he indicated that the amount would not exceed $2,136,000,000. If you wish to use round figures as to what Congress may vote, let us use $2,000,000,000 for relief, plus the $500,000,000 deficit. That is two and one-half billion dollars that we might have to raise in the fiscal year beginning with July 1, 1936.

Now, on top of that there is the figure for the veterans in between your $1,700,000,000 and the $2,200,000,000, and the average of which is about the figure of $2,000,000,000. So there is $500,000,000 in the President's Budget; let us use the figure $2,000,000,000 for relief, and let us use $2,000,000,000 for the soldiers' bonus, so you get another 4½ billion dollars that we might have to raise during the fiscal year beginning July 1, 1937. With the money coming due and the money we might have to raise, why, there is a total of a little over 11 billion dollars.

Senator BAILEY. You begin with $5,800,000,000 in the next 7 months?

Secretary MORGENTHAU. Yes, sir; 17½ months.

Senator BAILEY. And in addition to that there is the $236,000,000, then the relief has 2 billion, then the $500,000,000 which you did not designate but you said the President predicated, and the bonus 2 billion, and all of it would come to, in round figures, over 11 billion dollars in the next 17 months. Am I right?

Secretary MORGENTHAU. That is right, sir.

Senator BARKLEY. How does that compare with the amount of new money that has been required to be raised in the last, say, year and one-half, 18 months?

Secretary MORGENTHAU. Mr. Bell tells me in the last 12 months we have raised about 2½ billion dollars new money.

Senator CONNALLY. That is above your refunding?

Secretary MORGENTHAU. Yes, sir.

Senator BARKLEY. Let me ask you this: That $5,800,000,000 that will be due within the next 17½ months is in refunding obligations?

Secretary MORGENTHAU. That amount represents bills and notes that are coming due and which must be re-funded.

Senator BARKLEY. Which would all be re-funded?

Secretary MORGENTHAU. Yes; I mean those Treasury obligations which are coming due in the next 17½ months.

Senator BARKLEY. That represents extraordinary expenditures which have been engaged in by reason of the appropriations of Congress for relief and other emergency provisions, including the 4 billion 800 million?

Secretary MORGENTHAU. That is part of it.

Senator BAILEY. Now, Mr. Morgenthau, we have before us the necessity of raising 11 billions of dollars in 17½ months over and above the regular expenses of the Government, which is about 3 billion 800 million, is it not?

Secretary MORGENTHAU. That is all-inclusive; that is everything, except, of course, the ordinary revenue from taxes, etc.

Senator BAILEY. You had it in the 5 billion 800 million dollars and in all these others specified?

Secretary MORGENTHAU. That is all-inclusive. We are talking about the billion dollars new money from now to the 1st of July, and $500,000,000 after the 1st of July. That would take care of everything that was included in the President's Budget.

Senator COUZENS. That is all in excess of Government receipts?

Secretary MORGENTHAU. That is in excess of ordinary Government receipts.

Senator BAILEY. That is the point. It is in excess of the ordinary receipts.

Senator WALSH. Mr. Morgenthau, what will this $11,800,000,000, if it is authorized and spent in the next year and a half, increase the national debt to?

Secretary MORGENTHAU. Senator Walsh, it is rather difficult for me to answer, because so many things have happened, but going to the President's Budget, which is, after all, only 10 days old, as he sent it up he estimated that the national debt on July 1, 1936, would be about $31,000,000,000. Then you add to that the $500,000,000 which he estimated would be the net deficit for the fiscal year 1937, exclusive of relief, that would raise it in the next 17 months to $31,500,000,000, and if you add 2 billion for relief items to be later submitted it would bring it up to $33,500,000,000. Now, if you add the soldiers' bonus there is another 2 billion. It would bring it to $35,500,000,000.

Senator CLARK. Do you figure these adjusted-service certificates now outstanding as a part of the national debt?

Secretary MORGENTHAU. No.

Senator GORE. Not in a technical sense.

Secretary MORGENTHAU. Technically the answer is "no."

Senator BLACK. What part of it is recoverable?

Secretary MORGENTHAU. Quite a good amount.

Senator BLACK. Isn't it all recoverable?

Secretary MORGENTHAU. Mr. Bell says between 3 and 4 billion dollars is recoverable.

Senator BYRD. Those figures do not include the contingent liabilities?

Secretary MORGENTHAU. No, sir.

Senator BAILEY. Contingent liabilities are $4,530,000,000. You add the contingent to the 35 billion and you have 39 billion in prospect, including the contingent liabilities.

Secretary MORGENTHAU. Mr. Bell says that the contingent liabilities are backed by assets, such as mortgages, etc.

Senator BAILEY. On that point, Mr. Morgenthau, I agree with you, but if we take any step that shakes the Government or destroys its credit, those securities would be worthless.

Secretary MORGENTHAU. Well, I don't know.

Senator BAILEY. Of course, none of us know, but we do know very well that if the Government's credit is destroyed that the banks themselves have got our paper, and of course we know there would be another liquidation, there will be a total collapse. Then your R. F. C., the Home Owners' Loan, Federal Housing, will have to deal with a situation in which there is either no cash or so much cash that the money is worthless. That is just one of the factors in it, I agree, that is speculative. We do not know.

Senator COUZENS. Did Senator Bailey ask a question as to what effect the issuing of this $2,000,000,000 would have?

Senator BAILEY. He is making a preliminary statement, I judge, in answering the question.

Secretary MORGENTHAU. Yes. I have not finished. I would like to finish, if I may, Mr. Chairman.

The CHAIRMAN. Go ahead.

Secretary MORGENTHAU. I would like to give you the picture the way I see it. For the fiscal year beginning with July 1, 1936, the President's Budget estimated a deficit of $500,000,000.

Senator BYRD. Mr. Morgenthau, on that point, there will be quite a carry-over from the present appropriations into the next fiscal year that the President did not include, as I understand.

Secretary MORGENTHAU. Oh, yes, he did.

Senator BYRD. That will add to the deficit next year.

Secretary MORGENTHAU. I am sorry, sir. Whoever told you that I think is misinformed.

Senator BYRD. Do I understand then that the President's estimate supposes that all of these appropriations made will be actually spent by the first of next July?

Secretary MORGENTHAU. No, but Senator Byrd, every single expenditure estimated to be made out of any funds carried over into 1937 is in that Budget. That is an honest Budget. Every single item is in, including even the kitchen stove. I do not care who says it, that is an honest Budget.

Senator BYRD. I understand that.

Secretary MORGENTHAU. I am not arguing with you but I am arguing with some other people that made some statements in the papers.

Senator BYRD. Everybody knows that this $4,800,000,000 appropriation will not all be expended by the first of July.

Secretary MORGENTHAU. You are quite right.

Senator BYRD. Is that included as an expenditure in estimating the deficit that will occur?

Secretary MORGENTHAU. It is all there. If you have the time to sit down and go over it, I will be delighted to go over it with you.

Senator BYRD. I am glad to be corrected, but the President himself told me he did not expect to spend all of it. I assume if he did not expect to spend it, it would not be set up.

Secretary MORGENTHAU. There were some recent comments in the paper about the President not having an honest Budget. I say it is an honest Budget. Mr. Bell and I would be delighted to sit down with you, with any of you gentlemen, and go over it item by item. Every single dollar that has been appropriated by Congress is included in that statement. We show, to the best of our ability, what we will spend up to July 1 and what will be carried over. It is a highly technical document.

Senator BYRD. What confuses many people is that from time to time you give out a statement that the deficit is less than what you expected it to be, and the reason is that the money is not spent as rapidly as it was appropriated.

Secretary MORGENTHAU. That has been the situation in the past, but I believe our estimates today are fairly accurate.

Senator BYRD. The public is very much confused about that.

Senator BARKLEY. Whatever amount is carried over, that is, unexpended out of appropriations, which was assumed to have been expended, to that extent lessens the requirement for obtaining new money at a particular time, either the rest of this year or next year; isn't that right?

Secretary MORGENTHAU. Would you mind repeating it?

Senator BARKLEY. I say whatever amount is carried over unexpended out of appropriations, whatever it may be, would lessen the immediate requirement of obtaining new money by that much, either for the rest of this year or for the next fiscal year?

Secretary MORGENTHAU. Senator Barkley, we have taken over all the carry-over. The figures I am giving you are the net on everything. For instance, we show that the carry-over would be $1,102,000,000, and all of this is included in the 1937 Budget. As the Budget came up to you people we estimated we would have to raise, at the time the Budget was written, $500,000,000 new cash over and above our receipts beginning with year July 1, 1936.

Senator BARKLEY. That is based on the assumption that all the money appropriated by Congress would be expended?

Secretary MORGENTHAU. This year and next year and some of it going into 1938 and 1939. Some of it will not be spent until 1939.

Senator BARKLEY. If some of it should not be spent until 1938, or, maybe, some of it will not be spent at all, then that amount, whatever it is, would lessen the immediate requirement of obtaining cash by the Government.

Senator BYRD. At that point, Mr. Chairman, I have a statement from the Treasury that all of this money has been allocated, that everything that is allocated will be spent except $54,000,000 out of the $4,800,000,000 that has already been allocated. I think he made a statement to that effect.

Senator GORE. Does that mean all money has been allocated that has been appropriated?

Senator BYRD. I am specifically speaking of the $4,800,000,000, about that not being spent. The Treasury Department says it is allocated, excepting $54,000,000 for civic projects.

Secretary MORGENTHAU. We have always tried to give you everything you want.

Senator BYRD. I was just trying to get this correctly.

Senator GORE. You said you spent $1,100,000,000. I do not understand what you mean by that carry-over.

Secretary MORGENTHAU. May Mr. Bell explain that, please, sir?

Senator GORE. Yes, sir.

