

AMEND THE FEDERAL RESERVE ACT

HEARINGS

BEFORE THE

COMMITTEE ON BANKING AND CURRENCY

HOUSE OF REPRESENTATIVES

SEVENTY-SEVENTH CONGRESS

FIRST SESSION

ON

S. 1471

AN ACT TO EXTEND THE PERIOD DURING WHICH
DIRECT OBLIGATIONS OF THE UNITED STATES
MAY BE USED AS COLLATERAL SECURITY
FOR FEDERAL RESERVE NOTES

—
JUNE 21, 23, 24, AND 25, 1941
—

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AMEND THE FEDERAL RESERVE ACT

SATURDAY, JUNE 21, 1941

HOUSE OF REPRESENTATIVES,
COMMITTEE ON BANKING AND CURRENCY,
Washington, D. C.

The committee met at 10:30 a. m., Hon. Henry B. Steagall (chairman) presiding.

The CHAIRMAN. The committee will come to order.

We have for consideration this morning S. 1471.

(The bill referred to is as follows:)

[S. 1471, 77th Cong., 1st sess.]

AN ACT To extend the period during which direct obligations of the United States may be used as collateral security for Federal Reserve notes

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That the second paragraph of section 16 of the Federal Reserve Act, as amended, is hereby amended by striking therefrom the words "until June 30, 1941" and by inserting in lieu thereof the words "until June 30, 1943".

Passed the Senate June 16 (legislative day, June 10), 1941.

Attest:

EDWIN A. HALSEY, *Secretary.*

The CHAIRMAN. We have with us this morning Mr. Bell, the Under Secretary of the Treasury. Mr. Crawford desires to ask Mr. Bell some questions, and he may proceed at this time.

Mr. CRAWFORD. Before interrogating Mr. Bell, I would like to make this brief statement, for the benefit of Mr. Bell and his associates, as well as the other members of the committee.

When I found that hearings were to be held on this bill I felt that the Treasury was as much interested in this matter, generally, as the Board of Governors of the Federal Reserve banks, or the Federal Reserve System could possibly be, because as I understand this proposed legislation, Federal Reserve notes under it are to be issued, if they are issued at all, in connection with the direct obligations of the United States Treasury which it may issue for any purpose to meet authorizations and appropriations by the Congress.

Then, going back to the January 1941, statement of the Secretary of the Treasury before the Ways and Means Committee, and subsequent statements which he has made, I felt the Treasury officials could greatly assist the committee, when this bill is considered on the floor of the House, if you gave us some general information along the lines which I shall refer to.

Going back to the presentation which you and your associates made before the Ways and Means Committee at the time you asked for an increase in the direct debt limit up to \$65,000,000,000, would you mind telling the committee this morning what the Treasury now considers its obligations will be in the way of disbursements for the fiscal year ending June 30, 1942?

I raise that question because of the very significant developments that have occurred since the Budget was prepared in November or December and since the Secretary's presentation to the Ways and Means Committee to which I have referred. If you will give us the best answer you can in the light of present circumstances, considering the increased appropriations that have been made by the Congress and the prospective total revenues that may flow from present tax laws, plus anticipated tax laws, as best you can measure it, giving us the information as definitely as you can give it, under the present circumstances, I shall appreciate it.

STATEMENT OF DANIEL W. BELL, THE UNDER SECRETARY OF THE TREASURY, ACCOMPANIED BY DR. GEORGE C. HAAS, DIRECTOR OF RESEARCH AND STATISTICS, TREASURY DEPARTMENT

Mr. BELL. I will be glad to.

According to the latest Budget estimates, which were made public about June 1, the total expenditures for the fiscal year 1942 are now estimated at \$22,169,000,000, and the anticipated revenues under the tax laws now in force—and this excludes the social security and other trust funds—amount to \$9,402,000,000. That leaves a deficit of \$12,767,000,000, which represents what the Treasury will have to borrow next year, reduced, of course, by whatever additional taxes this Congress provides.

Under the program before the Ways and Means Committee under which the Secretary recommended, 3½ billion dollars of new taxes, we estimate we will get approximately \$2,600,000,000 in the fiscal year 1942. That would bring the net deficit to approximately \$10,000,000,000, which we would have to finance through the sale of public-debt obligations.

Mr. CRAWFORD. Mr. Bell, may I ask you a question in this manner: When you speak of the potential revenue under present laws of \$9,402,000,000, you have in mind, have you, the increased revenue that would flow from present laws as applied against the anticipated increase in national income?

Mr. BELL. Yes, sir; in our estimates we took into consideration some increase.

Mr. CRAWFORD. If the Congress does give you a new revenue bill which is applied against the anticipated increase in national income for the next fiscal year ending June 30, 1942, if I understood you correctly, approximately two billion six hundred million will flow to the Treasury by June 30, 1942, as a result of present laws, plus the new law we are now working on, instead of the full 3½ billions.

Mr. BELL. No; the two billion six hundred million will come out of the new revenue measure only; not under the present law. Under the present law we estimated the amount would be nine billion four hundred million, and that the new tax bill would amount to two billion six hundred million. This latter figure is a rough estimate.

Mr. CRAWFORD. I understand. So we should bear in mind that even if we do enact a 3½ billion-dollar revenue bill during the present session, by the end of the next fiscal year, June 30, 1942, the mechanics

of the thing will bring the revenue to approximately \$1,000,000,000 less than the act would call for?

Mr. BELL. That is right; there is a lag in the collection of taxes. This bill cannot go through by July 1, and every month of delay causes us a loss of one hundred to one hundred and fifty million dollars.

Mr. CRAWFORD. To bring us up to date, based on these estimates, and based upon your experience, as far as you can see, in the month of June, looking a month ahead, would you mind giving the committee a rough estimate as to how the \$10,000,000,000 of securities which you shall probably have to issue, based on this estimate, will be distributed, as between commercial banks and all others?

I may have asked a question as to which it is impossible to estimate and give a figure which is satisfactory to you or to the committee; but if you cannot do it, all right.

Mr. BELL. Of course, it is impossible to answer that question, Mr. Crawford. Of the \$10,000,000,000 of public-debt obligations we expect to sell to finance the deficit, about a billion and a half dollars will be sold to Social Security and other trust funds. The balance of 8½ billion dollars we will have to sell to the general public which will, of course, include banks, banking institutions, insurance companies, individuals, and so forth.

To the extent that we sell United States savings bonds—and we have no estimate as to what we can sell in the fiscal year 1942—but to the extent that we do sell them that relieves us of the burden of financing in the open market.

Mr. CRAWFORD. Do you happen to have with you the figures showing the increase in the holdings of direct Government obligations and indirect Government obligations of commercial banks in the 101 leading cities, say, since January 1, 1941, up to June 1, 1941?

Mr. BELL. I have not got it with me, but I think I can put that in the record.

Mr. CRAWFORD. Would you mind doing that?

Mr. BELL. I will be glad to do that.

Mr. CRAWFORD. If you can obtain the figures, I will be glad if you will put in the record along with that information a statement showing the increase in the commercial loans of the banks in the 101 leading cities, on whatever classification you happen to have, for the first 5 months of the year, and then show the comparison of the total increase in these direct obligations held by the same group of banks between January 1, 1940, and December 31, 1940, giving us a year's operations; and then the increase in both Government and commercial loans between January 1, 1941, and May 31, 1941, so we will get the 5-month comparison with the previous year's performance.

Mr. BELL. We will be glad to do that.

(The statement referred to is as follows:)

	Government securities ¹	Commercial loans
Dec. 27, 1939.....	\$11,162,000,000	\$4,400,000,000
Dec. 31, 1940.....	12,462,000,000	5,018,000,000
May 28, 1941.....	13,996,000,000	5,673,000,000
Net change:		
Dec. 27, 1939 to Dec. 31, 1940.....	+1,300,000,000	+618,000,000
Dec. 31, 1940 to May 28, 1941.....	+1,534,000,000	+655,000,000

¹ Direct and guaranteed.

Mr. DEWEY. I would like to find out what Mr. Bell meant in the statement in which he stated that every month that passed without the enactment of a new tax law there is a loss of \$150,000,000. Do you mean that the new tax law will not be retroactive to 1941?

Mr. BELL. It will as to income taxes but not as to excise taxes.

Mr. DEWEY. It will not be retroactive as to estate and gift taxes?

Mr. BELL. It will depend upon the act, but I assume they would be the same as other excise taxes.

Mr. GIFFORD. You mentioned the figures nine billion and twenty-two billion. Have you any bonds coming due as to which you will have to raise new money to pay them?

Mr. BELL. We have maturing securities, but we will refund those.

Mr. GIFFORD. All of them?

Mr. BELL. Yes; except for a small amount. Whenever we have maturing securities we always offer an exchange privilege to the holders of those maturing securities. They do not have to accept the exchange offering; they can turn in the securities and get cash. But usually the ones who want cash represent a very small amount of the outstanding securities.

For instance, on the August 1 maturities of \$834,000,000, approximately \$45,000,000 remains outstanding, to be paid in cash. As to the \$790,000,000, the holders exchanged them for other securities.

Mr. MONRONEY. Will the tax-exempt feature which we changed in the law we passed awhile ago make these Government bonds subject to taxes?

Mr. BELL. Yes. All Government securities issued after March 1, 1941, are subject to taxes.

Mr. MONRONEY. It changed the buying policy of those who refused to exchange their old obligations for new obligations?

Mr. BELL. It did not affect our policy, but the securities we offer in exchange are taxable under the new law.

Mr. MONRONEY. About the same as before?

Mr. BELL. We have no difficulty in marketing the taxable securities.

Mr. CRAWFORD. Proceeding with the rough estimate of 8½ billion dollars to be disposed of, I would like to submit a question in this manner, and if you do not care to answer it, just say so.

Press reports this morning indicate that the President may ask for an additional \$10,000,000,000 to assist in financing the Lend Lease Act.

Let me ask the question in this way: Should that develop in the near future, and with other additional appropriations which we may make during the current fiscal year, the new figures will have to be added to the old figures, will they not?

Mr. BELL. There may have to be added some new expenditures out of such appropriations, but whatever the amount of the additional appropriations, they cannot all be spent during the year. If further appropriations are requested under the Lend-Lease Act there might be a reduction in expenditures under other appropriations because the capacity of the country is not sufficient to provide all those materials in 1 year. But I have seen no reference to an additional \$10,000,000,000 for the Lend-Lease Act.

Mr. CRAWFORD. The press reports appeared in the Wall Street Journal and in the Journal of Commerce, I believe.

Mr. BELL. I have not heard any such thing from the White House.

Mr. CRAWFORD. If by chance we should need material to accelerate the defense program in the way of delivery of actual equipment, invoicing it, and provide for making the payment necessary, that is also a factor which may enter into a material step-up in these figures you have given us. Is that within the realm of reason?

Mr. BELL. If that occurs the 8½ billion will be increased, unless Congress provides taxes over and above the 2.6 billion; yes, sir.

Mr. CRAWFORD. Do you happen to have a rough figure which you could give us which compares with this figure used by the Secretary in his April 24, 1941, statement, wherein he said that now we have a program of about \$39,000,000,000 for defense expenditures, including the lend-lease appropriation? That was made on April 24, 1941. Have you a comparable figure to that which you could give us?

Mr. BELL. Yes, sir. The Budget statement of June 1 now estimates that figure at 43 billion.

Mr. GIFFORD. As to the figures of 9 billion and 22 billion, and also the social security figure of a billion and a half, do you not figure that in the 22 billion?

Mr. BELL. No, sir; this 9 billion 400 million of revenue is exclusive of any taxes we would collect under the Social Security Act. The billion and a half of funds coming into the Treasury under the Social Security Act, which will be invested in Government securities, is a net figure after deducting payments that might go out under those accounts.

Mr. GIFFORD. Do you mean to say we collect a billion and a half more than we pay out?

Mr. BELL. About that; yes, sir.

Mr. CRAWFORD. Mr. Bell, are you prepared to give the committee a statement of your sales of series E, F, and G bonds since the campaign opened on May 1?

Mr. BELL. We can furnish for the record, Mr. Crawford, a complete break-down of that.

Roughly, we sold \$438,000,000 of defense savings bonds in the month of May, and as I recall we have sold approximately \$185,000,000 worth thus far in the month of June. I shall be glad to put into the record a break-down as to the various series.

(The statement referred to is as follows:)

Sales of savings bonds

	May 1941	June 1-21, 1941
Series E.....	\$114,895,000	\$70,899,000
Series F.....	45,521,000	15,967,000
Series G.....	277,872,000	98,924,000
Total.....	438,288,000	185,790,000

Mr. CRAWFORD. Could you also give us a break-down, not in detail, as to all purchases, as between individuals and commercial banks? Did the commercial banks buy any of those?

Mr. BELL. No, sir. Banks which carry demand deposits are not permitted to buy defense savings bonds.

