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SENATE.

REPORT
No. 527.

OUTSTANDING INTEREST-BEARING OBLIGATIONS OF THE UNITED STATES.

JUNE 27 (Calendar day June 28), 1918.—Ordered to be printed.

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

REPORT.

[To accompany S. 108.]

The Committee on Finance, to which was referred the bill (S. 108) to authorize the Secretary of the Treasury to use at his discretion surplus moneys in the Treasury in the purchase or redemption of the outstanding interest-bearing obligations of the United States, having had the same under consideration, begs leave to report it back to the Senate with the recommendation that it do pass.

A former bill of like nature was referred to the Treasury Department, and the Secretary of that department furnished the committee with the following report thereon:

TREASURY DEPARTMENT,
OFFICE OF THE SECRETARY,
Washington, February 21, 1916.

HON. F. M. SIMMONS,
Chairman Committee on Finance, United States Senate.

MY DEAR SENATOR: I have the honor to acknowledge the receipt from the Committee on Finance of a copy of S. 55, Sixty-fourth Congress, first session, "A bill to authorize the Secretary of the Treasury to use at his discretion surplus moneys in the Treasury in the purchase or redemption of the outstanding interest-bearing obligations of the United States," which was sent me with a request to furnish the committee with such suggestions as I may deem proper touching the merits of the bill and the propriety of its passage.

In addition to the object expressed in its title the bill proposes to repeal all provisions of existing law requiring the establishment and maintenance of a sinking fund for the reduction of the debt of the United States.

The existing laws in relation to the sinking fund were passed at a time when the Government was burdened with a great debt, incurred by the necessities of the Civil War, and, though never fully enforced or executed, they probably were passed and later continued in force under the belief that they aided in strengthening the public credit through the period of refunding the Civil War debt and the return to a coin basis.

Such reasons are now without any force whatever, and no pledge of a portion of any specific revenue, as under the existing sinking-fund law, is either necessary or advisable as a support to public credit, nor is any such assurance or guaranty needed that the interest-bearing obligations of the United States will be discharged when due.

The provisions of the bill which authorize the Secretary of the Treasury to use at his discretion surplus moneys in the Treasury in the purchase or redemption of the outstanding interest-bearing obligations of the United States do not present any new principle of legislation, as substantially the same authority is conferred by section 2 of the act of March 3, 1881 (21 Stat., 457), which reads as follows:

"Sec. 2. That the Secretary of the Treasury may at any time apply the surplus money in the Treasury not otherwise appropriated, or so much thereof as he may con-

sider proper, to the purchase or redemption of United States bonds: *Provided*, That the bonds so purchased or redeemed shall constitute no part of the sinking fund, but shall be canceled."

The provisions which direct the cancellation of redeemed obligations and deductions of their respective amounts from the outstanding principal of the public debt are essential details not fully covered by existing law.

The existing sinking-fund law has been on the statute books for more than 50 years, having been enacted in February, 1862, but it was impracticable to set up a sinking-fund-account during the Civil War period under that law because the Government was then borrowing money and issuing bonds therefor. No portion of the debt could, therefore, be purchased and retired for the account. It was not until the year 1869 that the account was set up under the law of 1862. Since 1869 purchases and redemptions of the debt for retirement thereof have been made annually when practicable.

In my annual report for the fiscal year ended June 30, 1915 (p. 46), the attention of Congress was called to this subject and a revision of the sinking-fund laws was recommended, as follows:

"The sinking-fund account shows on June 30, 1915, an accumulated balance of \$991,096,467.86 for the retirement of the public debt. This balance, of course, does not exist except on the books of the department. As a matter of fact, there never has been a real sinking fund established. Amounts have been set up as belonging to the fund, as the law directs, and charges have been entered as certain items of debt have been retired. It is, and has been for years, only an account, not a fund.

"After the original sinking-fund acts were passed conditions regarding the public debt changed very materially. The credit of the United States improved and all obligations have been met. The act of May 31, 1878, stopped further retirements of United States notes; their redemption was definitely provided for through the gold-reserve fund established by the act of March 14, 1900. The bank act required the deposit of United States bonds in order to secure circulation, and for many years practically all the interest-bearing obligations of the United States were used for this purpose. Moreover, the revenues of the Government have not always been adequate to carry out the sinking-fund provisions, even if other conditions had not estopped the Secretary. As a result the only entries that have appeared on the sinking-fund account since 1903 are payments of matured bonds.

"The sinking-fund acts should be revised. Either an actual fund should be established with definite and specific appropriation made therefor, together with specific provisions for the administration of the fund, or else the existing acts should be repealed and the Secretary directed to purchase and retire interest-bearing obligations of the United States whenever the same may be acquired advantageously and the condition of the Treasury will warrant such action.

"In this connection I quote from the annual report of my predecessor for the year 1911:

"I beg to renew my recommendation of last year touching the revision of the sinking-fund law. The sinking-fund law has fallen into neglect because it can not be carried out. It should be revised to a point where it can be carried out. It is impossible to obey the law as it is, for the Treasury Department has not at present any funds with which to pay off its debt. The Secretary of the Treasury should set aside 1 per cent of the debt as a sinking fund, and Congress has made a permanent appropriation for this purpose, but it does not furnish the money with which to carry it out. As a consequence, the sinking-fund law has been not exactly a dead letter, but a dead-and-alive letter for nearly 40 years. It is not well to continue such a situation, and it is not necessary in the least that it should be continued. A little legislation would set the matter right, and I commend to Congress the suggestion to make the sinking-fund law conform to the facts.'"

The Secretary of the Treasury in February and May, 1911, submitted to Congress the facts regarding the fund and recommendations for the repeal of the sinking-fund law, together with a suggested draft of a bill to accomplish that object. (H. Doc. No. 1356, 61st Cong., 2d sess., and H. Doc. No. 43, 62d Cong., 1st sess.)

The recommendations were embodied in S. 10898, Sixty-first Congress, third session, but it appears the bill was not considered in that Congress.

The Senate Committee on Finance, February 6, 1912, made a favorable report (No. 320) on a similar bill, S. 2151, Sixty-second Congress, second session, intended to carry into effect the recommendations of the Treasury Department, but the bill failed of enactment into law.

The legislation proposed is desirable in my opinion and it is hoped that an early enactment of Senate bill No. 55 may be secured.

Respectfully,

W. G. McADOO, *Secretary.*