Mr. BELL. Congress has appropriated a large sum of money for recovery and relief; for instance, the $3,300,000,000, the $899,000,000, and $4,800,000,000. Now that money is allocated to the various agencies of the Government to be spent for recovery and relief purposes. They start on a project that cannot be completed during any one fiscal year, it may extend over 2 or 3 fiscal years, but it is necessary for the President to allocate, when the project is started, a sufficient amount of money to complete it. So that if the project is 50 percent completed this year they have only used 50 percent of the money, and the other 50 percent is carried over into subsequent years and spent in those years.

Senator GORE. This money that has been appropriated and has not been used during the current fiscal year, it must be set aside for the coming fiscal year, is that the point?

Secretary MORGENTHAU. Yes.

Senator GORE. Can you give me any idea as to the aggregate amount of unexpended balance reserved from all of these emergency measures that have not been allocated at all? What I want to get is the amount of money in the balance.

The CHAIRMAN. The $54,000,000 as I understood it, was over the amount that has not been allocated, that is, the amount that has been allocated and has not been expended.

Mr. BELL. That is right.

Senator GORE. That was $67,000,000 out of the $4,800,000,000 that has not been allocated?

Mr. BELL. That is approximately correct.

Senator GORE: What I want to get now is what corresponding amounts have not been allocated that will carry over into other appropriations?

Mr. BELL. A recent daily Treasury statement, Senator, showed that there was $6,750,000,000, unexpended balance on the books of the Treasury under various emergency relief appropriation acts.

Senator GORE. I noticed that in the book of estimates.

Mr. BELL. That should be explained.

Senator GORE. I did not know what that meant. I do not see how it could be that much. It is $6,000,000,000. If we appropriated $6,000,000,000 and it has not been allocated, why should we be figuring on appropriating a lot more?

Mr. BELL. I did not say that it had not been allocated. I said it has not been expended. It has been almost entirely allocated.

Senator GORE. Perhaps what I tried to inquire about was how much is unallocated.

Mr. BELL. Very little of it is unallocated.

Senator CONNALLY. What you have in mind is, taking the first P. W. A appropriation, all of that money has not been spent.

Mr. BELL. That is right.

Senator CONNALLY. But it has been allocated and you keep up that allocation so when it is spent the money will be there, is that right?

Mr. BELL. That is right.

Senator CONNALLY. You haven't got all of this $6,000,000,000 on hand?

Mr. BELL. No.

Senator CONNALLY. You are going to have to borrow that in these refunding operations you are talking about, this $11,000,000,000 that you will have to turn over.

Mr. BELL. That is merely a credit on the books.

Senator CONNALLY. It is just a bookkeeping arrangement?

Mr. BELL. Yes; in effect.

Senator GORE. Could you give me the approximate amount that has been unallocated out of the $4,600,000,000?

Mr. BELL. On all accounts, on January 9, it was $57,000,000 unallocated.

Senator GORE. Then the total amount unallocated was carried in this $4,800,000,000, or the other appropriation bills?

Senator BYRD. Senator Gore, what confuses all of us is the difference between unallocated, unpledged and unobligated amounts. In other words, the President allocates so much for relief. That remains to the credit of that department. That is not necessarily pledged until that department makes a contract.

Senator GORE. For some specific project.

Senator BYRD. For some specific project. There is quite a large sum which is unpledged.

Senator GORE. How much is that? How much is unpledged?

Senator BYRD. That would necessitate going into each department and ascertaining what contracts Mr. Hopkins has made, what contracts Mr. Ickes has made, and so forth.

Mr. BELL. I can give you a rough figure. The unobligated figure is just under $3,000,000,000. That should be explained. That does not mean necessarily that it is being held for contracts to be entered into, because you have in Mr. Hopkins' operations day to day obligations, he does not enter into contracts but goes out and hires day labor and the money is not actually obligated in such cases until the pay rolls are just about ready to be presented for payment. You cannot take that money because he expects to expend it between now and June 30, so in a sense it is obligated or set aside to carry on the work which he has started.

Senator GORE. There has been $6,000,000,000 appropriated, and all of that is obligated except $57,000,000, and all of that has been expended except $3,000,000; is that the idea?

Mr. BELL. Unobligated, but it is committed and set aside for certain specific projects.

Senator GORE. How is that?

Mr. BELL. It is committed.

Senator BARKLEY. That is committed in a general way, but it is not committed specifically, is that true?

Mr. BELL. It is committed in this sense: If Mr. Hopkins is required to complete his project then the money is committed.

Senator GORE. That is what I am trying to get at. One, of course, is the appropriation, the total appropriation made by Congress, and then the amount is allocated, and that includes all money but about $57,000,000, I understand, that has been allocated but not expended.

Mr. BELL. That is right.

Senator GORE. Then we have some that is committed and some that is pledged, and some unpledged and unobligated. I am trying to break it down into categories of accounts so as to get a bird's-eye view of what our situation is.

Senator BARKLEY. Isn't this the general situation, that the President will commit a certain amount of money to Mr. Hopkins, but Mr. Hopkins, in turn, has not pledged it; he has made allocations specifically, and in that sense, from a bookkeeping standpoint, it is committed to the Works Progress Administration?

Mr. BELL. That is right.

Senator BARKLEY. But it has not been pledged or contracted yet by Mr. Hopkins for distribution.

Senator BYRD. And it could be reclaimed by the Congress if it chose to do so.

Senator GORE. Is there a difference between money that has been allocated and money that has been committed?

Mr. BELL. Yes, Senator.

Senator GORE. What is the difference?

Mr. BELL. The allocation by the President represents the setting aside of the funds for a specified purpose. He may allot to Mr. Ickes $100,000,000 to make loans and grants to States for non-Federal projects.

Senator GORE. That may be still in Mr. Ickes' hands, uncommitted.

Mr. BELL. That money is not obligated, so far as the Government is concerned, until Mr. Ickes enters into a contract with some municipality or State government to buy their bonds for the construction of certain projects.

Senator GORE. Does "committed" and "obligated" mean the same thing?

Mr. BELL. No; it does not. "Obligation", in the sense that we use it, means that there is a definite obligation on the part of the Government to carry out a contract or project that has been started. Now, a commitment means a program which could be stopped tomorrow. That is the sense in which I am talking about them.

Senator CONNALLY. "Obligated" is where you build a public building on a contract.

Mr. BELL. That is a definite obligation of the Government.

Senator CONNALLY. Yes.

Senator GORE. Of course, "obligated" and "pledged" mean the same thing.

Senator BARKLEY. To what extent are there projects which are agreed upon but not started, which have lapsed because of some deficiency on the part of the local community? Is there any way to estimate how much that will throw back this total amount?

Mr. BELL. No; there is not, Senator, but I think that is a relatively small amount. About the only place that that would come into the picture would be in Mr. Ickes' organization, and the last time I talked to him he said it was $50,000,000 or $60,000,000, all of which I think has been canceled up to now and the money allocated to other purposes.

Senator GORE. It could be transferred to something else?

Mr. BELL. That is right.

Senator GORE. Then most of this money has been allocated, a lesser part has been committed and a still lesser part has been obligated; would that be substantially true?

Mr. BELL. There is a smaller amount left for allocation.

Senator GORE. Yes; that is saying it the other way around.

Now, Mr. Secretary, of this $11,000,000,000 to be realized next year, how much of that will be realized from revenue?

Secretary MORGENTHAU. I think I can answer your question and at the same time finish my statement, Senator Gore.

Senator GORE. I beg pardon?

Secretary MORGENTHAU. If I can finish my statement I think I will answer your question.

Senator CONNALLY. Mr. Bell, in this public debt of $33,000,000,000, or $31,000,000,000, as it is estimated now, how much, if any, of that is offset by assets such as the R. F. C.? Do you figure getting something back from the R. F. C. and the Home Loan Bank out of the advances made to them?

Senator COUZENS. He said between three and four billion dollars.

Mr. BELL. Our public debt, Senator, is not offset by any assets.

Senator CONNALLY. How?

Mr. BELL. Our public debt is not offset by any assets. It is shown as a gross public debt of the United States Government.

Senator CONNALLY. I mean, do you know how much we expect to get back out of these assets, such as R. F. C., the Home Owners' Loan, and that sort of thing?

Senator BYRD. The Home Owners' Loan is not included.

Mr. BELL. We have a proprietary interest in the various governmental organizations of about $4,300,000,000, as I recall. Whatever amount is recovered of the $4,300,000,000 can be used to retire the Government debt or to meet current expenditures.

Senator CONNALLY. That is the object of my inquiry. While the public debt is $31,000,000,000, as a matter of fact, while you do not offset anything, we will have available, at least in expectation, 3 or 4 billion dollars of assets as against that; is that correct?

Mr. BELL. We have that available, whatever amount is recovered. Your guess is as good as mine. I think it has been estimated from there to three and one-half billion.

Senator GORE. Do not these realizable assets come into different categories, such as mortgages held against the Home Owners' Loan?

Senator BARKLEY. But that money has been made available out of the various emergency appropriations which have created the debt.

Senator BYRD. Mr. Bell, to make that clear, the Home Owners' Loan is not included in the public debt, that is simply a contingent liability?

Mr. BELL. That is right.

Senator BYRD. Likewise the Federal Farm Mortgage Corporation, that is a contingent matter which there certainly would be some loss on, which is not included in the calculations at all?

Mr. BELL. The contingent liabilities representing the outstanding bonds of the Home Owners' Loan and the Federal Farm Mortgage Corporations are not included in our public debt, and the assets which are pledged to secure those bonds, such as the mortgage of individuals, are not included in the $4,300,000,000 of assets that I just gave you.

Senator BARKLEY. Are not they included in the public debt, the amount of money raised for Home Owners' Loan purposes, by which I mean cash advanced by the Treasury to the Home Owners' Loan Corporation, which was obtained through the sale of bonds or through revenues obtained by the Government? That is the only way the Government can get it. So it is included, in a sense.

Mr. BELL. The only cash we furnished was the $200,000,000 capital stock which came from the Reconstruction Finance Corporation, and which the Treasury in turn furnished to the Reconstruction Finance Corporation, through the purchase of the corporation notes.