Mr. CRAWFORD. And other lending institutions?

Mr. BELL. All other institutions and individuals may buy them. We are getting the statistics on holdings, but they will not be available for another month or so.

Mr. PATMAN. Can commercial banks buy those E, F, and G bonds?

Mr. BELL. They cannot.

Mr. GIFFORD. Can they take them as security?

Mr. BELL. No, sir.

Mr. GIFFORD. Do you mean to say that they cannot offer them?

Mr. BELL. No, sir; the owners cannot use them as collateral security for loans, but under certain conditions the owners can submit them to the Treasury and get their cash.

Mr. CRAWFORD. Series G is a 12-year issue at 2½ percent, payable semiannually?

Mr. BELL. That is right.

Mr. CRAWFORD. Even those cannot be hypothecated?

Mr. BELL. They cannot; no, sir.

Mr. CRAWFORD. If, in your judgment, it is appropriate to do so—otherwise I would not ask you to do it at this particular time—would you mind giving the committee as brief a statement as you care to with reference to the plans for disposing of these three series? That may be something you should not discuss too much. I will leave it to your judgment.

Mr. BELL. I do not know just what you mean by plans. You mean our plan of advertising or sales?

Mr. CRAWFORD. Yes; to get the public absolutely conscious of the enormous monthly recurring job that is before them in taking these issues if they are to be kept out of commercial banks.

Let us take the figure of 8½ billion dollars, or, for an easy figure, let us make it 9 billion dollars.

That is approximately \$750,000,000 a month that somebody must purchase.

My whole approach on this is to the effect—and this is the only approach I have—that we should not under any circumstances permit these issues to go into the commercial banks. And I think in that approach I have the full backing, so far as word of mouth is concerned, of the Secretary of the Treasury and the spokesman for the Federal Reserve Board, and many others of what I might call the independent, intelligent officials, Dr. Goldenweiser, for instance. I do not know what your position might be.

So I go to the extreme, to the effect that we should not under any circumstances leave anything undone which opens the door of the commercial banks to purchase the defense issues and thereby add to inflation of prices?

Dr. Goldenweiser in speaking before a bankers' association at Hot Springs the other day made this observation. He was discussing *The Role of Credit in Defense*, and he declared that private banking is among the institutions which must be preserved. He said that the Government's policy is to avoid selling securities to the banks as much as possible.

Dr. Goldenweiser cautioned banks against speculating in Government bonds. They should be carried to maturity, he said. He continued:

Do not dump them at the first sign of alarm. The Federal Reserve always stands ready to make advances to the banks on their Governments at par, and at low rates.

I can fully appreciate, especially when you are handling such an enormous volume, that the commercial banks may have a very important function, a temporary function to perform in handling the securities. But I should like to be better satisfied, in connection with this explanation I have asked for, that the Treasury is doing everything humanly possible, to see that this \$750,000,000 per month shall be sold to individuals and institutions other than the commercial banks, to be paid for out of our earnings and our accumulated savings, the demand deposits we have to our credit, and so forth, rather than to be sold to commercial banks, not only temporarily, but permanently.

Talking with some commercial bankers, I got the impression from them that they are anticipating they will have an opportunity to materially increase their portfolios with new bonds.

If there is anything you can say to the committee that will relieve my mind, at least, so far as that proposition is concerned, I will appreciate it.

If you are outlining an approach to the public which in your opinion will dispose of this \$750,000,000 per month, I should not want to interfere with your plans.

But when I think in terms of the May and June performance, and what the July performance is likely to be—and I have in mind that you probably will not exceed \$250,000,000 for June on series E, F, and G—I am trying to get encouragement from some source to the effect that this \$750,000,000 of new issues will be sold to individuals and lending institutions and not to commercial banks. Any assurance you can give us, I will appreciate.

Mr. BELL. We are doing everything we can to push the sales program of defense savings bonds. I think we have done exceedingly well in the first 2 months of the operation. You must bear in mind that it is just started. As to the program, Mr. Harold N. Graves, who is in charge of the campaign, gave a complete statement of it to the Appropriations Committee only this week. To summarize it briefly, as you may know, we have asked the banks and other institutions to qualify as selling agents for these securities, and more than 10,000 banks and other institutions have so qualified. Also, we have some 16,000 post offices that have qualified to sell them. We have radio programs every day, and speakers going out over the country. They give out news items in aid of the campaign. I can say that everything is being done, short of coercion, to further the campaign.

The Secretary has stated on many occasions that he certainly does not want coercion used in the sale of these bonds. It is to be entirely voluntary. Further, we have been developing State organizations, with many States organized with State chairmen and a number of subcommittees for the work. It is going forward very rapidly. The radio people have donated their services, and at almost every hour of the day you can hear something about savings bonds. We feel it is very important that we keep as much of this new public debt out of the hands of the banks as possible, and not expand bank deposits, but we cannot estimate at any time how much we will sell to the general public. The fact that we have to make public bond offerings every so often in addition to the defense bonds does not mean that all those securities go into the hands of the banks. They handle them as distributing agencies, but individuals take many of those securities and corporations take many of them. The insurance companies buy

many of them. Even if we have to offer securities in the next 12 months totaling four, five, or six billion dollars, it does not mean that they will all go into the hands of the banks. Some will go into the hands of individuals and nonbanking institutions. We are doing everything we can to sell them to the general public and not to the banks. We are also working on a tax-anticipation security which should be very helpful in this connection.

Mr. CRAWFORD. Are there any institutions that are handling commercial paper that are weaving this program in any volume in their daily advertising in the newspapers?

Mr. BELL. Many banks are advertising savings bonds in the daily newspapers.

Mr. GIFFORD. When business conditions improve, or when business becomes good, and money is needed in business, investments in business paper will be much more productive than an investment in a 1½ percent bond. When that occurs, do you have any fear that these people may dump back on the Treasury these low interest bearing bonds? In your opinion, is there any danger of that when business gets good and people can realize a return of more than 1½ percent on their money?

Mr. BELL. That presents a problem, and I think it is a serious one. In the World War, when we sold Liberty bonds through a selling campaign, many people bought bonds who should not have bought them. As soon as the war was over, these people were thrown out of employment and they needed their money. Under those circumstances, there was nothing for them to do but dump the bonds on the market.

Mr. GIFFORD. Now you would have to take them back.

Mr. BELL. They were thrown on the market at that time, and there was a drop in the market price of those securities of some 18 or 20 points. Many people received only 82 or 83 cents on the dollar. Under the present program, if they need the money, they can come to the Treasury with their bonds and get cash. The Government would have to borrow the money at the market rate at that time, so it would represent, in effect, a continuous refunding program to meet the situation as it then might exist. We think that many people who invest in these securities now may have to get their money back before maturity because of circumstances over which they will have no control, and for that reason we put a provision in the bonds that they can present them at any time and get the cash. They are not subject to market fluctuations which, from the standpoint of the individual, is ideal.

Mr. GIFFORD. I wanted to get on record your opinion as to whether there was any danger of having the people who buy these bonds coming back for the money. They may buy them and banks would take them as collateral for loans, and then they would come back on you.

Mr. BELL. It presents a problem, but I do not think it is a dangerous one. If the rates for example go to 4½ percent, we would have to borrow money at 4½ percent and pay off the savings bonds. Our authority to issue securities is very flexible, so we can issue the type of security best suited to the market.

Mr. GIFFORD. In my opinion, it would be better if all United States bonds paid 4-percent interest, rather than these low rates.

Mr. BELL. It would make our problem a little worse.

Mr. GIFFORD. I have always contended that if the country issued bonds paying at least 4-percent interest, it would be better because the people would hold them longer. There would not be the temptation to dump them on the market. I think well of your job. I think it has been done wonderfully well, but I also believe that the day will come later on when you would be glad if you had done it in the way I suggest.

Mr. PATMAN. Of course, they can always pay more.

Mr. GIFFORD. I am doubtful of the policy of issuing these low-interest securities.

Mr. BELL. Of course, we take into consideration the market conditions at the time we have to do our public financing.

Mr. GIFFORD. I think it is a dangerous method of procedure.

Mr. SPENCE. By the act of March 6, 1934, it was made permissible to use direct obligations of the United States as collateral security for Federal Reserve notes. This provision was to extend for a period of 2 years. On March 6, 1936, Congress extended it to June 30, 1939, and on June 30, 1939, it was extended to June 30, 1941. Now, what was the fundamental reason for that?

Mr. BELL. Under the Federal Reserve Act, there must be 100 percent collateral security for all Federal Reserve notes issued. The act provides that not less than 40 percent of such collateral must be in gold certificates and the balance, or 60 percent, in commercial paper as defined in the act. When we had a falling off in business, commercial paper declined to an extent where the Federal Reserve banks did not hold a sufficient amount of commercial paper to cover that margin between 40 and 100 percent. Therefore, the Federal Reserve System recommended that Congress provide that direct Government securities be used for that purpose. That provision has been extended from time to time. It has always seemed to me a reasonable thing to do. There is only 1½ million dollars of commercial paper at the present time as collateral for Federal Reserve notes, and the balance or \$7,000,000,000 is represented by gold certificates.

Mr. SPENCE. What was the condition of commercial paper in the banks at that time, or why were they not able to use commercial paper at that time?

Mr. BELL. The commercial banks did not have so much commercial paper discounted with the Federal Reserve banks at that time, and, therefore, the Federal Reserve banks did not hold any large volume of commercial paper. Some of the banks did not have sufficient commercial paper or gold to cover the notes outstanding, so it was necessary to make provision for other types of collateral.

Mr. SPENCE. What was the condition of commercial paper on March 6, 1934, at the time of the passage of the first act?

Mr. BELL. On March 7, 1934, the date of the first published statement of the Federal Reserve banks after the first extension of the act, the Federal Reserve banks held total commercial paper of only about \$105,000,000. The amount of Federal Reserve notes in circulation at the close of the preceding month was about \$3,225,000,000.

Mr. SPENCE. Is it not true that the volume of commercial paper had been increased in the hands of the commercial banks, but not in the hands of the Federal Reserve banks, because the commercial banks had not discounted or borrowed on their commercial paper? In your opinion, do they hold any more commercial paper now than then?

Mr. BELL. The Federal Reserve banks probably hold less now than then. I can look that up. I am not familiar with what the Federal Reserve banks hold. I am under the impression that they hold very little commercial paper. It has not been necessary for the commercial banks to discount their paper with the System.

Mr. SPENCE. Do you think it advisable to extend this proviso at this time?

Mr. BELL. Yes, sir.

Mr. SPENCE. Do you think it necessary to continue it at this time?

Mr. BELL. Yes, sir.

Mr. CRAWFORD. Since many of these commercial banks have enormous excess reserves, they will certainly not be calling on the Federal Reserve banks for any loans of consequence. They will not do that so long as they have those excess reserves.

Mr. BELL. Generally speaking, that is right.

Mr. CRAWFORD. Now, coming directly to this bill, S. 1471, did the Treasury recently make a survey of many of the banks as to their holdings of Government securities, directly or indirectly?

Mr. BELL. We asked about 6,500 banks in the country, which held about 95 percent of all Government securities held by commercial banks, and about 900 insurance companies and other institutions of that kind, to report to us once a month their holdings of Government securities, or what they held at the end of the previous month, the purpose being to let us know just who owned our securities. We would know just who held our securities, and that information is useful to us in our financing programs. In refunding the August maturities of \$800,000,000 about a month ago we found out from these reports just held the maturing securities. We had representatives of the institutions which held large amounts come in so we could discuss with them the market conditions, and the types of securities they would like to see the Treasury issue first from their standpoint and second from the Treasury standpoint. That information as to the type of securities and where held has proven very valuable to us. If you would like to have it, I will put in the record a copy of the last report received, showing the holdings of Federal securities, and the different types of institutions.

Mr. CRAWFORD. I would like to have it.

(The report referred to is as follows:)

SUMMARY DATA FROM TREASURY SURVEY OF OWNERSHIP OF SECURITIES ISSUED OR GUARANTEED BY THE UNITED STATES, APRIL 30, 1941

Extract from the Treasury Bulletin June 1941

TREASURY SURVEY OF OWNERSHIP OF SECURITIES ISSUED OR GUARANTEED BY THE UNITED STATES, APRIL 30, 1941, COVERING THE HOLDINGS OF LARGE BANKS AND INSURANCE COMPANIES

Some of the more important data obtained in the Treasury survey, as of April 30, 1941, of the ownership by large banks and insurance companies of securities issued or guaranteed by the Federal Government, are presented in the following tables. Similar information was presented in the May Bulletin of the Treasury Department covering the Treasury survey as of March 31, 1941.

