DIARY

Book 391

April 23 - 25, 1941

April 23, 1941
11:00 a.m.

H.M.Jr:	I want some advice and some help.
Speaker Sam Rayburn:	All right.
H.M.Jr:	Tomorrow morning I'm to appear before the Ways and Means Committee with a statement on the tax program and if you've noticed there has been a lot of stuff in the papers and they kind of got off to a bad start. Now, my statement will be ready within about an hour, and this is the thought that I had in mind, that I come up there and show it to you and Doughton and Barkley and Senator George, read it to you and get your criticism. It's a pretty strong statement and before I give it I'd like to feel that the Democratic leaders approve it. If there is anything you don't like, I'll take it out.
R:	All right. Well, Henry, I'll meet any time that you get the other gang together. Of course I can get Doughton.
H.M.Jr:	Well, what time would you suggest?
R:	I would suggest around 2:30, after the lunch hour.
H.M.Jr:	Well, can we meet up there on the Hill?
R:	Yes.
H.M.Jr:	Where? In that room of yours?
R:	Yes, I think that would be a good place. I tell you what I'll do. I'll communicate with these fellows and let you know.
H.M.Jr:	With all of those.
R:	Yes. I'll call Barkley and tell him to get Senator George and I'll get Doughton.
H.M.Jr:	And if they want to bring anybody with them.

R:	That's right. I think Bob Doughton would probably want to bring Jere Cooper along.
H.M.Jr:	And George may want to bring somebody.
R:	That's right.
H.M.Jr:	But I just feel this is pretty important and I'd feel very much happier if you people read it and said O.K.
R:	I think that's proper and I'll try to get in communication with them within the next half hour and let you know.
H.M.Jr:	I'd be ever so much obliged.
R:	All right, Henry.

April 23, 1941
11:26 a.m.

Speaker Rayburn: Henry.

H.M.Jr: Yes, Sam.

R: I got hold of Bob and he and I and Jere and John McCormack will meet you down in that little room where we had luncheon. I'm trying to get hold of Barkley but he hasn't come up from town yet, and if we can't get them why we'll go ahead any how. I'll try to get him and George.

H.M.Jr: Now what time?

R: 2:30.

H.M.Jr: In that same little room.

R: Where we had lunch.

H.M.Jr: I know where it is.

R: All right, Henry.

H.M.Jr: At 2:30.

R: Right.

H.M.Jr: I'm ever so much obliged.

R: All right.

April 23, 1941.

MEMORANDUM
FOR THE SECRETARY'S DIARY:

Secretary Morgenthau met with Congressional leaders for an hour and a half this afternoon in Speaker Rayburn's reception room at the Capitol. The Secretary's purpose was to obtain Congressional backing, if possible, for those portions of his tax message in which he proposed to deal with shortcomings in defense production. Those present at the meeting were Speaker Rayburn, Senator Barkley, Majority Leader McCormack and Congressmen Doughton and Cooper. Mr. Bell, Mr. Sullivan and Mr. Kuhn were with the Secretary.

After reading the first three pages of his draft (draft "D-E" in the files), Secretary Morgenthau said that the Treasury's estimate of 19 billion dollars expenditure in the new fiscal year had just been exceeded by a Budget Bureau estimate of 21 billion, and by an O.P.M. figure, soon to be submitted to the Truman Committee of the Senate, of 24.8 billions. Mr. Doughton urged that the Secretary stick to his estimate to avoid confusion. Senator Barkley agreed. Congressman McCormack said that the Secretary would be in a strong and consistent position in sticking to his figures and in saying that he would be glad if the figure proved to be higher. The Secretary said that he felt his estimate to be the nearest to the truth.

The Secretary then read the remainder of his draft, and discussion began on those passages dealing with production. Mr. Cooper wondered if it was wise to emphasize the slowness of production; the Secretary replied that the leading aircraft companies were not only behind schedule, but that their production figures had fallen off in March compared with the previous month. Mr. Cooper still wondered whether it was right for the Secretary to say these things. Senator Barkley seemed to favor the Secretary's proposed statement; he thought it might operate as a spur to the public and that it was the right of the American people to know the true position. Mr. McCormack was doubtful, and Mr. Doughton warned against raising the issue of slow production without justifying it with full details.

Senator Barkley said that on the whole it was a good statement, something the country ought to know. He thought it would be good for those in the country who are clamoring for more information. Mr. Cooper thought it was in line with the President's press conference statement that the country did not realize the seriousness of the situation. Mr. Doughton was afraid of what the columnists would say. He thought that this would give them ammunition to shoot at the Administration; the Secretary thought it was better to say this now than in six months time, when the soldiers and sailors might have to pay with their lives. Mr. McCormack said that a sharp Republican questioner might well ask, "Who is to blame?" and that it would be awkward for the Administration to answer. The Secretary then told in some detail of the falling off of production at the Glenn-Martin plant at Baltimore, and others, and said that he thought the whole gang at O. P. M. was to blame. He cited Marion Folsom, an Eastman Kodak executive, formerly with O. P. M., as author of the report on aluminum last Fall which was responsible to some extent for the present mischief. Mr. Doughton asked whether Congress had been at fault; the Secretary said that it had not in any way. Mr. Doughton then asked what more could be done. The Secretary replied that Congress could call the heads of the airplane companies to testify. It could tell them that they had nothing to be afraid of and that they should tell the whole story. All the Congressmen present seemed genuinely shocked and troubled by what the Secretary had told them about aircraft production.

Speaker Rayburn, who had just come back to the meeting after having been away for more than half an hour, seemed especially upset, and said that nobody had ever intimated the existence of such a state of affairs as the shortage of aluminum which was holding up the production at the Douglas and Martin plants. Mr. Doughton, however, could not see what this had to do with the Ways and Means Committee. Mr. Barkley doubted the wisdom of bringing out the deficiency in any one company, and the Secretary quickly said he had no such intention. Mr. Rayburn then said that this was a "hell of a note"; that Congress usually "gets the cussing"; that here Congress has passed the money and done everything necessary and yet can't get action. Nevertheless, Speaker Rayburn said that production was not the business of the Secretary of the Treasury in a statement before the Ways and Means Committee, and said, "Henry, let someone else take this one." The Speaker was afraid of opening the flood gates of questioning and added "Why should you carry this ball?" The Secretary agreed, therefore, to drop from his statement the complaints about slow production, on page 3 of his draft, and the whole passage about "lulling our people into a false sense of security" on page 4.

A number of minor suggestions were made on other subjects. Senator Barkley suggested that the phrase "During the past eight years" in the next to the last paragraph was too partisan, and suggested making it "in recent years". He also suggested changing "unnecessary things", on page 5, to "comparatively less important things". Mr. Doughton was glad of the passage on non-defense spending, and wondered whether the Secretary could not specify the items which should be cut. The Secretary said he did not think he should include this in his public statement, but would have the necessary information with him in case he was questioned about it. Mr. Cooper asked how the two-thirds, one-third ratio was arrived at. The Secretary replied that if he was asked about it at the hearing, he would say that there was nothing sacred about two-thirds. Mr. Doughton suggested an answer that we should try to raise a minimum of two-thirds. Messrs. Cooper and Doughton thought that the Secretary ought to advocate raising "at least" 3½ billions by taxation.

F. K. Jr.

OFFICE OF
THE SECRETARY OF THE TREASURY

April 23, 1941

TO: Mr. Thompson 12:45 pm.

FROM: Secretary Morgenthau

Please investigate this complaint from Senator Caraway. After you have investigated and seen the man, please give me a report on it promptly.

April 23, 1941
12:16 p.m.

Senator Hattie W. Caraway: Secretary Morgenthau, I hate to call you about this but there's a man who's been working there named Gooch. I don't know anything about his troubles but he has come up to me and demanded, and so forth, that I see you about it.

H.M.Jr: What's his name?

C: His name is George M. Gooch.

H.M.Jr: What does he do, Mrs. Caraway?

C: Well, he works down there somewhere. (Aside - "Where does he work?") His office phone is Republic 0200 - Branch 520.

H.M.Jr: In the Treasury?

D: Yes.

H.M.Jr: Well, what's he ......

C: He's in the Division of Accounts and Audit.

H.M.Jr: Has he got some troubles?

C: What is that?

H.M.Jr: Has he got some complaints?

C: Yes, he has some troubles and he wanted me to talk to you about it. Now, I'm not going into what his troubles are.

H.M.Jr: Supposing we send for him and give him a chance to blow off - how will that be?

C: What is that?

H.M.Jr: Supposing I send for him and we'll see what the trouble is.

C: Well, you can do that. I just wanted you to make some investigation and do whatever you wanted to.

H.M.Jr: Well you - I'll tell you what we'll do - we'll look into it; don't worry about it; I'll find out what it is and I'll let you know.

C: All right.

H.M.Jr: How will that be?

C: Well that will be just fine.

H.M.Jr: Well you leave it to me and I'll do the best I can.

C: Well I thank you.

H.M.Jr: Goodbye.

C: Goodbye.

X GREEK FRONT

APR 23 1941

LONDON - I N S - REPORTS THAT A GERMAN OCCUPATIONAL FORCE MAY ALREADY HAVE SEIZED ATHENS AND ITS ENTIRE COMMUNICATIONS SYSTEM REACHED LONDON TODAY WITH WORD THAT KING GEORGE AND HIS GOVERNMENT HAD FLED THE GREEK CAPITAL TO THE ISLAND OF CRETE

THERE WAS NO DIRECT COMMUNICATION WITH ATHENS FOR MANY HOURS AFTER SWIFTLY MOVING GERMAN PANZER UNITS WERE REPORTED ON THE OUTSKIRTS OF THE CAPITAL

8-

TREASURY DEPARTMENT

SPECIAL.

tary

Secretary

TO:

The Sec'y & Mr. Bell

Room

Should we consult State Dept. re freezing Greece?

H.M.Jr.

From: MR. COCHRAN

TREASURY DEPARTMENT

INTER-OFFICE COMMUNICATION

For Miss Chauncey

DATE April 23, 1941

TO Secretary Morgenthau

FROM Mr. Cochran

STRICTLY CONFIDENTIAL

At 10:30 this morning I telephoned Mr. Pehle that the Dow Jones ticker carried an International News Service flash to the effect that the Greek King and Government had fled to the Island of Crete, and that the Germans were entering Athens. I asked Mr. Pehle if he thought we should do anything toward freezing. It was his idea that I should give the foregoing news report to Mr. Bernstein, and then possibly speak to the Secretary or the Under Secretary. I at once called Mr. Bernstein. In agreement with him, I then endeavored to get word at once to either the Secretary or Mr. Bell. Finding them engaged in a conference in the Secretary's office, I sent in the ticker item, together with a memorandum inquiring as to whether we should consult the Department of State in regard to freezing Greece.

As soon as he could, the Secretary called me to his office and referred to my memorandum. He preferred that the initiative in freezing Greece be left to the State Department.

After seeing the Secretary, I telephoned Mr. Pehle the result of my conversation. Mr. Pehle was of the opinion that we should consult with New York to learn whether any important transactions in Greek accounts have started, and also let the State Department know the status of Greek accounts in this country. It was arranged that Mr. Pehle should call Mr. Cameron in the Federal, and that I should telephone Mr. Livesey. Consequently, at 12 o'clock I spoke by telephone with Mr. Livesey in the Department of State. I told him I thought he might be interested in knowing that as at the close of business on April 22 the Bank of Greece held $6,700,000 with the Federal Reserve Bank of New York in gold, and $5,300,000 in its dollar account. As of the same date Greek dollar balances held with other New York banks amounted to $23,700,000, making total Greek gold and dollar balances in New York banks as of April 22, 1941, $35,700,000. Speaking of Greece, Livesey had already heard the unconfirmed report that the Germans had entered Athens. I told Livesey that we would await any word from them on the subject of Greece.

HMC

TREASURY DEPARTMENT

INTER-OFFICE COMMUNICATION

Miss Chauncey

DATE April 23, 1941

TO Secretary Morgenthau

FROM Mr. Cochran

STRICTLY CONFIDENTIAL

Mr. George Allen called me from the Near Eastern Division of the State Department at 3:15 this afternoon. He said that the Greek Minister had been dropping in to see him almost daily the past week and had discussed the likelihood of Greek assets in this country being frozen. Now that the Greek Government has fled to Crete, the possibility arises that the Minister may ask that any freezing control should not include Crete or other Aegean islands occupied by the Greek Government. Mr. Allen did not know whether British troops were being evacuated from the mainland of Greece to Crete, but he was aware that at least two regiments of British troops were already in Crete. I told Mr. Allen that the question had arisen when France was first invaded as to whether we could apply our control regulations only to such part of a country as is actually invaded. After considerable thought, we had decided not to freeze a country partially. In the case of France, we had not only covered the metropolitan areas, but had also included French colonies, mandated territories, etc. I told Mr. Allen, however, that I would be glad to discuss this point with my colleagues, and call him back. Consequently I telephoned Mr. Bernstein, who had Mr. Pehle with him at the moment. They confirmed my view that any freezing order take in all of the Greek mainland and islands. If the government should continue to resist in the islands, a general license covering any Greek Government accounts could be issued. The Central Bank likewise could be taken care of if its seat and signing officers were all transferred to the islands. If these conditions were only partially met, some sort of special license could be adapted to the circumstances which should cause the Greek Government and Central Bank no embarrassment. After speaking with Mr. Bernstein, I telephoned Mr. Allen again, giving our joint opinion. Allen did not yet know, at 4 p.m., whether the State Department would desire to take any action on Greece immediately. His understanding was that Athens had not yet been occupied.

H. M. C.

TREASURY DEPARTMENT

INTER-OFFICE COMMUNICATION

for Miss Chauncey

DATE April 23, 1941

TO Secretary Morgenthau

FROM Mr. Cochran

STRICTLY CONFIDENTIAL

Mr. Livesey of the Department of State telephoned me at 3:25 this afternoon. He told me that the Yugoslav Minister had raised the question as to whether it would be advantageous to transfer funds which are now with the Federal Reserve Bank at New York in the name of the National Bank of Yugoslavia into an account with the Federal in the name of the Government of Yugoslavia. The question was raised as to whether a government account would benefit from immunity from attachment while a central bank would not enjoy the same privilege. The Yugoslav Minister feared that with the setting up of a separate Croation state there is the possibility that this or other alleged successor states to Yugoslavia may lay claim to part of the gold reserves of Yugoslavia as their part under inheritance.

After talking with Mr. Bernstein by telephone, with Mr. Pehle present in his office, I called Mr. Livesey back. I told him that Mr. Bernstein agreed that a government account could not be attached, while a central bank account with the Federal could be attached. Consequently he felt it quite important, in the circumstances of the breakup of Yugoslavia, that the Minister set in motion at once his efforts to have the account converted. It was the feeling of Mr. Bernstein that if the Minister of Yugoslavia here feels that he has the necessary authority from his Government to have the account converted, he should apply to the State Department and see if some formula similar to that under which the Minister was permitted to draw out $100,000 from the account cannot be developed to permit the conversion of the account. Mr. Bernstein said that his office would be quick to cooperate if the State Department took the initiative with the Minister. I telephoned the foregoing to Mr. Livesey at 4 p.m.

H. M. C.

TREASURY DEPARTMENT

INTER-OFFICE COMMUNICATION

DATE April 23, 1941

TO Secretary Morgenthau

FROM Mr. Cochran

STRICTLY CONFIDENTIAL

At 3:25 this afternoon Mr. Livesey telephoned me from the Department of State to let me know that he had drafted a cablegram to the American Ambassador at Rio de Janeiro reporting the instruction which the Yugoslav Minister in Washington had received from the Prime Minister of his country to endeavor to obtain the transfer of $11,250,000 from the Banco do Brasil to the Federal Reserve Bank of New York, reversing the transaction which recently took place. The State Department was letting Ambassador Caffery know that the Yugoslav Minister in Washington was cabling his Yugoslav colleague in Rio de Janeiro in regard to this transaction. Our Ambassador was instructed as to the authority which the Yugoslav Minister in Washington is now exercising under instructions from his Prime Minister and with respect to Yugoslav balances. Furthermore Mr. Caffery was advised as to the importance which the State Department attaches to the consummation of the transaction under reference. I telephoned this information at once to Messrs. Bernstein and Pehle, since I was aware that Mr. Livesey had already discussed this matter with Mr. Pehle.

H. M. C.

April 23, 1941.

MEMORANDUM

TO: Secretary Morgenthau
FROM: Mr. Gaston

H.M.

I was referred to Mr. Frank Nattier, of Nelson Rockefeller's office, for information as to ship building and ship repair facilities in Brazil and later obtained some information from Falck of the Division of International Communications of the State Department.

There is one yard in Rio which might be available to build cargo ships of the so-called "ugly duckling" emergency cargo type. These are ships of about 10,000 gross tons, with a speed of ten to twelve knots. The yard is owned by Enrique Lage. There are three shipways which are now being used for the construction of six trawlers for the British. The ways are capable of taking three ships not more than 425 feet long. It is believed that a contract could be entered into with the yard for the construction of cargo vessels for the United States after the completion of the trawlers now being built. There seems to be an abundant supply of labor and the Brazilians are able to fabricate many of the parts that would go into the ships. They would need, however, according to their own estimate, to import about 50 per cent of materials, including engines, boilers and plates, from the United States. Conversations with the Office of Production Management have indicated that this material could be released. There is also the possibility that additional ways could be constructed at this yard, which seems to be a reasonably well managed and successful operation. Nattier has been informed, however, that it would probably take about a year and a half for the yard to turn out the first vessel. Maritime Commission has informed State that in view of the difficulties it is not seriously interested.

There are two smaller yards, one in Para and one in Rio Grande do Sul. It is not believed that either of these yards could handle anything as big as a practical cargo ship.

There is also the Naval yard at Rio, owned and operated by the Brazilian Government. This yard has constructed three destroyers and some mine sweepers and now has six destroyers under construction. This yard would not be available for the construction of any merchant ships. The yard was built and has been supervised by a United States Naval mission, under the direction of Commander Brady, who is now in Washington. Brady has been the principal source of information regarding the Lage yard. It is Commander Brady's belief, according to Nattier, that the Lage yard could undertake ship construction for the United States.

Falck expressed the opinion that ship building and repair facilities in the Central and South American countries were on the whole insignificant. There are yards in Argentina, Chile and Mexico, but they seem to have built only small craft.

April 23, 1941.

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April 23, 1941
5:23 p.m.

H.M.Jr: Hello.

Operator: Chairman Eccles.

H.M.Jr: Hello, Marriner.

Marriner Eccles: Henry, there are two things that I wanted to mention to you. I sent the President a memorandum of my views of taxes and a note with it. I want to send you a copy of the note and a copy of the memorandum if you want them.

H.M.Jr: I'd like them very much.

E: All right. Now, I don't know that the President ever read them or saw them but inasmuch as he mentioned the matter to me and you mentioned it to me I felt that I should do that.

H.M.Jr: Right.

E: Now, I'll send that memorandum to you together with the letter and the note to the President.

H.M.Jr: I'd appreciate it.

E: Now, it was a long while ago when this holding company matter was up and I want to apologize for being so long in doing anything about it or replying, but I felt that it didn't make a great deal of difference because nothing - other things of so much more importance were up.

H.M.Jr: That's right.

E: But the work on it that I agreed to have done has been completed and our suggestions, together with our criticisms of the proposals, together with a letter from me is available to be sent over.

H.M.Jr: Well, would you send it over to me?

E: All right, sir. It's formal and I didn't want it to appear too formal by just sending it over. I wanted to talk to you first about it.

H.M.Jr: Well, that's very kind.

E: So that I'll send both of these documents over.

H.M.Jr: Thank you very much.

E: Now, there is just one other matter. We've got a vacancy on the Board here in Chester Davis' leaving. There are two or three people, and I think you might know them and I'd like to mention them and see what you think about them.

H.M.Jr: Please.

E: One is - you know M.L. Wilson.

H.M.Jr: Yes, I do.

E: And you know Peck that used to be on your Farm Credit.

H.M.Jr: Very well, yeah.

E: And you know Jack Hudson?

H.M.Jr: No, I don't know Hudson.

E: I see. But you know those two.

H.M.Jr: Yeah, I know Wilson and Peck.

E: Well, what do you think of them?

H.M.Jr: Oh, gee!

E: Are they pretty good all-around men, do you think?

H.M.Jr: Well, I know Peck better than I know Wilson.

E: Yes.

H.M.Jr: Of course, I haven't seen Peck in years but he is a very able citizen.

E: That is Peck is.

H.M.Jr: Yes. How good a man Wilson would be on that kind of thing I don't know, but Peck was an outstanding man.

E: Uh-huh. Wilson has got a fine reputation.

H.M.Jr: Oh, yes.

E: He's supposed to be a good economist that is so far as the economic aspect of agriculture is concerned.

H.M.Jr: Yes, but how much he is on the financial end I don't know.

E: Well, I don't imagine he'd know a lot but of course ......

H.M.Jr: Either man is what you'd call a good man.

E: What is it?

H.M.Jr: Both of them are good men.

E: They'd be very high grade wouldn't they.

H.M.Jr: Oh, yes, they would.

E: And either one of them would be satisfactory to you.

H.M.Jr: Entirely satisfactory.

E: Yes. Now, there is another fellow that they are talking about and that is Black, who is now in the Farm Credit. Now, I don't know what you think about him.

H.M.Jr: Well, I don't think he's in the same class.

E: Well, I'm glad to hear you say that because I'm afraid I'm on somewhat of a spot.

H.M.Jr: Yeah, I got a little gossip on it - I mean, I've heard a little about it.

E: Yeah. Well, now, the President doesn't know him - anything about him. There is a little pressure to appoint him but it isn't because they want to boost Black, it's because he has been I think somewhat of detriment and has proved to be very unpopular with the agricultural community and with the Farm Credit Administration.

H.M.Jr: That doesn't surprise me.

E: And they want to get rid of him. Now, we don't want him here for the very same reason that they want to get rid of him, and he's the last man I believe that the agricultural interests would propose for the place.

H.M.Jr: Well, that I don't know but you're not very far wrong anyway.

E: Yeah. Well, you're not one of those that's back of him then.

H.M.Jr: (Laughs). No, no, far from it.

E: I can get it from that. Well, if you happen to get a chance to put a plug in, why don't overlook it.

H.M.Jr: O.K.

E: I just wanted to tell you what's brewing and I'm hoping that maybe Wilson or Peck or Hudson or somebody besides Black may be it.

H.M.Jr: All right, Marriner. Thank you.

E: All right.

4-23-41

22

FROM: MR. SCHWARZ'S OFFICE

TO: The Secretary

The Treasury boys feel pretty badly about the manner in which the tax story has developed on the Hill. I think I have soothed them almost completely, but merely relay their request to see you Wednesday, since the Thursday conference will be canceled in favor of the hearing on the Hill. They obviously want to complain and argue that they will have forgotten about it by the following Monday.

CS

23

Final draft submitted by Mr. Delano. Hearings were not held so Mr. Delano did not present his statement to the Committee.

April 25, 1941 Draft No. 7

Statement by Comptroller of the Currency to be made before the Senate Committee on Banking and Currency with respect to proposed Bank Holding Company Act of 1941. Senate No. 310

Ever since the establishment of the National Banking System in 1863 the public policy of this country has favored local decentralized banking control. The typical commercial bank has been a local institution with one office, a small number of shareholders of some local prominence, securing its deposits from a small area and making its loans within the same area. The banking business was originally a relationship between customer and banker on a basis of facts familiar to both in a community of mutual interest. It is this type of bank that pioneered the growth of our country and aided in the development to its present greatness.

The evolution of our banking system has brought changes, some desirable and some undesirable. In the early days branch banking was unpopular and in some areas definitely prohibited, as it still is in several states. While there was a considerable development in the field of chain banking in the closing years of the last century and in the early 1900's as well, it was not until the late 1920's that there was any development of consequence in the field of corporate ownership, management and operation of groups of banking institutions.

The intensive development of bank holding companies in the twenties was preceded by several attempts to establish a community of interest among groups of banks. As early as 1902 it was noted by A. Barton Hepburn that "The prohibition against the establishment of branches and the desirability of close affiliations are developing a system of joint ownership in banks." In the same year, H. Parker Willis wrote of "A process of federation . . . through the efforts of coteries of individuals to acquire stock in groups of banks." Also in 1902 Horace White wrote that "Some of the large banks in cities far distant from each other have been exchanging shares through the persons of men who own controlling interests in each." He described the process as being accomplished by "Individuals connected with the large banks, buying the shares of the small one, and borrowing from the former the money which pays for them, the shares being pledged as collateral security for the loan."

In 1911 one of the larger national banks of the country organized an affiliated subsidiary company. This company immediately began the acquisition of the stocks of other banks and within a very short time had acquired holdings in sixteen banks and trust companies, nine of which were national banks.

The Solicitor General of the United States rendered an opinion in 1911 unfriendly to this type of arrangement, holding that it was too near an approach to ownership of stock of other national banks by a national bank, recognized as unlawful if done directly. He argued that a state corporation which owned and exercised control of national banks was in reality engaging in the national banking business, which in his judgment, was " - usurpation of Federal authority and in violation of Federal law". Shortly after this opinion was rendered the national bank subsidiary in question is understood to have disposed of its holdings in stocks of banks and trust companies.

It should be noted also that in his annual report for 1911, Secretary of the Treasury McVeagh asked for legislation denying: " . . . with great precision to any bank included within its provision, whether national or state, the right to own stock in any other independent banks . . . There is no immediate danger to be apprehended from such holdings; but now is the time to protect for the future the independence and individuality of the banks; and to forestall in their case the general tendency to the formation of undue combinations and trusts. The prohibition should be so explicit that its spirit as well as its letter could be enforced . . ."

Moreover, in a special message to Congress in December, 1911, President Taft asked for legislation assuring "The individuality and independence of each bank."

Thus it is seen that the trend toward "combinations and trusts" and their inherent evils was clearly recognized and warned against thirty years ago, but no action was taken to prevent the expansion and growth of holding companies in the banking field. They continued to develop and literally mushroomed during the speculative era of the late 1920's. Through mergers, purchases and other means they gained control of numerous banks along with other non-banking subsidiaries. It was not until 1933 that there was any legislation whatsoever designed to curb this growth.

One of the chief contributing causes to the development of bank holding companies was the prohibition of branch banking in many parts of the country. Group banking developed for the most part in those sections where it was impossible to establish branches or to establish them over any wide area and in many cases as a preparatory step to branch banking, the organizers being of the opinion that they would be permitted eventually to convert their groups into branch sys-systems.

Not all bank holding companies operate in the same manner. Some own all the stock of their subsidiary banks, while others make no attempt at complete stock ownership, but are content with control through majority stock ownership. Some confine their activities to acquiring and controlling banks, while others not only control banks but also a variety of other enterprises wholly unrelated to banking.

In general it can be stated that bank holding companies have merely combined into groups, through an expansion and acquisition policy, banks that were previously in existence. In doing this they have changed the direct local ownership of these banks to an indirect widely scattered ownership by holding company stockholders. In addition, they have centralized control over the entire group in a relatively small number of executives of the holding company, thus eradicating the important element of local interest in local banks.

How extensive is this control of banks by holding companies? At the end of 1939, the latest date for which figures are available, there were 41 group systems (those with three or more banks), comprising 427 banks and 869 branches, or a total of 1,296 banking offices. The deposits of these banks totaled $7,173,385,000. Of these groups, eighteen were "leading" groups -- those with six or more banks, and $25,000,000 or more of deposits. These eighteen groups included 336 banks and 809 branches, or a total of

1,145 banking offices, and $5,358,070,000 deposits.

While the number of groups has diminished in the past ten years, through insolvency, merger or conversion into branch bank systems, the magnitude of the problem has increased because the expansion and deposit growth of the existing groups during that period has enlarged their potential economic power.

Of the 41 groups operating at the end of 1939, all but three included national banks as revealed by reports to the Comptroller of the Currency. The number of national banks included in these groups was 248, with 747 branches. Their deposits totaled $5,495,020,000 - 76.6% of the deposits in all the group banks and 17.21% of total national bank deposits.

A further break-down of bank holding company operations throughout the nation reveals that they control banks in thirty-one states and that in certain areas there is an undue concentration of total commercial bank deposits under the domination and control of such companies.

For instance, in the New England states, banks controlled by holding companies have $1,138,840,000, or 33% out of total commercial bank deposits of $3,426,190,000.

The major portion of this concentration is reflected in Massachusetts with 48% and Rhode Island with 40% of deposits.

In the Southern states, holding company banks control 53% of commercial bank deposits in Florida, 35% in Georgia, and 25% in Tennessee.

In the Middle West, they control 33% in Wisconsin and 63% in Minnesota.

North Dakota has 46%, South Dakota has 40% and Montana 53% of commercial deposits in group banks.

The Pacific states show a high concentration of commercial bank deposits under holding company domination. In seven states $2,043,701,000 or 37% of the deposits, totaling $5,534,034,000 are in group banks. Each state in this area except Washington reflects a large percentage of deposits in holding company controlled banks as follows: Arizona 23%, California 40%, Idaho 28%, Nevada 80%, Oregon 36%, Utah 46% and Washington 8%.

(Place in record Exhibit "A")

EXHIBIT "A"

CONTROL OF BANKS BY HOLDING COMPANIES
IN CERTAIN SELECTED STATES

	Deposits (In thousands of dollars)		
State	All Banks	Banks in Groups	Percentage of Banks in Groups to all Banks
Massachusetts	2,050,579	989,423	48.25
Rhode Island	323,854	129,264	39.91
Georgia	502,751	176,206	35.05
Florida	411,678	217,685	52.88
Tennessee	577,455	147,491	25.54
Wisconsin	955,179	315,152	32.99
Minnesota	955,656	601,774	62.97
North Dakota	76,564	35,362	46.19
South Dakota	99,398	39,566	39.81
Montana	149,911	80,266	53.54
Oregon	318,357	115,716	36.35
California	4,312,888	1,726,426	40.03
Idaho	100,789	28,331	28.11
Utah	163,565	75,331	46.06
Nevada	41,009	33,099	80.71

As you are aware, S. 310 would prohibit the ownership by a holding company of more than 10% of the stock of any bank controlled by it. There are many corporations, partnerships and associations which own, purely as investments, more than 10% of the stock of one or more banks. This Bill is not designed to interfere with all of these relationships. It purports to strike only at control of banks by corporations and not at investments of corporate funds in bank stocks.

It was for that reason that a provision was written into the Bill vesting in the Federal Deposit Insurance Corporation the power to determine whether the management or policies of an insured bank are controlled by a company which is primarily engaged in business not closely related to banking and to provide that companies which are found not to control the management or policies of any insured bank will be eligible for exemption from the prohibitions contained in section 3. It is only those companies which are in the business of controlling banks which will be affected by this Bill. As heretofore stated, they are few in number but their ramifications are broad and their potential power is great. Some of them do not confine their activities to the control of banks. Under existing laws they may engage in any businesses whatever, even those forbidden by their charters, through ownership of stocks in other companies. Some of them do not presently operate nonbanking subsidiaries, but there is nothing in the law today to prevent them in the future from engaging in such businesses and thus subject the banks owned and controlled by them to resulting hazards.

It is desirable that the banking structure of this country be maintained upon a competitive basis with units or reasonably small branch systems in which the shareholders are local people, who know local conditions and have an interest in local affairs, and that it be free from undue concentration of economic or political power. In the light of present day economic and social conditions, it is essential that democracy be strengthened wherever possible. One way of doing this is to prevent any section of the country from being dominated in any sense, commercial or otherwise, through the control of its banking facilities by a corporation. We feel strongly that it is unwise to wait until absolute control by holding companies has been established in the banking field before attempting to cure the evil, and, therefore, preventive action should be taken at this time.

It is hardly necessary to outline to this Committee all the evils of operation of banks through holding companies, in view of your findings in the course of your investigation of this subject in 1933. You will recall that in its report prepared at the end of that investigation, this Committee recommended that legislation be enacted in order to prevent a recurrence of those evils.

Probably the greatest potential weakness of holding company banking lies in the manipulative possibilities which are present. As was pointed out by Solicitor General Lehmann in his opinion of November 6, 1911, heretofore mentioned: "The other enterprises in which the company is engaged may stand in need of credit and of funds, and it is too much to expect that the company's banks will deal simply as banks, equitably and impartially as between its own subsidiaries, and persons and corporations with whom it is not affiliated. The temptation to the speculative use of the funds of the banks at opportune times will prove to be irresistible . . . If many enterprises and many banks are brought and bound together in the nexus of a great holding corporation, the failure of one may involve all in a common disaster. And, if the plan should prosper, it would mean a union of power in the same hands over industry, commerce, and finance, with a resulting power over public affairs, . . ." This warning of Solicitor General Lehmann is even more pertinent today than when it was uttered.

The more complicated the corporate relationships in the group and the greater number and types of nonbanking affiliates, the greater are the manipulative possibilities and the more difficult supervision becomes. The existence of organizations so large, important, influential and widespread as to be able with impunity to flaunt government authority places in the hands of a few men uncontrolled power to direct the liquid resources of the nation into whatever channels they see fit, to unduly contract or expand credit without regard to the national interest, and leaves the nation defenseless against the enormous economic and social consequences which would flow from an abuse of such uncontrolled power. The possible results are so ominous that a situation which might give rise to them should not be permitted to exist.

Closely related to this problem of bank holding companies and to its correction is the problem of supervision of banks in general and the sanctions available to the Office of the Comptroller to enforce compliance with national banking laws and safe and sound practice. There are at the present time 5,140 national banks, all of which are examined twice yearly by the examining force of the Comptroller. This means that more than 10,000 reports of examinations flow through the Washington headquarters each year, there to be reviewed, analyzed, and used as the basis for any necessary supervisory steps to enforce the banking statutes and to insure safe and sound banking in the public interest.

In the vast majority of cases the banks, whether or not members of holding company groups, are as much interested in maintaining high standards as are the supervisory authorities. It might be said that they supervise themselves, thus materially reducing supervision by governmental authorities. In a predominating number of those cases where supervisory steps are required, suggestions and persuasion are all that is necessary to secure wholehearted co-operation from the directors and officers of national banks. Occasionally, however, situations arise which require the application of effective sanctions. Although those situations are few in number, it is obvious that the whole structure of effectual supervision depends upon their being wisely and impartially but firmly handled, and that there shall always be in reserve penalties adapted to the point at issue and commensurate with its importance. The existing sanctions which have been granted to the Office of the Comptroller are either unsuitable or too drastic for any but the most extreme cases. Almost invariably if firmly applied they involve the termination or dissolution of the banking associations rather than the correction of remediable evils in operation or practice. The removal of bank officers outlined in section 30 of the Banking Act of 1933 is slow and cumbersome in operation.

Furthermore, it does not always serve to bring about the desired improvement of criticised conditions.

Experience has shown that an unwise dissipation of earnings through the payment of excessive dividends to shareholders has been an important factor contributing to the failure of banks during past depressions. Through such payments, mediocre or poor managements have been able to perpetuate themselves in office by gaining favor with shareholders.

Almost all bank holding companies are directly dependent upon income from their bank subsidiaries to pay dividends to their shareholders. Oftentimes such income is necessary to bolster up unprofitable nonbanking subsidiaries. By a large dividend drain on such banks the ultimate owner (the shareholders of the holding company) may be kept content and any manipulations of unsatisfactory conditions of the banks may be screened behind a favorable publicity on earnings.

The type of control over dividends which is provided for in S. 310 would be of inestimable value in general bank supervision by affording added protection against unwise dissipation of bank earnings as a result of an unsound dividend policy. Such control would provide a wise conservation of earnings in those cases where a bank's condition is so unsatisfactory as to jeopardize the interest of depositors. It would afford a supervisory power over managements pursuing unsound policies that eventually lead to the weakening of a bank's condition. It is preventive medicine.

In addition, it is imperative that any bank holding company legislation authorize the supervising agencies to veto excessive dividends by banks controlled by holding companies.

In the experience of the Comptroller's Office, there is much evidence of the need for an "intermediate" sanction such as dividend control. Of recent occurrence is a case wherein the principal differences centered around unwarranted dividend payments by a large national bank to its holding company affiliate. In the period between 1927 and 1940, this bank paid out some $86,000,000 in dividends while laboring with an unsatisfactory asset condition. Ultimately in response to pressure from the Office of the Comptroller this bank increased its capital by $30,000,000 but was forced to go to the Reconstruction Finance Corporation for the money. A more conservative dividend policy would have provided this additional protection for the depositors from the earnings of the association. This would not only have been sounder practice but would have relieved the government, through the Reconstruction Finance Corporation, from the necessity of furnishing the money. The Office of the Comptroller repeatedly endeavored to secure a reduction in the dividend rate of this bank but without success.