Senator BARKLEY. Yes; but it was obtained either through revenues or through the issue of bonds, part of which are now in the public debt; is that not true?

Mr. BELL. To that extent; yes, sir.

Senator GORE. The $200,000,000?

Mr. BELL. That is right.

Senator GORE. Or less than that.

Senator COUZENS. Let us go ahead. Let us hear Mr. Morgenthau.

Secretary MORGENTHAU. If I may continue, going to July 1, 1936, and looking into the next fiscal year, going back to the President's budget, he estimated that including debt retirements——

Senator GORE. Including what?

Secretary MORGENTHAU. Including debt retirements up to the next fiscal year, the Budget would be balanced and $5,000,000 left over, with the exception of one single item, and that was relief.

Now, 1934 was the peak of our deficit. In 1935 the deficit was less, and based on the estimate of the President's Budget, when it was written, the deficit for the fiscal year beginning July 1, 1936, will be less than the deficit for the present year in which we are operating.

Senator BLACK. I do not agree that there is only 3 or 4 million dollars to be recovered. I want to find out about that.

Secretary MORGENTHAU. May I continue?

Senator BLACK. Yes; go ahead.

Secretary MORGENTHAU. To get back to these questions of deficits, our deficit for 1934 was the peak of the deficits. In 1935 it was less. Based on the present Budget at the time it was written, we will have a smaller deficit in the fiscal year beginning July 1, 1936, than the present year.

Now, the program of the administration was that as we went into the recovery and with our revenue increasing through increased taxes and better business, we would have had a gradually decreasing deficit, with 1935 smaller than 1934 and 1936 smaller than 1935.

Now, when we talked about a decreasing deficit, that is what a bond buyer looks for. He wants to know what is the state of his own Government's finances. He will say, "Are they going to go constantly into debt or are they coming out of this depression with decreasing deficits?"

The picture that the President painted in his Budget was one of a constantly decreasing net deficit. Now, the thing we are faced with here, since this Budget was written is that there are so many unknown quantities. The day his Budget message went up the Court declared the A. A. A. unconstitutional. We do not know whether we are going to have to refund a billion dollars' worth of processing taxes. We do not know whether the Congress is going to vote the money which the Department of Agriculture contracted for for last year with the farmers to carry out certain programs.

Senator CONNALLY. You better get ready to do that.

Secretary MORGENTHAU. All right.

Senator GORE. We will vote for that whether we vote for the bonus or not.

Secretary MORGENTHAU. May I just complete this thing, Senator?

Senator GORE. Yes.

Secretary MORGENTHAU. Thank you. The thing I am trying to say is this: Since Monday a week ago I do not think anybody in the United States can say what the picture is going to be. So many things have happened that affect the Treasury that I certainly am not smart enough, and I haven't met anybody that is smart enough, who can say what is the future of the Government bond market.

Now, this whole question of Government credit is such a delicate thing. One day there is confidence and the people who buy bonds are with you, and then overnight something happens and they won't buy.

Now, I have been in the Treasury just a little over 2 years. The first money I borrowed for a period of 1 year cost me 2¼ percent, but now I can borrow money for 1 year at about three-eighths of 1 percent. I am talking about something which is so delicate that you cannot explain it. Suddenly the people have confidence in the Government;

they will loan you 9-months' money for 0.10 percent, the way we are borrowing it this week on Treasury bills.

To come back to your first question on the question of the bonus, there are too many things that are interrelated, and I am not smart enough, sir, to answer your original question. I am just trying to paint the whole picture as I see it.

Senator BAILEY. Now, Mr. Morgenthau, let me ask you, if in the next 90 days the Treasury undertakes to sell bonds, or if in the next 17 months the Treasury undertakes to raise 11 billions of dollars by way of selling bonds or short-term notes, and you should fail to sell them, and a demand is being made, what would be the effect on the economic structure of the Government?

Secretary MORGENTHAU. The minute I cannot raise the money required to finance the Government, that minute you will have complete chaos.

Senator BAILEY. Well, I call your attention at this point to what the President says. He says:

> Upon the unimpaired credit of the United States Government rests the safety of deposits, the security of insurance policies, the activity of industrial enterprise, the value of our agricultural products and the availability of employment. The credit of the United States Government definitely affects these fundamental human values. It, therefore, becomes our first concern to make sure the foundation. National recovery depends upon it.

You endorse that, I am sure.

Now, I call your attention to something else he says. This is on March 30, 1933.

> Thus we piled up an accumulated deficit of $5,000,000,000. With the utmost seriousness I point out to the Congress the profound effect of this fact upon our national economy. It has contributed to the recent collapse of our banking structure. It has accentuated the stagnation of the economic life of our people. It has added to the ranks of the unemployed. Our Government's house is not in order and for many reasons no effective action has been taken to restore order.

I take it you agree with those sentiments?

Secretary MORGENTHAU. Is that the President's message?

Senator BAILEY. That is the President's message to the Congress on March 10, 1933.

Senator GORE. Is that the veto message, Senator Bailey?

Senator BAILEY. No; that was his economy measure. That was his first message after his address from the Capitol steps.

Senator GORE. We are in the midst of something here, Senator. Whether that $11,000,000,000 is over and above all revenue receipts, or whether it includes revenue receipts, how much of that do you realize on the revenue?

Senator BAILEY. I understand four or five billions.

Secretary MORGENTHAU. Now, the money to be raised over and above revenue receipts, leaving out obligations which are coming due, we figure, from now to the 1st of July, we have to raise in new cash, a billion dollars, and after the 1st of July, as the President's Budget was written, exclusive of any possible legislation, $500,000,000. So for the next 17½ months, if there were no laws passed during the next 17½ months, we will have to raise a billion and a half in new cash.

Senator GERRY. That does not include any relief. Is that right?

Secretary MORGENTHAU. That is right. If there is no new legislation, if Congress did not pass a single bill affecting the Treasury in the next 17½ months, we would have to raise a billion and a half in new cash.

Senator GERRY. Irrespective of relief?

Secretary MORGENTHAU. Yes; with any new funds for relief out.

Senator GORE. Now, this $11,000,000,000 that you will have to realize for the next fiscal year, how much of that will be realized from revenue, anticipated Government revenues?

Senator COUZENS. What you said with respect to the billion and a half did not include the selling of bonds to refund debts coming due?

Secretary MORGENTHAU. That is right. I am afraid, Senator Gore, I did not get your question.

Senator GORE. We have got to raise $11,000,000,000 next year. How much of that do you anticipate will be realized from revenue, from taxation?

Secretary MORGENTHAU. What we are using is a net figure over and above that. When I am talking of a billion and a half new money, that is over and above revenue.

Senator GORE. I understand that. Next year it will be $500,000,000, according to the President's Budget.

Secretary MORGENTHAU. Over and above the revenue estimate.

Senator GORE. Now then, what do you estimate will be the revenue for next year?

Secretary MORGENTHAU. $5,500,000,000. May I say, sir, that that was based on the situation as it existed before Monday, January 6. Due to the Supreme Court decision on the A. A. A. the revenue estimates will have to be revised.

Senator GORE. The estimate of 2 weeks ago was $5,200,000,000?

Secretary MORGENTHAU. $5,654,000,000, and it must be revised.

Senator GORE. Then the difference between $5,600,000,000 and $11,000,000,000 would be the amount to be realized through loans?

Secretary MORGENTHAU. No, sir.

Senator LA FOLLETTE. Mr. Chairman, I suggest that we should let the Secretary make a consecutive statement. Then we might get something in the record that we can all discuss.

Senator GORE. We have been talking here for an hour, and I want to get that point answered, if I can.

Senator LA FOLLETTE. If Senator Gore will pardon me, I understood the Secretary to say that $11,000,000,000 was not the correct amount. I think that the Secretary should proceed with his statement as to how much new money was required over and above the revenues. Then, we could go back to the question of how much revenue was anticipated and perhaps we could get some basis here upon which we could have a discussion.

Secretary MORGENTHAU. That is the way we arrived at the $11,000,000,000.

Senator GORE. Yes.

Secretary MORGENTHAU. You take a billion and a half, or what we estimated we need in the way of new money for 17½ months, then you take the figure $5,800,000,000 which are the obligations coming due in the next 17½ months, that gives $6,300,000,000. Then we added to that the possibility of $2,000,000,000 for relief, and then we added to that the possibility of $2,000,000,000 for bonus, which bring us to $10,300,000,000.

Senator Bailey. You have got $500,000,000 in your original statement.

Secretary Morgenthau. I just added it wrong. I would like to go over it again. It is a billion and a half new money, five billion eight hundred million refunding, that gives you seven billion three hundred million.

Senator Bailey. I did not get that. You said a billion and a half of new money. What was the second item?

Secretary Morgenthau. A billion and a half of new money for 17½ months.

Senator Bailey. Yes.

Secretary Morgenthau. $5,800,000,000 of obligations which are coming due, which we will refund, which makes a total of $7,300,000,000.

Senator Bailey. That is right.

Secretary Morgenthau. Add, say, $2,000,000,000 for relief, that makes $9,000,000,000, and add $2,000,000,000, possibly for the bonus, and that gives you $11,000,000,000 plus.

Senator Bailey. What are you going to do about your processing tax?

Secretary Morgenthau. If you want to add that?

Senator Bailey. That is $4,000,000,000, that is to carry on the farm program.

Secretary Morgenthau. If you want to add it.

Senator Bailey. Yes. I will agree that this is not on the books.

Secretary Morgenthau. If you want to add the figure for agriculture; $236,000,000 to pay the farmers for contracts last year, then you can add as much as you want.

Senator Bailey. That is $236,000,000 processing tax refund?

Secretary Morgenthau. That is the way we arrived at the $11,000,000,000.

Senator Bailey. Then the President called for $500,000,000 to complete the Public Works program.

Secretary Morgenthau. That is all included, sir, in the Budget.