TABLE I.—Summary of ownership by type of security, by call classes, and by tax-exemption provisions

PART A.—PAR VALUES IN MILLIONS OF DOLLARS

Classification	Public marketable interest-bearing securities ¹								Held by all other investors
	Total amount outstanding	Held by institutions covered in Treasury survey							
		Total	6,337 banks			785 insurance companies			
			Total	5,846 commercial banks	491 mutual savings banks	Total	202 life-insurance companies	583 fire, casualty, and marine insurance companies	
1. By type of security:									
Securities issued by United States:									
Bills.....	1,603	899	877	848	29	23	23	23	704
Notes.....	5,721	3,358	3,088	2,879	209	270	178	92	2,363
Bonds.....	29,750	19,247	13,440	10,642	2,798	5,807	4,695	1,112	10,503
Guaranteed issues ²	6,533	5,041	4,432	4,172	260	600	505	105	1,492
Total.....	43,608	28,546	21,837	18,541	3,296	6,709	5,377	1,332	15,062
2. By call classes:									
Due or first becoming callable:									
Within 1 year.....	5,080	3,436	3,042	2,847	195	394	283	111	1,644
1 to 5 years.....	16,384	10,548	8,771	7,927	844	1,778	1,350	392	5,836
5 to 10 years.....	10,168	7,138	5,385	4,286	1,100	1,753	1,411	342	3,030
10 to 15 years.....	8,540	5,137	3,649	2,699	950	1,488	1,237	251	3,403
15 to 20 years.....	3,386	2,285	989	782	207	1,297	1,061	236	1,101
After 20 years.....	80	1	1	1	—	(³)	(³)	(³)	49
Total.....	43,608	28,546	21,837	18,541	3,296	6,709	5,377	1,332	15,062
3. By tax-exemption provisions:									
Wholly exempt from Federal income taxes ⁴	5,088	2,474	2,265	2,137	128	209	124	85	2,614
Partially exempt from Federal income taxes ⁵	33,304	22,115	15,980	13,416	2,564	6,135	4,946	1,188	11,189
Subject to Federal income taxes.....	5,217	3,957	3,592	2,988	603	365	307	58	1,260
Total.....	43,608	28,546	21,837	18,541	3,296	6,709	5,377	1,332	15,062

See footnotes at end of table.

TABLE I.—Summary of ownership by type of security, by call classes, and by tax-exemption provisions—Continued

PART B.—PERCENTAGE DISTRIBUTION BY CLASSES OF SECURITIES

Classification	Public marketable interest-bearing securities ¹								
	Total amount outstanding	Held by institutions covered in Treasury survey							Held by all other investors
		Total	6,337 banks			785 insurance companies			
			Total	5,846 commercial banks	491 mutual-savings banks	Total	202 life-insurance companies	583 fire, casualty, and marine insurance companies	
1. By type of security:									
Securities issued by United States:									
Bills.....	3.7	3.1	4.0	4.6	0.9	0.3	1.7	4.7	
Notes.....	13.1	11.8	14.1	15.5	6.3	4.0	3.3	15.7	
Bonds.....	68.2	67.4	61.5	57.4	84.9	86.6	87.3	69.7	
Guaranteed issues ²	15.0	17.7	20.3	22.5	7.9	9.1	9.4	9.9	
Total.....	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	
2. By call classes:									
Due or first becoming callable:									
Within 1 year.....	11.6	12.0	13.9	15.4	5.9	5.9	5.3	10.9	
1 to 5 years.....	37.6	37.0	40.2	42.8	25.6	26.5	25.8	38.7	
5 to 10 years.....	23.3	25.0	24.7	23.1	33.4	26.1	26.2	20.1	
10 to 15 years.....	19.6	18.0	16.7	14.6	28.8	22.2	23.0	22.6	
15 to 20 years.....	7.8	8.0	4.5	4.2	6.3	19.3	19.7	7.3	
After 20 years.....	.1	(³)	(³)	(³)	(³)	(³)	.3	
Total.....	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	
3. By tax-exemption provisions:									
Wholly exempt from Federal income taxes ⁴	11.7	8.7	10.4	11.5	3.9	3.1	2.3	17.4	
Partially exempt from Federal income taxes ⁴	76.4	77.5	73.2	72.4	77.8	91.4	92.0	74.3	
Subject to Federal income taxes.....	12.0	13.9	16.4	16.1	18.3	5.4	5.7	8.4	
Total.....	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	

PART C.—PERCENTAGE DISTRIBUTION BY GROUPS OF INVESTORS

02110-41-2	1. By type of security:								
	Securities issued by United States:								
	Bills.....	100.0	56.1	54.7	52.9	1.8	1.4	1.4	43.9
	Notes.....	100.0	58.7	54.0	50.3	3.7	4.7	3.1	41.3
	Bonds.....	100.0	64.7	45.2	35.8	9.4	19.5	15.8	35.3
	Guaranteed issues ¹	100.0	77.2	67.8	63.9	4.0	9.3	7.7	22.8
	Total.....	100.0	65.5	50.1	42.5	7.6	15.4	12.3	34.5
	2. By call classes:								
	Due or first becoming callable:								
	Within 1 year.....	100.0	67.6	59.9	56.0	3.8	7.8	5.6	2.2
1 to 5 years.....	100.0	64.4	53.5	48.4	5.2	10.9	8.5	2.4	35.6
5 to 10 years.....	100.0	70.2	53.0	42.2	10.8	17.2	13.9	3.4	28.5
10 to 15 years.....	100.0	60.2	42.7	31.6	11.1	17.4	14.5	2.9	39.5
15 to 20 years.....	100.0	67.5	29.2	23.1	6.1	38.3	31.3	7.0	32.5
After 20 years.....	100.0	2.0	2.0	2.0		(3)	(3)	(3)	98.0
Total.....	100.0	65.5	50.1	42.5	7.6	15.4	12.3	3.1	34.5
3. By tax-exemption provisions:									
Wholly exempt from Federal income taxes ⁴	100.0	48.6	44.5	42.0	2.5	4.1	2.4	1.7	51.4
Partially exempt from Federal income taxes ⁵	100.0	66.4	48.0	40.3	7.7	18.4	14.9	3.6	33.6
Subject to Federal income taxes.....	100.0	75.8	68.9	57.3	11.6	7.0	5.9	1.1	24.2
Total.....	100.0	65.5	50.1	42.5	7.6	15.4	12.3	3.1	34.5

NOTE.—Figures are rounded to the nearest one-tenth of 1 percent and will not necessarily add to totals.

¹ Public marketable securities include all securities issued except (1) special issues to Government agencies and trust funds (2) adjusted-service bonds, and (3) United States savings bonds. The amount of United States savings bonds reported by the banks and insurance companies covered was \$184,000,000, maturity value. These were divided as follows: Commercial banks, \$169,000,000; mutual savings banks, \$5,000,000; and insurance companies, \$10,000,000.

² Excludes (1) Federal Housing Administration debentures, (2) securities issued on the credit of the United States, and (3) obligations sold directly to the Treasury.

³ Less than \$500,000 or less than 0.05 percent.

⁴ Securities the income from which is exempt from both the normal rates and surtax rates of the Federal income tax.

⁵ Securities the income from which is exempt only from the normal rates of the Federal income tax. Treasury bonds are classified as partially tax-exempt securities although, by statutory provision, interest derived from \$5,000 of principal amount of these securities owned by any single holder is exempt from the surtax rates as well as the normal rates of the Federal income tax.

TABLE II.—Detail of ownership for each issue outstanding, classified by tax-exemption provisions
PART A.—PAR VALUES IN MILLIONS OF DOLLARS

Issue, classified by tax-exemption provision	Public marketable interest-bearing securities ¹								
	Total amount outstanding	Held by institutions covered in Treasury survey						Held by all other investors	
		Total	6,337 banks			785 insurance companies			
			Total	5,846 commercial banks	491 mutual savings banks	Total	202 life-insurance companies		583 fire, casualty, and marine insurance companies
I. Wholly exempt from Federal income taxes:²									
Bills: May 1941 maturities.....	401	113	103	94	9	9	9	289	
Notes:									
1½ percent, June 1941.....	24	3	3	2	(³)	(³)	(³)	21	
1¼ percent, December 1941.....	294	91	75	69	6	16	11	113	
1¼ percent, March 1942.....	426	233	210	185	24	23	16	193	
2 percent, September 1942.....	342	126	95	79	16	31	24	162	
1½ percent, December 1942.....	232	102	86	77	10	16	8	130	
1½ percent, June 1943.....	629	324	307	288	19	17	4	305	
1 percent, September 1943.....	280	168	192	185	7	6	3	82	
1½ percent, December 1943.....	421	193	156	144	12	38	30	228	
1 percent, March 1944.....	515	294	235	276	10	8	2	222	
¾ percent, June 1944.....	416	261	254	247	7	7	3	155	
1 percent, September 1944.....	283	29	28	27	1	1	1	254	
¾ percent, March 1945.....	718	490	454	447	8	36	22	228	
Total notes.....	4,401	2,344	2,145	2,026	119	199	124	2,147	
Bonds:									
Postal savings.....	117	17	16	16	(³)	(³)	(³)	101	
Panama Canal.....	50	1	1	1	(³)	(³)	(³)	49	
Conversion.....	29	(³)	(³)	(³)	(³)	(³)	(³)	29	
Total bonds.....	196	17	17	17	(³)	1	(³)	179	
Total wholly exempt from Federal income taxes.....	5,088	2,474	2,265	2,137	128	209	124	2,614	

II. Partially exempt from Federal income taxes:

Treasury bonds:

3¼ percent, August 1941.....	834	605	459	374	85	145	109	36	230
3½ percent, June 1943-47.....	451	252	190	136	54	62	49	13	203
3½ percent, October, 1943-45.....	1,400	770	588	517	71	183	138	45	630
3½ percent, April 1944-46.....	1,519	902	664	582	82	238	188	50	617
4 percent, December 1944-54.....	1,037	627	422	351	72	205	158	47	409
2¾ percent, September 1945-47.....	1,214	784	558	471	88	226	178	47	431
2½ percent, December 1945.....	541	416	322	290	32	93	66	27	125
3½ percent, March 1946-56.....	489	314	196	140	56	118	100	18	175
3 percent, June 1946-48.....	1,036	632	431	332	99	202	168	34	404
3½ percent, June 1946-49.....	819	482	326	234	91	157	132	24	336
4¼ percent, October 1947-52.....	759	469	237	149	88	172	112	60	350
2 percent, December 1947.....	761	569	485	454	31	75	53	22	141
2¾ percent, March 1948-51.....	1,224	910	664	521	143	246	209	38	313
2½ percent, September 1948.....	451	362	284	260	24	77	66	11	89
2 percent, December 1948-50.....	571	451	355	371	14	65	44	22	121
3½ percent, December 1949-52.....	491	376	229	147	83	146	109	37	116
2½ percent, December 1949-53.....	1,786	1,188	926	738	188	262	218	44	598
2½ percent, September 1950-52.....	1,186	879	661	500	161	218	178	40	307
2¾ percent, June 1951-54.....	1,627	1,166	693	454	239	474	414	59	461
3 percent, September 1951-55.....	755	291	199	114	85	91	73	18	465
2¾ percent, December 1951-53.....	1,118	788	713	630	83	75	58	17	331
2 percent, June 1953-55.....	725	592	561	532	29	31	16	15	132
2¼ percent, June 1954-56.....	681	526	390	334	56	136	109	28	155
2¾ percent, March 1955-60.....	2,611	1,058	490	315	175	567	463	104	1,554
2¾ percent, September 1956-59.....	982	682	311	238	73	272	231	41	399
2¾ percent, June 1958-63.....	919	671	263	205	58	408	340	67	248
2¾ percent, December 1960-65.....	1,485	1,032	414	339	75	617	489	128	454
Total Treasury bonds.....	27,415	17,623	12,062	9,728	2,334	5,561	4,469	1,002	9,792

See footnotes at end of table.