The files of the Comptroller's Office are full of examples of disasters which either could have been avoided through conservation of earnings at the expense of dividends, or in which a too generous dividend policy was at least a contributing factor.

The receivership of the Central National Bank of Spartanburg, South Carolina, the Peoples National Bank of Latrobe, Pennsylvania, the First National Bank of Hempstead, New York, and of many others are eloquent testimony to the value of dividend control by disinterested supervision. Such dividend control cannot, of course, prevent all receiverships but it will be a great assistance in conserving the assets of banks which are running downhill.

Legislation for control of dividends by supervisory authorities is not new. The statutes of four states vest full discretionary control over dividends in the state supervisor of banking. Careful inquiry has developed that in those states the experience with respect to dividend control has been very satisfactory, both from the standpoint of the supervising authority and of the banks.

It is for these reasons that we request the power to veto the declaration and payment of excessive dividends. Responsibility for the legality and propriety of each dividend should continue to rest upon the board of directors of the particular bank as at present, except where it affirmatively appears to the Comptroller that the declaration of a dividend is not in the public interest.

By enactment of legislation providing for the termination of holding company domination of banks, implemented by veto control over excessive dividends, you will make it possible for us to stand guard more competently over the country's financial structure and to meet more fully the responsibilities which the Congress has placed upon us.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE April 23, 1941

TO Secretary Morgenthau

FROM Mr. Cochran

CONFIDENTIAL

Registered sterling transactions of the reporting banks were as follows:

Sold to commercial concerns	£47,000
Purchased from commercial concerns	£37,000

In the open market, sterling was quoted at 4.02-1/4 throughout the day. There were no reported transactions.

In New York, closing quotations for the foreign currencies listed below were as follows:

Canadian dollar	11-9/16% discount
Swiss franc	.2320
Swedish krona	.2384
Reichsmark	.4005
Lira	.0505
Argentine peso (free)	.2350
Brazilian milreis (free)	.0505
Mexican peso	.2066
Cuban peso	4-3/16% discount

In Shanghai, the yuan was again quoted at the current low of 5-5/32¢, and sterling remained at 3.90.

There were no gold transactions effected by us with foreign countries today.

The Federal Reserve Bank of New York reported that the Bank of Canada made two shipments of gold with a combined value of $7,047,000 from Canada to the Federal for account of the Government of Canada, for sale to the New York Assay Office.

The Bureau of Foreign and Domestic Commerce reported on April 22 that three shipments of refined silver bullion totaling 405,000 ounces left New York for Bombay, India.

In London, a price of 23-1/2d was again fixed for both spot and forward silver, equivalent to 42.67¢.

The Treasury's purchase price for foreign silver was unchanged at 35¢. Handy and Harman's settlement price for foreign silver was also unchanged at 34-3/4¢.

We made no purchases of silver today.

HMP

Discussed in person when Prof Odegard was here 4/22/41.

copy to Mr Graves 4/26/41

AMHERST COLLEGE
Amherst, Massachusetts
DEPARTMENT OF POLITICAL SCIENCE

April 23, 1941

Dear Mr. Secretary:

Forgive this delay in acknowledging your kind and generous letter of April 15th. My sense of obligation to Amherst College is exceeded only by my desire to be of service to you in whatever capacity you may think best.

Circumstances here, however, are such as to make it difficult and a bit embarrassing to ask for a leave of absence before the end of the present academic year. With one senior member of the department already away on sabbatical leave my colleagues are even now overburdened. At this time of year it is extremely difficult to make arrangements with someone from the outside to take up and carry on my courses. This means that if I should leave before the middle of May an additional and unreasonable load would be imposed upon Professor Ziegler and Mr. Daugherty, the other two members of the department. Except in case of dire necessity I should hesitate to impose upon them in this way. The students too and more specially my senior group might quite rightly feel unjustly treated if someone unfamiliar with the work they have been doing up to date were to attempt to carry on in these few remaining crucial weeks.

There is another factor which complicates matters. At its recent meeting the Board of Trustees appointed me as the first incumbent of the Dwight W. Morrow Professorship of Political Science. It might be embarrassing if I were to ask for a leave of absence for the remainder of this year immediately following that appointment. The College and my colleagues have been very generous in rearranging my work so as to permit me to spend two or three days each week in Washington. I am sure that for the next three weeks arrangements can be made to increase this time to three or four days. With the beginning of reading period on May 12th, since this marks the end of formal classes for advanced students, I will be able to devote full time to my work in the Treasury.

I apologize for mentioning these details and do so only because I know you will understand why I hesitate to ask the College for full leave during the next few weeks. If you still want me on a full-time basis beginning the middle of May or the first of June until the beginning of the fall term at least, I shall be very happy to make whatever arrangements are necessary.

May I add to this my belated congratulations to you and Mrs. Morgenthau on your twenty-fifth anniversary.

Sincerely yours,

Peter H. Odegard
Peter H. Odegard

PHO:b

The Honorable Henry Morgenthau, Jr.
Secretary of the Treasury
Washington, D.C.

WAR DEPARTMENT

WASHINGTON

WD 201-Burns, James H.
(4-16-41)O

APR 23 1941

The Honorable,

The Secretary of the Treasury.

Dear Mr. Secretary:

I have your letter of April 16, 1941, in which you commend Major General James H. Burns for his work as a member of the Liaison Committee appointed by the President on December 6, 1939.

It is gratifying to learn that Major General Burns' work has been helpful to you. Your letter will be placed with his official record.

Sincerely yours,

Henry L Stimson

Secretary of War.

A bottleneck in the production of dollar-a-year men, seriously endangering the progress of national defense, will entail in the imposition of rigid priorities in the near future, it was announced yesterday by Benjamin J. Fairless, a member of the staff of Office of Production Management priorities director, E. R. Stettinius, Jr.

"We are literally lousy with steel, "Fairless disclosed to a reporter who found him slumped under a table in the office of the National Association of Manufacturers. "We are stumbling all over ourselves due to a plethora of machine tools."

"But where the real rub comes in," he added, demonstrating on a passing stenographer, "is in a lack of dollar-a-year men."

High O.P.M. officials, confirming the report, explained that the shortage developed as a result of competitive bidding for dollar-a-year men's services between the O.P.M. production division and the American Battle Monuments Commission.

As a result, they said, the existing stockpile has been depleted. They forecast as an immediate possibility the recruitment of $2-a-year men, the supply of which, it was reported, is virtually inexhaustable.

A hitch in this solution to the problem, however, may develop because of the activities of the Defense Commission price stabilization division, whose director, Leon Henderson is known to fear a price spiral if this plan is adopted.

"I don't care if they're worth four or even five times as much, "Henderson declared in a terse 5,000 word cable from Porto Rico, "they can't get away with it. I'll institute drastic action."

Taking quick steps to meet the emergency, Jesse H. Jones, Federal Loan Administrator and director of acquisitions of Government agencies, announced that he was considering a $12,000,000 loan to American industry which he believes will enable the production of several thousand gross of dollar-a-year advisors.

Immediate delivery, he warned, cannot be expected as a result of the loan, however, inasmuch as the program contemplates the production of the executives through a training-from-within apprenticeship program. Embryo dollar-a-year men will begin as first vice presidents in hundreds of American industries, he explained, earning $25,000 annually to start with and working down over the course of a few months to the $1 salary. Once they have achieved this status, industry spokesmen said, they will be released to the Government.

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Washi gton Daily APR 23 1941

Merry-Go-Round

45

(Trade Mark Registered)

By DREW PEARSON and ROBERT S. ALLEN

The President has taken no public stand on the Vinson anti-strike bill, but he dropped a clue to his attitude during his luncheon with AFL Chief Dan Tobin.

The genial, white-thatched boss of the teamsters' union is one of Roosevelt's closest labor friends. Also, one of the most outspoken. He bluntly denounced the bill as a reactionary attack on labor, and warned the President that, if it became law, it would have a bad effect on the defense program.

"You can't legislate a working man into staying on a job if he wants to quit," Tobin argued. "And that's just what this bill amounts to. It is neither constitutional nor necessary. I realize that a strike can be a serious hazard to the defense program, but restrictive legislation against unions isn't the answer.

"Furthermore, the mediation board you have set up is performing splendidly. It has settled every major strike turned over to it without delay. What more can Congress ask? Actually, the strike situation isn't as serious as some antilabor Congressmen want the country to believe. They are making a big hullabaloo about strikes for the real purpose of cracking down on the workers."

When Tobin finished, the President, who had been listening silently, remarked quietly, "You needn't worry about the bill becoming law, Dan."

Tobin is convinced that Roosevelt meant he was ready to use his veto power if that becomes necessary.

Irish Bases

Tobin also urged the President to use his influence to persuade Eire to make air bases available to Britain.

"Some Irish-American friends," Tobin said, "asked me to intercede with you to send military supplies to Eire. I told them that I felt Eire should make the first move by turning over bases in Ireland to the R.A.F.

"I was born in Ireland, but I am first and always an American, and I believe it would be in our interest as well as Britain's to help the R.A.F. get the bases."

Lonely Diplomats

Representative Edith Nourse Rogers of Massachusetts pricked up her ears when family matters were mentioned in a House Appropriations Committee hearing. The State Department was asking for funds to bring home on leave the junior members of our foreign service.

"Are these clerks allowed to marry foreign girls?" asked Mrs. Rogers.

The State Department spokesman said they were, explaining that if they didn't have a chance to get home once in a while and meet American girls, the young diplomats were very likely to marry foreigners.

"One advantage of this bill," said the official, "is that it will give these young men a better opportunity to marry American girls. You take a young fellow and send him away 5,000 miles from home, and he can't afford to go home on leave, and if you say, 'No, you cannot marry a foreigner,' what is he going to do?"

Mrs. Rogers spoke again: "He is probably lonely over there, too."

"You bet he is lonely," said the official.

The bill was favorably reported and is now law.

Nazi Racket

As if being driven from their homes isn't enough, refugees from the occupied countries run into another misfortune in Lisbon, Portugal, last open port in Western Europe.

The U. S. Secret Service has learned of a giant counterfeit ring in Lisbon, believed to be operated by Nazis, which has been ruthlessly preying on refugees waiting for passage on the few ships and planes leaving for America.

Large sums of phony American money and "raised" notes have been exchanged for francs and other European currency at so-called "Black Bourse," where refugees are led to believe they will get a higher exchange rate, in dollars, than at banks.

The Secret Service was informed of the racket by Portuguese officials, who believe the bogus money is being printed either in Germany or Czechoslovakia. Thousands of refugees have been fleeced by the counterfeiters.

A French refugee who arrived in Boston recently with his family was heartbroken to learn from a bank that his entire savings, $5,500, had been exchanged on the "Black Bourse" for American $2 bills which had been skillfully raised to "$50s."

Two-Dollar Men

The investigation of dollar-a-year men launched by Missouri's Senator Harry Truman has considerable undercover support in the OPM, particularly among younger officials, who, in some cases, do the work for which their big-name superiors get the credit.

The youngsters jest about this among themselves, and the other day several wits wrote a mock "news story" that is getting a big laugh when handed around. It reads:

"A bottleneck in the production of dollar-a-year men, seriously endangering the progress of national defense, will entail the imposition of rigid priorities in the near future, it was learned authoritatively today.

"High OPM officials explained that the shortage developed as a result of competitive bidding for dollar-a-year men between the OPM production division and the American Battle Monuments Commission. As a result, they said, the existing stockpile has been depleted. They forecast as an immediate possibility the recruitment of $2-a-year men, the supply of which is virtually inexhaustible.

"A hitch in this solution to the problem, however, may develop because of the activities of the Defense Commission Price Stabilization Division, whose director, Leon Henderson, is known to fear a price spiral if this plan is adopted.

"Taking quick steps to meet the emergency, Jesse H. Jones, Federal Loan Administrator, announced that he was considering a $12,000,000 loan to American industry to enable production of several thousand gross of dollar-a-year men.

"Immediate delivery, he warned, cannot be expected, in as much as the plan contemplates production of the executives through a training-from-within apprenticeship program. Embryo dollar-a-year men will begin as first vice presidents in hundreds of American industries, he explained, earning $25,000 annually to start with, and working down over the course of a few months to the $1 salary. Once they have achieved this status, industry spokesmen said, they will be released to the Government."

Note—One top OPM official will have no part of the $1-a-year men. He is General Counsel John Lord O'Brian, who has barred them from his staff.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE April 23, 1941

TO Secretary Morgenthau

FROM H. D. White

Subject: The British Cash Position

1. The British estimate that, as of April 1, 1941, they had $1,587 million of available gold and other assets convertible into U. S. dollars. This does not include $300 million of British private dollar balances, $105 million of gold borrowed from Belgium, nor $28 million of scattered or otherwise unavailable gold.

British dollar assets as of April 1, 1941:

	(Millions - U.S.)
Gold (excluding scattered and Belgian gold)	$ 92
Official dollar balances	69
Marketable U.S. securities	526
Direct investments in U.S.	900
Total, British estimate	$1,587
Private dollar balances	300
Belgian gold	105
Scattered and reserved gold	28
Total	$2,020

2. Actual B.P.M. commitments in this country on April 1, 1941, totalled $1,309 million. Amendments and adjustments are expected to raise this figure to $1,334 million.

Balances due from B.P.M. on April 1	(Millions - U.S.)
1. On contracts signed before January 1, 1941 (This includes all amendments to such contracts made between January 1 and March 31, totalling $34 million)	$1,061
2. On contracts signed and options exercised, January 1 to March 31	162
3. On payments due French	86
Total	$1,309
Estimated additional amendments and adjustments for contracts taken over - net	25
Estimated balance due, April 1	$1,334

3. Of these commitments, the British estimate $686 million will fall due, April 1 to August 31, 1941. In addition, they anticipate making other dollar expenditures during this period totalling $131 million, of which $67 million represents payments to third countries other than Canada.

Against these dollar requirements of $817 million, the British expect dollar receipts on current transactions of $167 million. This sum is comprised of the following items:

	(Millions - U.S.)
U. K. exports to U. S.	$ 75
Sterling area, net receipts from U. S.	75
B.P.M. miscellaneous receipts	17
Total	$ 167

4. To meet the estimated $650 million excess of dollar expenditures over receipts, April - August 1941, the British anticipate selling the following ~~capital~~ assets:

	(Millions - U.S.)
U.S. securities and direct investments in U. S.	$ 400
Newly-mined gold	167
Refunds on B.P.M. contracts and capital assets taken over by U.S. Government	49
Gold and official dollar balances	34
Total	$ 650

In addition to this $650 million, the British sold on April 4, $105 million of Belgian gold. Presumably this is not included in their anticipated receipts, April through August, because of the offsetting liability which they wish to liquidate as quickly as possible.

The British have already sold $65 million of direct investments and will receive an additional $35 million when the Viscose stock is sold to the public. If security sales during this five-month period are at the same rate as in February and March, they will amount to over $200 million, leaving less than $100 million to be secured by the further sale of direct investments.

Newly-mined South African gold available to the British is now estimated to be $320 million per year, or $160 million lower than their previous estimate. The British are now including in their newly-mined gold, $80 million of African colonial production, bringing the total of newly-mined gold available to them to $400 million annually or $167 million for a five-month period. Australian newly-mined gold, amounting to $75 million annually, is now included in the anticipated merchandise exports of the sterling area.

5. On the basis of the above estimates, the net reduction of British holdings of gold and assets convertible into U.S. dollars, April 1 to September 1, 1941, will be $434 million. This assumes that by the latter date the Belgian gold will have been repaid. It does not allow for changes

in market value of U.S. securities or for any discrepancy between liquidation value and estimated value of British direct investments in this country. The British dollar asset position — exclusive of private dollar balances -- as of September 1, 1941, is anticipated to be as follows:

	(Millions - U.S.)
Gold (excluding scattered) } Official dollar balances }	$ 127
Marketable U.S. securities	326
Direct investments in U. S.	700
Total	$1,153

The $127 million of gold and official dollar balances which the British estimate they will hold on September 1, falls $123 million short of the $250 million which the British desire to accumulate in gold or U.S. dollars during the next five months. However, if by September 1, the $105 million of Belgian gold has not been repaid, the British holdings of gold and official dollar balances will total $232 million, or only $18 million short of the British goal.

APR 23 1941

STRICTLY CONFIDENTIAL

Dear Mr. Secretary:

There is attached for your information a copy of a letter which I have today addressed to the President, together with its enclosure.

Sincerely yours,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury

Enclosure:
Copy of letter to President, and enclosure thereto

The Honorable
Henry L. Stimson,
Secretary of War.

STRICTLY CONFIDENTIAL

HMG:lmp-4/22/41

APR 23 1941

STRICTLY CONFIDENTIAL

Dear Mr. Secretary:

There is attached for your information a copy of a letter which I have today addressed to the President, together with its enclosure.

Sincerely yours,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury

Enclosure:
Copy of letter to President, and enclosure thereto

The Honorable
Frank Knox,
Secretary of the Navy.

STRICTLY CONFIDENTIAL

[illegible]:lmp-4/22/41

STRICTLY CONFIDENTIAL

APR 23 1941

Dear Mr. Secretary:

There is attached for your information a copy of a letter which I have today addressed to the President, together with its enclosure.

Sincerely yours,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury.

Enclosure:

Copy of letter to President, and enclosure thereto

The Honorable,

Cordell Hull,

Secretary of State.

STRICTLY CONFIDENTIAL

HMC:lmp-4/22/41

APR 23 1941

Dear Mr. President:

I have pleasure in enclosing a photostatic copy of a memorandum setting forth tentative estimates of Canada's available surplus capacity for the production of munitions and other supplies, which was prepared as a result of a meeting between you and the Prime Minister of Canada on April 20, and was handed to me today by Mr. W. C. Clark, Deputy Minister of Finance of Canada.

Will you kindly instruct me as to what our next step should be with reference to the subject of this memorandum.

Sincerely yours,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury

Enclosure:
Photostatic copy of
memorandum

The President,

The White House.

STRICTLY CONFIDENTIAL

HMC:lmp-4/22/41

Washington, April 21st, 1941.

SECRET.

MEMORANDUM.

In connection with that part of the statement of policy formulated by the President and the Prime Minister on April 20th, 1941, which deals with the purchase of defence articles in Canada by the United States, there is attached a preliminary and tentative statement of Canadian capacity surplus to present orders. This first appraisal of possibilities was prepared for information in connection with the discussion of general policy by the two Governments and was not, of course, intended to be sufficient for the guidance of U. S. officials in determining what they may wish to buy in Canada as a result of the general policy which has been agreed upon.

It is assumed that representatives of the appropriate U. S. purchasing departments or agencies will wish to consider with appropriate officials of the Canadian Government and the British Supply Council, detailed information in regard to Canada's capacity for the production of ships, munitions, other ordnance stores, strategic materials, and other war supplies, and the orders (Canadian and British) already in process of execution in Canada. Such detailed examination should disclose the extent and precise nature of Canada's surplus capacity, and the best way in which it can be used with a view to the integration of the United States, Canadian and British programmes, so that the joint production may be obtained wherever it may be most readily, economically and quickly available.

STRICTLY CONFIDENTIAL

SECRET.

TENTATIVE ESTIMATES

OF

CANADA'S AVAILABLE SURPLUS CAPACITY

FOR

THE PRODUCTION OF MUNITIONS AND OTHER SUPPLIES.

APRIL 21st, 1941.

STRICTLY CONFIDENTIAL

Washington, April 21st, 1941.

SUMMARY

of

AVAILABLE SURPLUS CAPACITY BY MAIN CATEGORIES.

(Showing possible production values up to March 31, 1942, and up to June 30, 1942, respectively.)

	Estimated Production Value up to March 31,1942.	Estimated Production Value up to June 30,1942.
1. Naval and Merchant Vessels, Corvettes or Minesweepers,	$ 10,200,000.	$ 23,200,000.
Merchant Ships, large - 9,300 tons	47,700,000.	89,000,000.
small - 4,700 "	20,000,000.	25,000,000.
2. Guns and Ammunition	45,000,000.	75,000,000.
3. Armoured Fighting Vehicles, (Universal Carriers)	6,600,000.	14,000,000.
4. Explosives and Chemicals,	4,000,000.	5,600,000.
5. Secret Detection Devices,	9,600,000.	17,700,000.
6. Metals and Minerals,	66,700,000.	72,800,000.
7. Clothing and Textiles, Rubber and Leather Products, (including Web equipment)	65,000,000.	81,000,000.
8. Plywood and Veneers for Aircraft, Ships, etc.,	9,000,000.	12,000,000.
Estimated Total	$284,000,000.	$415,000,000.

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Washington, April 21st, 1941.

NAVAL AND MERCHANT VESSELS.

ESTIMATE OF SURPLUS CAPACITY AVAILABLE.

NAVAL CORVETTES OR MINESWEEPERS:

In addition to orders now in hand, additional orders could be accepted for either or both of the above types of Naval vessel and the vessels completed in Great Lakes Shipyards as follows:

First Quarter	1942,	-	8 vessels
Second "	1942,	-	15 "
Third "	1942,	-	19 "
Fourth "	1942,	-	18 "
Total	1942,	-	60 vessels.

First Quarter	1943,	-	7 vessels
Second "	1943,	-	23 "
Third "	1943,	-	25 "
Fourth "	1943,	-	21 "
Total	1943,	-	76 vessels

Assuming orders for this surplus capacity were placed promptly, U. S. dollars would be made available to Canada as follows:

8 completed vessels at average cost of $650,000. -	$ 5,200,000.
Progress payments up to March 31, 1942,	5,000,000.
Total to March 31, 1942	$10,200,000.
Additional payments in 2nd Quarter 1942, say	13,000,000.
Total to June 30, 1942	$23,200,000.

N.B. Small cargo vessels capable of going through the St. Lawrence Canals could be built on the Great Lakes, but probably only at the expense of a proportionate reduction in the number of Corvettes or Minesweepers shown above.

MERCHANT VESSELS:

In addition to orders now on hand, it would be possible for Canada to accept orders for cargo vessels of 9,300 tons, similar to type now being constructed in U.S. and Canada for the United Kingdom. It is now estimated that these could be completed as follows:

First Quarter	1942,	- 12	vessels
Second "	1942	- 22	"
Third "	1942	- 14	"
Fourth "	1942	- 21	"
Total completed in	1942,	69	"
First Quarter,	1943	- 17	"
Second "	1943,	- 17	"
Third "	1943,	- 14	"
Fourth "	1943,	- 19	"
Total completed in	1943,	67	"

Assuming orders for this surplus capacity were placed promptly, U.S. dollars would be made available to Canada as follows:

12 completed vessels at average cost of $1,800,000. -	$21,600,000.
Progress payments on 22 vessels half completed,	19,800,000.
" " " 14 " quarter "	6,300,000.
Total dollars receipts up to March 31, 1942,	$47,700,000.
Additional payments in second quarter of 1942, say	41,300,000.
Total dollar receipts up to June 30, 1942	$89,000,000.

N.B. In addition it would be possible to build a number of smaller cargo vessels (with tonnage say 4,700 tons); probable dollars value of output up to March 31,1942 would be $20,000,000. up to June 30, 1942 $35,000,000.

CONFIDENTIAL

Washington, April 21st, 1941.

AMMUNITION AND GUNS.

AMMUNITION: (Complete rounds - Shells, Cartridge Cases and Fuses).

Canada has surplus capacity for the following U.K. types of ammunition which are required under the Lease-Lend application:

3.7" Anti Aircraft, High Explosive,
4.5 B. L. " "
5.5 Howitzer, " "

or in the alternative, the following U. S. types:

75 MM.
105 MM.

A rough estimate of the production value of surplus capacity in Canada would be as follows:

Quarter ending Sept. 30th, 1941,	$10,000,000.
" " Dec. 31st, 1941,	15,000,000.
" " March 31st, 1942,	15,000,000.
Total to March 31st, 1942,	$40,000,000.
Quarter ending June 30th, 1942,	27,000,000.
Total to June 30th, 1942,	$67,000,000.

SMALL ARMS:

BREN GUNS. Canada has one of the largest and most efficient Bren Gun plants in the world. Unless additional orders are received, this Bren Gun plant capacity will become free in the Spring of 1942; on this assumption there would be surplus capacity for 2,017 Bren Guns (including spares) in the second quarter of 1942; 10,500 in the third quarter of 1942, and quarterly thereafter. In addition there would be surplus capacity for Bren Barrel Assemblies to the extent of 2,000 in the fourth quarter of 1941, and 6,000 quarterly thereafter.

Alternatively, this capacity could be made available for the production of Boyes Anti-tank Rifles. With some extensions (involving the procurement of $350,000. machine Tools from U.S.)a capacity of 5,000 rifles per month might be reached in the early summer of 1942, with approximately 30,000 rifles produced in that year.

Possible production value of this surplus capacity might be estimated at $400,000. up to March 31, 1942 and at $1,400,000. up to June 30, 1942.

GUNS:

40 MM. BOFORS GUN BARRELS - Canada has surplus capacity for production of these barrels and could produce 3,600 by March 31, 1942 and 4,800 by June 30, 1942. Total value of this output would be $1,620,000. and $2,160,000. respectively.

3.7" ANTI AIRCRAFT GUN BARRELS. Canada has surplus capacity for the production of 1,200 loose barrels by March 31, 1942, and 1,740 by June 30, 1942. Total value of this output would be $3,000,000. and $4,400,000. respectively.

Washington, April 21st., 1941.

ARMOURED FIGHTING VEHICLES.

TANKS AND UNIVERSAL CARRIERS:

With a capital expenditure of $800,000., surplus capacity for Universal Carriers will become available as follows:

	Units.	Value.
Quarter ending, Dec. 1941.	400	$1,647,000.
" " March, 1942	1,200	4,941,000.
Total to March, 1942	1,600	$6,588,000.
Quarter ending June, 1942,	1,800	7,412,000.
Total to June, 1942.	3,400	$14,000,000.

(Thereafter 1,800 Carriers per quarter)

Surplus Capacity in Tank production - Infantry (Valentine) and Cruiser - will develop in the 3rd and 4th quarters of 1942.

CONFIDENTIAL

Washington, April [illegible], 1941.

EXPLOSIVES AND CHEMICALS.

SURPLUS CANADIAN CAPACITY AVAILABLE FOR EXPORT TO U.S. FROM MAY, 1941.

(Note: Conversions from physical quantities to dollars are based in some cases on estimated market values, in other cases on estimated manufacturing costs, exclusive of capital charges or amortization, and are given simply as a rough calculation of total values, f.o.b. plant).

	From May 1941 to end of March 1942.	June 1942.
	($ 000 Canadian)	
YELLOW PHOSPHOROUS:		
May to August, 13,000 lbs monthly, from September up to 200,000 lbs. monthly, value 18¢ per lb.	261	369
RED PHOSPHOROUS:		
16,500 lbs. Monthly, value 40¢ per lb. (Greater production possible if Yellow Phosphorous not required)	73	82
POTASSIUM PERCHLORATE AND AMMONIUM PERCHOLATE:		
Together, 30,000 lbs. monthly from July, value 15¢ and 19¢ per lb. respectively.	46	61
GAS-MASK CARBON:		
25,000 lbs. Monthly, value 75¢ per lb.	206	262
PHTHALIC ANHYDRIDE:		
35,000 lbs. monthly from October, value 16¢ per lb.	38	57
AMMONIA:		
(As Anhydrous Ammonia, Ammonium Sulphate, or Ammonium Nitrate as desired): August 1,000 tons, from September 1,200 tons monthly, average cost $42.00 per ton	395	546
In addition, there will be further capacity of 4,500 tons per month from September (unless British Ammonia plants should be put out of action). Taking the same average cost the figures are,	1,323	1,890
DINITROTOLUOL:		
(Currently being shipped to U.S.A. for British Rifle powder contracts) 175 tons monthly, cost 13¢ per lb.	500	637
TETRYL:		
10 tons monthly from September, cost 50¢ per lb.	70	100
NITROCELLULOSE RIFLE POWDER:		
40 tons monthly from August, cost 35¢ per lb.	224	308
HEXACHLORETHANE:		
83 tons monthly from August, Cost $160. per ton	104	146
CARBIDE:		
200 tons monthly from July, cost 2¼¢ per lb.	90	180
Forward.	3,338	4,578

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Washington, April 21st, 1941.

	From May 1941 to end of March 1942	From May 1941 to end of June, 1942.
	($ 000 Canadian)	($ 000 Canadian)
Forward	3,332	4,578
PICRITE:		
320 tons monthly from October, cost 18¢ per lb.	691	1,037
Total of above,	4,023	5,615

Canada could also undertake some shell-filling for the United States.

Additional Capacity could be quickly and economically provided in the following fields:

(1) CHLORINE:

Capacity for 600 tons monthly could be provided in 6 to 8 months by way of plant extension at a capital cost of $500,000., and a new plant with capacity of 300 tons monthly could be completed in 8 months at a capital cost of $800,000. At a value of $35. per ton, there would be a combined annual output of $378,000.

(2) PHENOL:

Capacity for 100 tons monthly could be provided in 6 months at a capital cost of $250,000. At a value of 12¢ per lb. annual output would be $288,000.

(3) CARBIDE:

Plant extension could provide additional capacity of 3,000 tons monthly in 6 to 8 months at a capital cost of $500,000. At a manufacturing cost of 2½¢ per lb., annual output would be $1,800,000.

(4) Methanol:

A plant to produce 250 tons monthly would probably cost $1,000,000., and could be completed in 9 to 12 months.

(5) ACETONE:

A plant to produce 4,000 to 5,000 tons per annum would cost $1,000,000.

(6) ETHYLENE GLYCOL:

A plant to produce 7,000 tons per annum would cost about $2,000,000.

* * * * * * * * * * *

In addition to the foregoing, extensions to Canadian explosive, chemical, and shell-filling plants now in operation could be carried out as rapidly as equipment could be obtained. The operating experience is available to bring such extensions into production as quickly as they can be constructed.

STRICTLY CONFIDENTIAL

THE SECRETARY OF STATE
WASHINGTON

April 23, 1941

My dear Mr. Secretary:

I want to thank you for your kindness in sending me with your letter of April twenty-third a copy of a letter addressed to the President, together with its enclosure.

Sincerely yours,

Cordell Hull

The Honorable
Henry Morgenthau, Jr.,
Secretary of the Treasury.

PECIAL BULLETIN NO. 83 · APRIL · 194

63

★ DEFENSE ★

Savings Bonds and Stamps

ISSUANCE AND SALE BY BANKS

★ ★ ★ ★

BANK MANAGEMENT COMMISSION
AMERICAN BANKERS ASSOCIATION
22 EAST 40TH STREET, NEW YORK

One copy of this Bulletin has been sent without charge to each A.B.A. member. Additional copies 25 cents.

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TABLES

THE
AMERICAN BANKERS ASSOCIATION
22 East 40 Street New York N.Y.

BRANCH OFFICE
WASHINGTON BUILDING, WASHINGTON, D. C.

April 23, 1941

To the Members of the
American Bankers Association:

It has been clear from the outset that the nation's banks would have a large part to play in financing the National Defense Program. Accordingly, the American Bankers Association has maintained close contact with the defense authorities at Washington, has kept thoroughly informed at all times and has done everything possible to keep banks advised in regard to the process of meeting the defense needs for credit.

As soon as the Assignment of Claims Act was enacted, a committee appointed by the Bank Management Commission of the A.B.A. set about preparing a bulletin on National Defense Loans designed to serve banks as a handbook for making loans under that Act. This booklet, Special Bulletin No. 82, has been of great help to the members in making defense loans.

A second step was the appointment of a National Defense Loans Committee consisting of bankers in every Federal Reserve District who organized subcommittees in their districts and through them carried an information campaign on defense lending to the banks throughout the country.

As a result of this activity, the banks have been thoroughly prepared for their responsibility and they have done a magnificent job of caring for the credit needs of the manufacturers in their communities engaged in the production of defense goods.

Now another opportunity has come for banks to serve their country.

On March 21, 1941 the Secretary of the Treasury announced a campaign to place a large part of the defense debt directly with the public through the sale of Defense Savings Stamps and small denomination Defense Savings Bonds. In response to our offer he asked that the banks of the country assist in the distribution of these obligations.

Immediately upon his announcement the A.B.A. Bank Management Commission appointed a committee to prepare a bulletin, in consultation with the Treasury Department, which will serve as a handbook for banks in the current program of the Treasury to sell its Defense Savings Bonds and Stamps to the public. The committee has accordingly prepared this booklet.

I am sure the banks will find the booklet helpful and that they will do as great a job for the country in this undertaking as they are doing in the matter of defense loans.

Cordially yours,

P. D. Houston

President

PREFACE

The sale of the three series of Defense Savings Bonds and the sale of Defense Savings Stamps to the public constitutes a most important part of the financing of the defense effort. Some banks as yet have not had the occasion to make loans to manufacturers engaged in the production of defense materials. *All* banks now have a distinct opportunity to assist the Government by helping in the sale of Defense Savings Bonds and Stamps in their communities.

In an effort to inform its members concerning both Defense Savings Bonds and Stamps the Bank Management Commission of the American Bankers Association appointed the following committee to prepare this bulletin:

NELSON B. O'NEAL, Vice President, Riggs National Bank, Washington, D. C.

JAMES ROWLEY, Bond Department, Bankers Trust Company, New York, N. Y.

The Commission is grateful to these gentlemen for their efforts in preparing these data for the bankers of the country. They have given unsparingly of their time and talent in the development of this booklet. The Commission also wishes to express real appreciation to the Treasury Department for its cooperation with the committee.

BANK MANAGEMENT COMMISSION
AMERICAN BANKERS ASSOCIATION

FRANK W. SIMMONDS, Senior Deputy Manager
American Bankers Association
New York, N. Y.
Secretary

J. HARVIE WILKINSON JR., Vice President
State-Planters Bank & Trust Company
Richmond, Virginia
Chairman

INTRODUCTION

The American Bankers Association, speaking for the bankers of America, has offered and urged the use of the facilities of the banks by the United States Treasury in the sale of Defense Savings Bonds and Stamps to the public.

Throughout the years the banks have helped finance the Government when such financing was needed. They will continue their aid as they have in the past. Now, with several special types of bonds the banks are being asked to assist the Government's efforts to enlist *directly* the savings of the public — men, women and children.

It will be observed from the contents of this bulletin that the bankers have this further opportunity to serve their country. We urge unstinted and continued efforts for the common cause. No commission or compensation will be paid to anyone by the Government.

The bulletin is designed to assist bankers in their understanding and their handling of these Defense Savings Bonds and Savings Stamps. There is a description of the three types of bonds and the stamps, and some facts concerning each. In our approach we have divided the discussions into three broad headings: (1) from the viewpoint of the banker; (2) from the viewpoint of the public; (3) from the viewpoint of trust accounts.

The Government is about to launch a defense financing program which will necessitate the enlisting of funds from the public. From the point of view of the national economy, it is desirable for the Government to finance a substantial portion of the defense program through taxation and sale of bonds directly to individual holders. The individual is being given, therefore, through the medium of Defense Savings Bonds and Savings Stamps, an opportunity to help finance the defense of America. At the same time the individuals participating in this program will create reserves for themselves for the future.

Again we urge that bankers give freely of their time and energy to become familiar with this program so that they may be able to explain it in simple terms to the people. Everything we can do in this direction will be a distinct contribution to the future welfare of America.

The task must be performed and bankers are anxious to cooperate in this great undertaking.

DEFENSE SAVINGS STAMPS AND DEFENSE SAVINGS BONDS

Defense Savings Stamps and all three issues of Defense Savings Bonds are direct obligations of the United States Government.

Defense Savings Stamps are priced at 10 cents, 25 cents, 50 cents, $1.00 and $5.00. They bear no interest, but when they have accumulated in the amount of at least $18.75 they may be exchanged for a ten-year Defense Savings Bond, Series E. Banks may purchase the Defense Savings Stamps and thus stock them for sale to the public. As a matter of convenience to customers it would seem desirable for banks to have an adequate supply on hand at all times, and also a supply of the albums which are given away free of charge to stamp purchasers.

The three series of Defense Savings Bonds, known as Series E, F, and G, have certain features described at length on page 12. Each of these series is designed to fit the varying requirements of different types of investors.