Senator Bailey. That is included. If we add those up—that is, $13,500,000,000—all of that is refinancing on new money?

Secretary Morgenthau. No.

Senator Bailey. What?

Secretary Morgenthau. No.

Senator Bailey. I have got your estimate. You can correct it if it is wrong. There is $1,500,000,000 new money, $5,800,000,000 obligations, or a total of $7,300,000,000; there is $2,000,000,000 relief, that makes it $9,300,000,000. You have $2,000,000,000, that makes it $11,300,000,000. Refunds, as I have put it down here, $1,000,000,000. That is the processing-tax refunds.

Senator Barkley. That is $236,000,000.

Senator Bailey. That is due the farmers. That makes $12,500,000,000, and no provision made to carry on the farm program.

Secretary Morgenthau. I do not know whether you want to add the billion dollars of the processing tax refunds; because the courts have not decided on that.

Senator Bailey. Let us suppose that we surrender it, because we do not have to pay it, we can stop the appropriation, but that you have to carry on the farm program. That would be $11,500,000,000.

Then you have $500,000,000 to carry on the farm program. That would be $12,000,000,000 for the next 17 months, by way of refinancing with new money.

Secretary MORGENTHAU. Provided the Congress does not vote any new taxes to meet these. We are not talking about raising new revenue.

Senator GORE. Of this $11,000,000,000, then, about half of that consists of refunding operations and the other half consists really in raising the finances, the new money; isn't that true?

Secretary MORGENTHAU. That is right.

Senator BARKLEY. You are assuming there that the Congress will authorize an additional appropriation, and you are assuming that the holders of those certificates will rush in at once to the extent of the $2,000,000,000 and ask for the cash in this estimate.

Senator BAILEY. The $2,000,000,000 goes out in bonds in any event, whether they take the cash or not. That is a financial transaction.

Senator BARKLEY. That puts no immediate string on the Treasury, unless they ask for cash.

Secretary MORGENTHAU. What I was trying to do was to answer Senator Bailey's question as to what effect this proposed legislation will have on the bond market. Now, you have got to put yourself in the place of a man who wants to buy United States Government securities, and the thing that is going through his mind is "What is the worst he may expect."

Senator BAILEY. Mr. Morgenthau, I do not mean to press you, but if what the President said in his statement which I read just now was remotely accurate, then the effort to raise this money would be a very damaging thing, would it not?

Maybe the conditions have changed since then.

Secretary MORGENTHAU. Are you going on the assumption that the Congress is not going to pass any new taxes to meet this expenditure?

Senator BAILEY. I will be frank with you about that. We thought we went the limit, and the President himself said that he did not contemplate any new taxes this session. I will ask you this question: Do you suggest that we undertake to raise some money by taxation this year?

Secretary MORGENTHAU. What the President said, if I remember correctly, was that no new taxes would be necessary if no new legislation was passed. That is what he said. In his Budget message he very distinctly says no new taxes would be necessary if no new legislation was passed.

Senator BAILEY. I think that is correct. Now, we have these new obligations right at hand, they are more than a billion dollars in the soldiers' bonus. Why would we not be compelled to raise the money?

Secretary MORGENTHAU. I won't know until I know what Congress is going to do, whether they are going to pass the appropriation and whether they are going to pass any new legislation.

Senator BAILEY. I believe you have put yourself in the position of saying that if we do pass the bonus legislation sound policy would require and consistency with the President's plan would require that we do levy new taxes.

Secretary MORGENTHAU. I did not say that today.

Senator BAILEY. No; but the implication was that.

Secretary MORGENTHAU. No; you did not ask me that. What you asked me about was: If we could not sell a Government security, what would happen?

Senator GORE. What would happen, Mr. Morgenthau?

Secretary MORGENTHAU. I answered the question by saying "financial chaos."

Senator GORE. I was going to ask that you elaborate on your answer at this time.

Senator BAILEY. I believe you will go along with me to this extent, that if we keep on taking the pitcher to the well too often we will come back sometime with no water in it.

Secretary MORGENTHAU. If you do not mind, sir, I would rather let you make that statement than have it made by me.

Senator LA FOLLETTE. There has been considerable change in the economic conditions of this country since the President's message in 1933, which Senator Bailey is quoting from.

Senator BAILEY. Mostly by increasing the public debt.

Senator LA FOLLETTE. I do not think so. Our national income has gone up approximately $10,000,000,000. We cleaned up a very bad situation that existed in the banks. There has been some reemployment, and it is to that, of course, that the revenues of the Government and its credit are indirectly related, to the annual production of wealth. I do not question the propriety of the Senator scoring the message, but I do feel we ought to consider the economic conditions are very materially improved as between March 1933 and January 1936.

Senator BAILEY. I wish to call to the attention of the Senator that the President's message, that portion of it which I quoted, was not relating to any particular time, it was laying down the sound principles of money spending and of straining the Treasury, and I wish to read another quotation and let us see how general this is:

> Too often, it appears from history, liberal governments have been wrecked on rocks of loose fiscal policy. We must avoid that danger.

Senator LA FOLLETTE. I understood the Senator to also quote parts of the message which referred to the conditions that existed at the time and immediately prior to the delivery of his message. I merely wanted to point out that economic conditions, while they have not improved enough to satisfy us, certainly, but the economic conditions are not in the chaotic and desperate situation that they were in 1933.

Senator BAILEY. I have another question, Mr. Morgenthau. I think the banks in the United States are now carrying above $15,000,000,000 of Government paper. Am I right about that?

Secretary MORGENTHAU. The figure that I carry in my mind is that the members of the Federal Reserve System and the Federal Reserve have 45 percent of the total Government obligation, and 27 percent of our bonds. That is, the Federal Reserve member banks and the Federal Reserve System.

Senator BAILEY. I would not be able to make the calculation in my mind, but maybe Mr. Bell can tell me just how much it is. I have read the statement frequently that the banks have $15,000,000,000 of Government obligations.

Mr. BELL. I think, including the guaranteed obligations, it was about $12,500,000,000 on June 30 last, for the banks that are reporting to the Federal Deposit Insurance Corporation.

Senator BAILEY. Then you have all the State banks?

Mr. BELL. That is very small.

Senator BAILEY. If we undertake to raise the $6,000,000,000, over and above the refunding, $5,800,000,000, we will have to look to the banks for that, will we not?

Secretary MORGENTHAU. Well, I think I have made the statement here, before——

Senator BAILEY. In other words, the American people are not showing any disposition to subscribe to the bonds. The "baby bonds" did not go very well.

Secretary MORGENTHAU. Do not the banks belong to the American people?

Senator BAILEY. I was making a distinction, there, between the banking institutions and the popular subscriptions. It just goes back to my question, Mr. Secretary—you are looking to the banks, and not to the great body of the people, to subscribe these issues?

Secretary MORGENTHAU. No. I have made this statement before, and I make it here. If you do not mind, Senator, you are sort of putting me in a false position.

Senator BAILEY. Well, I will take all the pains in the world not to do that.

Secretary MORGENTHAU. All I want to say is this. Since I have been Secretary of the Treasury, I have not had to ask anybody to buy a United States Government security—not anybody.

Senator CLARK. Are any Government securities selling below par, Mr. Secretary?

Secretary MORGENTHAU. No.

Senator CLARK. Some of them are selling up as high as 114, are they not?

Secretary MORGENTHAU. Yes.

Senator CLARK. And that contrasts with 1920 Liberty bonds that sold down to 82.

Secretary MORGENTHAU. You do not have to go back as far as that. You do not have to go back to that. You only have to go back about 4 years.

Senator BLACK. What about 1932? What were they selling at then?

Senator GORE. It had run down, in 1933.

Secretary MORGENTHAU. In 1931 there were issued the so-called "Mellon's 3's." I did not originate the name. I think in 1932 these 3-percent bonds sold as low as 82.

Senator BLACK. What are they selling at now?

Secretary MORGENTHAU. About 103.

Senator GORE. In the fall of 1933, when the gold buying began, did not the bonds run down, in September or later?

Secretary MORGENTHAU. There was a drop in Government bond prices toward the end of November 1933. That is when we struck low; and from that time on the Government bond market has steadily gone forward.

Senator GORE. Was it due to the so-called "gold jiggling" that the price went down?

Secretary MORGENTHAU. It was soon after the "gold jiggling" business that the bond market began to go up.

Senator GORE. But it began first to go down?

Secretary MORGENTHAU. But after we began to buy the gold, that is when the bond market began to go up.

Senator GORE. You say in the fall of 1933 it went down?

Secretary MORGENTHAU. Right at the end of November—November 24, about in there—the last days of November 1933 was about the year's low of the Government bond market.

Senator GORE. And they started the "gold jiggling" business in about September?

Secretary MORGENTHAU. October, the last week in October.

Senator GORE. The 24th or 25th of October. That is right. Then they dropped down?

Secretary MORGENTHAU. We tried to stop the drop in the bond market. The market had been low for about 3 years, and has improved since the end of 1933. I think that was pretty good for the "jiggling of gold."

Senator GORE. Here is what I want to ask you: You say the member banks hold about 45 percent of our outstanding obligations. That includes those issued prior to the depression, and those since?

Secretary MORGENTHAU. It represents the total.

Senator GORE. Those that have been issued since the depression, the banks have taken nearly all of those, have they not—about 91 percent?

Secretary MORGENTHAU. No, sir. The percentage has not changed very much; but the total holdings of the Federal Reserve member banks, and the System, of everything that they hold, runs around 45 percent, and it has not changed very much in the last year.

Senator GORE. I was reading figures the other day, concerning those that had been issued since the depression, the emergency issues and that the banks held about 91 percent of those.

Secretary MORGENTHAU. I do not think that is correct.

Senator GORE. Do you think the people have taken 55 percent, and the banks 45?

Secretary MORGENTHAU. The insurance companies recently have been our biggest buyers, I believe, of the long-term Government bonds. They are amongst the best buyers we have.