TABLE II.—Detail of ownership for each issue outstanding, classified by tax-exemption provisions—Continued

PART A.—PAR VALUES IN MILLIONS OF DOLLARS—Continued

Classification	Public marketable interest-bearing securities ¹								Held by all other investors	
	Total amount outstanding	Held by institutions covered in Treasury survey						Held by all other investors		
		Total	6,337 banks			785 insurance companies				
			Total	5,846 commercial banks	49 mutual savings banks	Total	202 life insurance companies			583 fire, casualty, and marine insurance companies
II. Partially exempt from Federal income taxes—Continued.										
Guaranteed issues: ²										
Commodity Credit Corporation:										
$\frac{1}{4}$ percent, August 1941.....	203	174	146	141	5	28	20	9	28	
1 percent, November 1941.....	204	178	170	168	2	8	4	5	26	
$\frac{3}{4}$ percent, May 1943.....	289	256	247	245	3	9	4	4	34	
Federal Farm Mortgage Corporation:										
3 percent, January 1942-47.....	236	151	100	87	13	51	47	4	85	
2 $\frac{3}{4}$ percent, March 1942-47.....	103	90	71	61	10	18	17	1	14	
3 $\frac{1}{4}$ percent, March 1944-64.....	95	59	27	16	10	32	30	2	36	
3 percent, May 1944-49.....	835	511	352	321	31	159	146	13	325	
Home Owners' Loan Corporation:										
$\frac{1}{2}$ percent May 1941.....	191	177	156	153	3	21	20	1	14	
2 $\frac{1}{4}$ percent, July 1942-44.....	875	728	704	676	27	25	11	13	147	
3 percent, May 1944-52.....	779	362	267	194	73	95	85	10	417	
1 $\frac{1}{2}$ percent, June 1945-47.....	755	657	606	578	28	51	43	8	98	
Reconstruction Finance Corporation:										
$\frac{1}{4}$ percent, July 1941.....	212	188	185	179	6	3	1	2	24	
$\frac{1}{2}$ percent, November 1941.....	299	250	209	207	2	41	27	15	49	
$\frac{1}{4}$ percent, January 1942.....	310	284	271	261	10	13	11	3	26	
1 percent, July 1942.....	276	230	217	212	6	13	9	4	46	
United States Housing Authority:										
$\frac{1}{4}$ percent, November 1941.....	112	96	95	95	1	1	1	(³)	16	
1 $\frac{1}{2}$ percent, February 1944.....	114	101	96	94	2	5	2	3	13	
Total guaranteed issues.....	5,838	4,492	3,918	3,685	231	574	477	96	1,397	
Total partially exempt from Federal income taxes.....	33,304	22,115	15,980	13,416	2,564	6,135	4,946	1,183	11,189	

III. Subject to Federal income taxes:									
Bills:									
June 1941 maturities.....	701	477	467	451	16	10		10	224
July 1941 maturities.....	501	310	306	302	4	4		4	191
Total bills.....	1,203	787	773	753	20	14		14	416
Note:									
¾ percent, March 1943.....	65	17	15	13	2	2	2	(¹)	48
¾ percent, September 1944.....	635	539	507	457	50	32	24	7	96
¾ percent, December 1945.....	531	459	422	383	39	38	28	10	71
Total notes.....	1,231	1,015	944	853	90	71	54	17	216
Treasury bonds:									
2 percent, March 1948-50.....	1,115	890	758	578	180	133	122	10	225
2½ percent, March 1952-54.....	1,024	716	603	319	284	113	104	9	307
Total Treasury bonds.....	2,139	1,607	1,361	897	463	246	226	20	533
Guaranteed issues: ⁴									
Reconstruction Finance Corporation:									
¾ percent, October 1942.....	320	273	254	243	11	19	17	1	47
1½ percent, July 1943.....	324	276	259	241	18	17	10	7	48
Total guaranteed issues.....	644	549	514	484	30	35	27	8	95
Total subject to Federal income taxes.....	5,217	3,957	3,592	2,988	603	365	307	58	1,260
IV. Grand total.....	43,608	28,546	21,837	18,541	3,296	6,709	5,377	1,332	15,062

See footnotes at end of table.

TABLE II.—Detail of ownership for each issue outstanding, classified by tax-exemption provisions—Continued

PART B.—PERCENTAGE DISTRIBUTION BY GROUPS OF INVESTORS

Classification	Public marketable interest-bearing securities ¹								
	Total amount outstanding	Held by institutions covered in Treasury survey						Held by all other investors	
		Total	6,337 banks			785 insurance companies			
			Total	5,846 commercial banks	491 mutual savings banks	Total	202 life-insurance companies		583 fire, casualty, and marine insurance companies
I. Wholly exempt from Federal income taxes: ²									
Bills: May 1941 maturities.....	100.0	28.2	25.7	23.4	2.2	2.2	2.2	72.1	
Notes:									
1½ percent, June 1941.....	100.0	10.9	10.5	10.1	.4	.4	(³)	89.1	
1½ percent, December 1941.....	100.0	44.6	36.8	33.8	2.9	7.8	5.4	55.4	
1½ percent, March 1942.....	100.0	54.7	49.3	43.4	5.6	5.4	3.8	45.3	
2 percent, September 1942.....	100.0	36.8	27.8	23.1	4.7	9.1	7.0	63.5	
1½ percent, December 1942.....	100.0	44.0	37.1	33.2	4.3	6.9	3.4	56.0	
1½ percent, June 1943.....	100.0	51.5	48.8	45.8	3.0	2.7	.6	48.5	
1 percent, September 1943.....	100.0	70.7	68.8	66.1	2.5	2.1	1.1	29.3	
1½ percent, December 1943.....	100.0	45.8	37.1	34.2	2.9	9.0	7.1	54.2	
1 percent, March 1944.....	100.0	57.1	55.3	53.6	1.9	1.6	.4	43.1	
¾ percent, June 1944.....	100.0	62.7	61.1	59.4	1.7	1.7	.7	37.3	
¾ percent, September 1944.....	100.0	10.2	9.9	9.5	.4	.4	.4	89.8	
¾ percent, March 1945.....	100.0	68.2	63.2	62.3	1.1	5.0	3.1	31.8	
Total notes.....	100.0	52.2	47.8	45.1	2.6	4.4	2.8	47.8	
Bonds:									
Postal savings.....	100.0	14.5	13.7	13.7	(³)	.9	(³)	86.3	
Panama Canal.....	100.0	2.0	2.0	2.0	(³)	(³)	(³)	98.0	
Conversion.....	100.0	(³)	(³)	(³)	(³)	(³)	(³)	100.0	
Total bonds.....	100.0	8.9	8.5	8.3	.2	.4	.1	61.1	
Total wholly exempt from Federal income taxes.....	100.0	48.6	44.5	42.0	2.5	4.1	2.4	51.4	

II. Partially exempt from Federal income taxes:⁴

Treasury bonds:									
3¼ percent, August 1941.....	100.0	72.5	55.0	44.8	10.2	17.4	13.1	4.3	27.6
3½ percent, June 1943-47.....	100.0	55.5	41.9	30.0	11.9	13.7	10.8	2.9	44.7
3¼ percent, October 1943-45.....	100.0	65.0	42.0	36.9	5.1	13.1	9.9	3.2	45.0
3¼ percent, April 1944-46.....	100.0	59.4	43.7	35.3	5.4	15.7	12.4	3.3	40.6
4 percent, December 1944-54.....	100.0	60.5	40.7	33.8	6.9	19.8	15.2	4.5	39.4
2¾ percent, September 1945-47.....	100.0	64.6	46.0	38.8	7.2	18.6	14.7	3.9	35.5
2¾ percent, December 1945.....	100.0	76.9	59.5	53.6	5.9	17.2	12.2	5.0	23.1
3¾ percent, March 1946-56.....	100.0	64.2	40.1	28.6	11.5	24.1	20.4	3.7	35.8
3 percent, June 1946-48.....	100.0	61.0	41.6	32.0	9.6	19.5	16.2	3.3	39.0
3½ percent, June 1946-49.....	100.0	58.9	39.8	28.6	11.1	19.2	16.1	2.9	41.0
4¼ percent, October 1947-52.....	100.0	53.9	31.2	19.6	11.6	22.7	14.8	7.9	46.1
2 percent, December 1947.....	100.0	79.0	69.2	64.8	4.4	10.7	7.6	3.1	20.1
2¾ percent, March 1948-51.....	100.0	74.3	54.2	42.6	11.7	20.1	17.1	3.1	25.6
2½ percent, September 1948.....	100.0	80.3	63.0	57.6	5.3	17.1	14.6	2.4	19.7
2 percent, December 1948-50.....	100.0	79.0	67.4	65.0	2.5	11.4	7.7	3.0	21.2
3½ percent, December 1949-52.....	100.0	76.6	46.6	29.9	16.9	29.7	22.2	7.5	23.6
2½ percent, December 1949-53.....	100.0	66.5	51.8	41.3	10.5	14.7	12.2	2.5	33.5
2½ percent, September 1950-52.....	100.0	74.1	55.7	42.2	13.6	18.4	15.0	3.4	25.9
2¾ percent, June 1951-54.....	100.0	71.7	42.6	27.9	14.7	29.1	25.4	3.6	29.3
3 percent, September 1951-55.....	100.0	38.5	26.4	15.1	11.3	12.1	9.7	2.4	61.6
2¼ percent, December 1951-53.....	100.0	70.5	63.8	56.4	7.4	6.7	5.2	1.5	29.5
2 percent, June 1953-55.....	100.0	81.7	77.4	73.4	4.0	4.3	2.2	2.1	18.2
2¾ percent, June 1954-56.....	100.0	77.2	57.4	49.0	8.2	20.0	16.0	4.1	22.5
2½ percent, March 1955-60.....	100.0	40.5	18.8	12.1	6.7	21.7	17.7	4.0	59.5
2¾ percent, September 1956-59.....	100.0	59.3	31.7	24.2	7.4	27.7	23.5	4.2	40.6
2¾ percent, June 1958-63.....	100.0	73.0	28.6	22.3	6.3	44.4	37.0	7.3	27.0
2¾ percent, December 1960-65.....	100.0	69.5	27.9	22.8	5.1	41.5	32.9	8.6	30.6
Total Treasury bonds.....	100.0	61.3	44.0	35.5	8.5	20.3	16.3	4.0	35.7

See footnotes at end of table.

TABLE II.—Detail of ownership for each issue outstanding, classified by tax-exemption provisions—Continued

PART B.—PERCENTAGE DISTRIBUTION BY GROUPS OF INVESTORS—Continued

Classification	Public marketable interest-bearing securities ¹								Held by all other investors
	Total amount outstanding	Held by institutions covered in Treasury survey							
		Total	6,337 banks			785 insurance companies			
			Total	5,846 commercial banks	491 mutual savings banks	Total	202 life-insurance companies	583 fire, casualty, and marine insurance companies	
II. Partially exempt from Federal income taxes—Continued.									
Guaranteed issues:									
Commodity Credit Corporation:									
½ percent, August 1941.....	100.0	85.7	71.9	69.5	2.5	13.8	9.9	4.4	13.8
1 percent, November 1941.....	100.0	87.3	83.3	82.4	1.0	3.9	2.0	2.5	12.7
¾ percent, May 1943.....	100.0	88.6	85.5	84.8	1.0	3.1	1.4	1.4	11.8
Federal Farm Mortgage Corporation:									
3 percent, January 1942-47.....	100.0	64.0	42.4	36.9	5.5	21.6	19.9	1.7	36.0
2¾ percent, March 1942-47.....	100.0	87.4	68.9	59.2	9.7	17.5	16.5	1.0	13.6
3¼ percent, March 1944-64.....	100.0	62.1	28.4	16.8	10.5	33.7	31.6	2.1	37.9
3 percent, May 1944-49.....	100.0	61.2	42.2	38.4	3.7	19.0	17.5	1.6	38.9
Home Owners' Loan Corporation:									
½ percent, May 1941.....	100.0	92.7	81.7	80.1	1.6	11.0	10.5	.5	7.3
2¼ percent, July 1942-44.....	100.0	83.2	80.5	77.8	3.1	2.9	1.3	1.5	16.8
3 percent, May 1944-52.....	100.0	46.5	34.3	24.9	9.4	12.2	10.9	1.3	53.5
1½ percent, June 1945-47.....	100.0	87.0	80.3	76.6	3.7	6.8	5.7	1.1	13.0
Reconstruction Finance Corporation:									
½ percent, July 1941.....	100.0	88.7	87.3	84.4	2.8	1.4	.5	.9	11.3
½ percent, November 1941.....	100.0	83.6	69.9	69.2	.7	13.7	9.0	5.0	16.4
½ percent, January 1942.....	100.0	91.6	87.4	84.2	3.2	4.2	3.5	1.0	8.4
1 percent, July 1942.....	100.0	89.3	78.6	76.8	2.2	4.7	3.3	1.4	16.7
United States Housing Authority:									
¼ percent, November 1941.....	100.0	85.7	84.8	84.8	.9	.9	.9	(1)	14.3
1½ percent, February 1944.....	100.0	88.6	84.2	82.5	1.8	4.4	1.8	2.6	11.4
Total guaranteed issues.....	100.0	76.3	66.5	62.6	5.9	9.7	8.1	1.6	23.7
Total partially exempt from Federal income taxes.....	100.0	66.4	48.0	40.3	7.7	18.4	14.9	3.6	33.6

III. Subject to Federal income taxes:									
Bills:									
June 1941 maturities.....	100.0	68.0	60.6	64.3	2.3	1.4	1.4	32.0	
July 1941 maturities.....	100.0	61.9	61.1	60.3	.8	.8	.8	38.1	
Total bills.....	100.0	65.4	64.3	62.6	1.7	1.2	1.2	34.6	
Notes:									
¾ percent, March 1943.....	100.0	26.2	23.1	20.0	3.1	3.1	3.1	(*)	73.8
¾ percent, September 1944.....	100.0	84.9	79.8	72.0	7.9	5.0	3.8	1.1	15.1
¾ percent, December 1945.....	100.0	86.4	79.5	72.1	7.3	7.2	5.3	1.9	13.4
Total notes.....	100.0	82.5	70.7	69.3	7.3	5.8	4.4	1.4	17.5
Treasury bonds:									
2 percent, March 1948-50.....	100.0	79.8	68.0	51.8	16.1	11.9	10.9	.9	20.2
2½ percent, March 1952-54.....	100.0	69.9	58.9	31.2	27.7	11.0	10.2	.9	30.0
Total Treasury bonds.....	100.0	75.1	63.6	41.9	21.6	11.5	10.6	.9	24.9
Guaranteed issues: ⁴									
Reconstruction Finance Corporation:									
¾ percent, October 1942.....	100.0	85.3	79.4	75.9	3.4	5.9	5.3	.3	14.7
1½ percent, July 1943.....	100.0	85.2	79.9	74.4	5.6	5.2	3.1	2.2	14.8
Total guaranteed issues.....	100.0	85.2	79.8	75.2	4.7	5.4	4.2	1.2	14.8
Total subject to Federal income taxes.....	100.0	75.8	68.9	67.3	11.6	7.0	5.9	1.1	24.2
IV. Grand total.....	100.0	65.5	50.1	42.5	7.6	15.4	12.3	3.1	34.5

NOTE.—Figures are rounded to the nearest million or the nearest ¼ of 1 percent and will not necessarily add to totals.