A bank may, under certain conditions to be set forth later, stock and become an issuing agent for Defense Savings Bonds, Series E. This, too, is most desirable in an effort to do all possible to facilitate the sale of these bonds and to enable banks to render a service to the people of the community. Series E Bonds, of course, accrue no interest *for the bank* as our institutions can be merely issuing agents and the bonds of this series do not actually become outstanding until purchased by the ultimate holder.

Banks may not stock Defense Savings Bonds Series F or Series G, *but* they may take orders for those bonds for issue by a Federal Reserve Bank.

Interest on Bonds

The interest to be earned by the holder of a Defense Savings Bond of Series E, F, or G varies as between the different series and it also varies with the length of time which one may hold the bond. This is shown in the table of Redemption Values and Computed Yields, page 23.

Attention should be called to the fact that the incentive to hold the bonds from the fourth or fifth year to maturity in the tenth or twelfth year is considerably increased. Investors should not overlook this fact in their hope and resolution to keep the investment until it becomes due at 100.

Limitation on Holdings

Investors may purchase any amount of Defense Savings Stamps, although as a practical matter one would wish soon to convert these to a bond of Series E.

The individual investor is limited to $5,000 (maturity value) of Series E Bonds issued in any one calendar year, issued in his own name or with another as co-owner. This is distinctly a limitation to the individual. The different members of a family may *each* purchase the full limit. A Series E Bond is a registered bond and is not available in bearer form. Each owner (person, corporation, trustee, association or partnership but *not* a bank that receives *demand* deposits) may own an aggregate of $50,000 (*cost* price) of Series F or Series G respectively, or of Series F and Series G combined. These bonds are also registered bonds and are not available in bearer form.

Tax Status of Stamps and Bonds

Defense Savings Stamps are not taxable as there is no income to tax, and the face amount of these Stamps is not taxable by state and municipal authorities.

The income (increase in redemption value) on Defense Savings Bonds, Series E and Series F, is subject to *Federal* income taxes. If the investor's books are kept on an accrual basis, or if his income tax is filed on an accrual basis, this income is taxable as it accrues. If the investor's books are kept on a cash basis, or if his income tax is filed on a cash basis, the income on Series E and Series F Bond is taxable at maturity or upon prior redemption. This income is taxable under federal tax laws as income and not as capital gain.

The income on Defense Savings Bonds, Series G, is taxable under federal tax laws in the same manner as is that on any other United States Government bond issued on or after March 1, 1941.

Redemption by Treasury

Defense Savings Bonds of Series E, F, and G, cannot be called for redemption by the Treasury prior to maturity but may be redeemed at the option of the owner prior to maturity. No time limit has been set by the Treasury for the sale of these three series of Defense Savings Bonds and they will remain on sale until termination by the Secretary of the Treasury.

The sale of United States Savings Bonds, Series D, terminates at close of business April 30, 1941.

DEFENSE SAVINGS BONDS AND THE BANKS

The United States Treasury is calling upon the nation's banking institutions to assist it in its defense efforts. Specifically, it will be largely up to the bankers to thoroughly familiarize themselves with the fundamental problem confronting the nation, i.e., the imperative necessity of the defense program; and then to acquaint themselves with the details of the Defense Savings Bond program. Thus the banker will be able to discuss intelligently this program with his customers, and, at the same time, perform a valuable service to his country.

Requirements of Banks as Distributing Agents

Generally speaking, the banks can act as distributing agents of the Defense Savings Stamps, and of the Defense Savings Bonds, Series E, F, and G. The Defense Savings Stamps may be purchased outright by all banks who may then resell them to their customers. The Series E Bond stock may be acquired in quantity by the banks which meet prescribed qualifications and which follow the regulations outlined by the Treasury of the United States in Treasury Department Circular No. 657. The banks can handle the Series F and G Bonds on only an order basis for their customers.

SERIES E

Those banks which meet the requirements established by the United States Treasury, and which are certified by the Federal Reserve bank in their district, may serve as selling and distributing agents for these Defense Savings Bonds, Series E. *First*, all banks, trust companies and mutual savings banks organized under the laws of the United States, the District of Columbia, or any state, are *eligible* to serve as issuing agents. It is important to note that all eligible agents must be certified by the Federal Reserve bank of its district. *Second*, any of the above institutions wishing to become issuing and distributing agents must file an Application and Pledge Agreement[1] with the Federal Reserve bank. Upon the approval of the Application and Pledge Agreement the Federal Reserve bank will issue a Certificate of Qualification[2] to the issuing agent. There is no pledge requirement for banks which simply take orders for their customers.

Security Requirements

A bank wishing to stock Defense Savings Bonds, Series E, must meet certain security requirements. If a bank is insured by the Federal Deposit Insurance Corporation, it may receive and maintain a stock of not more than $6,500 (maturity value) of these bonds at any one time without further

[1] Treasury Department Form No. 384, obtainable at Federal Reserve bank upon request.
[2] Treasury Department Form No. 385.

security. If an amount of stock in excess of $6,500 is required then eligible[3] collateral in the amount of 75 per cent of the maturity value of such excess must be pledged to secure the excess.

Banks which are not insured by the Federal Deposit Insurance Corporation may obtain a supply of Defense Savings Bonds, Series E, by pledging eligible[3] collateral security in the amount of bonds to be obtained in the amount of 75 per cent of the maturity value of the stock to be obtained.

Remittances and Reports of Sales

Banks acting as issuing agents must comply with all instructions issued by the Federal Reserve banks and will be required to set up an account to be known as the "Series E Bond Account," which will be immediately credited with the proceeds from all sales of Series E Bonds and they must remit the balance in this account and submit a detailed report of all transactions when and as required. Institutions qualified as depositaries[4] for the United States Treasury may make payment by crediting the Treasury's deposit account, i.e., the "War Loan Deposit Account."

Application forms, bond stock, report forms, and all regulations and necessary instructions will be furnished to qualified issuing agents by the Federal Reserve bank of the district.

SERIES F AND G

Banking institutions may submit to the Federal Reserve bank of their district or to the Treasury Department, Washington, D. C., applications to purchase for the account of customers for both Series F and G Defense Savings Bonds. These application blanks are obtainable from the Federal Reserve banks upon request. Each application must be accompanied by payment in full of the issue price. Any form of exchange, including personal checks, will be accepted, subject to collection. Checks should be drawn to the order of the Federal Reserve bank or the Treasurer of the United States. A qualified depositary[4] may make payment by crediting the Treasury's deposit account at that bank.

Application for Bonds

In making application[5] for these bonds the following must be furnished:

(1) Instructions for registration for the bonds to be issued, which must be in one of the authorized forms.[6]

[3]All direct and fully guaranteed obligations of the United States Government. Such security must be in negotiable form and will be accepted at face value, except that United States Savings Bonds will be accepted but only at issue price.

[4]Cf. Treasury Department Circular No. 92 (Revised Feb. 23, 1932, as supplemented.)

[5]The use of an official application form is desirable, but a letter will suffice.

[6]*Authorized forms of registration* —
Defense Savings Bonds, Series F and G, may be registered as follows: (Footnote 6 con't on page 11)

(2) The post office address of each person whose name appears in the registration.

(3) Address for delivery of the bonds.

(4) In case of Defense Savings Bonds, Series G, address for mailing interest check.

This information must be accompanied by a remittance covering the issue price[7] of the bonds to be purchased unless payment is made by credit to the Treasurer's account as heretofore provided.

Delivery of Bonds

The Federal Reserve banks will deliver the bonds, upon their acceptance of the application, to the customer either in person or by registered mail, or to the bank entering the application. Delivery will be made only within continental United States, the territories and insular possessions of the United States, the Canal Zone and Philippine Islands. If the bonds are purchased by a citizen temporarily living abroad the bonds may be delivered in the United States or held in safe keeping by the Secretary of the Treasury or by a Federal Reserve bank.

Redemption of Bonds by Holder

Defense Savings Bonds, Series F and G, will not be redeemable until six months after date of issue, after which time they may be redeemed at established prices set forth in the table of Redemption Values, page 23, but only on first day of a calendar month. In order to redeem either of these issues the owner must present a notice in writing to a Federal Reserve bank or to the Treasury Department not less than one month in advance of redemption. The person entitled to receive payment must appear before one of the officers[8] authorized by the Secretary of the Treasury to witness and certify requests for payment, establish

[6]continued
(1) In the names of natural persons (i.e., individuals) whether adults or minors, in their own right as follows:
(a) In the name of one person.
(b) In the name of two (but not more than two) persons as co-owners, and
(c) In the name of one person payable on death to one (but not more than one) designated person.
(2) In the name of an incorporated or unincorporated body, in its own right (except a commercial bank, which, for this purpose is defined as a bank that accepts demand deposits.)
(3) In the name of a fiduciary, and
(4) In the name of the owner or custodian of public funds.
It should be pointed out that registration is restricted to those who are residents of the continental United States, the territories and insular possessions of the United States, the Canal Zone, the Philippine Islands, or citizens of the United States, temporarily residing abroad.

[7]The issue prices of the various denominations of Defense Savings Bonds, Series F and G, follow:

	Series F				
Denomination (maturity value)	$100	$500	$1,000	$5,000	$10,000
Issue Price	74	370	740	3,700	7,400
	Series G				
Denomination	$100	$500	$1,000	$5,000	$10,000
Issue Price	100	500	1,000	5,000	10,000

[8]These include among others:
(a) United States postmasters and other post office officials, and
(b) executive officers of all banks and trust companies and officers of branches who are certified to the Treasury Department as executive officers.

OUTLINE OF ESSENTIAL FACTS ABOUT DEFENSE SAVINGS BONDS

	Series E	*Series F*	*Series G*
Type of Bond	Appreciation bond Registered Not transferable Taxable as to income by Federal Government only. Subject to estate, inheritance, gift or other excise taxes.	Appreciation bond Registered Not transferable Taxable as to income by Federal Government only. Subject to estate, inheritance, gift or other excise taxes.	Current Income bond Registered Not transferable Taxable as to income by Federal Government only. Subject to estate, inheritance, gift or other excise taxes.
Denominations	$25. $50. $100. $500. $1,000. (maturity values)	$100. $500. $1,000. $5,000. $10,000. (maturity values)	$100. $500. $1,000. $5,000. $10,000.
Dated	First of month in which payment is received by issuing agent.	First of month in which payment is received by issuing agent.	First of month in which payment is received by issuing agent.
Maturity	10 years from issue date	12 years from issue date	12 years from issue date
Interest rate	No interest will be paid but the bonds will periodically increase in redemption value and if held to maturity will return a yield of 2.9 percent per year, compounded semi-annually. The yield will be less if redeemed prior to maturity.	No interest will be paid but the bonds will periodically increase in redemption value and if held to maturity will return a yield of 2.53 percent per year, compounded semi-annually. The yield will be less if redeemed prior to maturity.	2.5% a year. Interest is paid semi-annually by Treasury check.
Prices and Maturity Values	*Issue Price* $ 18.75, 37.50, [illegible] *Maturity Value in 10 [illegible]* $ [illegible], [illegible], 1,000.00	*Issue Price* $ 74.00, 370.00, 7,400.00 *Maturity Value in 12 years* $ 100.00, 500.00, [illegible]	*Issue Price* $ 100.00, 10,[illegible] *Maturity Value in 12 years* $ 100.[illegible], [illegible]
Registration can be in—	Only— (1) the name of one individual, or (2) of two individuals as co-owners, or (3) of one individual and one individual as beneficiary.	(1) the name of one individual, or (2) of two individuals as co-owners, or (3) of one individual and one individual as beneficiary. This bond can be registered in the name of any association, partnership, trustee, or corporation.	(1) the name of one individual, or (2) of two individuals as co-owners, or (3) of one individual and one individual as beneficiary. This bond can be registered in the name of any association, partnership, trustee, or corporation.
Limitation on Holdings	$5,000 (maturity value) issued in any one calendar year.	$50,000 (cost) of Series F or $50,000 Series F *AND* G, combined, issued in any one calendar year.	$50,000 (cost) of Series G or $50,000 Series G *AND* F, combined, issued in any one calendar year.
Redemption (See Redemption Values, page 23.)	Any time after 60 days from issue date.	On one month's written notice to Federal Reserve bank or Treasury Department any time after 6 months from issue date, but only on first day of month.	On one month's written notice to Federal Reserve bank or Treasury Department any time after 6 months from issue date, but only on first day of month.
Safekeeping	Will be held without charge by Federal Reserve banks, if desired.	Will be held without charge by Federal Reserve banks, if desired.	Will be held without charge by Federal Reserve banks, if desired.

OUTLINE OF ESSENTIAL FACTS ABOUT DEFENSE SAVINGS STAMPS

Cost of Stamp	Capacity of Album (Number of Stamps)	Value of Album When Filled
10¢	(Card) 25	$ 2.50
25¢	(Album) 75	$18.75
50¢	75	$37.50
$1.00	75	$75.00
$5.00	15	$75.00

When the first stamp (except the 10 cent stamp) is purchased, an album is given in which stamps of similar denomination may be mounted.

An album when filled may be exchanged for a Defense Savings Bond the purchase price of which is equal to the value of the album, or it may be redeemed in cash. Stamps are non-taxable.

his identity, and in the presence of such officer sign the request for payment, adding the address to which the check is to be mailed.

After the request for payment has been duly executed the bond must be presented and surrendered to a Federal Reserve bank or to the Treasury Department at the expense and risk of the owner.

Public Support

The Defense Savings Bond program as established by the Treasury has three primary objectives. First, to help raise funds to meet the heavy cost of Government defense activities which cannot be met exclusively by taxes; second, as the Secretary of the Treasury expressed it, "To safeguard the nation against the evils of inflation"; and third, to enlist not only the financial but also the moral support of the entire country in this vast undertaking of defense.

There are two additional ways in which banks may cooperate effectively in this program. They are:

1. *Bank Depositors Savings Plan*

   Depositors may be told that a bank is willing on their order to draft on an individual's account at given intervals in the future, the funds so drafted to be used for the purchase of a security. The Federal Reserve bank or the Treasury will then be notified, paid the money, and a bond will be sent to the individual purchaser's address by Registered Mail, or the bank can make delivery.

   This plan will give a depositor an opportunity to systematically and automatically purchase a security. The service will be appreciated and used by many depositors.

2. *Payroll Savings For Employees*

   The employees of some banks as well as the employees in industry and business may wish to have the opportunity to purchase these securities through payroll savings. If any bank wishes to adopt such a program and needs information, suggested plans, forms, etc., will be supplied.

   The Treasury is not sponsoring such a plan, but there may be institutions whose employees will voluntarily wish to thus participate in the defense program.

OUTLINE OF ESSENTIAL FACTS ABOUT DEFENSE SAVINGS STAMPS

Cost of Stamp	Capacity of Album (Number of Stamps)	Value of Album When Filled
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   The employees of some banks as well as the employees in industry and business may wish to have the opportunity to purchase these securities through payroll savings. If any bank wishes to adopt such a program and needs information, suggested plans, forms, etc., will be supplied.

   The Treasury is not sponsoring such a plan, but there may be institutions whose employees will voluntarily wish to thus participate in the defense program.

DEFENSE SAVINGS BONDS AND THE PUBLIC

The new Defense Savings Bonds have several attractive features that will appeal to the conservative investor. Aside from the patriotic motive, the purchase of these bonds will contribute to the solution of the problem of investing idle funds. Although the income is taxable, the yields at this time compare favorably with those of other Treasury Bonds, the income from which is taxable.

Series E Bonds Primarily for Small Investors

Defense Savings Bonds, Series E, are almost identical with the present United States Savings Bonds, Series D, or "Baby" Bonds, and can be purchased by individuals only. They are intended primarily for the small investor or the individual who may want to invest a portion of his income periodically. They can be purchased at 75 per cent of their maturity value with a maturity of ten years to yield 2.90 per cent interest compounded semi-annually. They can be redeemed prior to maturity in which event the yield will be less than if held to maturity. (See table of Redemption Values and Computed Yields, page 23.)

Series F Bonds for Larger Investors

Defense Savings Bonds, Series F, are intended for larger investors and can be purchased by individuals, associations, partnerships, trustees, or corporations, except banks receiving *demand* deposits. They can be purchased at 74 per cent of their maturity value with maturity of twelve years to yield 2.53 per cent compounded semi-annually. They can be redeemed prior to maturity in which event the yield will be less than if held to maturity. (See table of Redemption Values and Computed Yields, page 23.)

Neither the Series E nor F Defense Savings Bonds offers current income. However, the income is reflected in the appreciation of the bond each year.

Series G Bonds Meet Demand for Current Income

Defense Savings Bonds, Series G, are issued at par with a maturity of twelve years and meet the demand for current income. They pay 2½ per cent interest paid semi-annually by United States Treasury check and can be purchased by individuals, associations, partnerships, trustees, or corporations, except banks receiving *demand* deposits. They can be redeemed prior to maturity in which event a deduction from the face value will be made by the Treasury Department, thus reducing the yield. (See table of Redemption Values and Computed Yields, page 23.)

Date of Bonds

All bonds are dated the first day of the month in which the purchase price is received by the issuing agency. For example: If purchase is made at any time during the month of May the bond will be dated May 1.

Stamps for Small Savings

Defense Savings Stamps are intended to encourage steady savings among the youth of America and all others to whom payment of $18.75 at one time for the smallest Defense Savings Bond is not convenient. Purchase of these Stamps can be made for 10 cents, 25 cents, 50 cents, $1.00, and $5.00, and pocket albums are given to purchasers for their convenience.

MISCELLANEOUS QUESTIONS AND ANSWERS

Question No. 1
Who may purchase Defense Savings Bonds, Series E, and how may they be registered?

Answer: Individuals may purchase Series E Bonds to a limit of $5,000 *maturity* value in any one calendar year, and the bonds may be registered only in:

(1) the name of one individual, or

(2) of two individuals as co-owners, or

(3) of one individual and one individual as beneficiary

Question No. 2
Who may purchase Series F and G Bonds?

Answer: Any individual, association, partnership, trustee, or corporation, except banks receiving *demand* deposits may purchase Series F and G Bonds to a limit of $50,000 *cost price* of either series or up to $50,000 *cost price* of Series F or G Bonds combined, issued in any one calendar year. Bonds of Series F and G are registered bonds only.

Question No. 3
How is the limit of holdings determined?

Answer: In determining whether the legal limit has been exceeded at any time by any one person, there must be taken into account, as to bonds of any one series (or of Series F and G combined) issued during any one calendar year, the entire purchases of:

(1) bonds registered in the individual's name, and

(2) those registered in his name with co-owner.

Bonds of which the person is merely the designated beneficiary in case of the death of the owner need not be included.

Question No. 4
Can an individual who now owns $10,000 face value of United States Savings Bonds, Series D, issued in 1941 purchase $5,000 face value of Defense Savings Bonds, Series E, and also invest $50,000 in Series F and G Bonds?

Answer: Yes. Example:

Maturity Values		*Issue Price or Cost*
$ 5,000	Series E Defense Savings Bonds	$ 3,750
50,000	Series F Defense Savings Bonds	37,000
13,000	Series G Defense Savings Bonds	13,000
$68,000		$53,750

Or all $50,000 Series F or G Bonds, at cost price.

Question No. 5
Can Defense Savings Bonds, Series E, F, or G, be transferred or pledged as collateral?

Answer: No. They are non-transferable and non-assignable and cannot be used as collateral. (Except as provided in the applicable regulations of the Treasury.)

Question No. 6
Can the owner redeem these bonds?

Answer: Yes. Series E Bonds may be redeemed at any time after 60 days from issue date of bond. Series F and G Bonds may be redeemed on one month's written notice to a Federal Reserve Bank or the United States Treasury Department after six months from issue date but only on the first day of a calendar month.

Question No. 7
Can a partial redemption be made of Series E, F, or G Defense Savings Bonds and the registered owner receive part cash and the balance in like bonds?

Answer: Yes. Partial redemption of a Defense Savings Bond, Series E, of a denomination higher than $25 (maturity value) at current redemption value is permitted, but only in multiples of $25 (maturity value), Series F and G in multiples of $100. In case of partial redemption the remainder will be reissued in authorized denominations bearing the same issue date as the bond surrendered.

Question No. 8
Can bonds be registered in the name of a minor and redeemed by him if there is no legal guardian?

Answer: Yes.

Question No. 9
If Bonds (F and G Series) are registered in the name and title of a legal guardian, will proof of appointment be required in case of redemption?

Answer: No.

Question No. 10
Is income fully taxable?

Answer: Yes, but subject only to federal income tax.

Question No. 11
For tax purposes, can the owner elect to return income on the accrual basis or cash basis when bond is redeemed?

Answer: No. Income must be returned on the same basis upon which owner is operating and files income tax returns.

Question No. 12
Can Series G Bonds held in a trust be transferred to heirs or remainderman or redeemed at par if the trust terminates prior to maturity?

Answer: Series G Bonds may be reissued to a remainderman at the termination of a trust upon certification by the trustee that the remainderman is entitled and wishes reissue, or they may be redeemed at par when a trust is terminated by the death of any person provided the request is made within four months after the date of death.

Question No. 13
Can Series G Bonds be transferred to another or redeemed at par in case of the death of an individual owner?

Answer: Series G Bonds in the name of an individual who dies may be reissued in the name of the heir or other person entitled to his estate in accordance with the provisions of the Treasury regulations, or such bonds may be redeemed at par upon his death but not within six months of the day of issue and provided request is made within four months after the date of death.

Question No. 14
If Series G Bonds are redeemed at a discount, can the discount taken be used as a tax loss?

Answer: Yes.

Question No. 15
How may these bonds be redeemed?

Answer: In order to secure payment the owner or person entitled must be identified to the satisfaction of, must sign the request for payment appearing on the back of the bond in the presence of, and have the request certified by, an officer authorized for that purpose. These officers include United States postmasters, other designated post office officials, and executive officers of incorporated banks or trust companies or branches thereof in the United States. Certification by an officer not authorized for that purpose (as, for example, a notary public) will not be accepted. After proper completion of the request for payment, the bond must be forwarded to the Federal Reserve bank of the district or to the Treasury Department, Washington, D. C.

Question No. 16
Is the holder of Series G Bonds entitled to accrued interest in the event of death and subsequent redemption?

Answer: No, interest will cease on the last day of preceding interest period.

Question No. 17
Is the holder of Series G Bonds entitled to accrued interest in the event of redemption between interest periods?

Answer: No.

Question No. 18
Where can Defense Savings Stamps be purchased and in what denominations?

Answer: Stamps can be purchased at most post offices and banks in the following denominations: 10 cents, 25 cents, 50 cents, $1.00 and $5.00

Question No. 19
Can these stamps be redeemed?

Answer: Yes, they can be redeemed at face value or exchanged for Defense Savings Bonds Series E. Example:
Seventy-five 25 cent stamps for a cash value of $18.75 can be exchanged for a Defense Savings Bond which in ten years will be worth $25.00.

DEFENSE SAVINGS BONDS AND TRUST FUNDS

Who May Purchase

Executors and administrators may not purchase Defense Savings Bonds of Series E, but can purchase Series F, or G Bonds. Corporate fiduciaries and natural persons acting in trustee capacity may purchase Series F and Series G Bonds. Neither individual nor corporate trustees may purchase Series E Bonds.

Those acting in the capacity of trustee can purchase the Series F and Series G Bonds through their bank and reference is here made to previous sections of this booklet for details as to purchasing procedure, registration, and the requirements to be complied with should redemption of the bonds be desired. In addition, there is on page 12 certain data in tabular form which are of interest to the trustee.

Neither Series F nor Series G Bonds are transferable or negotiable, but if registered in the name of a guardian or similar fiduciary for a minor or incompetent may be reissued in the name of the minor or incompetent when he becomes of age or competent. Moreover, it is possible for bonds of these series to be registered in the name of a minor.

Redemption of Bonds

Series G Bonds held in trust can be redeemed at par upon death of the beneficiary if the trust is thereby terminated. If the trust is terminated only in part then the Series G Bonds are redeemable at par to the extent of the pro rata portion of the trust so terminated, to the next lower multiple of $100. Request for redemption must be made within four months of the death resulting in the termination.

Defense Savings Bonds of all three series—E, F, and G—may be issued in the name of a minor and redeemed by him.

There can be co-ownership in each of the three series of bonds and also registration in the name of one person with another—but not more than one other—designated as beneficiary in the event of death.

Bonds of all series may be reissued at the death of an individual only in the name of an heir or other person entitled to the estate in accordance with the provisions of the Treasury regulations, or they may be redeemed by the executor or administrator at their redemption values found in the table of Redemption Values, page 23. Payment may also be made under the regulations to an heir or person entitled.

Income Is Taxable

The income (increase in redemption value) on bonds of Series E and F is taxable under federal tax acts. Likewise, the income on bonds of Series G is taxable in the same manner as is that of any other United States Government bond issued on or after March 1, 1941. If the trustees' books are kept on an accrual basis, or income tax is filed on an accrual basis, the income from Series F and G Bonds is taxable as it accrues. On the other hand if the trustees' books are kept on a cash basis or income tax is filed on a cash basis the income on Series F Bonds is taxed at redemption or upon maturity, and the income on Series G Bonds is taxable as received. The income on Series E and F Bonds is taxable as income and not as capital gain.

If Series G Bonds are redeemed at a discount, the discount may be taken as a tax loss.

CONCLUSION

In ending we can only emphasize the spirit which has motivated the compilation of this bulletin; that the banking fraternity must render every possible cooperation for the sale of Defense Savings Bonds. It is highly desirable that a bank become an issuing agent for Series E Bonds. This, together with the stocking of an adequate supply of Savings Stamps and providing facilities for customers to purchase Series F and G Bonds will be a constructive move for bankers, a service to the community, and evidence of banker participation in the national defense program.

COMPARISON OF REDEMPTION VALUES AND COMPUTED YIELDS [1] OF UNITED STATES SAVINGS BONDS, SERIES E, F, AND G.

Series E: 10-year discount bonds, issued at 75, to yield 2.90 percent to maturity.
Series F: 12-year discount bonds, issued at 74, to yield 2.53 percent to maturity.
Series G: 12-year 2½ percent interest-bearing bonds, issued at par.

Half-Year period after issue date	REDEMPTION VALUE During each half-year period			COMPUTED YIELD On issue price from issue date to beginning of each half-year period			COMPUTED YIELD On current redemption value from beginning of each half-year period to maturity		
	Series E	Series F	Series G	Series E	Series F	Series G	Series E	Series F	Series G
ISSUE PRICE	$75.00	$74.00	$100.00	—	—	—	2.90%[3]	2.53%[3]	2.50%[3]
First ½ year	75.00[2]	Not redeemable		—	—	—	2.90 [2]	2.53 [2]	2.50 [2]
½ to 1 year	75.00	74.00	98.80	0.00%	0.00%	0.10%	3.05	2.64	2.62
1 to 1½ years	75.50	74.20	97.80	0.67	0.27	0.30	3.15	2.73	2.73
1½ to 2 years	76.00	74.50	96.90	0.88	0.45	0.44	3.25	2.82	2.84
2 to 2½ years	76.50	74.90	96.20	0.99	0.61	0.61	3.38	2.91	2.94
2½ to 3 years	77.00	75.40	95.60	1.06	0.75	0.75	3.52	2.99	3.04
3 to 3½ years	78.00	76.00	95.10	1.31	0.89	0.88	3.58	3.07	3.13
3½ to 4 years	79.00	76.70	94.80	1.49	1.03	1.04	3.66	3.15	3.20
4 to 4½ years	80.00	77.60	94.70	1.62	1.19	1.20	3.75	3.20	3.26
4½ to 5 years	81.00	78.60	94.70	1.72	1.34	1.35	3.87	3.24	3.30
5 to 5½ years	82.00	79.70	94.90	1.79	1.49	1.51	4.01	3.27	3.32
5½ to 6 years	83.00	80.90	95.20	1.85	1.63	1.66	4.18	3.29	3.33
6 to 6½ years	84.00	82.20	95.50	1.90	1.76	1.79	4.41	3.29	3.33
6½ to 7 years	86.00	83.50	95.80	2.12	1.87	1.89	4.36	3.31	3.34
7 to 7½ years	88.00	84.80	96.10	2.30	1.96	1.98	4.31	3.32	3.35
7½ to 8 years	90.00	86.10	96.40	2.45	2.03	2.05	4.26	3.35	3.37
8 to 8½ years	92.00	87.40	96.70	2.57	2.09	2.12	4.21	3.40	3.39
8½ to 9 years	94.00	88.70	97.00	2.67	2.14	2.18	4.17	3.46	3.42
9 to 9½ years	96.00	90.00	97.30	2.76	2.19	2.23	4.12	3.54	3.46
9½ to 10 years	98.00	91.40	97.60	2.84	2.24	2.27	4.08	3.63	3.51
AT MATURITY	100.00			2.90			—		
10 to 10½ years		92.90	97.90		2.29	2.31		3.72	3.60
10½ to 11 years		94.50	98.20		2.34	2.35		3.81	3.75
11 to 11½ years		96.20	98.60		2.40	2.39		3.91	3.94
11½ to 12 years		98.00	99.20		2.46	2.44		4.08	4.13
AT MATURITY		100.00	100.00		2.53	2.50		—	—

[1] Yields are expressed in terms of rate percent per annum, compounded semiannually.
[2] Not redeemable during the first 60 days after issue date.
[3] Computed yield for entire period from issue date to maturity.

Income Is Taxable

The income (increase in redemption value) on bonds of Series E and F is taxable under federal tax acts. Likewise, the income on bonds of Series G is taxable in the same manner as is that of any other United States Government bond issued on or after March 1, 1941. If the trustees' books are kept on an accrual basis, or income tax is filed on an accrual basis, the income from Series F and G Bonds is taxable as it accrues. On the other hand if the trustees' books are kept on a cash basis or income tax is filed on a cash basis the income on Series F Bonds is taxed at redemption or upon maturity, and the income on Series G Bonds is taxable as received. The income on Series E and F Bonds is taxable as income and not as capital gain.

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½ to 1 year	75.00	74.00	98.80	0.00%	0.00%	0.10%	3.05	2.64	2.62
1 to 1½ years	75.50	74.20	97.80	0.67	0.27	0.30	3.15	2.73	2.73
1½ to 2 years	76.00	74.50	96.90	0.88	0.45	0.44	3.25	2.82	2.84
2 to 2½ years	76.50	74.90	96.20	0.99	0.61	0.61	3.38	2.91	2.94
2½ to 3 years	77.00	75.40	95.60	1.06	0.75	0.75	3.52	2.99	3.04
3 to 3½ years	78.00	76.00	95.10	1.31	0.89	0.88	3.58	3.07	3.13
3½ to 4 years	79.00	76.70	94.80	1.49	1.03	1.04	3.66	3.15	3.20
4 to 4½ years	80.00	77.60	94.70	1.62	1.19	1.20	3.75	3.20	3.26
4½ to 5 years	81.00	78.60	94.70	1.72	1.34	1.35	3.87	3.24	3.30
5 to 5½ years	82.00	79.70	94.90	1.79	1.49	1.51	4.01	3.27	3.32
5½ to 6 years	83.00	80.90	95.20	1.85	1.63	1.66	4.18	3.29	3.33
6 to 6½ years	84.00	82.20	95.50	1.90	1.76	1.79	4.41	3.29	3.33
6½ to 7 years	86.00	83.50	95.80	2.12	1.87	1.89	4.36	3.31	3.34
7 to 7½ years	88.00	84.80	96.10	2.30	1.96	1.98	4.31	3.32	3.35
7½ to 8 years	90.00	86.10	96.40	2.45	2.03	2.05	4.26	3.35	3.37
8 to 8½ years	92.00	87.40	96.70	2.57	2.09	2.12	4.21	3.40	3.39
8½ to 9 years	94.00	88.70	97.00	2.67	2.14	2.18	4.17	3.46	3.42
9 to 9½ years	96.00	90.00	97.30	2.76	2.19	2.23	4.12	3.54	3.46
9½ to 10 years	98.00	91.40	97.60	2.84	2.24	2.27	4.08	3.63	3.51
AT MATURITY	100.00			2.90			—		
10 to 10½ years		92.90	97.90		2.29	2.31		3.72	3.60
10½ to 11 years		94.50	98.20		2.34	2.35		3.81	3.75
11 to 11½ years		96.20	98.60		2.40	2.39		3.91	3.94
11½ to 12 years		98.00	99.20		2.46	2.44		4.08	4.13
AT MATURITY		100.00	100.00		2.53	2.50		—	—

[1]Yields are expressed in terms of rate percent per annum, compounded semiannually.

[2]Not redeemable during the first 60 days after issue date.

[3]Computed yield for entire period from issue date to maturity.

KWANG PU CHEN

Shanghai C. & S. Bank,
Chungking, China.
April 23, 1941.

The Honorable Henry Morgenthau, Jr.,
Secretary of the Treasury,
Washington, D. C.
U. S. A.

Dear Mr. Morgenthau:

Mr. S. D. Ren has just arrived here from America and conveyed to me your best wishes. He has reported to me in detail of the many kind considerations and assistances you have given to China and to Universal and to me personally. For all these may I express to you my most sincere appreciation?

I am gratified to learn from Mr. Ren that the little effort I have been exerting from this side in maintaining a constant flow of woodoil to America has not only resulted in keeping a continuous supply of this essential material for the American paint and varnish trade but has also enabled Universal Trading Corporation in liquidating its obligations to the Export Import Bank of Washington more speedily than first anticipated. I understand that by the end of March 1941, over $8,000,000 have been repaid against the first credit of $25,000,000. I am directing the Foo Shing Trading Corporation here to keep up this record and hope that the world situation will not so develope as to interrupt transportation of woodoil to America.

I imagine that verious important state affairs will keep you extremely busy for the immediate future, but I sincerely hope that you will be able to so manage the matters that you will get sufficient rest to maintain your good health.

With highest personal regards,

Sincerely yours,

K. P. Chen

KPC:W

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Paraphrase of telegram from Buenos Aires, No. 358, dated April 23, 7 p.m.

The Finance Minister has announced the completion of a credit of 35,000,000 pesos to Spain for the purchase of about 380,000 metric tons wheat and 3,000 tons frozen meat. The credit is guaranteed by an agreement between the Spanish Government and the Compania Hispano Argentina de Electricidad by which the latter will make five annual payments, seven million pesos, to the Argentine Government together with 3-1/2% interest indebtedness. In the absence of this agreement these sums would have to be transferred to Spain in payment of obligations of the company in Spain. He stated that the Grain Board had arranged a sale price for the wheat of 6.375 pesos per quintal on board cars in the port of Buenos Aires. He recalled also that the Vice President had previously authorized some shipments of wheat under this credit now completed.

The Agricultural Attache has been advised by an Officer of the Cotton Board that there is under consideration an additional credit to Spain for purchase of the 1941 cotton exportable surplus.

BA:JH:GLW

COPY:mg:4/26/41

(CONFIDENTIAL)

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PARAPHRASE

A telegram (no. 1559) of April 23, 1941 from the American Charge d'Affaires at Berlin reads substantially as follows:

In Berlin it is expected that commercial relations between Germany and possibly the countries in Europe which are under the economic control of Germany, on the one hand and Japan, "Manchukuo", the occupied portions of China, and any other areas which Japan may be able to dominate commercially, on the other hand, will be covered by the economic negotiations about to take place between Japan and Germany. It is understood also that it is planned to have provisions which will make it possible for Germany to obtain by re-export from Japan needed commodities from various sources, including the Dutch East Indies, which are now closed to Germany but open to Japan. For the present Japan is to concentrate on the exportation from East Asia of raw materials which the German war economy makes necessary. It is probable that Germany is to supply to Japan the necessary military supplies and at a later date industrial equipment with which to establish a dominant economic position, as implied in the Tripartite agreement, in the eastern Asiatic area. Due to war conditions this trade must be carried on through the Soviet Union, making it expensive and dependent upon the cooperation of the Soviets. In Berlin it is declared, however, that an impressive ability to take care of shipments from the Far East has been evidenced by the Trans-Siberian Railway.

PARAPHRASE OF TELEGRAM SENT

TO: American Embassy, London, England

DATE: April 23, 1941, 5 p.m.

NO.: 1558.

The following is for Ambassador Winant from the Secretary of the Treasury:

Re telegram of April 22, 9 p.m., no. 1590 from the Embassy.

It will be a pleasure to me to receive Professor Keynes when he comes to the United States.

HULL
(FL)

EA:LBW

April 23, 1941

Dr. Feis

Mr. Cochran

Will you kindly send the following cablegram:

"American Embassy,

London.