Senator BARKLEY. You said awhile ago the banks held 27 percent of what you called Government bonds. That is the long-term bonds?

Secretary MORGENTHAU. Five years or over.

Senator BARKLEY. And these short-term obligations, plus the long-term bonds, gives the figure of the bonds held, at 45 percent?

Secretary MORGENTHAU. Yes, sir.

Senator BARKLEY. So that, by a mathematical process, it would be easy to demonstrate that they do not hold 90 percent, or even 75 percent of the short-term obligations.

Senator BAILEY. I would like to find out how much of the debt is represented by bonds. I will make a calculation. I will take 27 percent, of the bonds, 5 years or over.

Secretary MORGENTHAU. We can give it to you exactly.

Senator BAILEY. I want to get it. I want to see.

Secretary MORGENTHAU. We can get it exactly.

Mr. BELL. On December 31, 1935, the total bonds outstanding were $14,672,000,000.

Senator BAILEY. $14,672,000,000? That is bonds?

Mr. Bell. Treasury notes, which include certain special issues, trust funds, and so forth, $12,273,000,000.

Senator Bailey. That gives you only 27 percent of the paper outstanding. Where is the balance of the debt?

Mr. Bell. The certificates of indebtedness.

Senator Bailey. All right, now; who has got those?

Mr. Bell. The adjusted-certificate fund has those, $247,000,000. Treasury bills.

Senator Bailey. All right; who has the bills?

Mr. Bell. They are in the hands of the public.

Senator Bailey. By "the public" do you include the banks?

Mr. Bell. Surely.

Senator Bailey. You see, I am trying to get the percentage.

Mr. Bell. I cannot tell you how many the banks hold.

Senator Bailey. Give me the amount of the bills.

Mr. Bell. $2,404,000,000.

Senator Bailey. All right. Now, we do not know where they are. Could you give me some guess as to where they are?

Mr. Bell. On June 30, the banks that report to the Federal Deposit Insurance Corporation held $1,100,000,000 of Treasury bills. At that time we had outstanding $1,500,000,000, I think, about.

Senator Bailey. What was the percentage of that, now, in the banks?

Mr. Bell. I gave you $1,100,000,000. I will have to look that up to see what the amount of the outstanding Treasury bills was.

Senator Gore. What are you reading from?

Mr. Bell. I am reading from a report of the Federal Deposit Insurance Corporation.

Senator Bailey. You have now $9,700,000,000 of bonds and notes in banks, according to your figures, and in addition to that, you have to account for your bills. How much of that is in the banks?

Mr. Bell. This statement indicates that the Treasury bills, on June 30, were held by banks to the extent of 54 percent of the total amount outstanding on that date.

Senator Bailey. What was the total?

Mr. Bell. That would be about $1,900,000,000. I said $1,500,000,000 before.

Senator Bailey. You count, then, another billion. That will give you $10,700,000,000 of the Government's paper, that is in the banks, and this is only the banks in the Federal Reserve?

Mr. Haas. No; this is all banks.

Mr. Bell. These are the banks reporting to the Federal Deposit Insurance Corporation.

Senator La Follette. Federal Deposit Insurance Corporation, including all the banks?

Senator Bailey. $10,700,000,000 in all the banks, according to these calculations?

Mr. Bell. That is about right; yes, sir.

Senator Gore. Mr. Secretary, I do not want to press you on that, but do you care to express any opinion, so far as to the advisability of levying additional taxes, if these additional obligations are incurred?

Secretary Morgenthau. I think that is up to you gentlemen.

Senator Gore. I do not want to press you on the point at this time.

Senator BAILEY. I will ask you a question: Do you think, Mr. Secretary, if we should proceed and undertake to raise some taxes to meet this situation, it would tend to strengthen your bond situation?

Secretary MORGENTHAU. The answer to that is "yes."

The CHAIRMAN. Are there any other questions?

Senator BLACK. I want to get just two or three figures. Can you give me, Mr. Bell, the amount of the public debt, the net public debt, on December 31, 1935?

Mr. BELL. The gross public debt on that date was $30,557,000,000.

Senator BLACK. I mean the net public debt, after taking the money that is in the Treasury, out.

Mr. BELL. $28,000,000,000.

Senator GORE. Will you let him state both, in order to get it in the record?

Senator BLACK. Oh, yes.

Mr. BELL. The gross public debt on December 31 was $30,557,000,000.

Senator BLACK. What is the net public debt, when you take out the money that you actually had in the Treasury?

Mr. BELL. Deducting the balance in the general fund of the Treasury, it leaves a net public debt of $28,348,000,000.

Senator BLACK. Have you the amount of the net public debt on March 4, 1933?

Mr. BELL. In February 1933 the gross public debt was $20,935,000,000.

Senator BLACK. The net? Have you the net?

Mr. BELL. The gross public debt was $20,935,000,000; deducting the balance in the general fund gives you $20,714,000,000.

Senator BLACK. That is how much—$20,714,000,000 what?

Mr. BELL. Net.

Senator BLACK. Even?

Mr. BELL. That is right. I am giving you round figures.

Senator BLACK. Now, will you give me, please, so I can subtract it from that, the amount of the Government's assets and the recoverables, such as the R. F. C. and the Home Owners' Loan?

Mr. BELL. Did I not give you a statement of that, Senator?

Senator BLACK. As I get that, that left $7,634,590,000 increase, since February 1933. Now, give me the amount of recoverables, please, sir.

Mr. BELL. The proprietary interests of the United States Government in certain Government corporations and credit agencies, on November 30, 1935, was $4,493,000,000.

Senator BLACK. $4,493,000,000?

Senator GERRY. That is an estimate, is it not?

Mr. BELL. No, sir; that is taken from the balance sheets.

Senator GERRY. That is the balance sheet, but what they may recover is a pure guess?

Senator BLACK. That leaves $3,141,595,000. Now, will you give me please, the amount of profit that the Government has on the gold transaction to which Senator Connally referred?

Mr. BELL. That was $2,800,000,000, in round figures. That was the original profit. I understood your question was, the profit originally made on gold.

Senator BLACK. Yes.

Mr. Bell. $2,800,000,000; but that does not mean it is available.

Secretary Morgenthau. We have used around $700,000,000 to retire currency.

Senator Black. What does that leave—$2,100,000,000?

Mr. Bell. There was $800,000,000, or $850,000,000, that has been used or set aside for specific purposes; that is, to retire national-bank notes, to make loans to industry, through the Federal Reserve banks, and $20,000,000 for the Philippine currency.

Senator Black. The net public increase since this administration went in is what?

Mr. Bell. May I finish that, and get it all together?

Senator Black. Yes; excuse me.

Mr. Bell. Congress set aside $2,000,000,000 for the exchange stabilization fund.

Senator Black. Then, as I figure, from your figures that you have given, the net increase in the debt since this administration went in seems to be $7,634,000?

Mr. Bell. Billion.

Senator Black. Billion. And we have as recoverables against that, $4,493,000,000?

Mr. Bell. Assets.

Senator Black. Assets which we have in connection with that debt?

Mr. Bell. Yes, sir.

The Chairman. Any other questions?

Senator Gore. I did not get Mr. Bell's answer to the last question.

Secretary Morgenthau. Pardon me, Senator Black. You did not include the $2,000,000,000 stabilization fund in that?

Mr. Bell. No; I do not think so.

Senator Black. Did not include that.

Secretary Morgenthau. Yes. I think you have got to add $2,000,000,000 to that.

Senator Black. What is that, now?

Secretary Morgenthau. The stabilization fund, $2,000,000,000.

Senator Black. What is the stablization fund?

Secretary Morgenthau. Gold.

Senator Black. Gold that you have?

Secretary Morgenthau. Yes.

Senator Barkley. In other words, that is $2,000,000,000 out of the $2,800,000,000 profit.

Secretary Morgenthau. Yes. You are using $4,300,000,000, which Mr. Bell gave as possibly recoverable, and also the $2,000,000,000 stabilization, which you have to add to that.

Senator Gore. Just what is included in the recoverables? Can you break down that recoverable figure? Of what does that consist?

Mr. Bell. That includes such organizations, Senator, as the Reconstruction Finance Corporation, the Commodity Credit Corporation, Export-Import Banks, Public Works Administration, Regional Agricultural Credit Corporation, Production Credit Corporations, United States Shipping Board, Merchant Fleet Corporation, and various war emergency corporations and agencies, and several others.

Senator Gore. How much of those recoverables, if an when recovered, could be applied to the retirement of these bonds, unpledged to secure any other obligations?

Mr. BELL. All of it could, if the proceeds of the liquidation of these organizations were covered into the Treasury as a revenue.

Senator GORE. Yes—and there were no losses on it?

Mr. BELL. That is right.

Senator GORE. How much of these recoverables were obtained prior to March 4, 1933, and how much since? I think that will bring us down to date and give us a clear picture?

Mr. BELL. I haven't got that, but we can put it in the record.

Senator GORE. All right.

Mr. BELL. As I recall, it was somewhere between $2,000,000,000 and $2,500,000,000, on hand in March–February 1933.

Senator GORE. There has been some discussion in the public prints, and it would complete this record if it were inserted at this point.

Mr. BELL. I can put that in.

Senator BLACK. Let me add this figure that I did not put down. If you subtract the $2,100,000,000 for the gold fund, from the $3,141,590,000, that would leave $1,041,590,000, and then, of course, in order to complete it, as Senator Gore suggests it would be necessary to add to the $1,041,000,000 the amount that was on hand when this administration came in, March 4, 1933, which would be about $3,000,000,000 in all.

Senator BARKLEY. Mr. Morgenthau, you said awhile ago that since 1933 the bonds of the United States had gradually increased, until they are now up, the highest being around 114, and the lowest, 101 or 102. During the time when these bonds have been increasing in value, has the interest paid by the Government gradually gone down?

Secretary MORGENTHAU. The interest has been reduced, I think, an average of about 1 percent, has it not?