¹ Public marketable securities include all securities issued except (1) special issues to Government agencies and trust funds, (2) adjusted service bonds, and (3) United States savings bonds. The amount of United States savings bonds reported by the banks and insurance companies covered was \$184,000,000, maturity value. These were divided as follows: Commercial banks, \$169,000,000; mutual savings banks, \$8,000,000; and insurance companies, \$10,000,000.

² Securities the income from which is exempt from both the normal rates and surtax rates of the Federal income tax.

³ Less than \$500,000 or less than 0.05 percent.

⁴ Securities the income from which is exempt only from the normal rates of the Federal income tax. Treasury bonds are classified as partially tax-exempt securities although, by statutory provision, interest derived from \$5,000 of principal amount of these securities owned by any single holder is exempt from the surtax rates as well as the normal rates of the Federal income tax.

⁵ Excludes (1) Federal Housing Administration debentures, (2) securities issued on the credit of the United States, and (3) obligations sold directly to the Treasury.

Mr. CRAWFORD. Does this move on the part of the Treasury, as you have had time to study and analyze it, have a tendency to stabilize prices and to eliminate the erratic fluctuations that have occurred in the past in connection with these obligations?

Mr. BELL. Do you mean this reporting system?

Mr. CRAWFORD. Yes.

Mr. BELL. I do not think it has had any effect whatever on prices.

Mr. CRAWFORD. Perhaps I did not make my question clear: Has the price quoted for these direct obligations fluctuated as erratically since this information has been filed as it did before?

Mr. BELL. I have not looked at the fluctuations with that in mind, but whatever they have been I am sure these reports were not a cause or a cure.

Mr. CRAWFORD. I will tell you what is in my mind: Of course, I think this is one of the smartest moves that the Treasury Department ever made, or one of the soundest moves. I do not mean that it is tricky, but I mean that it is good horse sense, because it places you, as I comprehend it, in the position of knowing exactly who holds these issues of securities. You know the portfolios of your customers. It will also probably save many millions of dollars to the taxpayers because of your putting out issues at lower rates. It seems to me that the very fact that you are having 6,500 banks, plus more than 900 insurance companies, giving you a report every 30 days of their holdings, will tend to prevent losses in securities, or taking chances in loading and unloading securities.

Mr. BELL. The purpose of it was to get better information for use in our determination of the types of securities we should offer. Of course, we are always for that type which best fits into our debt program and that suits the market conditions existing at the time.

Mr. GIFFORD. As a matter of fact, it was stated that the entire new issues in the year 1939 were absorbed in a very large amount, at least, by New York City banks alone, while the banks in the rest of the country did not increase their holdings at all. That was the testimony at a bankers' meeting which I attended.

Mr. BELL. I have not the statistics for that particular year that you mention.

Mr. GIFFORD. I think the public would like to have that information.

Mr. BELL. I can put that in the record.

(The total direct and guaranteed debt increased by \$3,163,000,000 during the calendar year 1939. During the same period, the holdings of member banks in New York City increased by \$914,000,000.)

Mr. GIFFORD. The testimony at that meeting was that the whole new issue for that year was absorbed entirely by New York City banks. It was stated that they absorbed the entire increase for that year.

Mr. PATMAN. What year was that?

Mr. GIFFORD. It must have been 1939. This meeting was held in May 1940. Reporters were not present, but that was the testimony given.

Mr. BELL. The information is available, but I do not have it with me.

Mr. PATMAN. The New York banks hold two-thirds of the reserves. Perhaps they had to absorb it.

Mr. GIFFORD. They absorbed it. Would you say that they had to absorb it?

Mr. BELL. The New York banks were not asked to take it, and no other banks are asked to take it. No banks in the country are asked to take the securities.

Mr. PATMAN. It has been frequently stated that the banks have been compelled to take them. Is there any truth in that?

Mr. BELL. No, sir.

Mr. GIFFORD. I know better than that.

Mr. BELL. They are not compelled to take them.

Mr. GIFFORD. Do you not know that they call up the banks and tell them that they ought to subscribe to the loans?

Mr. BELL. No, sir; there is nothing to that, I know.

Mr. GIFFORD. The director of a bank told me that.

Mr. BELL. Will you be kind enough to send whoever made that statement to the Treasury? I shall be glad to talk to him.

Miss SUMNER. I am the one who made that statement. I was in a directors' meeting, and the bank examiner said "you must take more Government bonds."

Mr. BELL. Was that a national bank examiner?

Miss SUMNER. Yes.

Mr. BELL. No bank examiner would have authority from the Treasury to make any such statement.

Miss SUMNER. I am the director, and I was there.

Mr. PATMAN. What was the examiner's name?

Miss SUMNER. I do not know.

Mr. PATMAN. Could you give the name of the bank and the date?

Miss SUMNER. That was last year. The name of the bank is the Sumner National Bank, of Sumner, Ill.

Mr. PATMAN. That was last year?

Mr. SUMNER. Yes.

Mr. GIFFORD. Do you not know that they have that feeling, even if they are not told, that they must purchase United States bonds? I am sure that that is their feeling.

Mr. BELL. They have not gotten that feeling from the Treasury.

They just have not gotten them from the Treasury, I will tell you that. I think the large uninvested funds of the banks have something to do with it.

Mr. PATMAN. It is in their self-interest?

Mr. BELL. Yes; in order to make some money.

Mr. GIFFORD. Take the Riggs National Bank here in Washington: Do they speculate in Government bonds?

Inasmuch as they now hold about 66 percent of their assets in Government bonds, do they speculate with them?

Mr. BELL. I do not know.

Mr. GIFFORD. You do not know?

Mr. BELL. No, sir; I cannot tell you of any individual bank that is speculating in Government bonds.

Mr. SMITH. Mr. Bell, I notice from the currency statement that there has been a continuous increase in the amount of currency in the hands of the public, running—I do not recall exactly, but close onto about 10 billions, I think, now.

Mr. BELL. \$9,300,000,000.

Mr. SMITH. It is over nine?

Mr. BELL. Yes.

Mr. SMITH. What do you ascribe that to? Is there any way of knowing? Is the public using more currency; is it just the normal growth of pay rolls, or how is that accounted for? It is a very large increase—more than 4 billion since 1932.

Mr. BELL. It is rather difficult, Mr. Smith, to say exactly the reason for it. There may be many factors in the situation. One is that the substantial increase in business requires more currency for pay-roll purposes, pocket cash, till money, and so forth. We have found that the ratio between outstanding currency and demand deposits has about maintained its level over a period of 4 or 5 years. Of course, some of that increase goes back, probably, to the banking holiday, where the communities lost their banks, and people have to carry more cash in their pockets. No doubt there is some hoarding, particularly among the foreign element.

Mr. SMITH. You notice there is a marked increase in the larger denominations.

Mr. BELL. Yes.

Mr. SMITH. And I was just wondering if that may not be partly caused by foreign hoarders, who have taken out our currency as a means of investing and hiding some of their assets that they had over here and disposed of?

Mr. BELL. Probably some of it is in that form. We have no way of checking it.

Mr. SMITH. It does not mean anything particularly to you, one way or the other?

Mr. BELL. Not at this time, when your ratio is being maintained between demand deposits and outstanding currency, and there is a direct relationship.

Mr. CRAWFORD. Referring to the bill, now, would you state exactly what banks—I mean as a group—are entitled to resort to this privilege? Is it only members of the Federal Reserve System, or does this apply to all commercial banks, members and nonmembers, or all banks covered by the Federal Deposit Insurance Corporation?

Mr. BELL. You mean H. R. 4702?

Mr. CRAWFORD. Yes; H. R. 4702.

Mr. BELL. That only applies to Federal Reserve banks.

Mr. CRAWFORD. Now, does the schedule which you are going to put into the record cover all Federal Reserve member banks?

Mr. BELL. You mean as to the Government security holdings?

Mr. CRAWFORD. No; you have a schedule there of over 6,000 banks and nine-hundred-and-some-odd insurance companies. Are all those banks members of the Federal Reserve?

Mr. BELL. We picked the largest banks located generally throughout the United States.

Mr. CRAWFORD. Here is what I am trying to arrive at—if you took the present holdings as the basis you have used—the present holdings of direct obligations referred to in this bill—of all of the banks that can feed them up to the Federal Reserve banks, so as to come under this privilege, what would that total volume amount to? Do I make myself clear?

Mr. BELL. I assume you mean if all the commercial banks which own Government securities should turn those Government securities over to the Federal Reserve banks for borrowings or discount pur-

poses, then the Federal Reserve banks could put those securities up against Federal Reserve notes?

Mr. CRAWFORD. Yes. What would that volume be?

Mr. BELL. I do not remember what the total bank holdings are. The total Government securities held by all commercial banks are about \$19,000,000,000. I cannot conceive all the banks borrowing against Government securities. Of course, in that case, when they borrow, they might borrow on commercial paper and put up Government securities as collateral and, in that case, the Federal Reserve banks would only use the commercial paper and not the Government securities.

Mr. CRAWFORD. Has this privilege been used to any extent since 1934?

Mr. BELL. There was some use of it, yes; from 1934 to 1938.

Mr. CRAWFORD. But, as far as you recall, none since 1939?

Mr. BELL. No; not since 1938.

Mr. CRAWFORD. Do you know whether or not the total of the increase in commercial loans and the total increase in holdings of direct obligations by the commercial banks have, during the past 4 or 5 months, pushed up the sum of demand deposits to about the same extent that the gold imports did during the year 1940, for the same relative period? I think in 1940 our gold imports were a little over 4½ billion, probably \$4,700,000,000?

Mr. BELL. I think so.

Mr. CRAWFORD. Now, the gold imports have dropped very, very considerably—tremendously as compared to last year—and my question is: Are the commercial banks through the extension of commercial loans and the acquisition of direct obligations now pushing up their demand deposits at about the same rate as they did last year with gold imports, as against the average gold imports today?

Mr. BELL. I have not the figures, but I think we can get them. I do not know.

Mr. SMITH. Have not your excess reserves decreased?

Mr. BELL. They have decreased about \$1,600,000,000 since the high point last fall.

Mr. CRAWFORD. Do you feel that the extension of this time is absolutely necessary to help you in handling your financial program?

Mr. BELL. No, sir; it has no connection.

Mr. CRAWFORD. It has no connection?

Mr. BELL. No, sir; it has no bearing on it whatever.

Mr. CRAWFORD. Taking this indicated deficit, which you indicate you will have to finance, of 8½ billion, what is the total refunding issues in addition to those you probably will have to deal with during the next 12 months?

Mr. BELL. In the calendar year 1942, we have \$1,000,000,000 of refunding to do, exclusive of Treasury bills, which are rolled over every 90 days; the balance of the calendar year 1941, there is only about \$200,000,000 to do, in December. So a billion and a quarter for the next 18 months of refunding, in the direct obligations, is all we have.

Mr. CRAWFORD. How much is your direct obligations? I mean how much is your roll-over in the direct obligations?

Mr. BELL. \$1,600,000,000 in Treasury bills are rolled over every 90 days. Is that what you mean?

Mr. CRAWFORD. That will be about \$2,800,000,000, plus \$8,500,000,000, roughly?

Mr. BELL. Yes, sir.

Mr. CRAWFORD. About \$11,000,000,000?