For the Ambassador from Secretary Morgenthau.

Reference your 1590, April 22, 9 p.m. I shall be pleased to receive Professor Keynes whenever he may arrive."

HMC:lap-4/23/41

MILITARY INTELLIGENCE DIVISION
WAR DEPARTMENT
Washington, April 23, 1941

TENTATIVE LESSONS BULLETIN
No. 95
G-2/2657-235

NOTICE

The information contained in this series of bulletins will be restricted to items from official sources which are reasonably confirmed. The lessons necessarily are tentative and in no sense mature studies.

This document is being given an approved distribution, and no additional copies are available in the Military Intelligence Division. For provisions governing its reproduction, see Letter TAG 350.05 (9-19-40) M-B-M.

VULNERABLE POINTS OF GERMAN ARMORED VEHICLES

SOURCE

This bulletin presents a summary of the views of the British War Office on vulnerable points of German armored vehicles as of December 28, 1940.

VULNERABLE POINTS OF GERMAN ARMORED VEHICLES

One of the first principles of tank design is to construct a vehicle which is proof against attack by antitank weapons. Since the effectiveness of antitank projectiles falls off rapidly as the angle of impact goes off normal, particularly at the longer ranges, it follows that the front and turret are given the heaviest armor and that plates are built in with as much slope as possible. The most obvious target thus becomes the most difficult one to damage.

The vulnerable parts are to be found in the more lightly armored sides and in belly of the hull. In some types of armored vehicles - for example, in the Pz. Kw. IV and in the Czech tanks, A.H.IV.Sv., T.N.H.P., and C.K.D V.8.H. - there is a point alongside the engine compartment which is extremely vulnerable although it is not exposed to view. It is at points such as these that antitank fire should be directed; a ricochet may enter and cause damage.

All German armored vehicles are liberally provided with vision slits and periscopes. Well directed machine gun fire at these points - especially at short range and with armor piercing ammunition, if possible - can cause damage to such an extent that the driver's or commander's vision may be obscured. The tank will probably be forced to change direction and to expose its vulnerable sides to the gunner.

When a German tank presents a broadside, the most vulnerable target for the gunner generally lies in the area between the top of the track and the top of the lower bogies. In the case of tanks with big bogies, such as the T.N.H.P., the aiming point should be above a line drawn through the center of the wheels. Another good target is the line where the turret joins the hull.

When a tank is head-on, the aiming point for antitank guns should be the center of the line where the turret joins the main hull. A direct hit on this line may at least jam the turret, and the general possibilities of doing damage are greater than at most points. A vision slit, periscope, or gun may be hit, or penetration may be made through to the driving compartment. The alternative target, the tracks, will be far more difficult to hit because of the very small area exposed. The chances of a complete miss are increased.

Sustained machine gun or rifle fire at the air intake or outlet louvres - the armored overlapping ventilating plates - may damage the power units by ricochet. Fire is best directed at the lower plates of the louvres in this case. Armor piercing ammunition should be used if possible.

In this connection, the following extract is from a secret German pamphlet:

"Troops are capable of defending themselves against the attack of armored vehicles with the rifle or ordinary machine gun.

"Up to 600 yards, ordinary bullets hitting armor produce lead splinters and fumes which penetrate into the interior of the tank through openings existing even when the tank is closed.

"If a large number of armor piercing bullets hit the target, their action is superior to that of the ordinary bullet at distances of less than 150 yards.

"Welded joints may be split and riveted parts may be destroyed by the shock of a number of projectiles.

"The turret may be jammed by a splinter of steel.

"When an armored vehicle comes under the accurate fire of rifles or machine guns, the crew is obliged to close the tank down. This makes operation much more difficult, reduces the tank's maneuvering capacity, and exposes it to the fire of antitank weapons for a longer period.

"Riflemen should fire as much as possible at the armored vehicles. The only effective projectiles are those that hit the armor at an angle of less than 30 degrees to the normal."

Certain points on armored vehicles, such as tracks, sprockets and suspension wheels, appear to offer likely targets because of their apparently unprotected positions, but it should be remembered that because they are in an exposed position they are designed to stand up to a good deal of hammering. There is, however, a chance that the tank may be immobilized by a direct hit on track links, a bogie, or a sprocket. A damaged track may render a tank immobile; the fire power of the tank will not be lessened, but it can more easily be given the coup-de-grace by an antitank gun or by incendiary weapons. Opportunities may be presented by the belly of a tank for shots by the antitank rifle when a tank rears up to cross a bank or climb out of a ditch. Because of the shape of the belly, fire must be at short range to ensure penetration.

The method of attack on an immobile armored vehicle will depend upon the weapons available. The following is a rough guide to points vulnerable to antitank and incendiary grenades, and it is not intended for tank hunting tactics.

1. Antitank Grenades - These should be aimed back and at the bottom of the turret, the sides of hull, and the gun ports.

2. Incendiary Grenades - These should be aimed at the louvres, both intake and outlet. Although they may not set the tank on fire, the smoke they produce will probably render the interior of the tank untenable. A closed down vehicle must breathe even if the engine is not running. Air must be introduced in order to expel gases produced by the guns if the tank is still fighting. In the Czech tanks already mentioned, an incendiary grenade placed along the track cover would achieve the best results, since it is here that there is direct access to the engine compartment.

RESTRICTED

G-2/2657-220; No. 373 M.I.D., W.D. 12:00 M., April 23, 1941

SITUATION REPORT

I. Western Theater of War.

Air: German. Normal offensive activity last night, directed principally at seaports. Plymouth and Portsmouth were fairly heavily attacked.

British. Apparently light activity last night, directed at the Invasion Coast. Brest was bombed twice.

II. Greek Theater of War.

Ground: The Greek Army of Epirus and Macedonia, estimated to be between ten and fourteen divisions, surrendered at 9:00 P.M. April 22. The German High Command states privately that German troops broke through the Thermopylae position on April 22 and that other German units have reached the Gulf of Corinth at an undesignated point.

The Greek Government has moved to the Island of Crete.

Air: Strong Axis attacks on troops, airfields and shipping.

III. Mediterranean and African Theaters of War.

Ground: There is evidence to suggest that Axis forces in the Sollum—Tobruk areas are acting on the defensive pending the arrival of reinforcements.

Air: Minor activity by both sides in North Africa. German dive bombers raided Malta.

RESTRICTED

Paraphrase of Code Cablegram
Received at the War Department
at 10:13, April 23, 1941

SECRET 74
By authority A. C. of S., G-2
Date APR 24 1941 (Initials)

London, filed 13:30, April 23, 1941.

The following is a summary of British Military Intelligence information to 07:00, April 23:

1. Sixty-two enlisted men and five officers were reported missing after an unopposed raid in the neighborhood of Bardia in which 450 British special service personnel took part. In the course of the operation an Italian supply dump was burned, a bridge destroyed, and four coast defense guns were damaged.

2. Reports assert that all British operations in Africa are making satisfactory progress.

3. Greece: Despite the fact that no information has been received concerning the Greek army, it is evident that an armistice with the Germans has been signed for a substantial portion of their forces. The roads between Arta and Agrinion are free of German columns by the latest information from the scouting planes. In the former place no Germans were observed. It is thought that the Germans are advancing in the direction of Prevesa.

4. The British have taken up positions approximately on the line Bratini to Molos and up to 12:00, April 22, no contact had been established with the Germans on these positions. The bombing of roads and ports in the rear of the British, however, was very severe.

LEE

Distribution:
- Secretary of War
- State Department
- Secretary of Treasury
- Under Secretary of War
- Assistant Chief of Staff, G-2
- War Plans Division
- Office of Naval Intelligence
- G-3

SECRET

CONFIDENTIAL

Paraphrase of Code Cablegram
Received at the War Department
at 23:46, April 23, 1941

Lisbon, filed April 23, 1941.

Although the major part of the public is pro-Ally, there are some who hold that adherence to the Axis would be profitable. The whole population is alarmed at the situation of Spain vis-a-vis Germany. The national policy of strict neutrality will be maintained and an attempt will be made to defend the mother country as well as the island possessions, but such an attempt cannot last for more than a few hours. There was an explosion in one of the forts at Horta (Azores) which resulted in heavy damage and a number of casualties, among which were nine soldiers. News of this has been kept out of the press. Intimate friends of Himmler are in Lisbon. The above is from General Staff Source believed to be trustworthy.

CAIN

Distribution:
- Secretary of War
- State Department
- Secretary of Treasury
- Under Secretary of War
- War Plans Division
- Office of Naval Intelligence
- Coordinating Section, Liaison Branch

CONFIDENTIAL

76

SECRET
By authority A. C. of S., G-2
Date APR 25 1941 (RPH)
Initials

Paraphrase of Code Radiogram
Received at the War Department
at 20:46, April 23, 1941.

Cairo, filed April 22, 1941.

In your reply requesting information as to generals commanding in the Middle East Theater, you are advised as follows:

1. There is no such official term as "Army of the Nile".

2. Major General A. R. Godwin-Austin is commander of the British forces in Palestine.

3. Major John F. Evetts is in command of the 6th Division, and Major General John D. Lavarack, an Australian officer of long experience, commands the 9th Australian Division.

4. Major General Noel Monson de la Poer Beresford-Peirse, former Aide-de-Camp to the King, commands the Western Desert Force with Brigadier J. C. E. Harding, an experienced armoured force commander as Chief of Staff.

5. Major General James H. Marshall-Cornwall commands the British troops in Egypt (less Western Desert Force) with Colonel Eldrington as Chief of Staff.

FELLERS

Distribution:
- Secretary of War
- State Department
- Secretary of Treasury
- Under Secretary of War
- Assistant Chief of Staff, G-2
- War Plans Division
- Office of Naval Intelligence

SECRET

Paraphrase of Code Radiogram
Received at the War Department
at 10:13, April 23, 1941

London, filed 15:20, April 23, 1941.

1. British Air Activity over the Continent.

a. Daylight April 22. A merchant vessel was badly damaged off Stavanger.

b. Night of April 21-22. Bombing planes remained inactive but raids were carried out by the Coastal Command against the shipping facilities at Le Havre.

2. German Air Activity over Britain.

a. Night of April 22-23. About 200 aircraft were employed in scattered attacks from the Thames Estuary to Liverpool and south of that line, concentrating especially over Plymouth. Mining operations were effected at Milford Haven and in the Liverpool harbor. No contact was made by defensive fighter planes and there is no report of damage.

b. Daylight April 22. German activity over Great Britain was at a minimum and no attacks have been reported.

3. Air Losses British Theater.

a. German.

(1) Daylight April 22. Offensive British patrol fighters destroyed two German planes.

(2) Night of April 21-22. Offensive patrol fighters over occupied France shot down one German 4-engined plane.

4. British Air Activity Middle Eastern Theater.

a. Libya.

(1) Daylight April 22. British aircraft raided Axis advanced air bases without interruption day and night. There was also continuous activity of fighter squadrons.

b. Greece.

(1) Daylight April 22. No information has been received concerning air activity.

5. German Air Activity Middle Eastern Theater.

a. Malta.

(1) Daylight April 21. Some damage to shipping facilities occurred in three raids by German aircraft.

6. German Air Losses Middle Eastern Theater.

a. Libya.

(1) April 22. A number of planes were claimed destroyed on the ground in the course of attacks by British aircraft on German advanced bases.

b. Malta.

(1) April 21. Two enemy bombers were shot down in the course of raids on Malta.

(2) Daylight April 20. Ship-based planes shot down four German troop transport planes and one Italian plane en route to Tripoli.

7. Tripoli was bombarded at dawn of April 21 by a British naval force which comprised three battleships as well as land and sea-based aircraft. Direct hits were scored on one Axis destroyer and six freighters. Large fires were observed in the town.

8. April 21. A 10,000 ton British ship laden with food

supplies homeward bound was sunk off the Island of Crete by a torpedo as well as a 7,000 ton tanker. One 6,000 ton tanker was sunk by bombing from the air in the same location.

9. <u>April 21.</u> Two 10,000 ton Axis tankers were sunk by British submarines off Norway and France.

LEE

Distribution
- Secretary of War
- State Department
- Secretary of Treasury
- Under Secretary of War
- Assistant Chief of Staff, G-2
- War Plans Division
- Office of Naval Intelligence
- Air Corps
- Assistant Chief of Staff, G-3

April 24, 1941
9:30 a.m.

Frank Knox: Hello, Henry.

H.M.Jr: How are you?

K: Fine. Say, Henry, I got a wire from Forrestal in which he - well, let me read it to you. That'll be the best way to do it.

"I have been informed by Admiralty that ten Coast Guard cutters of Tahoe class will be turned over immediately. During the coming week and the remainder prior to May 1st, request that following data be forwarded by cable: General description of machinery installation with emphasis on the electrical side. Complement broken down into ratings, particularly those of engineering branch." This is the important part. "Admiralty would appreciate officers or enlisted personnel be made available in status of ship observers for a period of about six months. They should be thoroughly experienced with electrical installations. Can this be done?"

H.M.Jr: Yeah, we've already had that request and I've turned it down.

K: You have. Well, now, what they're up against is the lack of knowledge among the British sailors and British officers of electric drive and these ships all have electric drive.

H.M.Jr: Well, let me tell you, Frank. The trouble is - you must be up against it ten times as much as I am. Now, it so happened I was in the Navy Yard Saturday. I sent you a message ......

K: Yeah.

H.M.Jr: ..... and I went on board those four ships. They've had I think it's ten men off the Malaya on that ship for over a week ......

K: They had what?

H.M.Jr: They've had ten men - ten Englishmen - one from each department, I mean, an engineer and so forth and so on.

K: Yeah.

H.M.Jr: They've been training those men for over ten days. They were going to take them on a trial run yesterday, and the Malaya has had the people right on there and the executive officer whom I went around with off the Malaya - the Captain wasn't there - seemed entirely satisfied. Now, may I make a suggestion?

K: Yeah.

H.M.Jr: Could you have somebody get in touch with Admiral Andrews, who is in charge at Brooklyn Navy Yard, isn't he.

K: Yeah, he's in charge of the district.

H.M.Jr: Well, ask him to ask the Captain of the Malaya, who is handling those cutters, whether he is satisfied or whether he isn't. Is that a fair proposal?

K: Well, I don't think it will get you anywhere, Henry. He wouldn't even know.

H.M.Jr: Oh, yes. It is his crew. He's putting the crews on.

K: I know, but here's what you're up against, Henry. It isn't a thing that can be learned in ten days. The transfer from direct application of steam drive to the propulsion of the vessel and the electrical handling of the same thing is a completely radical departure and not even the smartest man in the world could learn how to run the electric drive in ten days.

H.M.Jr: But all I'm asking, is the Captain of the Malaya who is taking these boats over, is he satisfied?

K: Well, even if he said yes I wouldn't be satisfied myself if I were Secretary of the Navy - the British Navy - not for a minute.

H.M.Jr: Well ......

K: Let me read you the final message. I got a second one.

H.M.Jr: Did you put any observers on any of the destroyers?

K: No, and they didn't get any work out of them for three months. Those destroyers - they took four months in the first place to accept delivery of them and none of them were actually put into service until about ninety days after they got them because they had to train the crews. And it was just frightful. As a matter of fact, there were two of them collided in Halifax harbor and one of them was laid up for about six months getting repaired. It was just awful. Now, let me read the second message.

H.M.Jr: Please.

K: "Referring to London dispatch, and so forth, with reference to technical operation personnel" - this is from Forrestal - "in my judgment this is most desirable if the British are to get the quickest and the best use of the ships since their experience with electric drive is most limited. In general this illustrates Harriman's belief that all American materiel should be accompanied by operating personnel for a sufficient time to instruct the British in its use. I hope you will find it possible to intervene with Treasury in this instance."

Now, let me tell you what we've done, Henry. I don't know whether you know this or not. They were getting so little effective use of American aircraft, they were tearing them up and breaking them up and rolling them over because they didn't know how to operate them that at the request of the British about a month ago I agreed to send fifty of our most expert fliers and the Army 25, a total of 75 expert fliers, as observers. Part of them are on the way now and some of them are there and we did that so that they could get immediate, effective use of this air materiel.

H.M.Jr: Right.

K: I think the same thing is true of your cutters. They'll play around with them and they won't use them until they get trained crews and especially trained crews to handle the machinery, and it will probably, if we send some personnel over there to teach them how to use this electric drive, they will use these ships at least sixty days sooner than they would otherwise.

H.M.Jr: Well, of course ......

K: Now, this is the crisis right now. It's God-damn important that they get these vessels into commission at once.

H.M.Jr: Yeah. Well, the things aren't comparable. After all your observers stay on the ground and ......

K: No, they don't; they get into the ships and fly with them. As a matter of fact, they fly over Germany and everything else. They go out as observers on planes just like our Navy officers go out as observers on battleships, and cruisers and destroyers. We had an officer on board in every one of those engagements down on the Mediterranean.

H.M.Jr: Well, I see in the Tribune that you did and I was going to call you up and ask you whether I could have a thumb-nail sketch of what happened off - you know - Tripoli.

K: Yeah. Well, there was an American officer there. I haven't had a report from him yet but when I get it you can see if if you want to.

H.M.Jr: Could I?

K: Sure, you can see anything I've got.

H.M.Jr: Well, let me turn this thing over in my mind and ......

K: I think you had better talk it over with the President, too, because it involves sending our own personnel out into action.

H.M.Jr: Oh, I'd have to talk to him.

K: Yeah. Well, do that, will you, Henry?

H.M.Jr: You'll get action one way or the other.

K: All right. I'll leave it in your hands now because it's entirely your personnel.

H.M.Jr: I appreciate your calling me.

K: All right, Henry.

H.M.Jr: Thank you.

K: Good-bye.

INCOME TAXES

BY

FEDERAL RESERVE DISTRICTS

	MARCH 1941	MARCH 1940
BOSTON	$ 96,464,660.86	$ 48,965,187.99
NEW YORK	327,123,914.94	191,247,668.97
PHILADELPHIA	97,050,590.71	56,530,505.33
CLEVELAND	125,280,153.75	60,843,586.03
RICHMOND	64,627,131.39	39,060,111.64
ATLANTA	46,177,978.10	27,254,042.62
CHICAGO	247,206,058.95	121,888,353.28
ST. LOUIS	29,360,129.50	17,917,815.25
MINNEAPOLIS	15,227,858.80	9,259,489.92
KANSAS CITY	29,714,194.46	18,031,520.84
DALLAS	27,547,467.63	16,820,660.80
SAN FRANCISCO	86,406,968.10	50,517,617.31
Total, Federal Reserve Banks	$ 1,192,387,107.19	$ 658,336,557.98
TERRITORY OF HAWAII . . .	2,475,039.76	* 499,716.27
GRAND TOTAL	$ 1,194,862,146.95	$ 658,836,274.25

*Reports for March 15 and 16, 1940 from Hawaii not received in time for this statement. Amount approximately $1,000,000. March 1941 includes March 15, 17, and 18, 1941.

dwB

SUGGESTED STATEMENT BY SECRETARY MORGENTHAU ON NEW TAXES

I have come before you today to discuss with you the need of producing three and a half billion dollars annually in additional revenue for the defense of our country. Such an increase is without precedent in the experience of this Committee, but the situation confronting us today is also without ~~the~~ parallel. We are faced with a greater challenge and a greater potential danger than any in the history of the Republic. It calls for a still greater response than has yet been made. The American people are prepared to make such a response, and to make it willingly.

I am now proposing an additional diversion of only four per cent of a ~~swiftly~~ rapidly rising income to the cause of national defense. This surely is a modest proposal in the present emergency, and with the present level of prosperity. Other countries, free and progressive countries like our own, have uncomplainingly assumed far heavier defense burdens in proportion to their size and population. We are big and rich and strong. We are economically better able to carry this load than any other people in the world. The American taxpayer stands ready to take this burden in his stride.

The American people would not take back one penny of the billions that have already been appropriated for national defense. If any complaint ~~about these expenditures~~ is justified, it is that these appropriations are not being translated into actual expenditures, ~~we are not spending~~ ~~one but~~ ~~fast enough, that we are not translating appropriations~~ into actual outlay and production, ~~and outlay,~~ ~~as quickly as we should~~ fast enough.

We now have on our books about thirty-five billion dollars in defense appropriations. Many people assume from this figure that we are going to spend most of these thirty-five billions in the coming fiscal year. But our studies at the Treasury have shown that unless drastic changes and improvements are made in our program of armament production, we shall fall far short of achieving this end ~~unless we speed up our production effort~~. We now estimate that no more than twelve billion will be spent for defense purposes in the fiscal year ending June 30, 1942.

It would be pleasant for me to be able to tell this Committee that this expenditure is ample and that all is well with our production, but I could do no greater disservice to the American people. We all remember how the French soothed themselves to sleep with the Maginot Line and with a production program that was only [redacted] on paper. I, for one, do not intend to contribute to lulling our people into a false sense of security by pretending that our weapons of defense are about to pour off the assembly lines in an inexhaustible flood. The truth is that at the start of the new fiscal year we shall be spending no more than 1 billion dollars a month on defense. We shall find ourselves spending less than fifteen per cent of our national income for the national safety, although twenty months have passed with the world on fire, although the forces of aggression control all the factories of continental Europe, and although the danger to our peace and security is mounting hour by hour. That is what I mean when I say that we are not spending fast enough.

The problem of building our defense is fundamentally a problem of production. We cannot build planes and tanks, ships and guns, merely by voting money. We build them with labor and management, with raw materials and machinery. If the resources now employed in the defense industries are not enough to produce the guns and tanks and ships and planes that we need, we must hasten the reemployment of our idle resources. And if even this increase is not enough, we must divert to defense ~~still~~ much more of the resour-

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ces now engaged in meeting our ordinary civilian needs.

~~The financial end of this program should be concerned with three objectives.~~

~~First, it should help mobilize all of our resources that are needed for our security. It must help put idle men and equipment to defense work and it must help to divert men and equipment from civilian to defense production in so far as may be needed.~~

~~Second, it should distribute in an equitable manner the real cost of the program among all the people.~~

~~Third, it should leave as little as possible of an unfavorable aftermath in the form of an unbalanced price structure, impaired and depleted productive resources, and post-expansion depression.~~

The tax program before you today is designed to achieve these very objectives. First of all, it should help to mobilize our resources for defense by reducing the amount of money that the public can ~~be~~ spend for unnecessary things. Secondly, it is designed so that all sections of the people shall bear their fair share of the burden. And finally, it is designed to prevent a general rise in prices by keeping the total volume of monetary purchasing power from outrunning production. ¶

There can be no stinting of our defense expenditures. Nor would anyone in this room deliberately stop providing for those of our people who are in want, or who face old age without means of their own, or who need urgent relief for causes beyond their control.

But there is another set of expenditures which, as I suggested to this Committee on January 29, we should now "re-examine with a magnifying glass." These are the government expenditures federal, state and local, which are neither for purposes of defense nor for purposes of relief and security from want. We have been spending in these fields as if there were no defense program, and as if we could superimpose our huge rearmament effort upon business as usual. This was the right procedure before the emergency. But we simply cannot carry on business as usual at such a time as this. It would be a tragic error to assume that we can expand our defense production on a colossal scale and still go our usual ways, as a Government or as individuals. ~~still manufacture our usual gadgets, and~~ It would be folly to assume that we can ~~still spend on the usual~~ continue to spend as before ~~luxuries that divert labor and materials from our defense efforts~~ all the things which we could well afford in normal times but which now compete with our defense effort.

In the past twelve months, we have completely revised our thinking on defense expenditures, as every member of this Committee knows. We now accept the need for expenditures on the enlarged scale required to make this country safe and strong. We have not, however, kept pace with events in our thinking about non-defense spending. We have remained curiously static in our conceptions of what to spend on those things not directly connected with defense.

There has been general agreement that much higher taxes are necessary; but one group has urged the taxing of labor but not of business, while another group has urged that the rich and prosperous can afford to bear the whole load.

I suggest that the time has come to disregard both kinds of advice. The job before us is so big that all the American people must help to carry it out, in proportion to their ability to pay. It is unsound, especially at a time like this, to proceed on the assumption that any great section of our people should be penalized or that any group should be exempted from sharing in the common task. We all want labor to earn fair wages, the farmer to have his proper share of the national income, and business to make a fair profit. No sensible government ever wants to tax business so severely that reasonable profits will disappear by the time the year's books are closed and the year's taxes are paid.

You will notice that I used the phrase "fair profit". You and I know ~~quite~~ accurately enough, I think, what that phrase means and what it does not mean. It certainly does not mean that any businessman, or any other American, should make inordinate and excessive profits out of this national emergency. The Congress has tried to do away with defense profiteering through excess profits taxes;

~~I am sorry to say, however, that certain companies are still making abnormal profits utterly out of line with what is fair and reasonable.~~ But ~~It~~ it is hard to devise any excess profits tax which is 100 per cent protection against defense profiteering. ~~but~~ I hope that the bill to be written by this Committee will be helpful in further reducing ~~removing~~ the evil ~~of profiteering~~. The American people do not intend that ~~a~~ some ~~few~~ of their number shall grow rich and fat out of this country's danger. They will, in my opinion, support any workable tax that will prevent this from occurring. ~~profiteering from raising its ugly head.~~

The Treasury is prepared to recommend tax revisions of which the most important features are an increase of ~~increased~~ income tax~~es~~ rates, ~~a lowering of income tax exemptions,~~ a lowering of the minimum income subject to surtax, an increase in excess profits tax, and finally, new excise taxes on a large number of commodities which are not essential to the defense program. Mr. Sullivan and the Treasury Staff are here to discuss these recommendations in detail. ~~I should just like to make this brief observation.~~

~~(suggested ending)~~

~~In conclusion,~~ I should just like to make ~~just~~ this brief observation in conclusion. ¶ The American people, I believe, have outgrown the old idea that taxes were exactions forced upon them by their Government. We have come to understand, especially in the past eight years, that taxes are payments for services rendered. We can look about us and see highways, schools, airports, reclamation work and Government activities of all kinds which have been paid for by our own efforts. Our daily lives would be ~~hard and probably~~ insupportable if it were not for the necessities and the conveniences which our taxes have made possible.

We are now about to pay for the greatest service of all: the safety and protection of our country. ~~I doubt if any~~ No taxpayer can possibly compute in terms of dollars what this protection is worth to him and to his family. I ~~doubt if he can assess~~ How ~~how~~ much does it mean~~s~~ to him to have a navy guarding American shores? How ~~how~~ much does ~~it means~~ to insure an adequate supply of

~~have~~ airplanes and other weapons of national defense? ~~how~~ How much is it ~~is~~ worth to be a free man living in a land of freedom? Whatever it costs, be ~~that~~ cost what it may. If we look at our coming taxes as a lump sum, they are a forbidding sight; but if we remember always the services we are receiving as individuals, the taxes will seem a ~~cheap~~ small price to pay. This time everything we have, everything we value and treasure, is at stake in the world. The American people, I know, are ready to defend that stake, no matter what the cost may be.

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SUGGESTED STATEMENT BY SECRETARY MORGENTHAU ON NEW TAXES

I have come before you today to discuss with you the need of producing three and a half billion dollars annually in additional revenue for the defense of our country. Such an increase is without precedent in the experience of this Committee, but the situation confronting us today is also without parallel. We are faced with a greater challenge ~~and a greater potential danger~~ than any in the history of the Republic. It calls for a still greater response than has yet been made. The American people are prepared to make such a response, and to make it willingly.

I am now proposing an additional diversion of only four per cent of a rapidly rising income to the cause of national defense. This surely is a modest proposal in the present emergency, and with the present level of prosperity. Other countries, free and progressive countries like our own,

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have uncomplainingly assumed far heavier defense burdens in proportion to their size and population. We are big and rich and strong. We are economically better able to carry this load than any other people in the world. The American taxpayer stands ready to take this burden in his stride.

The American people would not take back one penny of the billions that have already been appropriated for national defense. If any complaint is justified, it is that these appropriations are not being translated into actual expenditures, into actual outlay and production, fast enough.

We now have on our books about thirty-five billion dollars in defense appropriations. Many people assume from this figure that we are going to spend most of these thirty-five billions in the coming fiscal year. But our studies at the Treasury have shown that unless drastic changes and improvements are made in our program of armament production, we shall fall far short of achieving this end. We now estimate that unless we greatly speed up our production effort, no more than twelve billions will be spent for defense purposes in the fiscal year ending June 30, 1942.

It would be pleasant for me to be able to tell this Committee that this rate of expenditure is ample and that all is well with our production, but I could do no greater disservice to the American people. We all remember how the French, lulled ~~soothed~~ themselves to sleep with the thought of Maginot Line and with a production program that was only on paper. I, for one, do not intend to contribute to lulling our people into a false sense of security by pretending that our weapons of defense are about to pour off the assembly lines in an inexhaustible flood. The truth is that at the start of the new fiscal

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year we shall be spending no more than 1 billion dollars a month on defense. We shall find ourselves spending less than fifteen per cent of our national income for the national safety, although twenty months have passed with the world on fire, although the forces of aggression control all the factories of continental Europe, and although the danger to our peace and security is mounting hour by hour. That is what I mean when I say that we are not spending fast enough.

The problem of building our defense is fundamentally a problem of production. We cannot build planes and tanks, ships and guns, merely by voting money. We build them with labor and management, with raw materials and machinery. If the resources now employed in the defense industries are not enough to produce the guns and tanks and ships and planes that we need, we must hasten the reemployment of our idle

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resources. And if even this increase is not enough, we must divert to defense much more of the resources now engaged in meeting our ordinary civilian needs.

The tax program before you today is designed to achieve these very objectives. First of all, it should help to mobilize our resources for defense by reducing the amount of money that the public can spend for unnecessary things. Secondly, it is designed so that all sections of the people shall bear their fair share of the burden. And finally, it is designed to prevent a general rise in prices by keeping the total volume of monetary purchasing power from outrunning production.

If we provide three and a half billion dollars in additional taxation, the fiscal situation for 1942 will show a total expenditure of , of which defense expenditures will amount to . Total revenues from taxation and

D-D miscellaneous receipts will be , leaving to be furnished by borrowing.

There can be no stinting of our defense expenditures. Nor would anyone in this room deliberately stop providing for those of our people who are in want, or who face old age without means of their own, or who need urgent relief for causes beyond their control.

But there is another set of expenditures which, as I suggested to this Committee on January 29, we should now "re-examine with a magnifying glass." These are the government expenditures which are neither for purposes of defense nor for purposes of relief and security from want. We have been spending in these fields as if there were no defense program, and as if we could superimpose our huge rearmament effort upon business as usual. This was the right procedure before the emergency. But we simply cannot carry on business as usual at such a time as this. It would be a tragic error to assume that we can expand our defense production on a colossal scale and still go our usual ways as a Government or as individuals. It would be folly to assume that we can continue to spend as before on all the things which we could well afford in normal times but which now compete with our defense effort.

In the past twelve months, we have completely revised our thinking on defense expenditures, as every member of this Committee knows. We now accept the need for expenditures on the enlarged scale required to make this country safe and strong. We have not, however, kept pace with events in our thinking about non-defense spending. We have remained curiously static in our conceptions of what to spend on those things not directly connected with defense. The whistle of the fire engine has sounded. Ordinary traffic must get to one side to let the engines get through. Planes and ships and guns now have the right of way; other traffic can be permitted only if it serves the National purpose.

There has been general agreement that much higher taxes are necessary; but one group has urged the taxing of labor but not of business, while another group has urged that the rich and prosperous can afford to bear the whole load. I suggest that the time has come to disregard both kinds of advice. The job before us is so big that all the American people must help to carry it out, in proportion to their ability to pay. It is unsound, especially at a time like this, to proceed on the assumption that any great section of our people should be penalized or that any group should be exempted from sharing in the common task. We all want labor to earn fair wages, the farmer to have his proper share of the national income, and business to make a fair profit. No sensible government ever wants to tax business so severely that reasonable profits will disappear by the time the year's books are closed and the year's taxes are paid.

You will notice that I used the phrase "fair profit". You and I know accurately enough, I think, what that phrase means and what it does not mean. It certainly does not mean that any businessman, or any other American, should make inordinate and excessive profits out of this national emergency. The Congress has tried to do away with defense profiteering through excess profits taxes; but it is hard to devise any excess profits tax which is 100 per cent protection against defense profiteering. I hope that the bill to be written by this Committee will be helpful in further reducing the evil. The American people do not intend that some of their number shall grow rich and fat out of this country's danger. They will, in my opinion, support any workable tax that will prevent this from occurring.

The Treasury is prepared to recommend tax revisions of which the most important features are an increase of income tax rates, a lowering of the minimum income subject to surtax, an increase in excess profits tax, and finally, new excise taxes on a large number of commodities which are not essential to the defense program. Mr. Sullivan and the Treasury Staff are here to discuss these recommendations in detail. I should just like to make this brief observation in conclusion.

The American people, I believe, have outgrown the old idea that taxes were exactions forced upon them by their Government. We have come to understand, especially in the past eight years, that taxes are payments for services rendered. We can look about us and see highways, schools, airports, reclamation work and Government activities of all kinds which have been paid for by our own efforts. Our daily lives would be insupportable if it were not for the necessities and the conveniences which our taxes have made possible.

We are now about to pay for the greatest service of all: the safety and protection of our country. No taxpayer can possibly compute in terms of dollars what this protection is worth to him and to his family. How much does it mean to him to have a navy guarding American shores? How much does it mean to him to have an adequate supply of airplanes and other weapons of national defense? How much is it worth to be a free man living in a land of freedom? Whatever it costs, be that cost what it may. If we look at our coming taxes as a lump sum, they are a forbidding sight; but if we remember always the services we are receiving as individuals, the taxes will seem a small price to pay. ~~This time~~ everything we have, everything we value and treasure, is at stake in the world. The American people, I know, are ready to defend that stake, no matter what the cost may be.

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DRAFT

April 29, 1941.

~~SUGGESTED STATEMENT BY SECRETARY MORGENTHAU ON NEW TAXES~~

I have come before you today to discuss with you the need of producing three and a half billion dollars annually in additional revenue for the defense of our country. Such an increase is without precedent, but the situation confronting us today is also without parallel.

We are faced with a greater challenge than any in the history of the Republic. It calls for a ~~still~~ much greater response than has yet been made. The American people are prepared to make such a response, and to make it willingly.

The Treasury is now proposing an additional diversion through taxation of 3½ billion dollars, which is only four per cent of a rapidly rising national income, to the cause of national defense. This surely is a modest proposal in the present emergency, and with the present level of prosperity. Other countries, free and progressive countries like our own,

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have uncomplainingly carried far heavier defense burdens in proportion to their size and population.

We are big and rich and strong. We are economically better able to carry this load than any other people in the world. The American taxpayer stands ready to take this burden in his stride.

The American people would not take back one penny of the billions that have already been appropriated for national defense. If any complaint is justified, it is that these appropriations are not being translated fast enough into actual expenditures, into actual production.

We now have on our books about thirty-five billion dollars in defense appropriations. Many people assume from this figure that we are going to spend most of these thirty-five billions in the coming fiscal year. But our studies at the Treasury have shown that unless we greatly speed up our production effort, no

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more than twelve billions will be spent for defense purposes in the fiscal year ending June 30, 1942.

It would be pleasant for me to be able to tell this Committee that this rate of expenditure is ample and that all is well with our production, but I could do no greater disservice to the American people. We all remember how the French lulled themselves to sleep with the thought of the Maginot Line and with a production program that existed only on paper. We must not lull our people into a false sense of security by pretending that our weapons of defense are about to pour off the assembly lines in an inexhaustible flood.

The ~~truth~~ Treasury estimate is that at the start of the new fiscal year we shall be spending no more than 1 billion dollars a month on defense. Almost two years will have passed with the world on fire. The forces of aggression already control all the factories of continental Europe. The danger to our peace and

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security is mounting hour by hour. Yet we shall find ourselves spending less than fifteen per cent of our national income for the national safety. That is why I say that we are not spending fast enough.

The problem of building our defense is fundamentally a problem of production. We cannot build planes and tanks, ships and guns, merely by voting money. We build them with labor and management, with raw materials and machinery. The resources now employed in the defense industries are not enough to produce the guns and tanks and ships and planes that we need. We must hasten the reemployment of our idle resources. Even this increase will not be enough. As we closely approach full employment of our resources, we must take the next step of diverting to defense production more and more of the resources now engaged ~~[illegible]~~ in satisfying our civilian needs and wants.

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The tax program before you is designed to promote these very objectives.