Mr. BELL. June 30, 1934, as I recall it, it was 3.18 percent as an average rate, and today it is 2.55.

Secretary MORGENTHAU. On the refunding of the old war loans, and that item alone, we have saved over $100,000,000 in interest.

Senator BARKLEY. To what extent have you refunded those old bonds?

Secretary MORGENTHAU. We have completely refunded them.

Senator GORE. The aggregate amount is what?

Secretary MORGENTHAU. We refunded a little over $8,000,000,000 in the past 2 years.

Senator GORE. Then you saved on the average of 1 percent?

Secretary MORGENTHAU. We saved in interest over $100,000,000 a year on that refunding.

Senator LA FOLLETTE. Mr. Bell, what was the average rate prior to March 1933, if you recall?

Secretary MORGENTHAU. You got the present average interest, which is a little over 2.5 percent on all Government obligations?

Senator BARKLEY. Yes; 2.55.

Mr. BELL. In December 1933, it was 3.30. On February 28 it was 3.40 percent.

Senator LA FOLLETTE. And the average rate today?

Mr. BELL. The average rate today is 2.55.

The CHAIRMAN. All right, thank you, Mr. Secretary.

Senator BLACK. One other figure I would like to get in, if you have it. I do not know whether you have it or not, in connection with the question that was asked a few moments ago on the difference in conditions. Can you tell us the amount of taxes that were paid into the Government Treasury in 1932, in income and taxes that were then assessed, how much that had gone down in the last 4 years, and what tax we collect now on that same rate base?

Secretary MORGENTHAU. We will figure it out for you and put it in the record.

Mr. BELL. It is quite a job.

Senator BLACK. It has gone down from about 4 billion to about 2 billion, has it not?

Mr. BELL. Yes, sir; dropped to about $2,600,000,000, in spite of some tax increases.

Senator BLACK. In spite of some tax increases, just the taxes on the regular rate base, that dropped down from about $4,000,000,000 to $2,000,000,000. Do you know approximately what that has gone back up to now, on that same rate base?

Mr. BELL. No. It is quite an undertaking to figure it out, but we can do it probably.

Senator BLACK. I would be glad if you would.

The CHAIRMAN. Is that all, gentlemen?

Senator GORE. I want to ask him this: When you answered, this statement that you said you can supply later on, if it is not too much trouble, I would be glad if you would tabulate this public-debt statement, and make it handy for us, if it is not too much trouble.

Mr. BELL. You mean, Senator, the Treasury bonds?

Senator GORE. Yes; just break it down, the different questions Senator Black asked, which will appear in the record as running questions and answers. Then, at the end of the questions and answers, if you will, submit a tabulation which will be easy for reference.

Mr. BELL. I will do that, and put in the maturities also, if you would like to have them.

Senator GORE. Yes.

Senator COUZENS. It is a safe assumption, Mr. Secretary, as I understand, that the passage of the bonus bill, plus the Supreme Court decision on A. A. A., will not help the bond market, will it?

Secretary MORGENTHAU. That is a safe assumption.

The CHAIRMAN. Yesterday, the committee wanted the heads of these veterans' organizations to appear briefly. Have Mr. Murphy come in, please. Thank you very much, Mr. Secretary.

The statement of the public debt of the United States is as follows:

(Public debt of the United States)

Treasury bills, certificates, notes and Liberty and Treasury bonds, Dec. 31, 1935

Series and issue date	Callable date	Fiscal year callable or redeemable	Maturity date	Amount	Total
TREASURY BILLS					
Apr. 10, 1935		1936	Jan. 8, 1936	$50,062,000	
Apr. 17, 1935		1936	Jan. 15, 1936	50,020,000	
Apr. 24, 1935		1936	Jan. 22, 1936	50,155,000	
May 1, 1935		1936	Jan. 29, 1936	50,085,000	
May 8, 1935		1936	Feb. 5, 1936	50,091,000	
May 15, 1935		1936	Feb. 11, 1936	50,255,000	
May 22, 1935		1936	Feb. 19, 1936	50,020,000	
May 29, 1935		1936	Feb. 26, 1936	50,037,000	
June 5, 1935		1936	Mar. 4, 1936	50,010,000	
June 12, 1935		1936	Mar. 11, 1936	50,080,000	
Oct. 2, 1935		1936	Mar. 16, 1936	50,107,000	
Oct. 9, 1935		1936	do	50,006,000	
Oct. 16, 1935		1936	do	50,205,000	
Oct. 22, 1935		1936	do	50,830,000	
Oct. 30, 1935		1936	do	50,325,000	
Nov. 6, 1935		1936	do	50,143,000	
Nov. 13, 1935		1936	do	50,132,000	
Nov. 20, 1935		1936	do	50,015,000	
Nov. 27, 1935		1936	do	50,250,000	
June 19, 1935		1936	Mar. 18, 1936	50,059,000	
June 26, 1935		1936	Mar. 25, 1936	50,010,000	
July 3, 1935		1936	Apr. 1, 1936	50,000,000	
July 10, 1935		1936	Apr. 8, 1936	50,100,000	
July 17, 1935		1936	Apr. 15, 1936	50,062,000	
July 24, 1935		1936	Apr. 22, 1936	50,015,000	
July 31, 1935		1936	Apr. 29, 1936	50,050,000	
Aug. 6, 1935		1936	May 6, 1936	50,102,000	
Aug. 14, 1935		1936	May 13, 1936	50,072,000	
Aug. 21, 1935		1936	May 20, 1936	50,045,000	
Aug. 28, 1935		1936	May 27, 1936	50,000,000	
Sept. 4, 1935		1936	June 3, 1936	50,046,000	
Sept. 11, 1935		1936	June 10, 1936	50,031,000	
Sept. 18, 1935		1936	June 17, 1936	50,015,000	
Sept. 25, 1935		1936	June 24, 1936	50,040,000	
Oct. 2, 1935		1937	July 1, 1936	50,003,000	
Oct. 9, 1935		1937	July 8, 1936	50,025,000	
Oct. 16, 1935		1937	July 15, 1936	50,111,000	
Oct. 22, 1935		1937	July 22, 1936	50,030,000	
Oct. 30, 1935		1937	July 29, 1936	50,046,000	
Nov. 6, 1935		1937	Aug. 5, 1936	50,102,000	
Nov. 13, 1935		1937	Aug. 12, 1936	50,017,000	
Nov. 20, 1935		1937	Aug. 19, 1936	50,003,000	
Nov. 27, 1935		1937	Aug. 26, 1936	50,050,000	
Dec. 4, 1935		1937	Sept. 2, 1936	50,045,000	
Dec. 11, 1935		1937	Sept. 9, 1936	50,000,000	
Dec. 18, 1935		1937	Sept. 16, 1936	50,215,000	
Dec. 24, 1935		1937	Sept. 23, 1936	50,070,000	
Dec. 31, 1935		1937	Sept. 30, 1936	50,000,000	
					$2,404,192,000
TREASURY NOTES					
2⅞ percent, C-1936	May 2, 1933	1936	Apr. 15, 1936	558,819,200	
1⅛ percent, E-1936	Dec. 15, 1934	1936	June 15, 1936	686,616,400	
3¼ percent, A-1936	Aug. 1, 1932	1937	Aug. 1, 1936	364,138,000	
1½ percent, D-1936	Sept. 15, 1934	1937	Sept. 15, 1936	514,066,000	
2¾ percent, B-1936	Dec. 15, 1932	1937	Dec. 15, 1936	357,921,200	
3 percent, C-1937	Feb. 19, 1934	1937	Feb. 15, 1937	428,730,700	
3 percent, B-1937	Oct. 15, 1932	1937	Apr. 15, 1937	502,361,900	
3¼ percent, A-1937	Sept. 15, 1932	1938	Sept. 15, 1937	817,483,500	
2⅝ percent, A-1938	Feb. 1, 1933	1938	Feb. 1, 1938	276,679,600	
3 percent, C-1938	Mar. 15, 1934	1938	Mar. 15, 1938	455,175,500	
2⅞ percent, B-1938	June 15, 1933	1938	June 15, 1938	618,056,800	
2½ percent, D-1938	Sept. 15, 1934	1939	Sept. 15, 1938	596,416,100	
1½ percent, C-1939	Sept. 16, 1935	1939	Mar. 15, 1939	941,613,750	
2⅛ percent, A-1939	June 15, 1934	1939	June 15, 1939	1,293,714,200	
1⅜ percent, B-1939	July 15, 1935	1940	Dec. 15, 1939	526,233,000	
1⅝ percent, A-1940	Mar. 15, 1935	1940	Mar. 15, 1940	1,378,364,200	
1½ percent, B-1940	June 15, 1935	1940	June 15, 1940	738,428,400	
1½ percent, C-1940	Dec. 16, 1935	1941	Dec. 15, 1940	737,160,600	
					11,791,969,050

Treasury bills, certificates, notes and Liberty and Treasury bonds, Dec. 31, 1935—Continued