Mr. BELL. Yes, sir.

Mr. PATMAN. What do you mean by "rolled over"?

Mr. BELL. Refunded. We offer Treasury bills every week and we just refund, in effect, maturing Treasury bills in the same amount. We did raise \$300,000,000 in the last 2 months through the issuance of additional Treasury bills.

Mr. PATMAN. What is the rate of interest you are paying?

Mr. BELL. It was running around one-twentieth. On the extra issue it was up to around one-tenth; but it has settled somewhere between a twentieth and an eighth.

Mr. PATMAN. Of 1 percent?

Mr. BELL. Yes, sir. That is on a per annum basis, Mr. Patman.

Mr. WILLIAMS. You say the rate you gave is on an annual basis?

Mr. BELL. Yes, sir.

Mr. WILLIAMS. One-twentieth of 1 percent per annum?

Mr. BELL. Yes, sir—for 90 days, that is.

Mr. WILLIAMS. One-twentieth of 1 percent for 90 days?

Mr. PATMAN. That is on the basis of 1 year, though?

Mr. BELL. That is on the basis of 1 year.

Mr. CRAWFORD. Taking your total interest-bearing debt outstanding, what percentage of that is represented by your total roll-over paper, or Treasury short-term paper? You mature in the next 18 months, roughly, \$1,600,000,000, but what is the paper?

Mr. BELL. We had outstanding about \$48,796,000,000 as of the close of business June 19, 1941. I do not think I have it broken down into 5-year periods, or anything like that, but we do have outstanding marketable Treasury notes which mature in 5 years and less of \$5,700,000,000, and we have Treasury bills, which I just talked about, of \$1,600,000,000, and then we have a little over \$4,000,000,000 in United States savings bonds, and \$29,550,000,000 of Treasury bonds.

Mr. CRAWFORD. So your roll-over operations are no serious problem, or they might not be, until the time comes when you have to convert them into long-term paper. You might have a serious problem then; but, until the time you do have to convert them into long-term paper, there is no problem there at all, is there?

Mr. BELL. No, sir. I can give you some indication, in the next 4 or 5 years, of what we would have to do in case the Secretary would take advantage in certain cases of the call provisions.

As I told you, in 1942 he would have to refund \$1,000,000,000; in 1943, it would be \$3,250,000,000; in 1944, it is \$4,400,000,000; in 1945, it is \$3,000,000,000; and in 1946 it is \$2,300,000,000.

Mr. CRAWFORD. Just one other question: Are you and your associates in the Treasury Department comfortable to the effect that you will be able to dispose of this new financing without putting it in the commercial banks, or do you feel there is something up here we have to do about it?

Mr. BELL. I do not feel there is anything at this time that Congress has to do about it, other than to give us additional taxes which will cut down our problem.

Mr. CRAWFORD. I am in favor of that.

Mr. BELL. We realize we have a very serious problem and are constantly studying and looking at the situation. Whether or not we can get by without eventually putting some of it in the commercial banks, I cannot answer at this time, Mr. Crawford. We will do our best, and that is all we can do.

Mr. CRAWFORD. I keep coming back to that, because I am so absolutely fearful of this run-away price situation, which is going up at a staggering rate, and I refer now to the last 3 or 4 days' issues of the Wall Street Journal and the New York Journal of Commerce for my figures, which I think are perhaps absolutely authentic. If we are to continue piling up demand deposits through the placing of these securities in commercial banks, and in the absence of price ceiling machinery—and it is not effective, because it is not operating except in isolated cases—it seems to me we are simply building the most chaotic condition imaginable and, personally, I am opposed to it. And I want to see the Treasury and the Congress do the thing that is necessary to keep this new paper out of the commercial banks. That is my present interest in it.

Mr. BELL. Of course, that is only one of the factors in this situation. Congress did not help it any when it provided for parity loans. Of course, that was one of the large factors in the price situation.

Mr. PATMAN. Mr. Bell, I want to ask you about two or three things. First, about the interest rates: How do you get this short-term money for one-twentieth of 1 percent and one-eighth of 1 percent—by competitive bids?

Mr. BELL. Yes, sir.

Mr. PATMAN. Why cannot you use that method on long-term money?

Mr. BELL. Well, we tried it at one time, 4 or 5 years ago, and it worked very well on a few issues of \$100,000,000 or \$200,000,000, but there was some objection to it from the market; but when we had to float large issues of seven or eight hundred million dollars, or even a billion dollars, it would not have worked so well, because it would be disadvantageous to the majority of those who want to invest in Government securities, as they do not follow the market sufficiently to know how to bid scientifically. In other words, the smart boys would bid on a high-rate basis; whereas, if we offer them by putting on a definite coupon rate, the small, inexperienced fellow gets the same advantage as the smart fellow.

Mr. PATMAN. Have interest rates stiffened any since the removal of the Government securities from the payment of the tax on income from Federal securities?

Mr. BELL. We probably had to put a little higher rate on the taxable securities than we would have to put on the tax-exempt securities.

Mr. PATMAN. Can you estimate about what that is?

Mr. BELL. It is awfully hard to figure, because you have so many changes in the situation.

Mr. PATMAN. Will you estimate it for the record when you revise your remarks?

Mr. BELL. My guess would be about one-eighth of 1 percent on long-term Treasury bonds.

Mr. PATMAN. Now, about postal savings. Have postal savings decreased any by reason of the campaign to sell defense bonds?

Mr. BELL. No, sir; they have not; they are still about a billion and a quarter.

Mr. PATMAN. In fact, postal savings are just about as attractive as the defense bonds, are they not?

Mr. BELL. Postal savings pays 2 percent.

Mr. PATMAN. And they can get the money any time they want it?

Mr. BELL. Yes.

Mr. PATMAN. How are you arranging for the redemption of defense bonds for one who is in distress; if he wants his money, how soon can he get his money—in 30 days, 60 days, or 6 months?

Mr. BELL. He can get it very promptly on defense bonds.

Mr. PATMAN. He can get it promptly on defense bonds?

Mr. BELL. Yes, sir. As a matter of fact, we have waived the regulations in distress cases and have given the man his money immediately, regardless of time requirements.

Mr. PATMAN. But, regardless of the reason, or the excuse, if he wants the money, you will give it to him, as you say?

Mr. BELL. Yes, sir; at any time after 60 days, and in special emergency cases, at any time.

Mr. PATMAN. And I am glad you are doing that; because it will save this country from the scandal we had after the World War, which was the scandalous way those bonds were forced on the market at a loss.

In the Social Security fund, how much is the interest rate you pay on those bonds that you place in the Social Security fund?

Mr. BELL. The original act provided the fund should be on an actuarial basis of 3 percent, so the obligations we sold to that fund at that time bore 3 percent interest. The amendment of 1939 provided that the rate should compare more favorably with the average rate which the Government pays on its total public debt, so that the securities we are now issuing bear an interest rate of 2½ percent.

Mr. PATMAN. Two and a half percent?

Mr. BELL. Yes.

Mr. PATMAN. What is the average interest rate paid by the Government at this time on all of its long-term bonds?

Mr. BELL. 2.53, on the total interest-bearing debt. On the long-term bonds, taking all of the bonds outstanding, it is 2.85.

Mr. PATMAN. How does that compare to a year ago?

Mr. BELL. In July 1940, it was 2.92, and the average interest on the total interest-bearing debt was 2.58.

Mr. PATMAN. It is about 30 points up, then?

Mr. BELL. No; it has dropped 7 points on the long-term bonds, and 5 points on the average.

Mr. PATMAN. You mean you are paying less now on the long-term bonds?

Mr. BELL. Yes, sir.

Mr. PATMAN. Why is that—on account of the short-term paper being so low?

Mr. BELL. No.

Mr. PATMAN. You had that last year just about the same?

Mr. BELL. That is right. We have refunded some high-coupon bonds at lower rates.

Mr. PATMAN. Now on the dollar index: I presume you watch that closely, do you not?

Mr. BELL. Production?

Mr. PATMAN. The purchasing power of the dollar.

Mr. BELL. Mr. Haas here follows the Federal Reserve index and other business indices.

Dr. HAAS. Prices have been going up and production has been going up. I do not know which index you have in mind.

Mr. PATMAN. I have reference to the purchasing power index, what the dollar would purchase.

Dr. HAAS. The price index has gone up. The price index of the Bureau of Labor Statistics was about 75 at the outbreak of the war, and now it is about 85.

Mr. PATMAN. I would like to ask you one question, Mr. Bell, either as an individual or as an official, and if you want to answer it, all right. If you do not want to answer it, all right, but I would like to have you answer it.

Do you think it would be desirable if the Federal Reserve Bank System was owned and controlled by the Government?

Mr. BELL. I do not think I can answer that, Mr. Patman. I have not given any thought to that, and I do not know what the advantages or disadvantages would be. But I do think the Government controls it now, because the members of the Board are appointed by the President and confirmed by the Senate. It is already, in effect, a Government institution.

Mr. PATMAN. I would have a big argument with you about that.

Mr. BELL. I do not want to get into that argument.

Mr. PATMAN. I realize that it is a question that possibly I should not ask you, and I will not insist upon an answer.

Mr. GIFFORD. You gave the figures of 9 billion and 22 billion for the coming year, with an income of 9 billion.

Mr. BELL. Nine billion four hundred million.

Mr. GIFFORD. What is your picture for the next year, briefly?

Mr. BELL. For 1943?

Mr. GIFFORD. Yes.

Mr. BELL. I have no estimates.

Mr. GIFFORD. You must be looking forward.

Mr. BELL. I am sorry, but that is looking a little too far into the future. It all depends on what Congress does in the tax bill and what business conditions are. I think it is hard enough to look forward for 12 months, without attempting to look forward for 24 months.

Mr. GIFFORD. You must look forward; we have to look forward.

Mr. BELL. But the world changes pretty fast in 30 days.

Mr. GIFFORD. If it is \$750,000,000 per month now, will it be \$2,000,000,000 in 1943?

Mr. BELL. I cannot tell you that

Mr. GIFFORD. You cannot estimate it?

Mr. BELL. I am sorry, but that is impossible at this time.

Mr. GIFFORD. You know what we are appropriating.

Mr. BELL. But there might not be a direct relation between what you are appropriating and what we will have to spend in a given period.

Mr. GIFFORD. You mean your experience is that we have been appropriating more than could possibly be spent? Is not that the usual result right along?

Mr. BELL. We have never spent in a fiscal year the full amount of money appropriated for that year. There has always been a carry-over to the next fiscal year.

Mr. GIFFORD. I recall that has not been true in the case of the W. P. A.

Mr. BELL. Of course, Congress appropriates on the basis of a program to be carried out. But expenditures under that program may be made 2 or 3 years hence.

Mr. PATMAN. There is one question I did not ask you, Mr. Bell. What are the reasons for the passage of this bill? That is what I am thinking about. What are your reasons for that, Mr. Bell?

Mr. BELL. One reason is that the authority expires on June 30, 1941.

Mr. PATMAN. But that is no reason for the continuance of it.

Mr. BELL. Yes; I think it is.

Mr. PATMAN. Unless it is justified. If it is needed, why is it needed?

Mr. BELL. It may not be needed within the next few months. I do not know what the situation is within the Federal Reserve System. But I assume the Federal Reserve System wants to have the authority in case it is suddenly necessary to use it.

Mr. PATMAN. It is not needed in your program at all?

Mr. BELL. It is not a part of our program.

Mr. PATMAN. You are considering that you will need it?

Mr. BELL. No, sir; it is not our problem. It is a problem of the Federal reserve entirely, and the Treasury has nothing to do with it.

Mr. PATMAN. It will not require a law for the banks to be permitted to buy these bonds, if you want them to buy the bonds? You have the right, under existing law, to permit commercial banks to buy the defense bonds?

Mr. BELL. Yes, sir.

Mr. PATMAN. In other words, it is your regulation that prohibits them from doing it, and not the law?

Mr. BELL. That is right; that ties in with Mr. Crawford's question.

Mr. MONRONEY. Is it not a fact that this, in effect, gives a guarantee of a par figure on loans or of Government bonds outstanding, and if the Federal Reserve bank can issue Federal Reserve notes against Federal bonds, then they are never going below par, no matter what the financing requirements of the Government are?

Mr. BELL. Not necessarily. That is effected through open market operations. They have rules whereby they can buy and sell Federal securities in the open market, which have no connection with the authority contained in this bill.

The CHAIRMAN. Let me interrupt you at that point. As a matter of fact, we had this matter up yesterday. I did not insist that my understanding was right, although I knew it was and I have verified it since.

These bonds are not the equivalent of an equal amount of Federal Reserve notes. This bill was an amendment to the original Federal Reserve Act, the section which enumerates the kind of collateral which may be put up as collateral for Federal Reserve notes, but the amendment added to direct Government obligations a list of col-

lateral securities that might be used by Federal Reserve banks, but in this case, where Federal Reserve notes were issued, they have to be backed with gold.