First of all, it will help to mobilize our resources for defense by reducing the amount of money that the public can spend for unnecessary things.

Secondly, it is designed so that all sections of the people shall bear their fair share of the burden.

And finally, it is designed to prevent a general rise in prices by keeping the total volume of monetary purchasing power from outrunning production.

~~If we provide three and a half billion dollars in additional taxation, the fiscal situation for 1942 will show a total expenditure of , of which defense expenditures will amount to . Total revenues from taxation and miscellaneous receipts will be , leaving for by~~

~~furnished by borrowing.~~

~~I have just stated that our defense expenditures for the next fiscal are now estimated at ______ billion dollars.~~

There must, of course, be no stinting of our defense expenditures.

But there is another set of expenditures which, as I suggested to this Committee on January 29, we should now "re-examine with a magnifying glass." These are the government expenditures which are neither for purposes of defense nor for purposes of relief and security from want. We are continuing to spend in these non-defense and non-relief fields as if we had no emergency defense program, as if we could superimpose our huge rearmament effort upon government as usual and business as usual. This was all right before the existing emergency and while there continued to be a large volume of available unemployed resources. But we simply cannot carry on business as usual and government as usual from now on and still take adequate care of our defense needs. It would be a tragic error to assume that we can expand our defense production on a colossal scale and still go our usual ways, whether as a Government or as individuals. It would be folly to assume that we can continue to spend now ~~as before on all the things which we could well afford~~ as we did in normal times, ~~but which now compete with our defense effort.~~

In the past twelve months, we have completely revised our thinking on defense expenditures, as this Committee knows. We are now awake to the need for expenditures on the enlarged scale required to make this country safe and strong. We have not, however, kept pace with events in our thinking about non-defense and non-relief spending. We have remained curiously static in our conceptions of what to spend on those things not directly connected with defense. The siren of the fire engine has sounded. Ordinary traffic must get to one side to let the engines get through. Planes and tanks and guns now have the right of way; other traffic can be permitted only if it does not obstruct the National purpose.

Now, I don't want anyone to misunderstand me. I want to make it perfectly clear that we must continue to provide for those ~~of our people~~ in want, those who face old age without means of their own, or who are otherwise in urgent need of relief.

There has been general agreement that such higher taxes are necessary; but one group has urged that new taxes be imposed on labor but not on business, while another group has argued that the rich and prosperous can afford to bear the whole load. Both kinds of advice should be disregarded. The job before us is so big that all the American people must help to carry it out, in proportion to their ability to pay. It is unsound, especially at a time like this, to proceed on the assumption that any group of our people should be penalized or that any section should be exempted from sharing in the common task. We all want labor to earn fair wages, the farmer to have his proper share of the national income, and business to make a fair profit.

Please note that I used the term "fair" profit. No business, no American, should make inordinate and excessive profits out of this national emergency. The Congress has tried to deal with the problem of defense profiteering through excess profits taxes. We all know how hard it is to devise any excess profits tax which is 100 per cent protection against defense profiteering, but I hope that the bill to be written by this Committee will be helpful in further reducing the evil. The American people do not intend that any of their number shall grow rich and fat out of this country's danger. They will, in my opinion, support any fair and workable tax that will help to keep this from occurring.

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The Treasury is prepared to ~~recommend~~ suggest tax revisions of which the most important features are an increase of income tax rates, a lowering of the minimum income subject to surtax, an increase in excess profits tax, and finally, new excise taxes on a number of commodities which are not essential to the defense program. Mr. Sullivan and the Treasury Staff are here to discuss these ~~recommendations~~ suggestions in detail.

In conclusion, I should like to make ~~a final~~ one more observation. The American people, I believe, have outgrown the old idea that taxes were exactions forced upon them by their Government. We have come to understand, especially in the past eight years, that taxes are payments for services rendered. We can look about us and see highways, schools, airports, reclamation work and Government activities of all kinds which have been paid for by our own efforts. Our daily lives would be insupportable if it were not for the necessities and the conveniences which our taxes have made possible.

We are now about to pay for the greatest service of all: the safety and protection of our country. How much does it mean to the American taxpayer to have a navy guarding American shores? How much does it mean to him to have an adequate supply of airplanes and other weapons of national defense? How much is it worth to be a free man living in a free land? If we remember always the services we are receiving as individuals, the new taxes will seem a small price to pay. ~~Everything we have, everything we value and treasure, is now at stake.~~ The American people ~~[illegible]~~ are ready to ~~defend that stake, no~~ pay that price. matter ~~what the cost may be~~.

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April 24, 1941. 120

I have come before you today to discuss with you the need of producing three and a half billion dollars annually in additional revenue for the defense of our country. Such an increase is without precedent, but the situation confronting us today is also without parallel.

We are faced with a greater challenge than any in the history of the Republic. It calls for a much greater response than has yet been made. The American people are prepared to make such a response, and to make it willingly.

The Treasury is now proposing an additional diversion through taxation of 3½ billion dollars, which is only four per cent of a rapidly rising national income, to the cause of national defense. This surely is a modest proposal in the present emergency, and with the present level of prosperity. Other countries, free and progressive countries like our own, have uncomplainingly carried far heavier defense burdens in proportion to their size and population.

We are big and rich and strong. We are economically better able to carry this load than any other people in the world. The American taxpayer stands ready to take this burden in his stride.

The American people would not take back one penny of the billions that have already been appropriated for national defense. If any complaint is justified, it is that these appropriations are not being translated fast enough into actual expenditures, into actual production.

We now have on our books about thirty-five billion dollars in defense appropriations. Many people assume from this figure that we are going to spend most of these thirty-five billions in the coming fiscal year. But our studies at the Treasury have shown that unless we greatly speed up our production effort, no more than twelve billions will be spent for defense purposes in the fiscal year ending June 30, 1942.

It would be pleasant for me to be able to tell this Committee that this rate of expenditure is ample and that all is well with our production, but I could do no greater disservice to the American people. We all remember how the French lulled themselves to sleep with the thought of the Maginot Line and with a production program that existed only on paper. We must not lull our people into a false sense of security by pretending that our weapons of defense are about to pour off the assembly lines in an inexhaustible flood.

The Treasury estimate is that at the start of the new fiscal year we shall be spending no more than 1 billion dollars a month on defense.

Almost two years will have passed with the world on fire. The forces of aggression already control all the factories of continental Europe. The danger to our peace and security is mounting hour by hour. Yet we shall find ourselves spending less than fifteen per cent of our national income for the national safety. That is why I say that we are not spending fast enough for defense.

The problem of building our defense is fundamentally a problem of production. We cannot build planes and tanks, ships and guns, merely by voting money. We build them with labor and management, with raw materials and machinery.

The resources now employed in the defense industries are not enough to produce the guns and tanks and ships and planes that we need to carry out the program to which we are already committed. We must hasten the reemployment of our idle resources. Even this increase will not be enough. As we closely approach full employment of our resources, we must take the next step of diverting to defense production more and more of the resources now engaged in satisfying our civilian needs and wants.

The tax program before you is designed to promote these very objectives.

First of all, it will help to mobilize our resources for defense by reducing the amount of money that the public can spend for comparatively less important ~~unnecessary~~ things.

Secondly, it is designed so that all sections of the people shall bear their fair share of the burden.

And finally, it is designed to prevent a general rise in prices by keeping the total volume of monetary purchasing power from outrunning production.

There must, of course, be no stinting of our defense expenditures. But there is another set of expenditures which, as I suggested to this Committee on January 29, we should now "re-examine with a magnifying glass." These are the government expenditures which are neither for purposes of defense nor for purposes of relief and security from want.

We are continuing to spend in these non-defense and non-relief fields as if we had no emergency defense program, as if we could superimpose our huge rearmament effort upon government as usual and business as usual. This was all right before the existing emergency and while there continued to be a large volume of available unemployed resources. But we simply cannot carry on business as usual and government as usual from now on and still take adequate care of our defense needs. It would be a tragic error to assume that we can expand our defense production on a colossal scale and still go our usual ways, whether as a Government or as individuals. It would be folly to assume that we can continue to spend now as we did in normal times.

In the past twelve months, we have completely revised our thinking on defense expenditures, as this Committee knows. We are now awake to the need for expenditures on the enlarged scale required to make this country safe and strong. We have not, however, kept pace with events in our thinking about non-defense and non-relief spending. We have remained curiously static in our conceptions of what to spend on those things not directly connected with defense. The siren of the fire engine has sounded. Ordinary traffic must get to one side to let the engines get through. Planes and tanks and guns now have the right of way; other traffic can be permitted only if it does not obstruct the National purpose.

Now, I don't want anyone to misunderstand me. I want to make it perfectly clear that we must continue to provide for those in want, those who face old age without means of their own, or who are otherwise in urgent need of relief.

There has been general agreement that much higher taxes are necessary; but one group has urged that new taxes be imposed on labor but not on business, while another group has argued that the rich and prosperous can afford to bear the whole load. Both kinds of advice should be disregarded. The job before us is so big that all the American people must help to carry it out, in proportion to their ability to pay. It is unsound, especially at a time like this, to proceed on the assumption that any group of our people should be penalized or that y section should be exempted from sharing in the mon task. We all want labor to earn fair wages, e farmer to have his proper share of the national come, and business to make a fair profit.

Please note that I used the term "fair" profit. business, no American, should make inordinate d excessive profits out of this national emergency. e Congress has tried to deal with the problem of fense profiteering through excess profits taxes. all know how hard it is to devise any excess profits x which is 100 per cent protection against defense ofiteering, but I hope that the bill to be written this Committee will be helpful in further reducing s evil. The American people do not intend that any their number shall grow rich and fat out of this country's danger. They will, in my opinion, support any fair and workable tax that will help to keep this from occurring.

The Treasury is prepared to suggest tax revisions of which the most important features are an increase of income tax rates, a lowering of the minimum income subject to surtax, an increase in excess profits tax, and finally, new excise taxes on a number of commodities which are not essential to the defense program. Mr. Sullivan and the Treasury Staff are here to discuss these suggestions in detail.

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We are now about to pay for the greatest service of all: the safety and protection of our country. How much does it mean to the American taxpayer to have a navy guarding American shores? How much does it mean to him to have an adequate supply of airplanes and other weapons of national defense? How much is it worth to be a free man living in a free land? If we remember always the services we are receiving as individuals, the new taxes will seem a small price to pay. The American people are ready to pay that price.

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SECRETARY'S TAX STATEMENT BEFORE

HOUSE WAYS AND MEANS COMMITTEE, APRIL 24, 1941

I have come before you today to discuss with you the need of producing three and a half billion dollars annually in additional revenue for the defense of our country. Such an increase is without precedent, but the situation confronting us today is also without parallel.

We are faced with a greater challenge than any in the history of the Republic. It calls for a much greater response than has yet been made. The American people are prepared to make such a response, and to make it willingly.

The Treasury is now proposing an additional diversion through taxation of 3½ billion dollars, which is only four per cent of a rapidly rising national income, to the cause of national defense. This surely is a modest proposal in the present emergency, and with the present level of prosperity. Other countries, free and progressive countries like our own, have uncomplainingly carried far heavier defense burdens in proportion to their size and population.

We are big and rich and strong. We are economically better able to carry this load than any other people in the world. The American taxpayer stands ready to take this burden in his stride.

We now have a program of about thirty-nine billion dollars for defense expenditures including the Lend-Lease appropriations. Many people assume from this figure that we are going to spend most of these thirty-nine billions in the coming fiscal year. But our studies at the Treasury have shown that unless we greatly speed up our production effort, not much more than twelve billions will be spent for defense purposes in the fiscal year ending June 30, 1942.

The Treasury estimate is that at the start of the new fiscal year we shall be spending no more than 1 billion dollars a month on defense. Almost two years will have passed with the world on fire.

The forces of aggression already control all the factories of continental Europe. The danger to our peace and security is mounting hour by hour. Yet we shall find ourselves spending less than fifteen per cent of our national income for the national safety.

The problem of building our defense is fundamentally a problem of production. We cannot build planes and tanks, ships and guns, merely by voting money. We build them with labor and management, with raw materials and machinery. The resources now employed in the defense industries are not enough to produce the guns and tanks and ships and planes that we need to carry out the program to which we are already committed.

We must hasten the reemployment of our idle resources. Even this increase will not be enough. As we closely approach full employment of our resources, we must take the next step of diverting to defense production more and more of the resources now engaged in satisfying our civilian needs and wants.

The tax program before you is designed to promote these very objectives.

First of all, it presents a method of paying as we go for a reasonable proportion of our expenditures.

Secondly, it is designed so that all sections of the people shall bear their fair share of the burden.

Third, it will help to mobilize our resources for defense by reducing the amount of money that the public can spend for comparatively less important things.

And finally, it is designed to prevent a general rise in prices by keeping the total volume of monetary purchasing power from outrunning production.

There must, of course, be no stinting of our defense expenditures. But there is another set of expenditures which, as I suggested to this Committee on January 29, we should now "re-examine with a magnifying glass." These are the government expenditures which are neither for purposes of defense nor for purposes of relief and security from want.

We are continuing to spend in these non-defense and non-relief fields as if we had no emergency defense program, as if we could superimpose our huge rearmament effort upon government as usual and business as usual. This was all right before the existing emergency and while there continued to be a large volume of available unemployed resources. But we simply cannot carry on business as usual and government as usual from now on and still take adequate care of our defense needs. It would be a tragic error to assume that we can expand our defense production on a colossal scale and still go our usual ways, whether as a Government or as individuals. It would be folly to assume that we can continue to spend now as we did in normal times.

In the past twelve months, we have completely revised our thinking on defense expenditures, as this Committee knows. We are now awake to the need for expenditures on the enlarged scale required to make this country safe and strong. We have not, however, kept pace with events in our thinking about non-defense and non-relief spending. We have remained curiously static in our conceptions of what to spend on those things not directly connected with defense. Ordinary traffic must now get to one side to let planes and tanks and guns have the right of way. Other traffic can be permitted only if it does not obstruct the National purpose.

Now, I don't want anyone to misunderstand me. I want to make it perfectly clear that we must continue to provide for those in want, those who face old age without means of their own, or who are otherwise in urgent need of relief.

There has been general agreement that much higher taxes are necessary; but one group may urge that new taxes be imposed on labor but not on business, while another group may argue that the rich and prosperous can afford to bear the whole load. Both kinds of advice should be disregarded. The job before us is so big that all the American people must help to carry it out, in proportion to their ability to pay.

It is unsound, especially at a time like this, to proceed on the assumption that any group of our people should be penalized or that any section should be exempted from sharing in the common task. We all want labor to earn fair wages, the farmer to have his proper share of the national income, and business to make a fair profit.

Please note that I used the term "fair" profit. No business, no American, should make inordinate and excessive profits out of this national emergency. The Congress has tried to deal with the problem of defense profiteering through excess profits taxes.

We all know how hard it is to devise any excess profits tax which is 100 per cent protection against defense profiteering, but I hope that the bill to be written by this Committee will be helpful in further reducing the evil. The American people do not intend that any of their number shall grow rich and fat out of this country's danger. They will, in my opinion, support any fair and workable tax that will help to keep this from occurring.

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COMMITTEE PRINT—UNREVISED

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BARRON K. GRIER, Clerk.

REVENUE REVISION OF 1941

HEARINGS

BEFORE THE

COMMITTEE ON WAYS AND MEANS
HOUSE OF REPRESENTATIVES

SEVENTY-SEVENTH CONGRESS

FIRST SESSION

ON

REVENUE REVISION OF 1941

THURSDAY, APRIL 24, 1941

No. 1

Printed for the use of the Committee on Ways and Means

UNITED STATES
GOVERNMENT PRINTING OFFICE
WASHINGTON : 1941

[illegible]

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HOUSE OF REPRESENTATIVES

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MARION Y. McCANLESS, *Assistant Clerk*

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ADDITIONAL REVENUE FOR DEFENSE

THURSDAY, APRIL 24, 1941

HOUSE OF REPRESENTATIVES,
COMMITTEE ON WAYS AND MEANS,
Washington, D. C.

The committee met at 10 a. m., Hon. Robert L. Doughton (chairman) presiding.

The CHAIRMAN. The committee will please be in order. The meeting this morning is being held for a purpose that is generally well understood. It has been known for some time that it has become the duty of our committee to initiate some tax legislation. Additional revenue in connection with the national defense program is necessary, and this is the formal opening of the hearings on this matter.

We are going to have the Secretary of the Treasury present to the committee and to the country a statement covering the need for additional revenue and any suggestions he may have apropos the raising of that revenue.

Mr. COOPER. Mr. Chairman, may I be indulged a moment? I think it would be quite appropriate if the clerk at this time read the notice that was sent out, in order that the public may be fully advised as to the program.

I especially wanted to request that for the reason that it is stated in the notice that at the conclusion of the presentation made by the Secretary and those who may be with him, these hearings will be adjourned until next Monday, at which time other interested people may appear.

The CHAIRMAN. It is understood that the only witnesses today will be the Secretary and the others who are representing the Treasury but that on next Monday morning the hearings will be continued.

Mr. TREADWAY. Mr. Chairman, I would like to ask in that connection whether it is expected to put the counsel of our joint committee on the stand, with reference to suggested changes in the law, following Secretary Morgenthau's statement, or will that be done not until next week? I think it would be much better if the two official representatives would have their testimony more or less parallel in the record. Certainly, I should think we would have Mr. Stam's testimony following that of the Treasury Department.

The CHAIRMAN. So far there has been no notice except that we would hear the Secretary of the Treasury and his assistants today. Any further witnesses, either those representing the joint committee or any one else, will be heard later. The Chair does not know whether Mr. Stam is ready to testify but he is always available as a witness, either in open session or in executive session, to serve the committee. If he is to be called as a witness, I think he should have more than a few moments' notice.

The clerk will proceed to read the notice as requested by Mr. Cooper.

(The clerk read the notice, as follows:)

APRIL 23, 1941.

NOTICE OF HEARINGS

The Committee on Ways and Means of the House of Representatives announces that public hearings on proposed legislation to raise revenue will begin on Thursday, April 24, 1941, at 10 a. m.

The Secretary of the Treasury will appear as the first witness. After the Secretary has completed his testimony the committee will recess until Monday, April 28, 1941, on which date hearings will be resumed.

The hearings will be conducted in the Ways and Means Committee room in the New House Office Building, Washington, D. C. Sessions will begin at 10 a. m. and 2 p. m., unless otherwise ordered by the committee.

Anyone desiring to be heard should apply to the clerk of the committee in order to be assigned time on the calendar.

It is requested that witnesses having prepared statements supply the clerk of the committee with 30 copies on the day before the witness is scheduled to appear.

Briefs may be submitted in lieu of or to supplement oral testimony; but if such papers are printed on both sides of the sheet, two copies must be filed with the clerk for printing in the record.

BARRON K. GRIER, Clerk.

Mr. TREADWAY. I do not want to interfere with the regular procedure, or to delay the appearance of the Secretary, but I think it is proper that the next group of witnesses after the Treasury Department should be Mr. Stam and such other men as he may see fit to put on the stand.

I suggest that we give notice now that the first witness on Monday morning, following the statement of the Treasury, shall be Mr. Stam and such witnesses as he desires to present from his office.

The CHAIRMAN. The Chair has not been notified that Mr. Stam desired to appear as a witness. If he desires to appear as a witness, or if it is the desire of the committee to call him as a witness, at the proper time, that will be a matter to be taken up by the committee.

Mr. TREADWAY. I just asked Mr. Stam if he would be ready to appear on Monday as the first witness, and he says he will be. That answers that.

The CHAIRMAN. The committee will determine the procedure.

Mr. TREADWAY. Then I move that Mr. Stam be called as the first witness Monday morning.

The CHAIRMAN. There will be a number of witnesses here who will have come from distant points and who can stay here but a limited time. It has always been the policy of the committee that witnesses from out of town, who have come here at their own expense, and at perhaps great inconvenience to their own business, be given preference over those who are located here in Washington.

The Chair has no disposition whatever to postpone hearing Mr. Stam, but desires to do whatever the committee may decide. The committee will decide when he is to appear. It seems a little premature to decide that at this moment.

Mr. TREADWAY. I still feel that we should hear Mr. Stam promptly on Monday morning in order that his testimony may follow immediately the testimony of the department. But in view of the wishes of the chairman, to which I always show great deference, I withdraw any further effort to secure his testimony at that time.

The CHAIRMAN. Thank you, Mr. Treadway.

The Chair would like to make this statement on his own responsibility. In view of some unpleasant and embarrassing developments,

with reference to executive sessions, it is the purpose of the Chair to call a meeting of the committee tomorrow morning to decide the procedure with respect to executive sessions. I hope every member of the committee will keep that in mind.

We are about to hear the Secretary.

Mr. KNUTSON. Mr. Chairman, is all available data going to be made public, to the press?

The CHAIRMAN. This is a public hearing.

Mr. KNUTSON. Are all of the schedules that have been presented to the committee to be released to the press today?

The CHAIRMAN. We will hear the Secretary of the Treasury at this time.

STATEMENT OF HON. HENRY MORGENTHAU, JR., SECRETARY OF THE TREASURY; ACCOMPANIED BY DANIEL W. BELL, THE UNDERSECRETARY; AND JOHN L. SULLIVAN, ASSISTANT SECRETARY

The CHAIRMAN. Without objection, the secretary will make his main statement without interruption following which members may ask questions.

You may proceed, Mr. Secretary.

Secretary MORGENTHAU. Mr. Chairman and members of the Ways and Means Committee; I have come before you today to discuss with you the need of producing $3,500,000,000 annually in additional revenue for the defense of our country. Such an increase is without precedent, but the situation confronting us today is also without parallel.

We are faced with a greater challenge than any in the history of the Republic. It calls for a much greater response than has yet been made. The American people are prepared to make such a response, and to make it willingly.

The Treasury is now proposing an additional diversion through taxation of 3½ billion dollars, which is only 4 percent of a rapidly rising national income, to the cause of national defense. This surely is a modest proposal in the present emergency, and with the present level of prosperity. Other countries, free and progressive countries like our own, have uncomplainingly carried far heavier defense burdens in proportion to their size and population.

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We now have a program of about $39,000,000,000 for defense expenditures including the lend-lease appropriations. Many people assume from this figure that we are going to spend most of these $39,000,000,000 in the coming fiscal year. But our studies at the Treasury have shown that unless we greatly speed up our production effort not much more than $12,000,000,000 will be spent for defense purposes in the fiscal year ending June 30, 1942.

The Treasury estimate is that at the start of the new fiscal year we shall be spending no more than $1,000,000,000 a month on defense. Almost 2 years will have passed with the world on fire. The forces of aggression already control all the factories of continental Europe. The danger to our peace and security is mounting hour by hour.

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The CHAIRMAN. Have you completed your main statement?

Secretary MORGENTHAU. Yes.

The CHAIRMAN. Mr. Cooper——

Mr. COOPER. Mr. Secretary——

Mr. BUCK. Mr. Cooper, will you yield for a moment?

Mr. COOPER. Mr. Secretary, I want to ask you if I am correct in my understanding that it is your estimate that about $19,000,000,000 will be required in revenue during the fiscal year 1942.

Secretary MORGENTHAU. Mr. Cooper, the Treasury has made that estimate, and that is the best estimate of expenditures we can make at this time; with so many uncertain factors, the volume of appropriations and authorizations being so very, very large, it is the best we can do at this time.

Mr. BUCK. Will the gentleman yield for a personal request, please?

Mr. COOPER. I yield.

The CHAIRMAN. Mr. Cooper cannot yield under our rules. Mr. Cooper has been recognized, and the Chair must rule that under our rules he may not yield to another member. After he gets through and Mr. Treadway is heard, I shall be glad to recognize the gentleman from California.

Mr. BUCK. Mr. Chairman, I do not wish to be recognized. I merely wish to state that I have a hearing on a bill before the Public Buildings and Grounds Committee and I shall have to leave here. I did not want my absence to be misunderstood, and in view of the importance of the hearing I wanted that made a matter of public record.

The CHAIRMAN. It has been made a matter of record. You may proceed, Mr. Cooper.

Mr. COOPER. Then it is your estimate, Mr. Secretary, based on the best information available to you, that about $19,000,000,000 will be required during the fiscal year 1942.

Secretary MORGENTHAU. That is the best estimate we can make at this time.

Mr. COOPER. And that is based, I assume, naturally, upon the studies made by your staff; and that is the estimate that you reach?

Secretary MORGENTHAU. That is the estimate. We may be 10 percent high or we may be 10 percent low, but at the present moment that is the best estimate we can make.

Mr. COOPER. Am I correct in my understanding that about 12½ billion dollars will probably be required by the Army and Navy, and under the so-called lease-lend bill?

Secretary MORGENTHAU. That is correct.

Mr. COOPER. I believe it is also true that the Treasury Department estimates that about $9,200,000,000 in revenue will be yielded under the tax laws as they now stand?

Secretary MORGENTHAU. That is right.

Mr. COOPER. For the fiscal year 1942.

Secretary MORGENTHAU. That is right.

Mr. COOPER. Then the 3½ billion dollars that you here recommend would bring that to a total of about $12,700,000,000 for the fiscal year 1942, including the $9,200,000,000 estimated to be yielded from existing revenue laws.

Secretary MORGENTHAU. That is approximately correct; yes.

Mr. COOPER. That would mean that substantially two-thirds of the amount of money that you estimate will be needed during the fiscal year 1942 would be provided in revenue from taxes, and about one-third will be borrowed; is that correct?

Secretary MORGENTHAU. That is correct.

Mr. COOPER. I understood you to say, Mr. Secretary, that the total defense bill now outstanding or apparent would be about $39,000,000,000.

Secretary MORGENTHAU. That is correct.

Mr. COOPER. Considering the $12,700,000,000 that you estimate will be needed for national defense during the fiscal year 1942, that would mean that substantially $7,000,000,000 is estimated to be needed for other expenses of operation of the Government; is that about correct?

Secretary MORGENTHAU. Between six and a half and seven billion.

Mr. COOPER. Between six and a half and seven billion dollars?

Secretary MORGENTHAU. Yes.

Mr. COOPER. Assuming, then, that the amount of revenue that is here contemplated, $9,200,000,000 from existing revenue laws and assuming that $3,500,000,000 are provided in a bill to be reported by this committee and passed by Congress under your recommendation, would that leave about $6,300,000,000 as a deficiency for the fiscal year 1942?

Secretary MORGENTHAU. Approximately.

Mr. COOPER. Approximately that?

Secretary MORGENTHAU. Yes.

Mr. COOPER. Is not that about the same amount as the estimated deficit for this fiscal year?

Secretary MORGENTHAU. Just about the same.

Mr. COOPER. I assume, then, Mr. Secretary, it is your considered judgment that your proposal here to provide two-thirds of the contemplated or estimated expense by revenue and one-third by borrowing is about the best and safest course for the Government to follow at this time.

Secretary MORGENTHAU. That is what I believe.

Mr. COOPER. Thank you.

The CHAIRMAN. Mr. Treadway——

Mr. TREADWAY. Mr. Secretary, I assume that the general statement that you have presented to us will be followed, as you state here, by a detailed report of the attitude of the Treasury, to be made by Mr. Sullivan.

Secretary MORGENTHAU. That is correct.

Mr. TREADWAY. And that will contain various items that he will present, which have been approved, I assume, by you in advance.

Secretary MORGENTHAU. That is correct.

Mr. TREADWAY. So that we may consider when Mr. Sullivan testifies he is representing the Secretary of the Treasury and the Department in the details that he will submit to the committee.

Secretary MORGENTHAU. One hundred percent.

Mr. TREADWAY. I want to commend this general statement that you have made to the committee this morning.

Secretary MORGENTHAU. Thank you.

Mr. TREADWAY. Of course, it in no way binds the committee, nor any member of it, to carry out the recommendations Mr. Sullivan is about to make. You would not expect that?

Secretary MORGENTHAU. That would be the last thing I would expect.

Mr. TREADWAY. I just want to make sure that that is the understanding. You have already stated that the committee is writing the bill. Our chairman has been very insistent that the committee would be the ones eventually to write the bill, and we would be delighted to have the advice of the administration.

Now, just one other matter that I wish to call up, Mr. Secretary, and that is particularly to commend your remarks at the bottom of page 3 and continuing through most of page 4 of your statement, that have to do with expenditures not for national defense.

Secretary MORGENTHAU. Thank you.

Mr. TREADWAY. Mr. Secretary, my only inquiry, as a result of a casual reading of the section that I am referring to—and I want further to commend the idea that is included there—my inquiry is this: Has the administration shown any disposition to follow out that program of nondefense economy?

Secretary MORGENTHAU. I think they have, to a certain degree.

Mr. TREADWAY. To what degree?

Secretary MORGENTHAU. To a certain degree.

Mr. TREADWAY. To a limited degree or pretty generally.

Secretary MORGENTHAU. I think I will just say "to a certain degree."

Mr. TREADWAY. Has it shown in the recommendations that have come to Congress from the administration in any way and has Congress followed the economy recommendations such as appear in your statement?

Secretary MORGENTHAU. As far as the House is concerned, up to now I feel that they have kept within the limitations of the President's Budget. But as you know, in connection with the agricultural bill, the Senate raised that appropriation by a very large amount.

Mr. TREADWAY. About $500,000,000, was it not?

Secretary MORGENTHAU. A little less than that. I have said on several occasions, and I am very glad to have an opportunity to say it again, that I sincerely hope that the Congress will stay within the amount of the President's Budget on agriculture, and on all other appropriations.

As I point out here, I think that both the Congress and those of us at the other end of the Avenue have not reexamined carefully the nondefense items, and I sincerely hope that that will still be done at this session of Congress, because, after all, when you get all through, it is the Congress that controls the purse strings.

Mr. TREADWAY. That is true, but I feel that very frequently Congress follows advice from other places than on the floor of the House in the debates.

Secretary MORGENTHAU. I think I made a recommendation last summer, Mr. Treadway, and I make it again, that if the committees in Congress that vote the money and the committees in Congress that raise the money would get together with the Treasury, and the Budget Bureau and study the whole picture, we might be able to make some progress. But I think as long as they operate separately, I more or less despair that we can make any progress along the lines of economy as far as nondefense items are concerned.

Mr. TREADWAY. I do not want to take any undue credit, but I think there have been resolutions and bills introduced under my name carrying out that very idea, have there not?

Secretary MORGENTHAU. That is correct. I think you and I both have had that idea, and I would like to share whatever glory there is in it with you, if there is any.

Mr. TREADWAY. Just one other thought. In spite of our efforts and as you say, in spite of the recommendations of the Executive, has there ever been a time during peacetimes in this country, when the appropriations submitted or passed by Congress have been as high as they are at the present time?

Secretary MORGENTHAU. So far as I know, your statement is correct.

Mr. TREADWAY. The records probably will not show anything of that kind. I do not suppose you could very well go into this without consultation, but I would like very much to know how nondefense expenditures compare in the years 1940, 1941, and 1942. I think it would be a matter of interest to have that on record.

Secretary MORGENTHAU. I have a statement here from 1937 to date, comparing the expenditures from July 1 to April 21, for each of the fiscal years 1937 to 1941.

Mr. TREADWAY. Nondefense?

Secretary MORGENTHAU. Well, I have got it broken down into national defense, relief and public works, and other operating expenditures; as well as the interest on the public debt.

Mr. TREADWAY. For what years?

Secretary MORGENTHAU. 1937, 1938, 1939, 1940, and 1941.

Mr. TREADWAY. Do you have any estimates for 1942? We are dealing with the fiscal year 1942.

Secretary MORGENTHAU. No. These are actual expenditures.

Mr. TREADWAY. Actual expenditures. Would you care to read that statement or would you rather insert it as part of your remarks? If it is not long, I think it would be desirable to hear it.

Secretary MORGENTHAU. Any way you see fit.

Mr. TREADWAY. Do whatever is convenient.

Secretary MORGENTHAU. I think Mr. Bell could summarize it for you, and would be very glad to.

Mr. TREADWAY. We shall be very glad to have him do that.

Mr. BELL. As the Secretary said, this is a statement of actual expenditures for the period July 1 to April 21 of each of the fiscal years 1937 to 1941. Summarizing the total expenditures for that period, for 1937 the sum was $6,235,000,000; for 1941, the sum was $9,671,000,000.

Breaking them down into the various categories, the national-defense expenditures for the approximate 10-month period in 1937 were $753,000,000 and for 1941, $4,188,000,000.

Relief and public works expenditures in 1937 were $2,673,000,000 and in 1941, $2,009,000,000.

Other operating expenditures were in 1937, $2,157,000,000, and in 1941, $2,727,000,000.

The interest on the public debt was $652,000,000 in 1937 and $747,000,000 in 1941.

I should be glad to insert this in the record, and, if you like, to add the 1942 estimates for the full fiscal year. I would not want to try to break them down into the 10-month period, because I do not think that would be practicable.

Mr. TREADWAY. I think it would be desirable, as we are dealing with 1942, to have your estimates for that year included.

(The statement referred to is as follows:)

Federal expenditures,[1] July 1 to Apr. 21 for fiscal years 1937 to 1941

[In millions of dollars]

	1937	1938	1939	1940	1941	1942 Budget estimates, complete fiscal years: 1941	1942 Budget estimates, complete fiscal years: 1942
National defense:							
War	307	344	393	390	2,535	6,304	10,608
Navy	448	479	529	904	1,562		
Other					91		
Total, national defense	755	823	922	1,294	4,188	[2] 6,304	[3] 10,608
Relief and public works:							
Relief[4]	1,538	1,050	1,794	1,166	1,051	1,325	900
Civilian Conservation Corps	310	273	259	283	214	274	263
National Youth Administration	51	56	39	73	101	126	98
Public works[5]	784	644	825	829	841	769	599
Total, relief and public works	2,683	2,022	2,917	2,359	2,209	2,493	1,862
Other operating expenditures:							
Departmental	840	598	651	680	565	901	965
Agricultural Adjustment program	421	353	563	882	878	960	947
Social Security Board	143	228	305	365	347	410	449
Veterans' Administration	478	441	443	461	457	565	569
Railroad Retirement Account		141	107	117	116	124	142
Other	492	393	385	579	262	275	669
Total other operating expenditures	2,137	2,058	2,430	3,069	2,725	3,265	3,671
Interest on the public debt	652	674	648	715	747	1,100	1,225
Total expenditures	6,235	5,572	6,904	7,251	9,671	13,202	[6] 17,466

[1] Excluding public-debt retirements.
[2] Excludes [illegible] defense estimates carried under other classifications.
[3] Excludes [illegible] defense estimates carried under other classifications.
[4] Includes Federal Emergency Relief Administration, Civil Works Administration, and Work Projects Administration.
[5] Includes public buildings, public highways, rivers and harbors, Tennessee Valley Authority, Rural Electrification and Reclamation projects, and Public Works Administration.
[6] Secretary Morgenthau in his statement before the Committee on Ways and Means, Apr. 24, 1941, used an estimate of $19,000,000,000 for expenditures during 1942, as a basis for his tax recommendations.

Source: Bureau of Accounts, Division of Bookkeeping and Warrants.

Mr. TREADWAY. That is all.

Mr. REED. Mr. Secretary, just to keep the record straight, your tax proposal based upon a budget of $19,000,000,000, does that include the St. Lawrence project or the farm-parity payments?

Mr. BELL. It does not include the St. Lawrence project. There has been nothing authorized on that. It does not include the additions which have been made by the Senate to the agricultural bill. It only includes the estimates submitted by the Budget and allows for some increase in national-defense expenditures.

Mr. REED. I just wanted to bring that out at this point, and I may desire to inquire later again. That is all.

Mr. KNUTSON. Mr. Secretary, in your statement, you say that the present receipts of the Government are about $9,223,000,000.

Secretary MORGENTHAU. Estimated for 1942.

Mr. KNUTSON. Estimated?

Secretary MORGENTHAU. For 1942.

Mr. KNUTSON. Will you please tell the committee what part of this sum is derived from the retirement funds, such as the Federal employees' retirement fund, the railroad retirement fund, and the social-security unemployment-insurance fund?

Secretary MORGENTHAU. Would it be agreeable for Mr. Sullivan to answer that question?

Mr. KNUTSON. It is immaterial to me.

Mr. SULLIVAN. The $9,223,000,000, to which you refer, Mr. Knutson, does not include the items that you mention. The estimate on those items is $712,000,000. So that the total revenue collections would be $9,935,000,000. Those items have been deducted in arriving at the figure of $9,223,000,000.

Mr. KNUTSON. They have been deducted?