Series and issue date	Callable date	Fiscal year callable or redeemable	Maturity date	Amount	Total
LIBERTY BONDS					
First 3½s	June 15, 1917	1935	June 15, 1935	$59,753,650	
First 4s and 4¼s	1917-18	1935	June 15, 1935		
Fourth 4¼s—called	Oct. 24, 1918	1934	Apr. 15, 1934		
Fourth 4¼s—called	Oct. 24, 1918	1935	Oct. 15, 1934	92,640,200	
Fourth 4¼s—called	Oct. 24, 1918	1935	Apr. 15, 1935		
Fourth 4¼s—called	Oct. 24, 1918	1936	Oct. 15, 1935		$152,393,850
TREASURY BONDS					
3⅜ percent, 1940-43	July 16, 1928; June 15, 1940	1940	June 15, 1943	352,993,950	
3⅜ percent, 1941-43	Mar. 15, 1931; Mar. 15, 1941	1941	Mar. 15, 1943	544,914,050	
3¼ percent, 1941	Aug. 15, 1933	1942	Aug. 1, 1941	834,474,100	
3⅜ percent, 1943-47	June 15, 1927; June 15, 1943	1943	June 15, 1947	454,135,200	
3¼ percent, 1943-45	Oct. 15, 1933; Oct. 15, 1943	1944	Oct. 15, 1945	1,400,570,500	
3¼ percent, 1944-46	Apr. 16, 1934; Apr. 15, 1944	1944	Apr. 15, 1946	1,518,858,800	
4 percent, 1944-54	Dec. 15, 1924; Dec. 15, 1944	1945	Dec. 15, 1954	1,036,762,000	
2¾ percent, 1945-47	Sept. 16, 1935; Sept. 15, 1945	1946	Sept. 15, 1947	1,214,453,900	
3¾ percent, 1946-56	Mar. 15, 1926; Mar. 15, 1946	1946	Mar. 15, 1956	489,087,100	
3⅛ percent, 1946-49	June 15, 1931; June15, 1946	1946	June 15, 1949	818,646,000	
3 percent, 1946-48	June 15, 1934; June 15, 1946	1946	June 15, 1948	1,035,884,900	
4¼ percent, 1947-52	Oct. 16, 1922; Oct. 15, 1947	1948	Oct. 15, 1952	758,955,800	
3⅛ percent, 1949-52	Dec. 15, 1934; Dec. 15, 1949	1950	Dec. 15, 1952	491,377,100	
3 percent, 1951-55	Sept. 15, 1931; Sept. 15, 1951	1952	Sept. 15, 1955	755,476,000	
2⅞ percent, 1955-60	Mar. 15, 1935; Mar. 15, 1955	1955	Mar. 15, 1960	2,611,155,700	14,317,745,100
United States Saving bonds.					153,477,488
					28,819,777,488

Treasury certificates, trust funds	$254,600,000	
Treasury notes, trust funds	481,630,000	
Trust funds		$736,230,000
Pre-war bonds, including Postal Savings		200,515,340
Non-interest-bearing debt, etc		808,601,235
Total gross debt		30,565,124,063

RECAPITULATION

Total Treasury bills	$2,404,192,000
Total Treasury notes	11,791,969,050
Total bonds	14,623,616,438
Trust fund obligations	736,230,000
Pre-war and non-interest-bearing debt, etc	1,009,116,575
	30,565,124,063

TESTIMONY OF RAY MURPHY, NATIONAL COMMANDER, THE AMERICAN LEGION

The CHAIRMAN. Mr. Murphy, you are the national commander of the American Legion?

Mr. MURPHY. Yes, sir.

The CHAIRMAN. We are now considering these bills, the one that just passed the House, and the one that was introduced in the Senate day before yesterday. What are your views with reference to this matter? What are your views with reference to this bill?

Mr. MURPHY. The American Legion favors the Senate bill, as we have seen it, and as it was introduced.

The CHAIRMAN. Are there any other questions?

Senator COUZENS. I would like to ask Mr. Murphy what percentage if any percentage of the members of the American Legion were consulted before he reached that conclusion?

Mr. MURPHY. The legislative committee of the American Legion, in session here, was consulted, pertaining to the provisions of this particular bill. The principle, of course, is consistent with our conventions of several years.

Senator COUZENS. When did your legislative committee meet last?

Mr. MURPHY. The chairman of the committee is here, now, and it has been in session here since the first of the year.

Senator COUZENS. All of the legislative committee have?

Mr. MURPHY. Not all of them here now, just the chairman here at this time. They have all been here.

Senator COUZENS. How many members are there of the legislative committee?

Mr. MURPHY. Three members. That is in addition, of course, to the personnel here in Washington.

The CHAIRMAN. You joined with Mr. Van Zandt and Mr. Harlan in a statement that was put into the record, as I understand.

Mr. MURPHY. Yes, sir.

The CHAIRMAN. Representing the American Legion? All right. Are there any other questions?

Senator BARKLEY. Mr. Murphy, let me ask you this: As between the two bills, there is no difference of treatment between or among those who want immediate cash. It is available for them in both bills?

Mr. MURPHY. We feel that in that respect the two bills are consistent.

Senator BARKLEY. Those who want to defer payment and hold their obligations, the Senate substitute bill is more favorable than the House bill, because it gives 3-percent interest on the deferred payments, while the House bill, I believe, does not. Is that correct?

Mr. MURPHY. No; that is not correct, Senator. The two bills are the same in that respect.

Senator BARKLEY. Oh, the House bill then provides for interest on the deferred payments from now until '45?

Mr. MURPHY. Yes.

The CHAIRMAN. It provides for options, if they want to carry the payments.

Mr. MURPHY. Yes; but the Senate bill does have one advantage with respect to those who might desire to hold a part of their payment, or who would be in a position to hold a part, but who needed part of the money at this time to pay debts, or for other purposes.

Senator GORE. It would make it a little better on the Treasury, at least theoretically it might be so, where they cash one $50 bond and not the other.

Mr. MURPHY. We believe that is true, Senator.

Senator GORE. Senator Connally was called out, Mr. Chairman, and I did not understand the first question. I suppose it was that Mr. Murphy personally endorsed the recommendations contained in this bill.

The CHAIRMAN. Yes. Thank you very much, Mr. Murphy.

Senator BAILEY. One moment, please. Mr. Murphy, assuming that our Government would be under the necessity of raising $10,000,000,000 in the next 17 months, both by way of refinancing outstanding obligations, and then the excess of expenditures over revenue, would you recommend the contraction of this $2,000,000,000 debt in addition?

Mr. MURPHY. Of course, that is involving us in the question of rather momentous finance, and we believe——

Senator BAILEY. It is a question. I want you to share the responsibility with us. You see, you are asking for it. I wanted you to be apprised of the fact, you see, and take your part of the burden.

Mr. MURPHY. I am perfectly willing to do that, Senator. I feel that in view of the record of the past few years, this matter can be financed without injury to the credit of the Government. Certainly the President said that it could be paid, in his veto message, without injuring the financial stability of the country.

Senator BAILEY. What I wanted to get is, you, in your representative capacity, representing the Legion, would go along with us, and share the responsibility for any consequences that may ensue upon adding $2,000,000,000 to $10,000,000,000, that we have to raise in the next 17 months.

Mr. MURPHY. To such extent as we can share in it, we will be glad to do so, Senator.

Senator BAILEY. You tell us you think that is a wise course, and you think we should go forward under those facts?

Mr. MURPHY. I would not assume to tell this committee or the Senate that that is true.

Senator BAILEY. Well, you just tell us that you want us to take the responsibility, and you and those whom you represent get the benefit. Are you not willing to?

Mr. MURPHY. Insofar as we can share the responsibility, we certainly would be glad to do it.

Senator BAILEY. You know the ultimate responsibiltiy does not fall on us. It is on the American people, including the veterans.

Mr. MURPHY. That is right.

Senator BAILEY. That is where it goes.

Senator GORE. It would be shared by veterans, along with other citizens.

Senator BAILEY. Certainly. Do you see what I am driving at, Mr. Murphy?

Mr. MURPHY. I do, Senator.

Senator BAILEY. Of course, this bill is going to be passed in response to the demands of the veterans' organizations.

Mr. MURPHY. I want to say this. I shared some of the feeling which is probably back of your question, in 1932, when the President of the United States said that this amount of money could not be raised and spent by the Government without seriously affecting, if not breaking down the financial stability of this Government. It certainly has been demonstrated since that that is not true, although of course the President did not know it was not true.

Senator BAILEY. Since we have spent a great deal more it might be true, and I think that is the statement of the committee. We do not know what will happen in the next 6 months.

Mr. MURPHY. No.

Senator BAILEY. Under this new necessity of raising, outside of the certificates, $10,000,000,000 in 17 months. Now, this will make $12,000,000,000 in 17 months. We are going to have to sell paper to get it. This is outside the taxes—$12,000,000,000 in 17 months is the lowest figure we get here; but I am just going to notify you, in your representative capacity, that if there are ill consequences, we will expect you and the Legion to share the responsibility, and to defend the Government, and all of us fellows who are responsible, directly, because you are responsible.

Mr. MURPHY. Insofar as we can share the responsibility, we will, with the Senate and the House.

Senator GORE. I think, Mr. Murphy, we can assume this is approximately true, that this bill possibly would not pass if the American Legion veterans of the World War, and the disabled soldiers, were here fighting this legislation. I do not think the Senators would defy your wishes in the premises. I am saying that in order to centralize a great deal of responsibility on you gentlemen, that you should share with others who are officials, at least some part of the burden.

Mr. MURPHY. I think we are responsible, undoubtedly, for the present situation with respect to the bonus.

Senator GORE. Yes.

Mr. MURPHY. I do not think we should attempt to dodge any responsibility in that connection.

Senator BARKLEY. Mr. Murphy, let me ask you this: It has been shown here that if all the veterans should cash their certificates, or should require cash at the same time, it would require an immediate expenditure of about $2,200,000,000, and it has also been shown there are about 500,000 of the veterans who have not borrowed any money at all on their certificates. Would you be willing to hazard a suggestion as to what proportion of those 500,000 would continue to hold their certificates or accept bonds payable in 1945, or would not demand cash?

Mr. MURPHY. I think that a very substantial portion of them, Senator, would retain the bonds, and not cash them. I think also that a certain percentage—an uncertain percentage, I should say, but some percentage of veterans who have borrowed, would also hold the bonds.

Senator BARKLEY. Yes; I was coming to that; and I wondered if you could make any estimate of the probable percentage of those who have borrowed money during the depression, who were in such circumstances that they would be induced to hold the bonds and draw the interest on them.

Mr. MURPHY. That would be only a guess, Senator. I hazarded a guess yesterday of a quarter of a million of those who had borrowed, who would hold the bonds and not cash them. The survey recently made by the American Legion among its own membership indicates that about 53 percent of the legionnaires will use the money from these certificates to pay debts, but the percentage of the amount of money paid does not run so high, which indicates that of course the percentage are not going to use all of their money to pay their debts.