Mr. PATMAN. But the member bank puts up bonds.

The CHAIRMAN. I understand the bank puts up bonds, but it must carry gold back of the Federal Reserve notes, just the same.

The situation that existed at the time the act was passed was that the Federal Reserve banks found themselves without commercial paper, so they were carrying something like 80 percent of gold against each Federal Reserve note. That is what necessitated this legislation.

Nobody knows what the future holds. It is the worst time there has every been since the world began for any man to attempt to predict anything. We do not know what conditions will exist in the future, or what time this might be needed.

This is one way by which you give support to your Government obligations by treating them on a basis of equality with a bunch of commercial notes that certainly could not be classed as better securities than Government bonds. It has been amazing to me that anybody would ever attempt to make a bunch of commercial paper gathered out of commercial institutions from the public at large as eligible as Government bonds.

Mr. WILLIAMS. It is a fact, is it not, that banks take the Federal Reserve notes and offer to buy the bonds?

Mr. PATMAN. Every bank does.

Mr. WILLIAMS. That is true, is it not?

Mr. BELL. I think banks have two ways of getting currency. They can draw on their reserve account with the Federal Reserve bank, or they can borrow of the Federal Reserve bank and get currency. For that borrowing they have to put up collateral security, and that security may be in different forms, as provided in the Federal Reserve Act. It does not have to be on a 100 percent basis. It is according to the regulations of the Federal Reserve Board. But the Federal Reserve banks are required under the law to have at least 40 percent in gold behind every Federal Reserve note outstanding and the difference between the gold collateral and 100 percent required must be in eligible commercial paper or Government securities under the present law which expires June 30, 1941. A bank does not have to have currency to buy bonds. It can draw on its correspondent bank or on its reserve account with its Federal Reserve bank.

Mr. PATMAN. If a Federal Reserve bank puts up a thousand dollars in Government bonds it can get that thousand dollars and make a check for it if they have a reserve.

Mr. BELL. If they have 40 percent gold reserve it can acquire a thousand dollars in Federal Reserve notes against the \$1,000 Government bond pledged with the Federal Reserve agent.

Mr. PATMAN. But with the \$20,000,000,000 in gold reserve—

Mr. BELL. There might be a shortage in some particular Federal Reserve bank.

Mr. PATMAN. There is not, is there?

Mr. BELL. Some bank has put up today a million and a half dollars of commercial paper. The records show a million and a half put up as collateral for Federal Reserve notes, and the rest is in gold.

Mr. CRAWFORD. In connection with the price level, I want to read this statement appearing in the Journal of Commerce of New York of Wednesday, June 18, 1941. It says:

The wholesale price index of the Bureau of Labor Statistics advanced from 75.0 to 77.4, an increase of only 3 percent, during the first year of the war. By last week, however, the index had risen to 85.9, at which point it is almost back to the peak for the last decade reached in 1937. The advance since the beginning of the war now equals almost 15 percent.

The index of the Bureau of Labor Statistics is based upon the prices of almost 900 commodities, including many which seldom fluctuate. The Journal of Commerce weekly index of 110 commodity prices, which is considerably more sensitive, has risen from 74.0 in August, 1939, to 91.5 at the present time, a rise of approximately 23 percent.

Mr. DEWEY. What was that based on, the prices in 1926?

Mr. CRAWFORD. I believe so.

Mr. DEWEY. Was the 1926 figure 100? Does it state?

Mr. CRAWFORD. No; it does not.

Mr. SMITH. Mr. Bell, what is the total amount of reserve in the Federal Reserve banks?

Mr. BELL. It is \$13,100,000,000, of which 7.8 billion is required and \$5,300,000,000 is excess.

Mr. SMITH. You are here representing the Treasury and you are recommending the passage of this measure. But you have not stated your reasons for this recommendation. Your mere recommendation carries a great deal of weight in connection with the passage of this bill.

I feel that you should give us some reason why you believe this should be passed, other than that the Federal Reserve bank wants it passed.

Let me preface this question with a few factual statements.

Up until 1929 the largest amount of excess reserve which was held annually in the Federal Reserve banks was \$99,000,000, which was in 1921. The largest amount of required reserve up to 1929 was in 1927, when the amount was \$2,487,000,000.

You have at the present time 5 billions of excess reserves, and in all, roundly, 13½ billions of reserves. The commercial banks have done practically no new lending since 1931, up to 1940, with a little taking place now, but very little.

Can you conceive any condition that would require the use of the authority under this act, in view of this enormous pile of excess reserves and required reserves, taking into consideration the fact also that the Federal Reserve Board still has the power to reduce the amount of required reserves?

Will you tell me what condition you can envision that would place banks in a position where the use of this authority might be required?

Mr. BELL. You have given excellent reasons, Mr. Smith, yourself when you say that until 1929 you only had \$99,000,000 of excess reserves. That indicated clearly that the member banks were borrowing from the Federal Reserve bank, so they had plenty of commercial paper they could use as collateral for Federal Reserve notes. Today there is no commercial paper in the hands of Federal Reserve banks, which they can put up as collateral for Federal Reserve notes.

If the Federal Reserve banks do not have commercial paper, what will they put up as collateral for Federal Reserve notes, if the gold coverage is not sufficient and as long as there is a requirement that the collateral must be 100 percent?

Mr. SMITH. They have a borrowing power of over \$5,000,000,000 without any collateral.

Mr. BELL. You are talking about member banks, and you have to distinguish between member banks and Federal Reserve banks for this purpose.

Mr. SMITH. Just a moment. Is it incumbent upon member banks to furnish any collateral for the 5 billion excess reserves?

Mr. BELL. No, sir. That is their money.

Mr. SMITH. So they may use their borrowing capacity of four or five billion dollars, yet you maintain this authority is needed, in view of the situation.

Mr. BELL. I do not know how I can make it clearer, that when the member banks have on deposit with the Federal Reserve banks \$5,000,000,000 of excess reserves, can you not see that they will not borrow from the Federal Reserve banks? They do not have to borrow, and therefore the Federal Reserve banks will not acquire any commercial paper as long as the excess reserves are retained.

Mr. SMITH. Therefore, they can avail themselves of this provision?

Mr. BELL. Yes, sir. The Federal Reserve bank has to pay out Federal Reserve notes to meet a demand for currency and it must find the 100 percent collateral to pledge for those notes regardless of whether or not the commercial banks borrow from the Federal Reserve bank.

Mr. SMITH. Do you mean that if I, as a member bank, have, for instance, \$100,000,000 of excess reserves in my particular Federal Reserve bank, there will be any occasion for me to discount paper, since I have \$100,000,000 already available as my own and I do not need to borrow any money from the Federal Reserve bank?

Mr. BELL. That is the point. Suppose all of these banks called upon the Federal Reserve banks for these excess reserves of \$5,000,000,000 in currency tomorrow. That would increase the currency to \$14,000,000,000. Suppose that the Federal Reserve has only \$7,000,000,000 of gold which they can put against that currency. So they have to find collateral security of \$7,000,000,000 some place else. They have no commercial paper, so the only place they can go is to their Government portfolio. If you do not give them this authority, they would not have the collateral, and they could not issue the currency notes without violating the law.

Mr. SMITH. They are not going to avail themselves of the provision of this act until they have exhausted the \$5,300,000,000.

Mr. DEWEY. You are confusing the situation.

Mr. SMITH. This is currency; it is credit.

Mr. DEWEY. The 5 billion is the credit.

Mr. BELL. That is the basis for credit.

Mr. SMITH. But still that belongs to these banks; they can use it?

Mr. BELL. Yes, sir.

Mr. SMITH. A bank check is currency. What difference does it make which they use?

Mr. DEWEY. If I ask for a \$100,000 cashier's check, or if I ask for \$100,000 in currency, there is considerable difference.

Mr. SMITH. Do you agree with Mr. Dewey?

Mr. BELL. If you walk into your bank and say you want to borrow \$100,000, and if the bank gives you a Federal Reserve draft, they have drawn on their credit. They have drawn down their reserve with the Federal Reserve bank.

If you say I want \$100,000 in currency, they will say we will have to get it from the Federal Reserve bank, and then they ask the Federal Reserve bank to charge their reserve account, and to ship them \$100,000 in Federal Reserve notes, but the Federal Reserve bank must have collateral to put up against the currency issue. If they do not have the collateral they cannot comply with the request for \$100,000 in currency.

Mr. SMITH. Then, coming down to date, the total amount of currency is almost double what it was in 1929.

Mr. BELL. I believe so.

Mr. SMITH. You are maintaining that the condition may arise when this country will need more circulating currency.

Mr. BELL. It has risen since 1929. You have admitted that it has doubled.

Mr. SMITH. I am not admitting there has been a need for it. I say that it has taken place, but I do not say there is a need for it. You come for an extension of the law, and I am saying there is no need for it.

Miss SUMNER. It seems apparent to me, that we would be making currency like Germany. Is that the right thing to do? I have heard several statements about inflation. Do we need that kind of currency?

Mr. BELL. Let us hope we will not reach that point.

Miss SUMNER. They thought that would be the right thing to do.

Mr. BELL. Let us hope we will not reach that point, that we will never reach the point where we will issue currency to pay our bills and start an inflationary spiral. Let us keep it based more on the demands of business, as a medium of exchange. I think that is what our currency is for.

Mr. SMITH. I was just looking ahead to see what might happen in an inflationary period.

Miss SUMNER. I think they could easily estimate what the demand would be for currency. Right now, do you find any evidence of hoarding?

Mr. BELL. I do not think there is a great deal. There may be some hoarding, but we do not consider it serious. Anyway that is deflationary.

Mr. SMITH. I cannot see that it means anything further, according to your statement, than that we might reach a time when more currency might be required. Can you envision any other reason for extending this act?

Mr. BELL. This is primarily a Federal Reserve Board function, and it does not belong to the Treasury at all. We have reported on the bill, and we have no objection to it. It is the recommendation of the Treasury that it go through. It may not be needed in July or August, but there may be a time within the next few months when it will be needed. The conditions might change in the course of a month so that it would be needed. As I see it, there would be absolutely no harm in extending it for the additional period.

Mr. SMITH. You are simply recommending it because the Federal Reserve Board wishes it?

Mr. BELL. They see a need for it. I think that is a good reason, plus the fact that there might arise a situation wherein they would require the use of this power.

Miss SUMNER. There might be an inflationary situation?

Mr. BELL. I cannot undertake to say what might happen within 1 month or 6 months. I do not know what will happen.

Mr. SMITH. You agree with this, that it finally resolves itself into the production or creation of more currency than we have at the present time?

Mr. BELL. No, sir.

Mr. SMITH. If you would not create more currency, what is the purpose? You say it would not increase the amount of currency or expand it?

Mr. BELL. No, sir. I say that at the present time some Federal Reserve banks have commercial paper up with the Federal Reserve agent in the amount of only \$1,500,000 to secure Federal Reserve notes. If this bill does not pass, and the commercial paper is paid off, and their gold is insufficient the banks might find that they have no collateral which can be pledged. If they do not have the commercial paper or gold, they might have to call in some of their Federal Reserve notes.

Mr. SMITH. They knew that this would expire this year, did they not?

Mr. BELL. I suppose they did, but I take it that they assumed Congress would extend the authority. I do not see what objection there could be to extending it.

Mr. SMITH. You are not prepared now to give any idea of the amount of new obligations that will be put out in 1943?

Mr. BELL. No, sir; I have no budget estimates of expenditures or estimates of what we might get in receipts in that year.

Mr. SMITH. You say that the Federal Reserve banks are virtually under the control of the Federal Government?

Mr. BELL. I think that they are under the supervision of the Federal Government.

Mr. SMITH. Can you tell me approximately what the average rate of interest is that the Government pays on direct obligations in commercial banks at the present time?

Mr. BELL. The average rate of interest on the indebtedness of the Federal Government was 2.53 percent on May 31, 1941. I cannot give you the average rate on Government obligations held by commercial banks.

Mr. SMITH. Of course, commercial banks hold different kinds of obligations. A considerable percentage would be held by insurance companies and private individuals, and the rate of interest on securities held by commercial banks might average lower than the general average runs.

Mr. BELL. They probably do, because of the desire of the banks to keep their portfolios in short-term securities.

Mr. SMITH. In a work by Prof. Harold G. Moulton, associate professor of political economy at the University of Chicago, at the time he published this work, the work being entitled "The Financial Organization of Society," Professor Moulton, who is now, I understand, with the Brookings Institution, in his discussion of the Federal Reserve banks system, among other things, said this:

Is the Federal Reserve Board under the domination of the Treasury Department? The association of the Federal Reserve Board with the Treasury Department has given rise to some criticism. It is asserted that Treasury fiscal requirements have dominated the policy of the Federal Reserve Board at times when

banking requirements were paramount and did not run parallel with Treasury requirements. Concretely, it is urged that the desire of the Treasury Department to make a record in floating huge Liberty Loans at very low rates of interests was responsible for the policy inaugurated by the Federal Reserve Board during the war and maintained until after the Victory Loan was completed, of keeping discount rates at a very low level and hence stimulating speculation and inflation of the currency.