Mr. SULLIVAN. They have been, yes.

Mr. KNUTSON. Mr. Secretary, will you reconcile for the committee how an increase of a hundred thousand on the relief rolls is justified in view of the fact that it is claimed that several million have been put to work on the defense program?

Secretary MORGENTHAU. Mr. Knutson, I have not got the figures before me, but if my memory serves me correctly, the number on the relief rolls has been steadily going down.

Mr. KNUTSON. I saw a statement the other day to the effect that they had gone up a hundred thousand.

Secretary MORGENTHAU. If that is correct, I would be surprised.

Mr. KNUTSON. Well, I was surprised. Will you put in the record just what the number is on relief today and what it was a year ago?

Secretary MORGENTHAU. I shall be very glad to.

Mr. KNUTSON. If you please.

Secretary MORGENTHAU. I shall get it for you.

Mr. KNUTSON. Thank you; that is all.

(The information requested is as follows:)

Number of workers employed on Work Projects Administration projects

Last week in month:	
1940:	
January	2,266,000
February	2,324,000
March	2,288,000
1941:	
January	1,895,000
February	1,867,000
March	1,708,000
Apr. 16, 1941	1,607,000

Source: Work Projects Administration.

Mr. DISNEY. Mr. Secretary, I was particularly interested in the passage between you and Mr. Treadway. But I think you both ought to agree that Senator Harrison made the sa ne suggestion quite some time ago, for a joint action between House and Senate committees, but no leadership has asserted itself either in Congress or in the executive branch to carry out a program of coordinating these activities.

It seems to me that it is unusual to raise three and a half billion dollars and not follow some of the suggestions you made here about economy. Now, I do not want to do the testifying, but it is preliminary to what I am about to inquire.

In 1916, the total Federal Budget was $1,034,000,000. Last year, it was about nine and a half to nine and three-quarter billion, was it not, Mr. Secretary? Is not that the approximate figure in the current Budget?

Secretary Morgenthau. I do not want to guess.

Mr. BELL. Are you talking about this year or last year?

Mr. DISNEY. The last fiscal year.

Secretary MORGENTHAU. May I interrupt before you go further, for just a moment?

Mr. DISNEY. Yes.

Secretary MORGENTHAU. I hope you will not mind my differing with you with reference to what you said about no suggestion having come from the executive branch. I am sure that Congress would be the first to object if any member of the executive branch suggested how you should conduct your committees.

Mr. DISNEY. But you did suggest last year that it would be a good plan, and we agreed.

Secretary MORGENTHAU. All we can do is to suggest, but the rest is up to Congress. You would not want the executive branch to take the initiative there.

Mr. DISNEY. I do not agree. You, as the fiscal leader of the Nation, are in a position of leadership. Congress follows the executive branch, as I have observed in the last 10 years.

Secretary MORGENTHAU. Having made the suggestion as to how the committees of Congress might conduct themselves, it is surely up to Congress to do then what it wishes.

Mr. DISNEY. The suggestion has not been acted upon, and there ought to be leadership to carry it out. That is just my personal notion about it.

You say now that the current budget last year was between nine and a half and ten billion dollars. That is a pretty large rise since 1916, just 24 years ago.

Mr. BELL. That budget, Mr. Disney, was $8,998,000,000 in 1940.

Mr. DISNEY. Were there not authorizations that would run it more nearly up to $10,000,000,000?

Mr. BELL. There were many authorizations which probably would increase it, but these are the actual cash expenditures.

Mr. DISNEY. It is a sizable sum, anyhow. Now, Mr. Secretary, do you have any concrete suggestions to offer on these nondefense items that might be used as a basis for reducing the current budget?

Secretary MORGENTHAU. It seems to me, using round figures, it is possible to cut the nondefense items to the extent of $1,000,000,000.

Mr. DISNEY. What are the items on that, if you have them?

Secretary MORGENTHAU. The place that I would look first would be in the Department of Agriculture appropriation of $500,000,000 for soil conservation.

The fact that we are still enrolling boys over 21 years of age in the C. C. C. and the N. Y. A., notwithstanding the fact that we have taken a million men over 21 years of age into the Army, indicates other items at which we might look.

Mr. DISNEY. Let us get down to the item of the C. C. C. How much could come off there?

Secretary MORGENTHAU. I am not prepared to give you an exact amount.

Mr. DISNEY. What is the total cost of the C. C. C.?

Secretary MORGENTHAU. Nearly $300,000,000.

Mr. DISNEY. What is the total cost of the N. Y. A.?

Mr. BELL. The total cost of the N. Y. A. and the C. C. C. items under "Aids to youth" would come to $370,000,000 this fiscal year.

Mr. DISNEY. What is the total cost of Federal aid to roads?

Mr. BELL. That would run about $180,000,000.

Mr. DISNEY. What is the total cost of second-class postage?

Mr. BELL. I do not know.

Mr. DISNEY. It is about $80,000,000, is it not?

Mr. BELL. I do not know.

Mr. DISNEY. It is between seventy-eight and eighty million dollars.

Secretary MORGENTHAU. As I say, if the matter were very carefully examined, we believe it is possible to reduce the total by $1,000,000,000.

Mr. DISNEY. Quite right. What about the $39,000,000 that is used for publicity in the departments, as well as the item of the franking privilege? Could not that be saved, or a good share of it?

Secretary MORGENTHAU. I would say some of it.

Mr. DISNEY. In 1928, Congress used $845,000 for the franking privilege and the departments used $6,000,000. In 1940, the Congress used $737,000 and the departments used $39,000,000.

Secretary MORGENTHAU. I think all of those items ought to be re-examined in the light of the fact that in the first 10 months of this fiscal year we spent a little over $4,000,000,000 for national defense as against $1,200,000,000 in the same period during 1940. The country is defense-minded. We are going along. The Congress has voted money for defense just as rapidly as it has been asked for. But we have not re-examined all of those expenditures that have been sort of grafted onto the Government during the last 10 years. We go on just the same.

I do not know any better example than the C. C. C. and the N. Y. A. We continue to take in boys over 21 years of age, just as though we did not have a place in the Army to take the youth and give them training.

Mr. DISNEY. Do you have a schedule there, Mr. Secretary—you referred to some sheet in front of you—do you have a schedule of these suggestions?

Secretary MORGENTHAU. No. This sheet in front of me is just what Mr. Bell read from a few moments ago.

Mr. DISNEY. For my own part—not speaking for anyone else—I would be most delighted to see the fiscal head of the Government furnish the Congress his ideas through a schedule or a list of places where he thinks we ought to economize. I would respect that judgment. He is in more of a position to take a bird's-eye view of the whole subject than an individual Member of Congress. We members of the Ways and Means Committee raise the money for the other departments to spend. We do not have a chance to examine these fiscal affairs so closely. If we had that type of suggestion scheduled, we would have something to work on.

Of course, we might pass the buck to the Appropriations Committee, but there is nothing on earth to keep this committee from including in a tax bill a list of repeals of appropriations. We might have some trouble getting a rule on that, but it can be done if we want to do it.

I agree with you the burden is on us. I also think we ought to have those suggestions from the fiscal head of the Government.

I believe that is all.

Mr. DINGELL. Mr. Chairman, I just want to make an observation at this time. Since the St. Lawrence project has been injected into the testimony, here, and the reservation has been made of further exploring the matter at a later date, I, too, reserve the right to probe the matter at the proper time.

Just one other observation, Mr. Chairman. Mr. Disney made reference here to the committee being improperly posted and finding itself handicapped thereby. I think the Committee on Ways and Means—and I have said this repeatedly—ought to be better posted on what expenditures are being made. I think at some time in the future I shall bring up a proposal under which the committee may, if it chooses, obtain the proper information in order to keep posted up to date on expenditures that are being made. We do not put our nose into spots and places where we should once in a while.

That is all, Mr. Chairman.

Mr. JENKINS. I should like, Mr. Secretary, if you would refer to the first page of your own statement. In the first paragraph of your statement you say that we are about to do an unprecedented thing when we ask the people of this country to pay a tax of $3,500,000,000. I agree with you that we are doing an unprecedented thing. Further in your statement, you say that the situation confronting us today is without parallel. In what respect is the situation without parallel as far as we are concerned, when we are at peace with the world?

Secretary MORGENTHAU. I read the papers every morning. I read them at noon. I read them at night. I listen to the radio several times a day. And from these various news sources, I am reliably informed that both in Asia and in Europe they are at war and that the war unfortunately each day is spreading. The situation that I refer to is the possibility that the war may spread to this continent.

Mr. JENKINS. But we must recognize this fact, however, that while the world is at war we are not at war and we are not furnishing the warring belligerents very much free material; if Great Britain is getting war supplies she is paying for them, and our industries are manufacturing them. Now we have not, up to this time, contributed very much to maintenance of the war, furnishing war materials free, unless they have been furnished illegally, and they ought not to have been furnished; at least it ought not to have cost us so much.

Secretary MORGENTHAU. May I interrupt you?

Mr. JENKINS. Yes.

Secretary MORGENTHAU. To the best of my knowledge I do not believe we have given one dollar illegally or improperly to any country.

Mr. JENKINS. There is a question of grave dispute in this country as to whether we have or not.

Secretary MORGENTHAU. If you do not mind my saying so, it is a question of fact.

Mr. JENKINS. It is not a question of fact; it is a question of deceiving ourselves, but the point I am making is this——

Secretary MORGENTHAU (interposing). Well, you will let me have my opinion?

Mr. JENKINS. Yes; you are certainly entitled to it, and I am——

Secretary MORGENTHAU (interposing). Yes.

Mr. JENKINS. And I am entitled to mine.

Secretary MORGENTHAU. Yes.

Mr. JENKINS. But here is what we are faced with, and you are talking about fiscal matters today. I recognize at the moment that the world is aflame, but as far as we are concerned in this country as yet we have not provided these materials to the foreign countries, and what you want is to spend more money for national defense, but I understand we are not spending all the money for our own national defense, but industry is manufacturing the stuff and selling it across the seas; but fiscally, when we consider it fiscally, why do you say that the situation confronting us today is without parallel?

Secretary MORGENTHAU. I tried to explain, and I think my figures are correct, and if not Mr. Bell will check on me, that this Congress, whether you voted for it or not, has put a staggering burden on this country of something like $32,000,000,000 for national defense, for the Army and the Navy of this country, and $7,000,000,000 for lend-lease. Now, in my language and in my interpretation, $32,000,000,000 has no parallel—I believe you voted for it. I may be wrong—but if $32,000,000,000 for national defense is not without parallel, then I do not know the English language—$32,000,000,000 is a lot of money to me.

Mr. JENKINS. That is the point; it is a lot of money for everybody, and I still maintain that when we are at peace that you cannot say with the same unction that the situation confronting us today is without parallel when you say the amount is without precedent.

Secretary MORGENTHAU. Congressman, do you not consider $32,000,000,000 on the books, and placed there by Congress, unparalleled?

Mr. JENKINS. Yes; I consider most of the money that has been spent in the last 8 years as unparalleled and unnecessary, so far as I am concerned, and I did not vote for it; most of the money that has been spent and wasted in the last several years I did not vote for.

Secretary MORGENTHAU. Let me get this clear: What I have in mind in my inquiry is the $32,000,000,000 for national defense, which I consider unparalleled.

Mr. JENKINS. I agree with you, Mr. Secretary, and I am in favor of national defense, and I voted for national defense, but I still say that you cannot cite the situation in Europe as proving your statement that it is unparalleled and warrants the expenditure for the Navy and for the Army as unparalleled amounts; and I agree with you, but that the $32,000,000,000 does not represent the entire expenditure for the Navy; it is not represented entirely by expenditures for the Army, because we do not have the tanks; we do not have the airplanes that are being manufactured because they are going across the sea and they have been paid for, and they are not a part of this national expenditure for our own defense.

Secretary MORGENTHAU. Well, let me try to get this straightened out. I am referring to the $32,000,000,000 for our own Army and Navy. I do not see where we can have any argument about $32,000,000,000 for the Army and the Navy for national defense; and $7,000,000,000 for lend-lease, or a total of $39,000,000,000. In my opinion that sum is unparalleled.

Mr. JENKINS. Here is what I want to bring out; I fear that in connection with the war situation, the war physchology, and the world being aflame, that is being used as the basis for our other expenditures when you say that the situation confronting us is without parallel.

Secretary MORGENTHAU. No; I am talking after the deed is done and Congress has voted the 32 billion and the 7 billion, or 39 billion dollars, and I have got the job of raising the money, and the suggestion that I make to the committee is that two-thirds of the money which is going to be spent in 1942 be raised from revenue and one-third from borrowing, and that is what I am here for today, and that is why I said, if my figures are correct as to the estimates, that we need three and one-half billion dollars additional taxes.

Mr. JENKINS. That is the difficulty, and we have had a lot of discussion about it. You say you are in favor of raising for this national-defense program two-thirds of it as we go along by taxation?

Secretary MORGENTHAU. That is what I am asking.

Mr. JENKINS. But at the same time during peacetime, in the last 10 years, during peacetime I do not think there has been a time, during this entire period of the last 10 years, when we have come anywhere near two-thirds balancing the Budget. Now how do you expect us to do so during wartime when the expenditures are so much greater?

Secretary MORGENTHAU. Well, I have tried to suggest how we can do it.

Mr. JENKINS. But the fact is, I think, you have been following the legerdemain, have you not, of taking the money out of the pockets of the people of this country and spending it with the idea that by some means you would increase the income of the people and therefore be able to take more money back from them?

Secretary MORGENTHAU. No. I think that you are unfair with me when you say that, and I do not believe that most of the people agree with you. If you have some better suggestion to make on how to finance this program and how to raise the money, I would like very much to have it. I am faced with a situation, if my figures are right, that I have to raise about $6,000,000,000 by borrowing, and if we do not increase taxes I have to raise nine and one-half or ten billion dollars. If you have a better suggestion to finance our Government expenditures, I would like very much to have it.

Mr. JENKINS. I have a better suggestion. I hesitate, of course, to present it to you, a great financial expert, but one which is possible to try, and it is a very simple little formula, and a formula which we should have been following for years, and that is instead of trying to spend more money and then get more money back from the taxpayer, to follow a formula of economy; to try to save taxes by economizing and see if we could not save a billion dollars a year, at least, instead of going to work and placing a heavy tax on our people with the expectation that we are going to increase the volume of business and flow of money and then increase taxes and get it back again simply adopt a program of economy and in that way save some of the necessity of collecting taxes.

Secretary MORGENTHAU. I am afraid I do not understand you. I have made the suggestion here that we try to economize to the extent of a billion dollars. If we can do that, it will help my borrowing program to that extent.

You seem to take the attitude that this whole program is something that I have designed and created, but I am faced with a situation that we have either to raise money by taxes or bonds; and I have to raise the money. I want to raise it in the way that will be just as painless as possible, but I do not think you have made a suggestion as yet that we differ on in the main.

Mr. JENKINS. That is why I have raised it, because I could not hear so very well the answers you gave to questions of members at the other end of the committee.

Now let me ask you another question: In the third paragraph of your first page, you state: "We are big and rich and strong."

Secretary MORGENTHAU. Yes.

Mr. JENKINS. Are we rich, when we owe $50,000,000,000, when our national debt is $50,000,000,000 and we are going in debt at the rate of $40,000,000 a day?

Secretary MORGENTHAU. I think so.

Mr. JENKINS. Very well. Here is just one other question I would like to ask you: How do you propose to save the billion dollars? I could not hear your explanation very well.

Secretary MORGENTHAU. I am sorry.

Mr. JENKINS. So am I.

Secretary MORGENTHAU. Well, it is worth doing again.

Mr. JENKINS. Yes.

Secretary MORGENTHAU. I pointed out that I thought a billion dollars might be saved from the C. C. C. and the N. Y. A. and public works and the other nondefense items. The point I made about the C. C. C. and the N. Y. A. is that in view of the large enrollment in the Army, whether there was still the necessity of enrolling boys over 21 years of age in the N. Y. A. and the C. C. C.

And then I said I thought certain things in public works could be postponed. And I pointed out an item of $500,000,000, for soil conservation in the Department of Agriculture. And I believe that if those items were studied that it is possible from these and other economies to save a billion dollars in 1942.

Mr. JENKINS. What would you think of this, of putting into effect a program of cutting 25 percent off of the expenditures; could we cut 25 percent off of the expenditures of everything except the Army and the national-defense program?

Secretary MORGENTHAU. No; I do not think that would be the most intelligent thing to do. I think each department and each appropriation should be studied. It maybe you could cut 50 percent from some departments and could only cut 5 or 10 percent for some others. I think an automatic cut of 25 percent might be unwise.

Mr. JENKINS. I understood you to suggest that was at least where we might save some money, but you do not think it could be done that way?

Secretary MORGENTHAU. I think if the Congress of the United States, in view of the huge sums of money that we are spending for national defense, would reexamine all nondefense items out of the total there would be a possibility of saving a billion dollars.

Mr. JENKINS. I agree with this statement in your remarks: "It would be folly to assume that we can continue to spend now as we did in normal times."

I interpret that to mean you agree that in normal times we possibly spent more than we should have spent.

I think that is all.

The CHAIRMAN. Mr. Secretary, I am very much encouraged by the note of economy you have sounded here this morning. It is one that I have been harping on, if that is the proper word, to the extent that sometimes I fear some people have felt I was a fanatic on the subject.

Now you, representing one of the Departments of the Government have brought the need for economy to the attention of the Congress.

Secretary MORGENTHAU. Yes.

The CHAIRMAN. Do you know to what extent the other departments of the Government have brought to the attention of the Congress the importance and, I might say, the necessity for more rigid and greater economy. To your knowledge, has there been any program or has any effort been made to bring that necessity to the attention of the Appropriations Committee? As members of this committee it is our duty to raise money, but the appropriations are made by the Appropriations Committee. I know we are all interested in finding out whether the heads of the other departments of the Government realize they must cooperate in their efforts to economize and that we must get along with less money in order to not put more taxes on the backs of the people in this country.

If we cannot in the present emergency cut down on nondefense expenditures, if we cannot during the emergency rid ourselves of them we will never be able to get rid of them. That has been pointed out and emphasized in your statement this morning. But do you know whether or not there is a concerted effort among the departments, to bring to the attention of the Congress, and especially to the attention of the Appropriations Committee, the necessity of greater economy and where these economies can be effected?

Secretary MORGENTHAU. Mr. Chairman, to expect any department of the Government, other than the Bureau of the Budget or the Treasury to make a move along that line is expecting too much. But I am sure you will find the Bureau of the Budget and the Treasury anxious and willing to cooperate with the Congress.

The CHAIRMAN. As to the question of the unprecedented and unparalleled condition that confronts the country; in a large measure, you are charged with the responsibility of financing the national-defense program. The Congress has imposed that responsibility upon you, and since it has done so, and has created obligations and made appropriation for the defense program, you would certainly be justified in assuming that these obligations and appropriations must be met.

The responsibility is on the Congress; and if the condition is not extraordinary and unparalleled then the Congress certainly has taken a wrong view and a very erroneous view of it. But it is the view which Congress has taken in making appropriations running to billions of dollars, in a situation that is entirely unprecedented.

Secretary MORGENTHAU. Mr. Chairman, I do not know of anything that would help the Treasury more, in the campaign starting on May 1 when it is going to the country and inviting the people to invest in America, in the defense savings bonds, than for the Congress itself to take a strong position on economizing in nonessential and nondefense items; it would help us a great deal—if Congress would do that and certainly would go a long way toward assuring the success of the campaign and attracting the citizens of the United States to invest in their own Government.

The CHAIRMAN. In your judgment would not the taxpayers of the country assume this burden of increased taxation much more complacently and willingly if they could have some tangible and concrete evidence that greater economies were going to be put into effect?

Secretary MORGENTHAU. I am sure your statement is correct, because I think that if the Congress, through this committee, asks the people for a large increase in taxes, on everybody, to the extent of 3½ billion dollars, it will taste much sweeter if the people who are going to pay those taxes realize that you are making every effort to cut out nonessentials.

The CHAIRMAN. Mr. Crowther.

Mr. CROWTHER. Mr. Secretary, on page 2 of your statement—it may be I do not have the proper degree of comprehension—but you spoke about 19.2 billion dollars being expended for the fiscal year 1942. But here you say that not much more than "12 billions will be spent for defense purposes in 1942," so the total expenditure less the 12 billion, taken from the 19 billion, would be what it cost to run the operation of the Government?

Secretary MORGENTHAU. That is right.

Mr. CROWTHER. I think this statement on page 4 of your remarks is very true:

> We have remained curiously static in our conceptions of what to spend on those things not directly connected with defense.

And in fact, your whole discussion of that matter I think is very proper and very well worded. But just at the close of that paragraph you have a paragraph that seems to take the edge off of it. In the closing paragraph on that point you say:

> Now, I don't want anyone to misunderstand me. I want to make it perfectly clear that we must continue to provide for those in want, those who face old age without means of their own, or who are otherwise in urgent need of relief.

It seems to me that paragraph in there weakens the whole position on this program that there must be sacrifices, and while it is a laudable objective for the Government to take care of those who face old age without means of their own or who are otherwise in urgent need of relief, that seems to run counter to the previous statement.

Secretary MORGENTHAU. Dr. Crowther, I think the two things are compatible. I think we can still cut a billion dollars and take care of the people who are in need, and I would be the last one in the world to recommend that as long as there are people in need we should stop taking care of them just to have a big defense program.

Mr. CROWTHER. That is very true, and I think the statement is broad enough that it can be considered by those who are doing that very thing, that there are many things that might be done away with.

But, it is a perfectly good statement, and I agree with that.

Secretary MORGENTHAU. I want to make it plain that the suggestion made is that if Congress should decide to make some economies, there are studies that could be made and I feel that we could take care of those who are in need, and that we can do that and still make the economies along the lines that I have pointed out.

Mr. CROWTHER. I think you are right. As I have indicated, I think that is a laudable objective.

Now, in the next paragraph you make this statement:

> There has been general agreement that much higher taxes are necessary; but one group may urge that new taxes be imposed on labor but not on business.

Now, I cannot conceive of any group that would recommend that taxes be laid on labor but not on business. What group is that? I never have heard of any such group before.

Secretary MORGENTHAU. Well, we read in the Treasury such statements—I do not have the accounts here, but there have been some speeches made recently along that line; I cannot give them offhand.

Mr. CROWTHER (continuing with the statement):

> While another group may argue that the rich and prosperous can afford to bear the whole load.

Well, this administration, in the past 6 years, has had bills presented here that were of the type to "soak the rich." I presume that is what is referred to here?

Secretary MORGENTHAU. No.

Mr. CROWTHER. I agree with your closing statement: "Both kinds of advice should be disregarded."

Now have you any idea that this rather terrific burden of taxation, which of course will apply to the year 1941—that is, we will have to pay the taxes on the 15th of March 1942.

Secretary MORGENTHAU. That is right.

Mr. CROWTHER. The average Congressman who has a State income tax will have to lay away nearly 3 months of his salary somewhere to be able to pay the taxes on the 15th of March, and while the President said in a press conference the other day, regarding the expense of furnishing things to Great Britain, that we are going "to erase the silly old dollar sign", yet on the 15th of March, when it becomes necessary for us to pay our taxes, you are not going to be willing to take anything but cash; you will not erase the silly old dollar sign, but we will have to lay the money on the line.

Secretary MORGENTHAU. Yes.

Mr. CROWTHER. Do you anticipate, in view of this tax burden, that is going to be laid on the people, that there is going to be an interference or slowing up in the bond buying; where the people have laid out in front of them an income-tax burden which they have to meet next March, is that going to interfere to any degree with the purchase of bonds the sale of which you commence on the 1st day of May?

Secretary MORGENTHAU. I do not think that the tax program is going to slow down that program. You will remember that the other day you gentlemen were kind enough to come down to my office—and you were one of them—and with your approval I made the announcement that the result of the meeting was that both parties, on the basis of what we thought was best for the country, would ask for a 3½-billion-dollar tax bill. As a result of this announcement the bond market rose the next day about a half point.

I think that is the best answer.

I think this whole thing—with regard to the owners of the money—means that they will be satisfied to invest in this country as long as we can keep it on a sound fiscal basis. And, to reiterate, I believe the way to do that is to raise just as much revenue as we can at this time, and at the same time be just as careful not to expend any money that is not absolutely essential. And if we can convince the owners of the money that that is the policy of this Government I think they will be glad to loan their money to us at a reasonable rate.

Mr. CROWTHER. Of course, you speak of hardships, and there are hardships connected with tax raising, but it seems to me the hardship has been doubled due to the fact that we have delayed this matter entirely too long. It seemed to me as long ago as last fall, while the Congress was still in session, although all opportunities to balance the Budget had gone out the window, it seems to me that we might have been looking into it to avoid many of the complications, and I suggested nearly 7 or 8 months ago that we go on a 50-50 basis. Now your suggestion is that it be a 66-33 basis. But it seems to me that the additional hardship results, in considering these taxes

that we will have this year and are going to have to pay on the 15th of March, could have been lessened if we had provided some leeway. Now I think it was advisable to wait until after the returns were in on the 15th of March to know what the results of 1940 were. But there was a lot of preliminary work that should have been done and I think we have lost valuable time which will result in doubling the hardship on the people on whom the taxes will fall.

I now would like to ask you what is the total income, national income for next year?

Mr. BELL. I understand that it is now running at a rate of about $80,000,000,000. But you understand the Treasury does not estimate the national income.

Mr. CROWTHER. That is all.

The CHAIRMAN. Mr. Robertson.

Mr. ROBERTSON. Mr. Secretary, as you know, this committee is charged with the duty of making provision for raising the additional 3½ billion dollars; that is the objective at this time. And I was pleased to hear you say that that action had had a salutary effect on bonds, and naturally I think that would be considered an indication of the intention of this committee to try to keep the finances of the Government on a sound basis.

Now, you have said that the situation that we are confronted with is without parallel and is the greatest challenge to us in the history of the Republic, and with that I fully agree. Is it not therefore a challenge to us to put the defense of our liberty first.

Secretary MORGENTHAU. Yes.

Mr. ROBERTSON. And does it not involve a sacrifice on the part of everyone?

Secretary MORGENTHAU. Yes; I agree with you.

Mr. ROBERTSON. Not only in the payment of taxes but in the program which you say involves so essentially the increased production of those implements of war without which our liberty could not be made secure?

Secretary MORGENTHAU. Yes.

Mr. ROBERTSON. If the new tax bill of 3½ billion dollars is, as you say, only 4 percent of our rapidly rising national income, may we assume roughly that your estimate of the national income for the fiscal year of 1942 is $87,500,000,000?

Secretary MORGENTHAU. Mr. Bell states that the national income now is at the rate of around $80,000,000,000.

Mr. ROBERTSON. Well, the 3½ billion would be a little more than 4 percent, so I was taking the 4 percent as the figure you gave.

Secretary MORGENTHAU. I said "about."

Mr. ROBERTSON. The Census Bureau, from which we receive the estimate, tells us that the tax bill of the Nation, for State, counties, and local taxing units for the fiscal year 1941 is 20 percent of the produced national income of that year.

Now, if we raise Federal income taxes to $12,700,000,000, as has been proposed, and the State and local taxes stay at substantially the same figures, what percentage would that tax bill be of the national income of $80,000,000,000?

Mr. BELL. It would be about 25 percent on the basis of your figures.

Mr. ROBERTSON. That would be the total tax from all agencies of the country, and would leave out of the national income how much?

Mr. BELL. I have no figures on that. I was using the figures you gave.

Mr. ROBERTSON. Well, I can state that has been confirmed by every independent agency, and I think it is substantially correct; and 24 percent of $80,000,000,000 would leave to the owners of the income how much?

Mr. BELL. On a $80,000,000,000 national income it would leave about $61,000,000,000.

Mr. ROBERTSON. $61,000,000,000 for their own use.

Now, what was the produced income of the Nation just 10 years ago, say for the fiscal year 1932?

Mr. BELL. $40,000,000,000 produced in calendar year 1932.

Mr. ROBERTSON. About $40,000,000,000. In other words, notwithstanding the fact that we are faced with a tax bill said by some to be staggering and astounding, and other adjectives, adverbs, and expletives, nevertheless we find that after that tax bill is paid we will have $21,000,000,000 more in the pocket of the taxpayers than they had 10 years ago. Is that true?

Secretary MORGENTHAU. I want to thank you for bringing out that point.

Mr. ROBERTSON. I wish to say further, Mr. Secretary, that I am fully in accord with the suggestion that the nondefense items should be pruned to the bone, and that in connection with increased taxes we should try to practice increased economy in nonessential expenditures.

But I want to dwell just a moment on the suggestion that through one economy alone there might be a saving of $500,000,000 for soil conservation.

I believe you are a farmer as well as a fiscal expert and Secretary of the Treasury.

Secretary MORGENTHAU. I have that honor.

Mr. ROBERTSON. And you are familiar with, and I am sure sympathetic with the problem that confronts agriculture and has for the past 10 years?

Secretary MORGENTHAU. Yes.

Mr. ROBERTSON. And of course, you know that there are only three farm products—cattle, wool, and lambs—that are up to parity.

Secretary MORGENTHAU. Well, I will take your word for it.

Mr. ROBERTSON. I think that is substantially correct.

Now, do you know of a single strike since the 1st of January to March that has been settled on any other basis than an increased wage?

Secretary MORGENTHAU. Well, I am unable to answer that; I do not know.

Mr. ROBERTSON. Would you mind making a rough guess?

Secretary MORGENTHAU. I do not know the facts; I would not want to make a guess.

Mr. ROBERTSON. Is it not a fact that if we continue to raise wages those wages are bound to be reflected in the cost of what that labor produces?

Secretary MORGENTHAU. Would you mind repeating your question?

Mr. ROBERTSON. If we continue to raise wages, which on January 1, 1941, were above any previous rates in the history of this country or any other nation, will it not necessarily follow that those wage increases will be reflected in the cost of the products manufactured?

Secretary MORGENTHAU. The answer is "yes."

Mr. ROBERTSON. Take, for instance, the present demands of the bituminous-coal industry. I am told that the wage scale alone will add approximately $200,000,000 a year to the cost of the production of that coal; the raise in steel will add from a dollar to $2 a ton to the cost of steel, and if the price of coal goes up 45 cents a ton that will add an additional $1.25 to $1.50 for each ton of steel, because it takes 3 tons of coal to make a ton of coke, with which to make 1 ton of steel.

Now, do you not think in this unified program of national sacrifice it is just as important for us to be giving consideration to what, with the approval of the Government conciliators and Government Mediation Board, shall be determined in increasing the wages as well as the suggestion as to economizing and eliminating the $500,000,000 a year from agriculture, which is already, with the exception of three products, below what we call parity?

Secretary MORGENTHAU. May I interrupt you?

Mr. ROBERTSON. Yes.

Secretary MORGENTHAU. I do not think I said we should eliminate the $500,000,000. I simply suggested that it be studied.

Mr. ROBERTSON. Well, study it with what in mind?

Secretary MORGENTHAU. To see whether it can be reduced.

Mr. ROBERTSON. I am glad to have that suggestion, because, frankly, I understood you to say that we could cut off a billion dollars, and since you could not get a billion dollars from the $370,000,000 of C. C. C. and N. Y. A.——

Secretary MORGENTHAU. And Public Works.

Mr. ROBERTSON. And Public Works—and after all, that has stopped, so far as post offices are concerned—so I thought that a half billion of it was to come from cutting $500,000,000 from the soil-conservation program.

Secretary MORGENTHAU. I just suggested that a study be made of that particular item; that, after all, under the agricultural adjustment program, these figures for the 10 months, going back to 1937, indicate as follows:

That for the first 10 months of 1937 we spent $424,000,000.

And $882,000,000 in 1940, and $878,000,000 in 1941.

An examination of the figures do not seem to show much correlation between Federal expenditures for aid to agriculture and farm income, excluding benefit payments. I would like to point that out.

Mr. ROBERTSON. Now, on the inquiry of the gentleman from New York, Dr. Crowther, on your suggestion that you are not in favor of doing away with either relief or pension, or any other social reforms, do you recall what we spent for relief and recovery combined in the fiscal year of 1933, which was the first year of this administration, and the depression which existed at that time?

Secretary MORGENTHAU. Mr. Bell will give you those figures.

Mr. BELL. We spent in the fiscal year 1933, Mr. Robertson, for unemployment relief, $365,000,000.

Mr. ROBERTSON. I thought it was around $300,000,000 and you put it at $365,000,000.

Mr. BELL. Yes.

Mr. ROBERTSON. When it was estimated that we had some ten to twelve million unemployed.

I recently saw the figures that by the middle of this coming summer we would reach full production on our national-defense program, and that we would need an additional 3,000,000 workers, of whom one and a half million should be skilled workers, and that even the so-called skilled workers, including those who get drunk, we could only get 130,000. Now, if we need 3,000,000 additional workers and we do not have them, there will be a shortage of labor if we reach what we should reach, a billion and a half dollars per month expenditure, and you have estimated we cannot spend over a billion dollars a month now, but you say if we should turn out production as we should when we reach peak production in our plants, that we should be spending around a billion and a half a month.

Secretary MORGENTHAU. Yes.

Mr. ROBERTSON. We are going to have a shortage.

Secretary MORGENTHAU. Yes; temporarily, of plant capacity.

Mr. ROBERTSON. Yet I heard on the radio a statement that Phil Murray, of the C. I. O., said that the President's recommendation for relief was a billion dollars too small. That the relief situation was critical, and that we urgently needed another billion dollars; yet in 1933, when we had a national income of about $40,000,000,000, we spent $305,000,000; and last year we spent how much, Mr. Bell, for relief?

Mr. BELL. That comparable item for 1940, Mr. Robertson, is $1,989,000,000.

Mr. ROBERTSON. In 1940, when the national income was approximately $75,000,000,000.

Mr. BELL. Yes.

Mr. ROBERTSON. What is the Budget's recommendation for the fiscal year 1942?

Mr. BELL. The expenditures under the 1942 program in the recommendation of the Budget, which compares to the $1,989,000,000, is $1,478,000,000.

Mr. ROBERTSON. That is more than a billion dollars over the expenditures for the fiscal year of 1933 for relief purposes.

Mr. BELL. That is right.

Mr. ROBERTSON. And after imposing $12,700,000,000 on the taxpayers for the fiscal year 1942, we will still borrow approximately 6½ billion dollars, will we not?

Secretary MORGENTHAU. Yes.

Mr. ROBERTSON. Which is nearly double the new tax. That borrowed money will be spent, I assume, for materials and services that go into the pockets of the people. Is that correct?

Secretary MORGENTHAU. Yes.

Mr. ROBERTSON. And it is borrowed, of course, against taxes to be collected in the future, not at present. So the amount of new money that we will spend in this fiscal year, even with the tax bill, will be nearly twice the amount of the taxes collected?

Mr. SULLIVAN. The new taxes collected, you mean?

Mr. ROBERTSON. I mean the new taxes.

Mr. SULLIVAN. Yes; that is correct.

Mr. ROBERTSON. So while this tax bill may look very steep to many, and undoubtedly as compared with the normal situation is very steep, as a matter of fact, much of this national income we expect will result from the defense spending will make the people more able to pay the tax bill of $12,700,000,000 than they were able to pay a tax bill of four and one-half billion in 1933. Is that correct?

Secretary MORGENTHAU. Yes; but we only collected about $2,000,000,000 in taxes in 1933.

Mr. DISNEY. Approximately 16,000,000 returns for this year?

Mr. SULLIVAN. That is correct.

Mr. DISNEY. How many paid taxes?

Mr. SULLIVAN. Of those that filed prior to March 22, there were 2,141,000, taxpayers, filing on income tax form 1040; and 4,883,000 taxpayers, filing on form 1040-A.

Mr. DISNEY. Approximately 6½ million tax returns?

Mr. SULLIVAN. About 7,000,000.

Mr. DISNEY. What proportion of those paid only normal taxes?

Mr. SULLIVAN. I do not have that figure.

Mr. DISNEY. Can you secure it?

Mr. SULLIVAN. No, sir; not in time for these hearings.

Mr. DISNEY. Mr. Secretary, suppose we can accomplish what you recommend here today, and I hope we can, the elimination of a billion dollars for nondefense items, what advice do you have to us as to still raising 3½ billion dollars? In other words, suppose a program can be worked out in connection with this bill to eliminate a billion dollars, do you think it would still be the part of wisdom to raise the 3½ billion dollars?