Senator CLARK. Some will cash part of their certificates, and hold part, won't you, Mr. Murphy?

Mr. MURPHY. I think so, especially under this bill.

Senator CLARK. That is what I say, under this plan.

Mr. MURPHY. Yes.

Senator CLARK. For intance, I was talking yesterday to a country doctor from my home town in Missouri. He has got a certificate for about $850. He said that if this Senate bill was passed, he was going to cash the $350, approximately, and buy some apparatus badly needed, and save the other $500; and I apprehend that a great many veterans will pursue that policy of cash in part and holding in part, under this bill.

Mr. MURPHY. I think that is unquestionably the case.

Senator BARKLEY. If we can assume that the 500,000 who have not borrowed would hold their bonds, and if we could assume that a quarter of a million of those who have borrowed will hold their bonds, or at least hold part of them, then is it a fair deduction to say that the cash outlay of the Government over the period required to pay those who would demand it, would exceed $1,500,000,000?

Mr. MURPHY. I think that is a fair statement.

Senator WALSH. Would you be willing to advise the veterans who are not in distress and who do not need the money at the present time to hold on, so as to relieve the Public Treasury?

Mr. MURPHY. I expect to do that, Senator, in our national publication, which reaches every one of our members, and which will be issued shortly.

Senator WALSH. And point out that would relieve the Treasury some?

Mr. MURPHY. Yes.

Senator BAILEY. What proportion of the veterans are in distress?

Mr. MURPHY. I should say that the nonmember of the American Legion, on the average, is in greater distress than the Legion member, and the only direct figures I have on that, of course, come from the survey which we have made, which indicates that about 53 percent of our own membership is going to use this money to pay debts.

Senator BAILEY. Fifty-three percent are in actual need of money?

Mr. MURPHY. That is, of our own membership; but I should say that the nonmembers are much more in need of it, comparatively, than the members of the Legion. That has been demonstrated, I think, in several ways.

Senator BARKLEY. What is the total Legion membership now?

Mr. MURPHY. The 1935 membership is slightly in excess of 842,000. The 1936 membership at this time is approximately 500,000, perhaps slightly in excess; but our membership seldom reaches its peak until about May or June.

Senator BARKLEY. Do you know what the membership of the other organizations of disabled veterans is?

Mr. MURPHY. I understand that the membership of the Veterans of Foreign Wars is approximately 300,000.

Senator GORE. Do a good many individuals belong to both organizations?

Mr. MURPHY. A good many, yes; although I should not say a great percentage.

Senator BARKLEY. The third—what is the membership of the Disabled Veterans?

Mr. MURPHY. They have a membership, I believe, of 55,000.

Senator BARKLEY. If you could consider that they are all members of only one organization, that would make the present membership of the three organizations at this date about 900,000, or close to 1,000,000?

Mr. MURPHY. As of this date, I assume. The figures I have given with respect to their membership, I believe refer to their annual peak membership. Whether their paid-up membership is that large or not, I have no means of knowing.

Senator BARKLEY. It fluctuates, does it not, from time to time? I mean, from year to year?

Mr. MURPHY. Not greatly, but it runs through the year. Our membership does not reach its height until about May or June.

Senator GORE. Do you remember how many World War veterans are now drawing compensation?

Mr. MURPHY. About 350,000, I think, Senator.

The CHAIRMAN. Thank you very much, Mr. Murphy.

TESTIMONY OF JAMES E. VAN ZANDT, COMMANDER, VETERANS OF FOREIGN WARS OF THE UNITED STATES

The CHAIRMAN. Mr. Van Zandt, you are commander in chief of the Veterans of Foreign Wars of the United States?

Mr. VAN ZANDT. Yes, sir.

The CHAIRMAN. What have you to say, Mr. Van Zandt?

Mr. VAN ZANDT. I want to say that, adhering to the mandate of our national encampment, we have approved this bill, and stand with other veteran organizations in doing so.

The CHAIRMAN. You share the views, generally, do you, of Mr. Murphy, with reference to this bond feature, and encouraging all those that are not in distress to hold them, in the interests of the Government, and in their interests too, do you not?

Mr. VAN ZANDT. Exactly, we do.

The CHAIRMAN. All right. Thank you.

Senator BAILEY. Are you going to issue requests formally to your members who are not in need?

Mr. VAN ZANDT. We will do that through our official organ, Senator, which reaches every member monthly.

Senator BAILEY. You will do that?

Mr. VAN ZANDT. Yes, sir.

Senator BAILEY. And show them the wisdom of doing that?

Mr. VAN ZANDT. We will do that very thing. We think it is our duty.

Senator BAILEY. With regard to the consequences, none of us know what the consequences will be. Are you willing to take your share of the burden of the consequences?

Mr. VAN ZANDT. The Veterans of Foreign Wars have been advocating this thing for many years, and we have not only built up sentiment within our organization, but we have built up sentiment within the public, and I think that our friends, and the veterans themselves, are willing to assume their share of this responsibility.

Senator BAILEY. Suppose it requires a sales tax, general sales tax; would you support that?

Mr. VAN ZANDT. That is something I could not say. I have not an opinion or an expression from our national encampment on that.

Senator BAILEY. Well, personally?

Mr. Van Zandt. As the commander in chief of the Veterans of Foreign Wars, I have no personal opinion.

Senator Bailey. Or if you have one you are not allowed to express it?

Mr. Van Zandt. Exactly.

Senator Gore. You said as head of the organization. I do not want to press this to a fine point, as to whether you could segregate your responsibility, and give us the benefit of your personal views. I do not mean to press you on that, Mr. Van Zandt, if you have any hesitation about answering it, if you feel that your identities are so confused that you could not speak in one capacity.

Senator Barkley. Are you in position, either as a commander or in your individual capacity, to pass on what particular method by which money might be raised, at this time?

Mr. Van Zandt. No; I am not.

Senator Clark. You could not express any opinions of James Van Zandt that might not be attributed to the commander in chief of the Veterans of Foreign Wars, could you, Mr. Van Zandt?

Mr. Van Zandt. That is correct, Senator.

TESTIMONY OF M. A. HARLAN, NATIONAL COMMANDER, DISABLED AMERICAN VETERANS OF THE WORLD WAR

The Chairman. You are Commander of the Disabled American Veterans of the World War?

Mr. Harlan. Yes, sir.

The Chairman. What have you to say, Mr. Harlan?

Mr. Harlan. Adhering to the mandate of our national convention, we, in endorsing the measure for the cash payment of the adjusted-service certificates, feel that the Senate bill best meets the needs of the veterans, and at the same time relieves the Government of possibly any great financial strain. I mean by that, we believe, under this bill, these bonds, that a very great majority—I will not say a "great majority", I will say a great number—of World War veterans will be encouraged to hold their bonds until maturity; which of course would not necessitate an outlay of a great amount of money at this time.

Senator Bailey. All three of you have said so many would need the money right now. I thought the main argument for paying it was that there were so many that were in need.

Mr. Harlan. Let me say this, Senator, that on this point, on this bond idea as I get it, suppose a man, as many of them do, owed some $250 or $300. They could take those bonds and cash them in, and the 3-percent interest on the remaining bonds would be an inducement for them to hold them.

Senator Clark. And make some sacrifice?

Mr. Harlan. And make some sacrifice to hold them.

Senator Bailey. That is on the theory that they would not need the money.

Mr. Harlan. Oh, I think the majority of them—I won't say all of them, but I think the majority of them—do need some money at this time. They need some financial relief.

Senator Bailey. Most of them you represent need relief, because they are disabled and have no means of support except what they get from the Government?

Mr. HARLAN. That is true.

Senator GORE. What percentage of your membership are drawing compensation?

Mr. HARLAN. All of our members are drawing compensation, Senator. They must have a service-connected disability.

Senator CLARK. Nobody is eligible to membership in your organization who has not a service-connected disability. Is not that right?

Mr. HARLAN. That is right.

Senator BAILEY. If you suspect that the payment of this money, in addition to other money which we have got to pay might bring about a reduction in the payment to the members of your organization, what would be your views then?

Mr. HARLAN. Senator, I would not answer that question without referring it to my convention.

Senator BAILEY. To be sure, you would not want that reduced?

Mr. HARLAN. Most certainly I would not want the compensation payments reduced to the disabled men; no, sir.

Senator BAILEY. In any event?

Mr. HARLAN. No, sir.

Senator BAILEY. And you would not take a step which would lead to that necessity?

Mr. HARLAN. No, sir.

Senator BAILEY. You feel that the disabled men have a very solemn claim to the entire amount of their compensation?

Mr. HARLAN. I will answer that by saying this, Senator, that it is our contention that the welfare of the wartime disabled men is a paramount obligation.

Senator BAILEY. He is being paid for injuries. He is not receiving anything more than what is his due, by reason of what he suffered.

Mr. HARLAN. That is right.

Senator GORE. It is a debt of honor, so far as he is concerned. The Government owes him.

Senator BARKLEY. Both of these obligations are based on entirely different premises. There is no reason why the discharge of one ought to interfere with the other.

Mr. HARLAN. I could not see why it would; no, sir.

Senator GORE. Suppose a disabled veteran is receiving enough compensation to live on, and has no family obligations, he lives by himself and can live on his compensation; there would not be so much necessity for him to be paid his bonus, now.

Mr. HARLAN. Senator, I will answer that in this way, and this is not said with any attempt to criticize the Government for the amounts being paid, but even though the man is receiving the maximum amount of compensation, the man with a family, it is rather a difficult struggle for him to provide himself with many of the necessities. I mean any of the so-called luxuries of life.

Senator GORE. I can see that, depending on his family obligations, and the number of dependents.

The CHAIRMAN. Thank you very much, Mr. Harlan.

Mr. HARLAN. Thank you, gentlemen.

(The committee thereupon proceeded to the consideration of other business.)

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