I might state that this book was published in 1921.

Miss SUMNER. Does he ever speak of the Treasury as being under the domination of the Federal Reserve Board?

Mr. SMITH. I have not read that in the book. Professor Moulton goes on to say:

It has accordingly been vigorously urged that the Federal Reserve Board be cut loose from the Treasury Department in order that it may exercise its great responsibilities unhampered by the views of the Treasury or by considerations of political expediency for the party in power. It is unnecessary to enter upon a discussion of the merits of the contention that the Federal Reserve policy of maintaining low discount rates was opposed to public interests; it is enough to point out the possibility of making the Federal Reserve Board subservient to the Treasury.

Now, is not the Treasury following precisely the same policy that it followed in the World War period of virtually arbitrarily fixing low interest rates and depositing bonds in commercial banks? These bonds are not sold, but merely deposited in the banks. At the end of the war, the banks held about \$5,000,000,000 of direct Government obligations, and by 1932 that had dropped to about \$3,000,000,000. Now these direct Government obligations will amount to about \$14,000,000,000 in commercial banks, representing nearly 26 percent of the total deposit in the banks. What I want to know is whether the Treasury is not following precisely the same course that it followed in 1916, 1917, and 1918, during the other war period?

Mr. BELL. I do not know what the relationship was between the Treasury and the Federal Reserve Board in 1917, 1918, and 1919. I happened to be in the Army at that time, and I am not familiar with what went on, but I would question that the Treasury was engaged in keeping rates down, or that it exercised any control over the Federal Reserve Board sufficient to affect the rates of financing. Since that time Congress has taken the Board physically out of the Treasury, and has taken the Secretary off the Board. We have nothing to do with their policies. There is close cooperation between the Board and the Treasury in all of our financing operations. You say they had this control in 1920 and 1921, but they apparently did not do the job, because we paid 4½ percent on the Victory Loan, and as high as 5 and 6 percent on the 3- to 5-year notes. That was when the Secretary was on the Federal Reserve Board. Now we have no part in it, and are selling bonds at 2½ percent or less. However, there is close cooperation between the Board and the Treasury. Necessarily there must be, because we are the biggest factor in the money market. We are not doing anything in the Treasury to push down rates, but we are paying what the market demands. The excess reserves, which, of course, are available for investment, are responsible for low interest rates.

Mr. SMITH. You are not contending that you are selling direct obligations or bonds to commercial banks, or that they are actually sold?

Mr. BELL. They are sold to the banks as well as to individuals and others. They buy them with individual depositors' money. The

money is turned over as bank deposits, and the banks buy the securities.

Mr. SMITH. Those direct obligations are not sold in the sense that they are paid out of the savings of the people, but they are merely deposited in the banks, and the Government checks against the deposits.

Mr. BELL. You are saying in effect that the purchases by the banks of Government securities will expand bank deposits. That is true. That is what I explained awhile ago as one of the reasons why we are having this defense savings bond program, to avoid expanding bank deposits as much as possible.

Mr. SMITH. I congratulate you on your attempt in that direction, and I hope you will succeed, because I think that one of the blackest marks on the history of the Federal Government was in the method of financing the other war. I am entirely in accord with your policy of selling bonds and having them paid for from the actual savings of the people. There is no question but that is the proper way to finance these securities. Now, since these bonds are not actually paid for from the savings of the people, how do you explain or why do you maintain that you do not fix interest rates? You set the interest rates on these obligations. I am talking about the direct obligations. You set those interest rates, do you not?

Mr. BELL. The Secretary fixes the rate of interest on public debt securities, but he fixes it in relation to the market conditions. He would not fix a 2-percent rate on a Government security that would be yielding in the market $2\frac{1}{2}$ percent. He has got to go to the market for the interest rates, which are established by the market demand. Then we issue securities that will sell under those conditions in the market.

Mr. SMITH. But there is no market or private capital for investments, and, therefore, your market is a Government market.

Mr. BELL. We do not create that. There is a market at the present time for other securities, and in the past there has been such a market. There is no difference from an inflationary angle in a bank buying a Government security, and making a loan to you. There is no difference. There may be a difference in who spends the money. In one case it is the Government, and in the other case it is an individual.

Mr. SMITH. In connection with the statement of Miss Sumner, let me reinforce that. I say that the Government does force these banks to acquire these bonds. In fact, I have been told by pretty high authority, even in the Federal Reserve System, that that is the case, and to me a personal analysis shows it cannot be otherwise.

Mr. BELL. Well, I do not know how I can deny it any more emphatically than I have, but I want to say to you that anybody who tells you that, you just tell them to come down to the Treasury and tell it to us, because I would like to see them once and hear about it.

Miss SUMNER. How much connection does the Secretary of the Treasury have with the Comptroller?

Mr. BELL. He is under the jurisdiction of the Secretary of the Treasury, just like any other bureau of the Treasury, and I have talked to him on a number of occasions about this charge and he tells me he has asked a good many of his bank examiners, and there is nothing to it. And if any bank examiner said any such thing as that, he is just talking out of place. He would not dare to do a thing of that kind.

Miss SUMNER. He would not be subject to criticism by the Comptroller?

Mr. BELL. He certainly would; if he made any such statement as that, he would be subject to very severe criticism.

Miss SUMNER. Well, I can assure you I have talked to many banks, and I know that is a fact, that the bank examiners do encourage them to buy Government bonds and indicate what amount. They go over the list of securities with them and say, "Now, you ought to have more Government bonds." And you know when a bank examiner talks to you and you are a director and sitting in the directors' room, you are going to listen to what he says, because you do not want any trouble with him. And all he has to do is just to say "You ought to have some more Government bonds; you ought to have so many," and it is very persuasive.

Mr. ROLPH. What could he do if the banker said he did not want to buy them?

Miss SUMNER. I know I would not, on my side of the table, say "Now, you can just go ahead and do what you please; go ahead and do anything and see what I care." The bankers are very cautious people; they do not do that. They do not want any trouble at all with the Comptroller, and there are too many things that the examiner can do, don't you know. The Comptroller can even tell you to raise the wages in your establishment.

Mr. ROLPH. But you do not have to do it.

Miss SUMNER. You won't have to do it, but he has a right to say "Write this note off," and you have to write it off. You want to keep on, don't you? And I do not mind telling you that I am trembling in my boots now, for even telling you what I am telling you here about this thing.

Mr. ROLPH. An individual examiner might make suggestions, Mr. Bell might make suggestions, but I do not see where the bank has to follow it.

Miss SUMNER. I will just show you how disagreeable a bank examiner can be. Last week an examiner in my district came in and had not finished counting the currency when the bank closed because it was time for his dinner, 6 o'clock, and he did not stay there. Now he said, "You won't open in the morning until I complete counting the currency." The cashier was not there at the moment, and the boys in the bank said "My goodness, if we do not open, we will have a panic in this town." He said, "You just put a sign on the door saying the bank won't open until we get through counting the cash." Well, if you know anything about little towns, you know what would happen in a situation like that. There is no telling what it would mean.

That is the sort of thing that an examiner might do, and they make themselves so disagreeable if you say anything, that they clap their fingers over their mouths, and it is terrible.

Mr. BELL. I cannot help but believe they misinterpreted what this bank examiner said to them. I do not think any bank examiner would say "Don't open the bank tomorrow." They are chosen very carefully and are told to be tactful, but, as a matter of safety, they have to pass on everything in the bank; that is what they are there for. And it is up to you people to take it up with the Comptroller in Washington if anything of that kind happens.

Miss SUMNER. I do not believe the people in the Government Department in Washington appreciate—in fact, I am convinced of it,

that they do not appreciate how mild some of our country rural people are. We are a very law-abiding type, and they are afraid of these people; they are honestly afraid. I would be afraid, myself.

The CHAIRMAN. Miss Sumner, do you have personal knowledge of this?

Miss SUMNER. Yes; I have.

The CHAIRMAN. Where the examiner said "Do not open the next morning"?

Miss SUMNER. Yes, sir; and, finally, when the cashier came in later he said "We cannot do that," and he finally talked him out of it. But, while the boys were there, they were not going to open the bank until the fellow counted the cash and, when one of them started to make complaint, here is what they said: "Now, don't do that; don't do that." They are a little afraid.

Mr. BELL. Is that a national bank?

Miss SUMNER. Yes.

Mr. BELL. I would be delighted to look into it any time, and no one there will be criticized.

Miss SUMNER. And if I am criticized afterwards for having mentioned it, I hope I can rely on you to protect me; because, while I do not know what happens to a lot of banks, I have no doubt that happens. And those are just little inconveniences to our people, who are very sensitive.

Mr. BELL. I can see where a bank examiner would criticize the portfolio of the bank. If they have a note in there that is 5 years overdue and no interest is being paid on it, naturally that is subject to criticism and the bank should take steps to correct it and to write it off, or put up a reserve against it. That is good, sound banking; that is what the bank examiners are supposed to be there for. But in your portfolio, they are not supposed to say "You have not enough Government securities." They might criticize the type of investments you are making and say that "The type you are making is unsafe from a banking standpoint." That is their business.

Miss SUMNER. I know that everybody in my family will just jump overboard if they know I have talked about this thing, because we get along very well and the bank examiner says we have one of the best banks in the country. But, at the same time, I know these little things happen in our bank and undoubtedly they happen to others, and I know the gossip from other banks, but I would not dare mention somebody else's situation for fear somebody would see I mentioned it here; but I thought it would not do any harm, in a general way, without causing any trouble, or causing anybody to lose their job, if I did speak about the way they use their influence, or the way they handle the bank, and have you look into it.

Mr. BELL. We will be glad to do it, and have done it a number of times. We have told them that they are working for the United States Government and they have to be careful in what they say and to use tact.

Miss SUMNER. You can see in a small town what that bank not opening in the morning, in order that that examiner could count the money, would have done in that little town?

Mr. BELL. Quite naturally.

Miss SUMNER. There might not be anything have happened in that little town, but their competitors afterward would have been taking advantage of it.

The CHAIRMAN. Well, the bank is insured, if it is a national bank.

Miss SUMNER. Oh, yes.

The CHAIRMAN. If they did not have their deposits insured and did not open their doors, you probably would have a rush, but not otherwise.

Mr. SMITH. Mr. Chairman, there has been a great deal of criticism against bankers making too much money on these Government securities which they hold. I tried yesterday to get from the Federal Reserve Board, just as I asked you a minute ago, Mr. Bell, a statement showing the average interest rate earned by banks on direct Government obligations, and I am wondering if I might have you prepare a statement showing what that is, as well, also, as the average annual interest rates on other Government securities, so-called guaranteed obligations, held by the commercial banks only. I think it would be interesting, because the Federal Reserve Board informs me, Mr. Chairman, that the average rate of interest earned by commercial banks on all its securities at the present time is only 2.1 percent annually.

The CHAIRMAN. Are you speaking of Government securities?

Mr. SMITH. No; of all of their securities.

The CHAIRMAN. On their securities of all types?

Mr. SMITH. On their securities of all types. And, therefore, I suspect the average interest rate earned on Government securities must be lower, and possibly considerably lower.

Mr. BELL. It is impossible, Mr. Smith, for us to figure that out. We do not know what they earn. Suppose a bank buys a 3-percent obligation due in 10 years, and they paid 107 or 108 for it—and they all pay different prices for them; they did not get it on the original subscription, but they bought on the market at different prices, and the price they bought at controls their rate of return. We have no way of telling that. We can tell what the banks hold and the probable range for 5 years, and the average rate of 5-year maturities; but we cannot tell you what the bank earns. That does not indicate that the bank earns anything at all; because, out of that earning, they have to pay the premium they paid on the securities.

Mr. SMITH. The reason I would like to have that in the record is to relieve what I believe to be an unjust criticism.

The CHAIRMAN. As far as the figures can be gotten, suppose you put some information in the record.

Mr. BELL. We will try and give what we can. And, Mr. Chairman, your committee has asked for a number of statements, which it is going to take some time to compile.

The CHAIRMAN. Just do the best you can.

Mr. BELL. If you want this testimony back before reporting the bill, I am afraid it is going to hold you up.

The CHAIRMAN. There is not going to be any urgent necessity for publishing these hearings before this bill is reported. I do not want to hold it up any longer than the day we report the bill for the publication of the hearings and, as a matter of fact, this bill is not going to be passed the coming week, and there is a good lot of data asked for in here that we can get and accumulate it.

(The committee thereupon adjourned until Monday, June 23, 1941, at 10:30 a. m.)