Secretary MORGENTHAU. Yes; because at least I would be sure of the 3½ billion dollars.

Mr. DISNEY. I agree with you that you cannot eliminate a billion dollars by any parlor discussions.

Secretary MORGENTHAU. Yes.

Mr. DISNEY. Or by passing the buck from one to another; that will not do it.

Secretary MORGENTHAU. Give me the three and a half billion and I will hope for the other.

Mr. DISNEY. I want to reiterate what I tried to say awhile ago concerning the suggestion about eliminating a billion dollars; it is going to be a hard job.

The CHAIRMAN. Mr. Cooper.

Mr. COOPER. Of course, right on that point, it simply means, Mr. Secretary, instead of having to borrow about $6,300,000,000 you would get by with borrowing $5,300,000,000, to start with.

Secretary MORGENTHAU. That is right, and after national defense is speeded up and they are spending the money faster, why then we would have the billion dollars as a cushion, so to speak.

Mr. COOPER. Mr. Secretary, I assume that these estimates you have given us are based on the best studies that could be made by the Treasury Department, taking into consideration the anticipated program of national defense.

Secretary MORGENTHAU. As we see it today.

Mr. COOPER. As you see it today.

Secretary MORGENTHAU. Yes.

Mr. COOPER. Now I would like to inquire very briefly on one point which was mentioned earlier, Mr. Secretary. I should have preferred to inquire about it before, but I felt in deference to some of the other gentlemen I should wait until they had finished.

I would like just to refer to the first statement, not in your prepared statement to the committee, but to the first sheet with the figures you referred to, showing the expenses from the year 1937 on through the year 1940. Do you have that before you?

Secretary MORGENTHAU. Yes.

Mr. COOPER. Now what does that show the total amount for 1937 to be?

Secretary MORGENTHAU. I have got it broken down in my figures from July 1 to April 21, in each case.

Mr. COOPER. Yes.

Secretary MORGENTHAU. And the total figures in 1937 for national defense shows $753,000,000.

For relief and public works, $2,673,000,000.

Total other operating expenditures, $2,157,000,000.

Interest on the public debt, $652,000,000.

That makes a total of $6,235,000,000.

Mr. COOPER. That is a total for 1937 of $6,235,000,000?

Secretary MORGENTHAU. That is correct.

Mr. COOPER. Now for my purpose, and I was hoping it had been added up so as to show the total of $6,235,000,000. And the amount in 1937 for national defense which you show is $753,000,000?

Secretary MORGENTHAU. That is right.

Mr. COOPER. And what are the other expenses?

Secretary MORGENTHAU. Well, it would be the difference between the $753,000,000 and the total of $6,235,000,000.

Mr. COOPER. That would be $5,482,000,000, as I roughly make it for the expenses outside of national defense.

Secretary MORGENTHAU. That is right.

Mr. COOPER. Now take 1941; what is the total for that year?

Secretary MORGENTHAU. $9,671,000,000.

Mr. COOPER. Now what was the amount for national defense?

Secretary MORGENTHAU. $4,188,000,000.

Mr. COOPER. So that all other would be what?

Secretary MORGENTHAU. $5,483,000,000.

Mr. COOPER. $5,483,000,000?

Secretary MORGENTHAU. Yes.

Mr. COOPER. In other words, just one million over the other amount?

Secretary MORGENTHAU. That is right.

Mr. COOPER. In other words, all other expenses for 1941 were just $1,000,000 more than the expenses, other than national defense in 1937; is that correct?

Secretary MORGENTHAU. That is, approximately the same.

Mr. COOPER. Approximately the same?

Secretary MORGENTHAU. Just $1,000,000 more.

Mr. COOPER. Just a million dollars more in 1941 than it was in 1937?

Secretary MORGENTHAU. That is right.

Mr. COOPER. So all this talk that we constantly hear about the expenses of the Government, other than national expense, increasing by leaps and bounds, is just not borne out by the figures?

Secretary MORGENTHAU. It shows from those figures that the entire increase between 1937 and 1941 is in national defense.

Mr. COOPER. That is, that the entire increase in the Federal expenditures of the Federal Government between 1937 and 1941 is in the national-defense expenditures?

Secretary MORGENTHAU. That is correct.

Mr. COOPER. Now, one other line of inquiry, if I may take just a moment: There are two important elements that should be properly considered in connection with any tax program, and that is the base, or floor of income, and the rate that is applied. Those are the two essential elements, are they not?

Secretary MORGENTHAU. Yes.

Mr. COOPER. And in the suggestion that the Treasury Department is now making and will make during the further considerations of this program, the rates that are being suggested or contemplated, are largely based upon the rates that are to be applied at this time?

Secretary MORGENTHAU. Yes.

Mr. COOPER. In other words, the improved business conditions, so that you can well afford to assume much larger base upon which the rates may be applied.

Secretary MORGENTHAU. Yes.

Mr. COOPER. And that has been taken into consideration in the recommendations that are being made?

Secretary MORGENTHAU. That is right.

Mr. COOPER. I believe that the information, as it has been given to the committee, is that the national income is running at the rate of about $80,000,000,000 now. Would it, in your opinion, be reasonably safe to anticipate that the total net income might reach $90,000,000,000 a year?

Secretary MORGENTHAU. Mr. Haas thinks that we are safe in anticipating that.

Mr. COOPER. That that would be a safe estimate?

Secretary MORGENTHAU. That is what he said.

Mr. COOPER. Well, I have been following him for many, many years and I am still perfectly content. That would mean that we could probably expect about a $90,000,000,000 national income, which could be considered as the base that we might expect and on which we would fix the rate to yield the amount of money which you think we require.

Secretary MORGENTHAU. That is right.

Mr. ROBERTSON. I would like to ask one question in that connection.

The CHAIRMAN. Mr. Robertson.

Mr. ROBERTSON. Mr. Secretary, my recollection is that the bonus payments were made in the year 1937. Am I correct in that?

Mr. BELL. We paid about $500,000,000 in that year. The largest bonus year was for the fiscal year 1936.

Mr. ROBERTSON. That was my recollection, that there was about $500,000,000 bonus in that year.

Mr. BELL. About $500,000,000.

Mr. ROBERTSON. That was not a normal expense.

Mr. BELL. That is right, but I would like to point out that the $500,000,000 bonus payment in 1937 was made during the last month of the year and consequently is not reflected in the figures of expenditures for the first 10 months of 1937, referred to by the Secretary.

Mr. MCKEOUGH. Mr. Secretary, I would like to touch upon the observation that was earlier made by my distinguished friend from Ohio, with reference to your prepared statement, and upon the paragraph in your statement indicating that the situation confronting us today is without parallel.

In discussing that with Mr. Jenkins, my recollection seems to indicate the reference on page 2 of the prepared statement, the second paragraph, which reads:

The Treasury estimate is that at the start of the new fiscal year we shall be spending no more than a billion dollars a month on defense. Almost 2 years will have passed with the world on fire. The forces of agression already control all the factories of continental Europe. The danger to our peace and security is mounting hour by hour.

I merely want to call attention to that particular part of your prepared statement as further support of your first observation that the situation is without parallel.

Secretary MORGENTHAU. Thank you.

Mr. McKEOUGH. You have the duty and responsibility, of course, to raise the necessary money, with the aid of the Congress, to meet whatever defense program is adopted as a result of the action by the Congress in appropriating the money.

Secretary MORGENTHAU. That is right.

Mr. McKEOUGH. And there are two approaches: Either by taxation or by the issuance of bonds, through borrowing.

Secretary MORGENTHAU. That is right.

Mr. McKEOUGH. The Congress very recently took action with relation to the elimination of tax exempt Federal securities. I understand that since that time you have offered to the public some of the new tax-exempt securities. I would like the record to show, if it is possible, if you have the information with you at the moment, what was the first offer, the total amount of the offer, what the yield might have been, and what the yield rate was.

Mr. BELL. On December 18, 1940, the Secretary offered $500,000,000 of 5-year Treasury notes. Those securities bore a coupon of three-fourths of 1 percent.

Mr. McKEOUGH. They were offered at par?

Mr. BELL. They were offered at par.

On January 31, 1941, he offered $600,000,000, of 3-year, 7½-month notes, and they also bore a coupon of three-fourths of 1 percent.

Mr. McKEOUGH. That was at par also?

Mr. BELL. Yes.

Mr. McKEOUGH. Would you tell me the total subscriptions of those two offerings, please?

Mr. BELL. To the December 18 issue we had a total subscription of $4,071,000,000; and for the January 31 issue we had $2,756,000,000 in subscriptions.

Mr. McKEOUGH. In other words the first subscription was about eight times over?

Mr. BELL. Yes.

Mr. McKEOUGH. And the other about four and a half times?

Mr. BELL. Yes. There are two other issues, Mr. McKeough, and I will be glad to give them to you for the record.

Mr. McKEOUGH. I would like to have that information in the record.

(The data requested follow:)

Statement showing details of major financing operations of the Treasury since Dec. 18, 1940

[In millions of dollars]

Date of issue	Rate, percent	Term	Call and maturity date	Amount issued: Treasury bonds	Amount issued: Treasury notes and certificates	Amount of cash subscriptions tendered	New securities allotted: For cash	In exchange for: Amount of exchange: Treasury bonds	Amount of exchange: Treasury notes and certificates	Date of issue	Rate, percent	Call or maturity date
1940: Dec. 18	¾	5 years	Dec. 15, 1945		531	4,071	531					
1941: Jan. 31	¾	3 years, 7½ months	Sept. 15, 1944		635	2,756	635					
Mar. 15	2	7 to 9 years	Mar. 15, 1948; Mar. 15, 1950	1,115				482	634	Mar. 15, 1931; Mar. 16, 1936	3⅜; 1½	Mar. 15, 1941; Mar. 15, 1941
Mar. 15	¾	2 years	Mar. 15, 1943		33			4	27	Mar. 16, 1931; Mar. 16, 1936	3⅜; 1½	Mar. 15, 1941; Mar. 15, 1941
Mar. 21 (additional, Mar. 15, 1941)	¾	2 years	Mar. 15, 1943		33				33	June 15, 1936	1⅜	June 15, 1941
Mar. 31	2½	11 to 13 years	Mar. 15, 1952; Mar. 15, 1954	1,024		6,145; [1] 30	530; [1] 30		448	June 15, 1936	1⅜	June 15, 1941

[1] This amount had been sold to Government investment accounts as of Apr. 15, 1941, out of a total amount of $50,000,000 reserved for this purpose.

Mr. McKeough. Now, incidentally, it is my recollection that we froze at a maximum of 3 percent the yield of those notes that are tax exempt——

Mr. Bell. That is on the savings bonds.

Mr. McKeough. On the savings bonds?

Mr. Bell. The rate limit on Treasury bonds is set at 4¼ percent.

Mr. McKeough. That was carried over.

Mr. Bell. That is still carried over from the Liberty bond acts enacted during the last war.

Mr. McKeough. Thank you. I want to make one other observation, with the indulgence of the committee, and that refers to the line of questions by my friend from Virginia, with relation to the agricultural situation, in connection with the possibility of saving a billion dollars.

I do not know but what I am just as much concerned about caring for agriculture as the gentleman from Virginia, but I hope that his observation would not be unnoticed that relates to the labor situation. I think he cited the added costs incident to steel production in connection with the increase concerning the recent negotiations between miners and operators, and the increases on the part of the operators in the steel industry.

I am sure that it is the attitude of the Treasury Department and of the Administration that there is no disposition on the part of anyone to impose a sacrifice on the part of agriculture in favor of labor, and vice versa, but rather it is the attitude or intention of the Treasury, as indicated in the prepared statement of the Secretary, page 6, reading as follows:

> We all know how hard it is to devise any excess profits tax which is 100 percent protection against defense profiteering, but I hope that the bill to be written by this committee will be helpful in further reducing the evil.

I presume that I do not in any way reflect an opinion that would be contrary to the attitude of the Treasury Department, that whatever sacrifices must be made should be more equitably and fully distributed to the entire population of the country, that no group be required to make a larger sacrifice toward the common objective than any other group, and that it would follow, of course, that you would not impose unjust penalties on business in order to relieve labor or agriculture or impose unjust burdens on any group in the United States in favor of the balance.

Now, I would like to make one further reference; I do not suppose the gentleman from Virginia desires to indicate any reflection on the sobriety of those who toil when he referred to some slight percentage of those among workers who overindulged in the amount of distilled spirits they might be consuming, and I want to say that if the tax on those distilled spirits is increased, as is proposed, that very little money will be available after taking care of the needs of the family.

Now just one other observation and I conclude.

Mr. Knutson. Good.

Mr. McKeough. I did not expect that of the gentleman. Nobody interfered with his rather facetious inquisition. And I trust he will be as broad-minded in his attitude toward this program as I am confident his constituents would like him to be.

Now, agriculture and labor constitutes the two human elements involved in this proposal, and we have to remember that without sound

morals our whole problem is made more difficult, and I want to congratulate you, Mr. Secretary, and your staff for the soundness of your approach to this problem, which again is indicated by reason of the fine record of the present Secretary of the Treasury, such that those who have wealth will still have a very high regard for the soundness of the credit of the Nation, as indicated by the oversubscription of the two issues of non-tax-exempt securities.

That is all, Mr. Chairman.

The Chairman. Mr. Gearhart.

Mr. Gearhart. Mr. Secretary, in view of the fact that we are now approaching the end of April, and considering the problems that we have before us in the passage of a bill, it is not anticipated this law will be in effect, or could be in effect for the beginning of the fiscal year 1942; is that correct?

Secretary Morgenthau. Well, your guess would be better than mine.

Mr. Gearhart. Well, will you agree I am approximately correct in assuming the bill will probably be in effect about the beginning of the fiscal year?

Secretary Morgenthau. Yes.

Mr. Gearhart. Therefore these estimates, which have been made in reference to what the bill, along the lines of the Treasury recommendation will produce, are based entirely upon the fiscal years of 1941 and 1942?

Secretary Morgenthau. That is the revenues?

Mr. Gearhart. Yes; the estimate of $9,223,000,000.

Mr. Sullivan. Mr. Gearhart, assuming the bill went into operation on the first of July there would be a full year's receipts from excise and there would be nothing received in the fiscal year 1942 from increased estate taxes as they would not be effective until after the passage of the act, and they would then not be paid for 15 months.

Regarding the tax liabilities on income received in the calendar year 1941 we have anticipated that we would collect about 60 percent of them in the first half of 1942; that is, before the first of July 1942.

I think we would probably get a total additional collection of about $2,600,000,000 of the 3½ billion dollars in the fiscal year 1942. The $3,500,000,000 is estimated on the basis of a full year's operation.

Mr. Gearhart. Now why do you always exclude the money collected under the Social Security Act pay rolls in making your statement?

Secretary Morgenthau. We exclude both receipts and expenditures. We could add them both, but the practice is to exclude both receipts and expenditures.

Mr. Gearhart. But in the practical operation of the Social Security Act all of the collections find their way eventually into the general fund, do they not, and all of the obligations that arise under the Social Security Act are paid out of the general fund or money borrowed; is that not correct?

Mr. Bell. That is right, Mr. Gearhart, but bear in mind the general fund has many compartments; it has the trust funds; it has the funds that we keep as a banker for many groups of governmental corporations, so do not confuse the general fund with Budget receipts and expenditures.

Mr. GEARHART. Yes; but in the handling of Social Security or of the funds that come in as a result of the Social Security Act find their way eventually into the same general fund, and all obligations arising out of the Social Security Act eventually are paid out of the general fund——

Mr. BELL. The act covers it.

Mr. GEARHART (continuing). That is created either by taxes or from borrowing. And therefore in view of the fact that all money that is collected as a result of the Social Security Act, just like any other money, coming from any other source is spent from any other purpose, why is it that the Treasury, even though it may have it set out separately in its accounting system, does not include it in the lump sum of receipts and expenditures?

Mr. BELL. We did that when the Social Security Act first went into effect and we received about the same criticism from the other side for handling it in that manner as you make now.

Mr. GEARHART. I am not criticising you for handling it in that way, but just asking why it is done.

Mr. BELL. In 1939 when Congress amended the Social Security Act it set up a new trust fund for the old-age benefits, and directed that all taxes collected under that program go into the trust fund and not into what is called the general revenues of the Government. That is the act of Congress.

Mr. GEARHART. Well, you understand I am raising the question not criticizing, but I suppose as long as you are going to find it necessary to finance deficits it has got to be done that way.

Mr. BELL. You may recall that we were criticized previously for using trust funds for financing deficits.

Mr. GEARHART. Yes.

Mr. BELL. And therefore Congress authorized the covering of the trust fund receipts directly into trust funds rather than into the general revenues of the Government.

Mr. GEARHART. Now, what I was getting at and what I have in mind in respect to estimated income and estimates of outgo is this: You have given us the estimates as to income if we enact legislation along the lines recommended by the Treasury, and you have given us the estimates of outgo.

Now, I am interested, not so much in what the Federal Government collects from the taxpayer but what the American citizen has to pay as taxes, whether he pays that to the Federal Government or to the State, county, or local municipal governments of the entire country. And I was wondering if you have the figures in your estimates in reference to what the State and local governments are going to levy upon the taxpayers for the fiscal years 1941 and 1942.

Mr. BELL. I do not have them, but will be glad to check on it.

Mr. GEARHART. Even if you do not have the estimates of the collections that are going to be made by the State and local governments for the fiscal years 1941 and 1942, have you got a record for the last 5 or 10 years of the actual collections by these tax levying agencies, well, say, for the last 5 or 10 years?

Mr. BELL. You mean State and local tax agencies?

Mr. GEARHART. Yes.

Mr. BELL. I think we can get that from the Bureau of the Census, and will be glad to submit it for the record.

Mr. GEARHART. Now I ask that the table be put in the record of these proceedings so we will have in one column, or two columns, if necessary in order to make it understandable, a column of Federal Government taxes; then in the other columns, whatever number may be necessary, the collections of the States and local governing units. In other words what I want is just what the American taxpayer is compelled to pay.

Mr. BELL. I shall be glad to do that if it is possible.

Mr. GEARHART. I have been trying to get that kind of a statement from somebody ever since I have been a member of this committee and have not succeeded. I would appreciate it very much if you would supply such a statement and I would like to know what the total tax bill which the American taxpayers are called upon to pay, and if you can give me the anticipated payments of what they are going to be required to pay next year I think that would be very helpful.

Mr. BELL. I think the anticipated program for next year, on the part of the State and local governments, would be a little difficult for us to get, but we will get the best information we can on the past years.

Mr. GEARHART. Thank you very much.

(The information requested follows:)

Estimated Federal, State, and local tax collections, fiscal years 1932, 1937, 1938, and 1940

[In millions of dollars]

	1932	1937	1938	1940
Federal (internal revenue and customs) [1]	$1,859	$4,816	$5,547	$5,114
State (excluding local shares) [2]	1,642	3,106	3,088	3,978
Local [3]	4,717	4,877	5,177	5,300
Total	8,249	12,800	14,410	14,393

[1] Annual Report of the Secretary of the Treasury for fiscal year ended June 30, 1940, p. 643.

[2] Bureau of the Census, Financial Statistics of State and Local Governments, 1932; Financial Statistics of States; 1937 and 1938; and State Tax Collections: 1940.

[3] Figures for 1932 are from Bureau of the Census, Financial Statistics of State and Local Governments, 1932. Figures for 1937 and 1940 are estimates of the Bureau of the Census which were published in Bureau of the Census, State Tax Collections: 1940, p. 20. Figures for 1938 are Treasury Department estimates published in Bulletin of the Treasury Department, August 1939.

Source: Bureau of the Census, State Tax Collections: 1940, State and Local Government, Special Study No. 10, Mar. 26, 1941.

The CHAIRMAN. Mr. Carlson.

Mr. CARLSON. Mr. Secretary, I am not sure I heard you correctly or not, but as I understood, you said that the Treasury had made studies of the effect of the payments, agricultural payments, that is, Federal payments, on agricultural income.

Secretary MORGENTHAU. The statement that I made was that there does not seem to be a definite correlation between Federal expenditures for aid to agriculture and farm income excluding benefit payments. The two things do not move together. As a matter of fact, going back to 1932, farm income——

Mr. CARLSON (interposing). Have you a detailed study which the Department has made, or is that just information you get from the Treasury statement and from a comparison of agricultural income; in other words, have you made a study of it?

Secretary MORGENTHAU. This is a combination of information we get from the records of the Department of Agriculture plus our own records.

Mr. CARLSON. To me that is a very interesting statement, and I would be most interested, and I would like to know if it is true that agricultural payments which the Federal Government is now making are not having very much effect on agricultural income, and if you have a table showing that I would appreciate very much your making it a part of the record.

Secretary MORGENTHAU. It is available; what I have got here.

Mr. CARLSON. Will you be kind enough to insert that as a part of your statement at this point, or some other point in the record.

Secretary MORGENTHAU. Yes.

(The information requested follows:)

Calendar year	Farm income excluding Government payments [1]	Fiscal year	Federal expenditures for aid to agriculture [2]
1932	$4,682,000,000	1933	$239,000,000
1933	5,278,000,000	1934	780,000,000
1934	6,278,000,000	1935	1,075,000,000
1935	6,969,000,000	1936	928,000,000
1936	8,212,000,000	1937	975,000,000
1937	8,748,000,000	1938	880,000,000
1938	7,632,000,000	1939	1,235,000,000
1939	7,861,000,000	1940	1,557,000,000
1940	8,254,000,000		

[1] Source: Department of Agriculture.
[2] Source: Annual Report of the Secretary of the Treasury for Fiscal Year Ended June 30, 1940, p. 652, table 8.

Mr. CARLSON. I am sure that agriculture does not desire to secure a contribution from the Federal Treasury, but they feel that what they get is necessary as a result of benefits received by other groups. And I am sure that if the Secretary will check them he will see there is a great disparity in the increases. The farmers have lost their export market; the defense industry export business is increasing rapidly; labor rates are increasing, and the farmers at this time have been further penalized under the program.

Secretary MORGENTHAU. These figures that I have, and they are perhaps not exact, because I am reading them from a small diagram, show something like this: Aid to agriculture, beginning in 1933, was somewhere around $200,000,000. I may be off some. Then it went up to somewhere around a billion and a half dollars, and as I say, I will furnish the exact figures, and during the same period, the farm income went from about $5,000,000,000 to about $8,300,000,000. I am reading from a very much reduced chart.

Mr. REED. Mr. Secretary, if there are any false rumors floating around as to the type of taxes you are likely to impose, do you not believe it would be better if we could clear up some of those misunderstandings and rumors now than let them drift along and irritate the public?

There are some rumors around financial circles to the effect that the Treasury is likely to make certain recommendations. I have some of these rumors here. One is that the Treasury might suggest that the present normal corporation tax be reduced and some of this tax be classified as surtax. Is that true or not?

Secretary MORGENTHAU. Mr. Reed, if you will wait, or if the committee will wait until Mr. Sullivan makes his statement—I would be very glad if the committee desires to hear Mr. Sullivan now, to yield, but all the details are in Mr. Sullivan's statement. If you would care to put Mr. Sullivan on now, he is here and he can answer that and the other questions.

Mr. REED. I will proceed with another line of questions and withhold those until Mr. Sullivan takes the stand.

How does the present level of taxes compare with those in effect under the Revenue Act of 1918, both with regard to rate and yield?

Mr. SULLIVAN. I will have a statement ready before the hearings end showing the details of all those different types of taxes.

Mr. REED. I would like to ask another question; if you have weighed the matter, in formulating this tax program, if you have kept in mind just how it may or may not cripple production or unduly restrict purchasing power? Have those all been considered?

Mr. SULLIVAN. Both of those factors have been carefully considered.

Mr. REED. How much does it eventually cost the taxpayer on the average to pay back with interest each dollar that is borrowed by the Treasury?

Mr. BELL. The average rate on the public debt at the end of March was 2½ percent; to be exact, 2.53.

Mr. REED. That obligation, of course, runs over a period of years. Now, if there is any inflationary rise, that reduces the purchasing power of income from those bonds, it costs the taxpayer considerably more, does it not?

Mr. BELL. You mean because of fixed income from that security?

Mr. REED. Yes.

Mr. BELL. If there is a rise in prices, it reduces what he can buy with that fixed income.

Mr. REED. In other words, what I am getting at is, you are proceeding on the theory here that the heavier the taxation the more you are likely to reduce a rise in prices; is not that true?

Mr. BELL. Holding prices down by that action, some of the purchasing power will be taken out of the hands of the public by these taxes and put it into the hands of the Government.

Mr. REED. And that, as I understand from the Secretary of the Treasury's statement, is one of the objectives of this bill, a two-thirds raising of the revenue by taxes and one-third by borrowing; is that correct?

Mr. BELL. That is one of the objectives; yes, sir.

Mr. REED. Do you think that the yield of any of our present taxes could be increased by lowering the rate rather than by setting them up?

Mr. BELL. I do not know, Mr. Reed.

Mr. REED. Has that been considered?

Mr. SULLIVAN. We do not know of any particular tax where we believe that would occur.

Mr. REED. Of course, you have taken into consideration in presenting this tax bill here all of the factors that might tend to restrict production, defense production. You have weighed all of those matters in the light of all the facts?

Mr. SULLIVAN. Yes, sir.

Mr. REED. What would the present tax rates yield with a national income of $90,000,000,000. We are up to about $80,000,000,000 now, I believe.

Mr. SULLIVAN. There really is no one answer as to the amount of revenue at a given level of national income. The composition of the income, that is, its division between types of income and classes of income receivers as well as the course of the national income has a great influence on the tax liabilities which accrue at a given level of national income. In the annual report of the Secretary of the Treasury on the state of the finances for the fiscal year ended June 30, 1940, estimates were presented of the tax liabilities under the laws existing in December 1940 under certain assumptions as to the $90,000,000,000 level of national income. Under those assumptions the estimate was that the existing tax structure would produce approximately $11,200,000,000 in annual tax liabilities.

Mr. REED. How much would it yield with a national income of $100,000,000,000?

Mr. SULLIVAN. The figure shown in the Secretary's annual report is $13,400,000,000. In order that the qualifications which go with the figures may be properly understood, I should like to have included at this point as a part of my remarks a short excerpt from the annual report of the Secretary.

(The matter referred to follows:)

The table that follows shows Federal tax liabilities and national income produced for calendar years 1933 to 1939. National income "produced" is defined by the Department of Commerce as "the *net* value of all goods and services produced within a given period." It differs from the concept of national income "paid out" in that it includes "business savings"—i. e., the undistributed net profits of business enterprises—but excludes unearned interest and dividend payments as well as business losses before such payments.

It should, of course, be stressed that Federal tax liabilities should not properly be subtracted from national income, either produced or paid out. They are not a burden or drain upon the sum total of national income. They contribute materially to national income produced when, after being collected as taxes, they are spent by the Government. Any list of the forms in which Federal expenditure increases national income would include such items as salaries, educational services, streets and highways, conservation of natural resources, public works, furnishing of national defense, public health, and emergency relief.

National income and Federal tax liabilities, calendar years 1933 to 1939, and at assumed higher levels of national income

[In millions of dollars]

Calendar year	National income produced	Federal tax liabilities
1933	42,430	2,721
1934	50,347	3,795
1935	55,870	4,244
1936	65,148	5,379
1937	71,173	6,149
1938	63,510	5,671
1939	69,378	5,780
	90,000	[1] 11,200
	100,000	[1] 13,400

[1] These estimates, which are based on the law existing in December 1940, including the temporary tax rates of the Revenue Act of 1940, are rough and may vary somewhat either way. They are presented as an indicator and not a gage. The $90,000 million and $100,000 million levels of national income are not predictions for any particular year. In addition to the tax liabilities the Federal Government collects miscellaneous revenues and receipts which are not estimated at the $90,000 million and $100,000 million levels of national income produced. In the fiscal year 1942 these are estimated at $180 millions.

SOURCES.—Table on p. 654 for tax liabilities. Survey of Current Business, U. S. Department of Commerce, June 1940, table 1, p. 7 for national income produced.

The last two lines in the table above have been included in order to present some idea of the strength of the tax structure as of December 31, 1940, at higher levels of national income than now exist. These estimates are of a different type than those appearing elsewhere in the table. They are not predictions of the indicated levels of national income for any particular year but are rough indications of the level of receipts under certain assumed conditions. It is not meant to imply that Federal tax liabilities correlate merely with national income produced or that they may be estimated merely by reference to it. There is no one answer as to the amount of revenue at a given level of national income. The course of the national income—upward, downward, irregularly fluctuating, or lateral—has a great influence upon tax liabilities. The composition of the income—i. e., its division between types of income and classes of income receivers—also has a great influence. The assumption in connection with the estimates at the $90 billion and $100 billion national income levels is that the income remain constant at each level for some years. The assumptions with respect to composition have been made with special reference to the existing international situation. Under these assumptions, if the national income were to achieve an annual level of $90 billions for several years, it is estimated that the existing tax structure would produce approximately $11,200 millions in annual tax liabilities. Under comparable circumstances an annual $100 billions national income would provide annual Federal tax liabilities of $13,400 millions. This tax yield would be unprecedented in our national history.

Mr. REED. Do you honestly think you can recommend to this committee, Mr. Secretary, methods by which we can reduce expenditures to the amount of $1,000,000,000? Do you think that is likely to come about—that reduction in nondefense expenditures?

Secretary MORGENTHAU. I think it is possible to make such a reduction.

Mr. REED. Well, we are drifting along here. You made that proposal once before. Has anything been done in the meantime to reduce nonmilitary expenditures?

Secretary MORGENTHAU. I can only suggest it to Congress. The rest is up to Congress.

Mr. REED. You do not know of any particular reductions that have been made. Was there any reduction in the agricultural appropriation?

Secretary MORGENTHAU. No, there was not.

Mr. REED. Are you somewhat concerned, rather deeply concerned, as to what action they might take on farm parity payments?

Secretary MORGENTHAU. I am concerned about the whole picture. Up to now, Congress has stayed within the President's Budget, and if they raise this agricultural appropriation by $450,000,000, I think that may be just blazing the trail for a great many more appropriations which will be in excess of the Budget. I would like to see it go the other way.

Mr. REED. If, however, the St. Lawrence project and the parity payments should be appropriated for, do you feel it necessary under these circumstances to come back here and ask for more taxes in view of this plan of taxation that you have presented to us—either that, or attempt to borrow the money?

Secretary MORGENTHAU. I would want to give it serious consideration. I just do not want to concentrate my whole fire on the one agricultural appropriation, but that is the one that happens to be before Congress now. As I said early in the morning, the job that I have in the Treasury to borrow this money is a very difficult one. I need a lot of help to convince the American public to let me have it.

As I said before, I think there are two ways. One, we are willing to raise the amount through taxes that we think we can stand. On the other hand, we do not hesitate to cut down all unnecessary expenditures. I think the two should go hand in hand.

I think that if the Congress would take that attitude toward fiscal policy, it would make my job very much easier. On the other hand, if it raises taxes and also raises the expenditures, it is going to make it more difficult, because the public that have the money are frightened easier than any other group. On several occasions they have been frightened. And it is very hard to get them back to a point where they will lend their money freely to the Government. I do not want to see that come about. I am not shutting the barn door after the horse is stolen. I am up here doing it while we have a good bond market and a low interest rate, and I can borrow easily. But I think the time to stop, look, and listen is now.

Mr. REED. Just how is the rate on these defense bonds going to compare with the rate on the bonds now outstanding in the hands of banks and insurance companies?

Mr. BELL. They compare very favorably.

Mr. REED. You have weighed all of the dangers that might result from a disparity as between the bonds you are proposing to issue now and those that are outstanding, have you not?

Mr. BELL. I think we have. We may have overlooked something, but I think we have weighed most of them.

Mr. REED. I am interested because I know that the banks and the insurance companies hold a large portion of the national debt. Here is a new issue coming out which may be a more favorable issue, and it might result in a very dangerous repercussion. I assume that you have weighed all of those matters. I think the public should have full information concerning the fact that you have done so.

Now, do you happen to have in mind to what extent this taking of money from the consumer through the process of taxation has kept the price of consumer goods down in Great Britain? Have you anything along that line?

Secretary MORGENTHAU. I do not believe we have any information on that, but I shall be glad to look it up.

Mr. REED. I have some in the office, but how authentic it is, I do not know. It is very difficult to tell just to what extent is has kept prices down. But it has not kept them from climbing. It may have kept them from climbing much higher. But they certainly have gone up. And I understand they have put on controls other than just taxation. I am just wondering how far this is going to be effective, and especially in the light of the priorities that are being imposed.

Another thing that I assume you have weighed, and that is the effect that priorities and taxation together may have upon unemployment in these consumer-goods industries. We had a case recently in my district where priority, if it is imposed, will probably put 500 people out of work, who are now earning a good daily wage, because it will close the factory. It will put those people on relief. They are not skilled mechanics. They are not the type that would naturally go into the defense industries. I was wondering if you had weighed all of those factors.

Secretary MORGENTHAU. I do not think this tax bill will close factories. I could understand how priorities might. But we have done the best job that we can. We have made a study not only over a period of months, but over years. We are human, but within our limitations we feel this is the best recommendation we can make considering all the economic factors in the country.

Mr. REED. We are all interested in proceeding along this line safely. Of course, if we are proceeding on the theory that by taking the money from the people that they cannot buy consumer goods, then certainly there would be no object in producing consumer goods, that the public would not purchase.

Secretary MORGENTHAU. We watch that very closely on a day-to-day basis. We watch prices and employment, and all that. We do the best we can and get all the information that any other agency in Washington has.

Mr. REED. Of course, once this tax bill is on the books it is there, and can only be changed by coming back to Congress. If it did have the effect of closing any of the consumer-goods factories, we would have unemployment still and we would still have an increase in the relief problem.

Secretary MORGENTHAU. I doubt very much, Mr. Reed, that it would do that.

Mr. REED. Of course, the backbone of employment in this country is not just the few major industries. It is the thousands of small industries.

Secretary MORGENTHAU. You are right.

Mr. REED. And most of those are engaged in the production of consumer goods. We already have the example of how this thing works, because we have seen the voluntary reduction in production of automobiles which, after all, in modern economics are classed as consumer goods. I am going to withhold my other questions until Mr. Sullivan takes the stand.

Mr. KNUTSON. Mr. Secretary, why should it be necessary to levy higher taxes in this country, which is at peace, than it is in Great Britain, which is at war?

Secretary MORGENTHAU. I do not know which particular taxes you are referring to.

Mr. KNUTSON. I am referring now to the Treasury Department's proposal with reference to the estate tax. I want to satisfy myself about this, and I would like information that would indicate to me whether this is a share-the-wealth program or an attempt to raise revenue.

Now, taking a net estate of $60,000——

Secretary MORGENTHAU. May I answer the one question first? This is a suggestion to raise revenue.

Mr. KNUTSON. This looks to me like a share-the-wealth program. I will just give you a few figures. On a $60,000 net estate, the British tax is $4,320. Your proposed tax is $4,840, which is 1,200 percent above the existing rate.

Now we will come down to $100,000. The British tax is $10,800 and your proposal is $15,290.

On $1,000,000, the British tax is $338,000 and your proposal is $442,455.

Then coming down into your class, a $10,000,000 net estate——

Secretary MORGENTHAU. Thanks for the compliment.

Mr. KNUTSON. The British tax is $6,500,000 and your proposed tax is $5,977,000.

I do not see why these excessive taxes should be necessary unless it is the intent of the administration to level off all wealth in this country and bring those who have been successful, and who have tried to work and accumulate something, which they may leave to their dependents—bring them down to the same level as those who are on W. P. A.

Secretary MORGENTHAU. Mr. Knutson, if I were in the class that you mention—and I am not or anywhere near it—at least you would think I was a very patriotic citizen.

Mr. KNUTSON. Let us hope you will be in that class.

Secretary MORGENTHAU. Not while I am in the Treasury.

Mr. KNUTSON. You are a comparatively young man and there is lots of hope for you.

Secretary MORGENTHAU. Not while I am in the Treasury.

Mr. KNUTSON. If you will kindly tell us why it should be necessary to levy tax rates that are far in excess of the British rates—and that is a country that is at war—I think the committee would appreciate it.

Secretary MORGENTHAU. I do not think, if you do not mind my saying it, that the two things have anything to do with each other. We have not taken the British income-tax rates and applied them in this country. We have been designing a suggestion to be made to this committee as to where we could get the three and a half billion dollars with the least disturbance to the economy of this country. We felt that a tax on a dead man's wealth would certainly disturb him as little as anything we know of.

