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SINKING FUND, VICTORY LIBERTY LOAN ACT.

FEBRUARY 5 (calendar day, FEBRUARY 8), 1923.—Ordered to be printed.

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

REPORT.

[To accompany H. R. 13827.]

The Committee on Finance, to which was referred the bill (H. R. 13827) relating to the sinking fund and notes of the United States, having considered the same, report favorably thereon with the recommendation that the bill do pass without amendment.

House Report No. 1434 on this bill is adopted and is as follows:

[House Report No. 1434, Sixty-seventh Congress, fourth session.]

The Committee on Ways and Means, to whom was referred the bill (H. R. 13827) relating to the sinking fund for bonds and notes of the United States, having had the same under consideration, reports it back to the House without amendment and recommends that the bill do pass.

The legislation herein recommended proposes to extend the application of the cumulative sinking fund provided for in subdivision (a), section 6, of the Victory Liberty loan act to all bonds and notes issued for refunding purposes under authority of the Liberty loan acts instead of limiting it to bonds and notes outstanding on July 1, 1920. It does not involve any enlargement of the amount of the sinking fund or make any other change in its character. It will greatly simplify the Government's financial operations.

Because of the "July 1, 1920," limitation the Treasury can not apply the sinking fund to bonds or notes issued since that date to refund the Victory notes which mature in May. Several issues of Treasury notes maturing in 1924, 1925, and 1926, totaling approximately $3,160,000,000, and an issue of 4¼ per cent Treasury bonds of 1927–1952, in the amount of about $764,000,000, have already been issued for this purpose.

Circumstances may arise in which it would be to the best interests of the Government to use the sinking fund to retire early maturing issues of these refunding notes, or other refunding issues, and the legislation herein proposed will permit this to be done.

The need for this legislation is set forth in a letter addressed to the committee by the Secretary of the Treasury under date of January 10, 1923. He states, in part, as follows:

"If the law is not changed in substantially this way the sinking fund will soon apply only to Liberty bonds, for it does not cover Treasury notes or Treasury bonds or other refunding issues, and all the Victory notes will have matured by May 20, 1923. This would create an unfortunate situation and one that might be embarrassing to the Government, for conditions are likely to arise in which it would be difficult or even impossible to purchase Liberty bonds for the sinking fund at an average cost not exceeding par and accrued interest or where it might be advisable for the Treasury, particularly in years when other issues of bonds or notes were maturing, to sinking fund to these maturing issues, or other early maturing issues, rather than to the longer-term Liberty bonds. The early maturing issues ordinarily press most heavily on the market and it is usually the best policy, from the point of view of the Government bond market as a whole, to apply the sinking-fund buying power to the bonds and notes of early maturity. Unless the law is amended, however, the Treasury will have no freedom of action and might have to use the sinking fund to retire Liberty bonds even though ordinary prudence would dictate some other course, or might even have to suspend the sinking fund owing to inability to purchase Liberty bonds in the market within the limitation as to cost. In order to avoid these possibilities it would be most helpful if the proposed amendment to the law could be adopted at the present session of Congress."

So that the changes may be cleraly understood, section 6 (a) of the Victory Liberty loan act is here set forth in full, the italicized matter being the amendment proposed by this bill:

"SEC. 6. (a) That there is hereby created in the Treasury a cumulative sinking fund for the retirement of bonds and notes issued under the first Liberty bond act, the second Liberty bond act, the third Liberty bond act, the fourth Liberty bond act, or under this act, and outstanding on July 1, 1920, *and of bonds and notes thereafter issued, under any of such acts or under any of such acts as amended, for refunding purposes*. The sinking fund and all additions thereto are hereby appropriated for the payment of such bonds and notes at maturity, or for the redemption or purchase thereof before maturity by the Secretary of the Treasury at such prices and upon such terms and conditions as he shall prescribe, and shall be available until all such bonds and notes are retired. The average cost of the bonds and notes purchased shall not exceed par and accrued interest. Bonds and notes purchased, redeemed, or paid out of the sinking fund shall be canceled and retired and shall not be reissued. For the fiscal year beginning July 1, 1920, and for each fiscal year thereafter, until all such bonds and notes are retired there is hereby appropriated, out of any money in the Treasury not otherwise appropriated, for the purposes of such sinking fund, an amount equal to the sum of (1) 2½ per centum of the aggregate amount of such bonds and notes outstanding on July 1, 1920, less an amount equal to the par amount of any obligations of foreign governments held by the United States on July 1, 1920, and (2) the interest which would have been payable during the fiscal year for which the appropriation is made on the bonds and notes purchased, redeemed, or paid out of the sinking fund during such year or in previous years.

"The Secretary of the Treasury shall submit to Congress at the beginning of each regular session a separate annual report of the action taken under the authority contained in this section."

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