In the suggestions which the Treasury has made, we have our problem and the British have theirs, and as far as I know, the two things have nothing to do with each other.

Mr. KNUTSON. We are constantly being told that we do not know what taxes are, compared to what they are in Great Britain. I think if you would add the Federal tax to the State tax and the local political subdivision taxes, you will find that the amount of tax here is neck and neck with the British taxes, and probably in many instances higher, all along the line.

Secretary MORGENTHAU. If you want to compare the two, if you want to compare the amount of revenue that we are proposing to raise as compared with our national wealth or income, and do the same with the British national income, you will see that we would fall far short of what they are doing or what Canada is doing, for that matter.

Mr. KNUTSON. The fact remains nevertheless that we are at peace, and I am sure the country is going to be shocked when they get the rest of these figures that were given out in executive session the other day.

That is all, Mr. Chairman.

Mr. DISNEY. Mr. Secretary, how many taxpayers have filed income-tax returns on March 15?

Mr. SULLIVAN. The number of individuals who had filed through March 22 was 14,280,893 as compared with 6,877,077 last year through the 31st of March.

Mr. DISNEY. Do you estimate there will be more?

Mr. SULLIVAN. Yes, sir.

Mr. DISNEY. How many?

Mr. SULLIVAN. We estimate that if the same proportion of delinquents file between March 22 and December 31 as have filed in previous years, we should receive an additional 1,752,000 returns.

Mr. CARLSON. Of course, we all appreciate that agricultural income has gone up, but even at that, agriculture in 1940 only received 6.6 percent of the national income. The figure was $1,800,000,000 short of parity in 1940 and $1,600,000,000 short in 1939. As the farmers of the Nation have seen what is happening, in the rapidly increasing expenditures of this country, they are concerned, and therefore I was hoping that you had made some study and would be able to give us something suggesting a change.

Secretary MORGENTHAU. The figures which I have submitted do not seem to show to me that the Government payments to agriculture have increased farm income other than by the exact amount that agriculture has received from the Federal Treasury.

Mr. CARLSON. Of course, that is the reason for parity payments; there is this differential or disparity, and that is the reason for parity payments. It has been the program of the Department of Agriculture to try to increase the farm income so as to somewhat balance it with labor and industry. And I am amazed when I go through some of these figures—I hesitate to take the Secretary's time at this time, but I am going to ask permission later to insert in the record some tables showing the income of agriculture as compared with labor and as compared with industry.

Secretary MORGENTHAU. Those are not my figures, Mr. Carlson. The only study that I was making was from the Treasury angle, namely, how much has farm income benefited through contributions from the Federal Treasury? And it looks as though it had benefited only to the extent of the number of dollars that it had received from the Treasury.

Mr. CARLSON. Of course, if that is correct, that is a serious indictment of the present program, and we should change it, if necessary, to try to correct the disparity. I am not going to take a lot of time now, but I am going to call your attention to the fact that the cash income of the farmer in the southern division in 1939 was $160, and his gross income, considering the things he received on the farm, was $195. The plumber, according to this same table, received $57.84 a week, and if these plumbers were paid on the same basis of parity as agriculture, they would be getting $37.24 a week. I have the entire list here, and I would be glad, except for the matter of time—you have been very generous with your time this morning—to put this material in the record.

I want to call your attention to this: We talk about 1929, and we are getting back now, they say, to a business condition that prevailed in 1929.

In 1929 the cotton farmer in the Southeast showed earnings of 16.3 cents per hour. In 1939 he received 10 cents an hour. The cash grain farmer in the Corn Belt earned 51.9 in 1929; and in 1939, 33.7. The farmers are greatly concerned about it. Not that they do not desire labor to receive a fair share of the national income, but when we add 10 cents an hour in the steel industry for labor, which figures about $100,000,000, and in connection with the coal industry, as Mr. Robertson has brought out, $200,000,000, and you come here today and talk about $500,000,000 for agriculture, and suggest reducing the expenditures of the Government a billion dollars, taking half of it away from agriculture, I think you are going too far.

Secretary MORGENTHAU. Let me make myself perfectly clear. What I said was this: These figures that Mr. Cooper brought out concerning nondefense expenditures show that today they are about the same as they were in 1937. But since 1937 we had added three and a quarter billion dollars for defense expenditures. The others have stood still.

So what I am saying to you gentlemen is this: Let us take a look at the nondefense items, including agriculture. Do we have to continue all the nondefense items? There are some that we could reduce. In other words, could we get below this $5,000,000,000, in view of the fact that we have increased items for defense about three and a quarter billions, of which the farmer will receive his share through the increased purchasing power of the whole country?

Now, being bold enough to make that suggestion, being interested in the farmer myself, I was very curious to know whether the yeast, so to speak, that we put into the farm program through the farm benefits, increased the farmer's income over and above the actual amount he received from the Treasury; and taking it in the broad way—my figures are very much reduced in scale—it does not look to me that the farmer has received very much more income above the amount that he received out of the Treasury.

If that is true, and the national income has gone up about $20,000,000,000, I think it is a fair deduction to say that if we approach $90,000,000,000 of national income, the farmer will receive his share of that. Therefore, I raise the question that Congress might reexamine the whole agricultural benefit program. I do not think you can argue very much with me about that.

Mr. CARLSON. No. But I do think it unfortunate at the present time that the impression seems to prevail that the Treasury is out of balance and largely because of benefit payments or parity payments to agriculture. As a matter of fact, the only difference between this year's Senate bill and last year's is $238,000,000. We received $212,000,000 last year in parity. This year it was $450,000,000. I am referring simply to parity payments at this time. There may be other items in the regular appropriation bill with which I am not familiar. So, after all, it is only $238,000,000.

Secretary MORGENTHAU. Every time you gentlemen start on parity payments, I have to sit down, because I get lost!

Mr. CARLSON. I ask permission, Mr. Chairman, to extend my remarks in the record by inserting certain tables.

The CHAIRMAN. Without objection, it is so ordered.

(The additional remarks of Mr. Carlson follow:)

Mr. Chairman, the following information and tables give a discussion and comparison of farm income as compared with nonfarm income:

During the years 1935–39, inclusive, the cash income of the nonfarm population averaged $625 per person, as compared to an average of only $408 in the parity period before the first World War. The income of people not on farms, even if we include the unemployed, has been averaging 50-percent higher than it did in the pre-war period. The rate of increase in farm income has been very much lower. In 1939 the average per capita annual income for farmers in certain areas was as follows:

	Cash	Gross
Southern division	$180	$256
North-central division	265	425
Western division	317	349
United States	266	303

The average farm family consists of 4½ people.

The Bureau of Agricultural Economics has compiled estimates on the cash and total net rates per hour of farm work of commercial family farms for 1929 and 1939. Cotton farmers in the Southeast in 1929 showed earnings per hour of 16.3 cents, as compared with 10.1 cents in 1939. Cotton farmers in the Texas black waxy belt showed 25.6 cents per hour in 1929, as compared with 11.9 cents in 1939. Cash grain farmers in the corn belt earned 51.9 cents per hour in 1929, as compared with 33.7 cents in 1939. Spring wheat farmers in the Great Plains earned 57.1 cents per hour in 1929, as compared with 32.8 cents in 1939. Hired farm workers have an earning capacity of about one-half of the earnings of Work Projects Administration unskilled workers. As of July 1940, the average length of work day for the hired farm worker was 10.4 hours. The day average wage rate without board averaged $1.62 and the equivalent rate per hour was 15.6 cents. These figures demonstrate the absurdly low day and hourly earnings of the farmers as compared with other workers and also show the reduction in earnings of farmers in 1939 as compared with 10 years prior to that time.

For further comparison of farmers' earnings, let us examine Work Projects Administration earnings, all the money for which is provided by the taxpayers. The average pay for Work Projects Administration workers per month is $58.50. The average annual pay is $702. The average day wage rate is $2.25 and the average hour wage rate is 45 cents.

Let's take a look at the earnings of other workers. The Secretary of Agriculture in 1940 submitted to the House Appropriations Committee a statement showing the average weekly earnings of certain industrial workers compared with the estimated parity earnings if these workers received wages comparable to farm prices. I quote below some of the figures:

	Weekly earnings, 1939	Estimated parity earnings
Plumbers	$57.84	$37.24
Electricians	57.69	33.72
Carpenters	54.22	32.87
Bricklayers	53.52	43.36
Factory workers	24.34	17.14

On an annual basis, the figures would be:

	Weekly earnings, 1939	Estimated parity earnings
Plumbers	$3,007.68	$1,936.48
Electricians	2,999.88	1,753.44
Carpenters	2,819.44	1,709.24
Bricklayers	3,218.64	2,254.72
Factory workers	1,265.68	891.28

The following average annual payments are made by the Government to retired employees who are not now engaged in any work for the Government:

Army officers	$3,225
Naval officers	3,046
Railroad workers	788.40
Postal employees:	
City letter carriers	1,107
Rural letter carriers—male	1,046
Rural letter carriers—female	946
Post office clerks—male	1,093
Post office clerks—female	1,001

The following table contains the parity position of important farm products as submitted by the United States Department of Agriculture for January 1941:

Parity positions of important farm products, January 1941

Product		Price, January 1941	Parity price	Percent market price is of parity
Wheat, per bushel	cents	73.0	113.2	64
Corn, per bushel	do	58.0	82.2	71
Rice, per bushel	do	67.0	104.1	64
Cotton, per pound	do	9.45	15.87	60
Butterfat, per pound	do	31.1	32.0	97
Chickens, per pound	do	13.7	14.6	94
Eggs, per dozen	do	19.7	29.9	66
Hogs, per hundredweight	dollars	7.26	9.24	79
Beef cattle, per hundredweight	do	8.09	6.67	121
Lambs, per hundredweight	do	8.34	7.51	111
Wool, per pound	cents	31.3	23.4	134
Tobacco, per pound	do	13.9		
Flue-cured types 11-14 per pound	do	11.6	22.4	52
Fire-cured types 21-24 per pound	do	9.7	10.5	92
Burley, type 31, per pound	do	15.5	21.9	71
Air-cured, dark, types 35-37, per pound	do	7.9	8.6	92
Cigar, leaf, types 41-45, per pound	do	8.0	10.9	73
Cigar, binder, types 51-55, per pound	do	14.1	15.3	92

The following table gives the national income of the United States from 1909 until 1941 and divides it between farm and nonfarm income.

National income, United States, 1909–41

Year	Total	Nonfarm	Farm	Farm as percentage of total
	Million dollars	*Million dollars*	*Million dollars*	*Percent*
1909	26,415	22,070	4,345	16.4
1910	28,114	23,474	4,640	16.5
1911	28,480	24,251	4,229	14.8
1912	30,394	25,798	4,596	15.1
1913	32,133	27,560	4,573	14.2
1914	31,919	27,367	4,552	14.3
1915	33,210	28,404	4,806	14.5
1916	39,096	33,198	5,898	15.0
1917	47,385	38,482	8,903	18.8
1918	55,387	44,856	10,531	19.0
1919	60,354	48,756	11,598	19.2
1920	64,552	56,478	8,074	12.5
1921	54,210	49,883	4,327	8.0
1922	57,546	52,109	5,437	9.4
1923	66,171	59,620	6,551	9.9
1924	68,524	61,598	6,926	10.1
1925	73,278	65,852	7,426	10.1
1926	75,564	68,695	6,869	9.1
1927	76,457	69,618	6,839	8.9
1928	78,117	71,209	6,908	8.8
1929	80,372	73,542	6,830	8.5
1930	73,571	68,456	5,115	7.0
1931	62,384	59,303	3,081	4.9
1932	48,355	46,551	1,804	3.7
1933	45,771	43,174	2,597	5.7

National income, United States, 1909–41—Continued

Year	Total	Nonfarm	Farm	Farm as percentage of total
	Million dollars	*Million dollars*	*Million dollars*	*Percent*
1934	52,540	49,164	3,376	6.4
1935	57,007	52,770	4,237	7.4
1936	66,722	61,599	5,123	7.7
1937	70,753	65,282	5,471	7.7
1938	64,687	60,236	4,451	6.9
1939 [1]	68,127	63,821	4,306	6.3
1940 [2]	71,829	67,611	4,218	5.9
1941 [3]	80,350	75,700	4,650	5.8
INCLUDING GOVERNMENT PAYMENTS				
1933	45,893	43,174	2,719	6.0
1934	53,096	49,164	3,932	7.4
1935	57,590	52,770	4,820	8.4
1936	67,009	61,599	5,410	8.1
1937	71,120	65,282	5,838	8.2
1938	65,169	60,236	4,933	7.6
1939 [1]	68,934	63,821	5,113	7.4
1940 [2]	72,595	67,611	4,984	6.9
1941 [3]	81,650	75,700	5,950	6.8

[1] Revision of preliminary estimate given in table on p. 680 of 1941 agricultural appropriation hearings.
[2] Preliminary.
[3] Forecast.

Source: Bureau of Agricultural Economics.
(From speech of Hon. Clarence Cannon, Congressional Record, Mar. 14, 1941.)

Amount of appropriations necessary to obtain parity income for 5 major crops based on production of 1941 acreage allotments at normal yields

Commodity	Estimated production of 1941 allotments at normal yields	Parity prices, Jan. 15, 1941	Parity income on estimated production	Estimated farm price, 1940 season	Market value of estimated production	Total appropriations needed to obtain parity income	Estimated conservation payments	Estimated parity payments from funds already appropriated	Balance of appropriations for parity
	Million units	*Cents*	*Million dollars*	*Cents*	*Million dollars*	*Million dollars*	*Million dollars*	*Million dollars*	*Million dollars*
Cotton, including seed ... barrels	12.5	15.87	1,152	9.4	751	401	101	89	211
Corn, commercial area ... bushels	1,294	82.2	1,064	[1] 61.0	789	275	89	49	137
Wheat ... do	763	113.2	864	67.0	511	353	50	57	246
Rice ... hundredweight	19.8	231.3	46	136.0	31	15	1	3.3	10.7
Tobacco:									
Flue-cured ... pounds	681	22.4	153	16.5	112	41	6.4	3.3	31.3
Burley ... do	329	21.6	72	16.0	59	13	2.5		10.5
Fire-cured ... do	71	10.5	7.5	8.0	5.6	1.9	1.1		.8
Dark, air-cured ... do	39.6	6.4	2.5	6.5	1.9	.6	.3		.3
Total			3,361		2,260.5	1,100.5	251.3	201.6	647.6

[1] Loan rate.

Mr. JARRETT. Mr. Secretary, did I understand you, in connection with your statement about items not essential to the national defense, to mention the St. Lawrence Waterway?

Secretary MORGENTHAU. No; I am sorry. Somebody asked me if in our estimate of $19,000,000,000 I had included expenditures for the St. Lawrence Waterway and all I said was, no, because it is not yet on the books.

I have taken on enough with agriculture, Mr. Congressman, and if you do not mind, I would like to be excused from discussing the St. Lawrence Waterway at this time.

Mr. JARRETT. That is all.

Mr. ROBERTSON. I ask unanimous consent to insert in the record at this point three questions that I asked the Secretary on January 29, 1941, and his three answers, in connection with the hearings that we had on increasing the public debt limit.

The CHAIRMAN. Without objection, the matter referred to may be inserted in the record.

(The matter referred to is as follows:)

Mr. ROBERTSON. Could you give us an indication of what should be the minimum amount that Congress should endeavor to raise by a fair system of additional taxes to help pay part of the defense expenditures?

Secretary MORGENTHAU. I am not prepared, Congressman Robertson, to answer that today.

Mr. ROBERTSON. The reason I asked that question is that I have noted, in recent days in the papers, reference made to the fact that many corporations engaged in defense contracts are making a lot of money, and that is a good excuse further to increase wages, in order to keep these corporations from making too much money. I was just wondering if those who were advancing that theory had taken into consideration what these corporations are going to have to pay in taxes in connection with the defense program; and whether they will have too much money left after they pay those taxes.

Secretary MORGENTHAU. The corporations and the Congress and the Treasury will all know more about that after the 15th of March.

Mr. ROBERTSON. That may be true, but I look for these wage demands to come before the 15th of March, and if we were planning any substantial increase in taxes on corporations, I thought it would not be a bad idea to let everybody know that while we would not start writing the bill until after the 15th of March, when we would learn what the returns under the present taxes are going to be, we did have in mind a new tax bill. It has been on numerous occasions unofficially referred to as a bill to produce not less than an additional $1,000,000,000 of revenue, and that is not a small tax bill.

The CHAIRMAN. Mr. Secretary, we thank you very much for your appearance, and the statement that you have made to the committee.

The committee will recess at this time until 2:30.

(Whereupon, at 1:15 p. m., the committee recessed until 2:30 p. m.)

AFTERNOON SESSION

The recess having expired, the chairman called the committee to order at 2:30 p. m.

The CHAIRMAN. The committee will be in order. We will hear the Assistant Secretary, Mr. Sullivan.

STATEMENT OF JOHN L. SULLIVAN, ASSISTANT SECRETARY OF THE TREASURY

The CHAIRMAN. Without objection, you make make your main statement without interruption.

Mr. SULLIVAN. Mr. Chairman and gentlemen, in discussing with you the fiscal problems confronting the Nation as a result of the national emergency, the Secretary has pointed to three governing principles; first, that the greater part of the cost of the emergency defense program should be met from current taxes rather than borrowing; second, that these taxes should be collected with a minimum of

interference with the effective mobilization of all our manpower, managerial capacity, business enterprise, and national resources; and, third, that the additional tax burden necessitated by the emergency should be distributed equitably among the several segments of our population.

In formulating the tax program I am about to outline, we have been guided by these basic principles. I might say, too, that we have proceeded on the assumption that we want the kind of Federal revenue system which can be readily adjusted to the Nation's requirements after this job is done and the emergency is past.

The considerations which have led to the conclusion that the emergency defense program should be financed for the most part from current taxes, are known to you and require, I believe, only brief mention.

The dangers of inflationary price movements are real, and must be avoided. Excessive reliance on borrowing, together with increased purchasing power, would exert a strong and dangerous upward influence on prices. To avoid this, the tax program is essential.

This tax program will enable us to distribute the burden of defense costs equitably. Moreover, rising national income carries with it a greater ability to pay taxes. No man can foresee whether the future will bring greater or lesser ability and it is the better part of wisdom to take advantage of the certainty of the present.

With these fundamental considerations in mind, the Treasury has come to the conclusion that current taxes should provide approximately two-thirds of Federal expenditures during the emergency period. In terms of the $19,000,000,000 expenditures now indicated for fiscal year 1942, this requires a tax system yielding $12,667,000,000. Present taxes are expected to provide $9,223,000,000, leaving approximately $3,500,000,000 to be raised by new taxes. The Treasury's program is designed to produce approximately this amount.

In devising this program, it was recognized that despite several recent revisions in the right direction, the Federal revenue system is still heavily weighted with consumer taxes, particularly in view of the extensive use of such taxes by the States. For this reason, we consider it appropriate that a revenue program designed to meet emergency defense costs rely heavily on ability-to-pay taxes so that the entire system might be brought into better balance.

After these changes are superimposed upon the present revenue system, roughly one-third will be derived from each of the three categories—one-third from ability-to-pay taxes, one-third from corporate taxes, and one-third from commodity excises.

The importance of increasing our reliance upon the ability-to-pay taxes cannot be overstressed. Only through ability-to-pay taxes can tax burdens be distributed with careful regard to equity. Consumption taxes burden consumers without regard either to income or to family needs and responsibility and thus fail to meet the test of equity. However, the desirability of ability-to-pay taxes is not only a matter of attaining a fairer distribution of the increased and total tax load. Increasing reliance upon ability-to-pay taxes is essential if our economy is to continue at reasonably high levels of national income after the stimulus from our armament expenditures is reduced.

In the first full year of their operation the Treasury's revenue proposals are expected to yield approximately $3,000,000,000 of net additional revenue.

The yields of the individual items add to a total of approximately $4,000,000,000. It should be noted, however, that the estimated yield of each of the items has been computed without reference to the interrelated effects of the several proposals. In some cases the imposition of one tax will decrease the yield of others. Thus an increase in the corporation tax will decrease the excess-profits tax. Increases in corporation taxes and excess-profits taxes will likewise decrease the yield of the individual income tax. We estimate that after an allowance for this factor the net yield of the proposed program will be approximately $3,600,000,000.

It should be noted that much of the increase in this tax will not be received during fiscal 1942. The lag in payments will delay the collection of about 40 percent of it until fiscal 1943.

This increase, it should be noted, is what we estimate would result from rate changes alone, over and above the higher revenue which the present rates would have yielded on the basis of improved business conditions of 1941 and 1942. The individual and corporation income taxes, the corporate excess-profits tax, and the gift tax are estimated on the basis of calendar year 1941 levels of income, whereas the other taxes in general were estimated at business levels forecast for the fiscal year 1942.

Without allowance for the shrinkage (already indicated) the proposed increases in individual surtax rates will raise approximately $1,521,000,000, the increased estate and gift tax rates and reduced exemptions $347,000,000, and the increased corporation taxes, including both the excess-profits tax and the corporation income tax, nearly $935,000,000 million. The remaining $1,233,000,000 would be raised from commodity excises, approximately $188,000,000 coming from tobacco, $178,000,000 from liquor, and $867,000,000 from other excise taxes.

In the individual income tax it is proposed to make surtaxes applicable with the first dollar of taxable income and to increase the surtax rates up to the $750,000 income level. No change is proposed in the normal tax because any increase in that tax would not affect the interest received on partially tax-exempt Federal securities.

At the close of the last fiscal year the amount of such securities outstanding totaled $35,000,000,000, $8,000,000,000 of which was in the hands of individuals. These securities are exempt from the normal tax but not from the surtax, and any increase in the rates of the normal tax as opposed to the surtax would enhance the value of the tax exemption.

The proposals leave the personal exemptions unchanged. You will recall that the exemptions were substantially decreased by the Revenue Act of 1940. As a result of that act, approximately 8,200,000 new returns will be filed in 1941, and there will be nearly 4,000,000 new taxpayers.

The proposed increases in the personal income taxes are substantial. On the first bracket of income above personal exemptions, the combined surtax, normal tax, and defense tax rate is 16.5 percent as compared with 4.4 percent under present law. Increases are proposed throughout much of the rate schedule but they taper off as the very high rates of the higher brackets are reached. Under present law, a married person with no dependents and a net income before personal exemption of $2,500 pays a tax of $11; the proposed schedule will raise

his tax to $72 or 2.9 percent of his net income. The same person with a $5,000 net income pays $110 under the present law. Under the proposal he would pay $506 or an effective rate of 10.1 percent. For a married person having no dependents, with a $10,000 income, the proposed schedule will increase the tax from $528 to $1,628, an effective rate of 16.3 percent.

In the consideration of these rates, I suggest that particular attention be paid not to the percentage of increase but to the amount of the tax and the effective rate of tax burden. While in some of the lower brackets the increases are several-fold, the proportion of the income represented by the total tax is not unduly large.

During the past few months hundreds of thousands of young men have been inducted into the armed services of the United States and have entered training camps. In doing so they have foregone earnings in civilian occupations and now receive a basic pay of $30 per month. Whether these men came from farms, factories, banks, or professional offices, they have surrendered a far greater part of their potential earnings than will be called for from anyone under this bill. The single man who earns a net income of $2,500 outside the armed services has $2,230 left after payment of the proposed income tax. If he is in the armed services his income will be $360. The man who earns $5,000 in civilian life will have $4,252 left, as contrasted to the $360. If he earns $10,000 he will have $8,042 left. The taxes called for by these proposals are light indeed as compared to the sacrifices which large numbers are undergoing in entering military services.

The proposed estate- and gift-tax revisions are estimated to yield $347,000,000. This would be obtained by increasing the estate- and gift-tax rates, and by reducing from $40,000 to $25,000 the specific exemption under the estate tax and the gift tax, and the insurance exclusion under the estate tax.

The adoption of these proposals would increase the tax on a $50,000 net estate before exemption from $220 to $2,860. A net estate of $100,000 now pays $4,820; under the proposal it would pay $15,290. In the case of a million-dollar estate, the tax liability would be increased from $228,780 to $442,455. These figures refer to the Federal tax liability before deductions for taxes paid to States.

The changes in the gift tax would yield revenue in fiscal year 1942. The estate-tax changes, however, would not begin to yield revenue until fiscal year 1943.

It is suggested that the excess-profits tax be made more effective and more productive. In a period like this when, on the one hand, the defense program is giving rise to substantial profit increases and, on the other hand, heavy additional taxes are being imposed on everyone, it is highly desirable that the profits directly or indirectly attributable to the defense program, as well as all excessive profits, should be subject to special taxation.

Due to extensions in the date of return filing necessitated by the recent amendments to the Excess Profits Tax Act the returns are just beginning to be received in Washington. In the light of what is already known, however, it is believed that the revenue can be increased $400,000,000 through reductions in credit—particularly in the case of invested capital—and increases in rates.

In order that some of the additional tax burden be borne by all corporations with net income, it is proposed also to increase the general corporation income tax. In this connection, however, it is important to keep in mind that in the past many financial corporations have received practical exemption from the income tax due to their ownership of tax-exempt securities. A large volume of these securities is in the form of partially tax-exempt Federal securities. At present, approximately $20,000,000,000 of such securities are held by corporations that are subject to the Federal income tax. When these securities were purchased it was not anticipated, either by the Government or by corporations, that the tax benefit from them would be as great as it is. It is undesirable that any additional tax benefit be granted by increasing the normal rate on corporations. Accordingly, it is suggested that an increase in the corporate tax rate be made in the form of a surtax at the rate of 5 percent on the first $25,000 of net income and 6 percent on the balance. This will yield $535,000,000.

In the field of excise taxation, it is proposed that a number of new taxes be imposed and the rates of some existing taxes be increased. We have endeavored to avoid excises which would fall on the basic necessities of life and excises which, while productive, would constitute an increase in the cost of doing business and thus would be passed on to the Government and to the public in general price increases. We have, however, selected certain luxury articles which, though widely used, are not necessities. It is suggested that in the light of our over-all revenue requirements the users of these articles may now be asked to pay additional taxes. The list of these excises is limited by the difficulty of finding commodities consumed in sufficient quantities to bring in revenue commensurate with the expense of administration. Undoubtedly, the committee will want to consider the possibility of adding other commodities to the list.

It is suggested that an additional 1½ cents a package be added to the tax on cigarettes and that the rates on cigars, tobacco, and snuff, not increased since 1918, be doubled. These increases will yield approximately $200,000,000.

In the category of liquor taxation, it is proposed to impose an additional tax of $1 per gallon on distilled spirits, $1 per barrel on fermented malt liquors, and a 16⅔ percent increase on wines, cordials, and liqueurs, these three classes to yield collectively $178,000,000.

Other increases in existing excises and new excises to yield $867,000,000 are proposed in accordance with the following schedule, which, since you all have it, I think I will not bother to read.

Excise taxes

[In millions of dollars]

Source	Estimated increase
Gasoline, 1 cent per gallon additional	252.0
Soft drinks, 1 cent a bottle and equivalents	122.5
Passenger automobiles, parts and accessories, double rates	79.9
Check tax, 2 cents per check	37.0
Admissions, reduce exemptions from 20 cents to 9 cents	12.0
Tires and tubes, increase rates from 2¼ and 4½ cents to 5 and 9 cents	43.5
Telephone, telegraph, cable, etc., lower exemptions and increase rates	40.4
Passenger transportation, 5 percent of amount paid (35-cent exemption)	27.8
Telephone bill, 5 percent	26.6
Furs, 10 percent of retail sale price	20.7
Jewelry, 10 percent of retail sale price (1932 act exemption)	18.6
Photographic apparatus, etc., 10 percent	16.0
Clocks, watches, etc., 10 percent	15.0
Mechanical refrigerators, increase rate from 5½ to 10 percent	9.8

Excise taxes—Continued

[In millions of dollars]

Source	Estimated increase
Sporting goods, 10 percent	8.5
Matches, 2 cents per 1,000	8.2
Radio sets and parts, increase rate from 5½ to 10 percent	6.3
Toilet preparations, revise basis	5.9
Trunks, suitcases, and other luggage, 10 percent	4.5
Phonographs and phonograph records, 10 percent	4.5
Candy, chewing gum, 5 percent	16.2
Musical instruments, 10 percent	3.6
Bowling alleys, $15 per alley, billiard or pool table	3.4
Club dues, initiation fees, lower exemptions and redefine base	2.9
Playing cards, increase rate from 11 to 15 cents	1.7
Safe deposit boxes, increase from 11 to 20 percent	1.7
Cabarets, 5 percent of total charge	1.6
Total	867.0

The Treasury has given careful consideration to the relative merits of a general sales tax and a group of excises on selected commodities in the light of present requirements. In concluding against a general sales tax, it was not influenced merely by a knowledge that such a tax would fall more heavily on the very lowest income groups but also by the realization that such a tax would militate against achievement of the basic principles set forth in the opening of my statement.

Aside from these general questions there are several more technical reasons for staying clear of the general sales tax at this juncture. Among these the following may be mentioned:

1. The effective administration of a general sales tax would require the creation of an elaborate administrative structure entailing more time and expense than is warranted if the sales tax is to be used only as a temporary source of revenue.

2. The superimposition of a general sales tax on the existing Federal excises would add to the complexity of the Federal tax structure and unless the present excises were exempt from a general sales tax levy, some of the commodities would almost certainly be taxed too heavily. The use of selected excises avoids this complication and makes possible fitting the rates of tax for each commodity more nearly to its peculiar market situations.

3. The Federal-State fiscal conflict involved in the imposition of a Federal sales tax in addition to the existing State and local sales taxes is mitigated by the proposed selected excises.

For those general and more specific technical reasons, we have come to the conclusion that it is inadvisable to risk the dislocations in business and elsewhere which a general sales tax would occasion. Instead, we propose to avoid experimentation and stay as nearly as possible within the scope of our previous experience by limiting our consumption taxes to excises on carefully selected commodities.

We are faced with a job, a severe and unenviable one. But we feel that the program outlined for you will do that job effectively and in fairness to everyone. In all its tax proposals, the Treasury seeks equity, just as we have sought equal treatment to all taxpayers in the repeal of the tax exemption of future issues of Federal securities and in our frequently expressed desire for the repeal of the exemption in favor of future issues of State and municipal securities. So, too, here we offer a plan that we believe to be eminently fair to all. I believe you will agree with me that the following suggestions by the Treasury will raise the money for the gigantic task ahead of us, that it distributes the burden in a fair and equitable manner, and that this entire tax program will be accomplished without disrupting or dislocating industry or our economy.

TABLE A-1.—*Tax changes aggregating approximately an additional $3,500,000,000 of revenue* [1]

[In millions of dollars]

Source	Estimated increase
Individual income taxes: Increase surtax rates, adopting attached schedule (with defense tax)	1,520.7
Estate and gift taxes: Estate tax changes, (1) reduce exemption to $25,000; (2) adopt attached estate tax-rate schedule (with defense tax); (3) reduce insurance exclusion to $25,000. Gift tax changes, (1) reduce exemption to $25,000; (2) increase the gift tax rates to ¾ the rates in the estate-tax schedule	347.2
Corporation taxes	934.1
(1) Surtax: 5 percent on first $25,000 net incomes; 6 percent on the balance	534.5
(2) Excess-profits tax	399.6
Tobacco	186.3
Cigarettes: Additional 75 cents per 1,000	112.8
Cigars, tobacco, and snuff: Double rates	73.5
Liquor	177.6
Distilled spirits: $1 per gallon additional	122.2
Fermented malt liquors: $1 per barrel additional	52.9
Wines, cordials and liqueurs: Increase of 16⅔ percent	2.5
Other excise taxes	982.0
Gasoline, 1 cent per gallon additional	225.0
Soft drinks, 1 cent a bottle and equivalents	152.5
Passenger automobiles, parts and accessories, double rates	79.9
Check tax, 2 cents per check	57.0
Admissions, reduce exemptions from 20 cents to 9 cents	55.0
Tires and tubes, increase rates from 2¼ and 4½ cents to 5 and 9 cents	32.5
Telephone, telegraph, cable, etc., lower exemptions and increase rates	40.4
Passenger transportation, 5 percent of amount paid (35 cent exemption)	37.5
Telephone bill, 5 percent	26.6
Furs, 10 percent of retail sale price	20.7
Jewelry, 10 percent of retail sale price (1932 act exemption)	12.6
Photographic apparatus, etc., 10 percent	13.0
Clocks, watches, etc., 10 percent	10.0
Mechanical refrigerators, increase rate from 5½ to 10 percent	6.6
Sporting goods, 10 percent	6.5
Matches, 2 cents per 1,000	6.2
Radio sets and parts, increase rate from 5½ to 10 percent	6.3
Toilet preparations, revise basis	5.0
Trunks, suitcases, and other luggage, 10 percent	4.5
Phonographs and phonograph records, 10 percent	4.5
Candy, chewing gum, 5 percent	18.2
Musical instruments, 10 percent	2.6
Bowling alleys, $15 per alley, billiard or pool table	2.4
Club dues, initiation fees, lower exemptions and redefine base	2.0
Playing cards, increase rate from 11 to 15 cents	1.7
Safe deposit boxes, increase from 11 to 20 percent	1.7
Cabarets, 4 percent of total charge	1.0
Summation of items	4,051.3
Less: Allowance for interrelated tax bases (approximate)	451.3
Total	3,600.0

[1] Estimates for individual and corporation income taxes and the gift tax are based on income levels estimated for calendar year 1941; all other estimates are based on income levels estimated for fiscal year 1942.

TABLE A-2.—*Individual surtax rate schedule*

Surtax net income	Bracket rate	Total surtax cumulative	Surtax net income	Bracket rate	Total surtax cumulative
	Percent			Percent	
Under $2,000	11	$220	$50,000 to $60,000	51	$21,960
$2,000 to $4,000	14	500	$60,000 to $70,000	54	27,360
$4,000 to $6,000	16	820	$70,000 to $80,000	57	33,060
$6,000 to $8,000	19	1,200	$80,000 to $90,000	59	38,960
$8,000 to $10,000	21	1,620	$90,000 to $100,000	61	45,060
$10,000 to $12,000	23	2,080	$100,000 to $150,000	62	76,060
$12,000 to $14,000	25	2,580	$150,000 to $200,000	63	107,560
$14,000 to $16,000	27	3,120	$200,000 to $250,000	64	139,560
$16,000 to $18,000	29	3,700	$250,000 to $300,000	66	172,560
$18,000 to $20,000	31	4,320	$300,000 to $400,000	68	240,560
$20,000 to $22,000	33	4,980	$400,000 to $500,000	70	310,560
$22,000 to $26,000	36	6,420	$500,000 to $1,000,000	72	670,560
$26,000 to $32,000	39	8,760	$1,000,000 to $2,000,000	73	1,400,560
$32,000 to $38,000	42	11,280	$2,000,000 to $5,000,000	74	3,620,560
$38,000 to $44,000	45	13,980	Over $5,000,000	75	
$44,000 to $50,000	48	16,860			

TABLE A-3.—*Comparison of individual surtax rate schedules under present law and proposal*

Surtax net income	Bracket rate		Total surtax cumulative	
	Present law	Proposal	Present law	Proposal
	Percent	Percent		
Under $2,000		11		$220
$2,000 to $4,000		14		500
$4,000 to $6,000	4	16	$80	820
$6,000 to $8,000	6	19	200	1,200
$8,000 to $10,000	8	21	360	1,620
$10,000 to $12,000	10	23	560	2,080
$12,000 to $14,000	12	25	800	2,580
$14,000 to $16,000	15	27	1,100	3,120
$16,000 to $18,000	18	29	1,460	3,700
$18,000 to $20,000	21	31	1,880	4,320
$20,000 to $22,000	24	33	2,360	4,980
$22,000 to $26,000	27	36	3,440	6,420
$26,000 to $32,000	30	39	5,240	8,760
$32,000 to $38,000	33	42	7,220	11,280
$38,000 to $44,000	36	45	9,380	13,980
$44,000 to $50,000	40	48	11,780	16,860
$50,000 to $60,000	44	51	16,180	21,960
$60,000 to $70,000	47	54	20,880	27,360
$70,000 to $80,000	50	57	25,880	33,060
$80,000 to $90,000	53	59	31,180	38,960
$90,000 to $100,000	56	61	36,780	45,060
$100,000 to $150,000	58	62	65,780	76,060
$150,000 to $200,000	60	63	95,780	107,560
$200,000 to $250,000	62	64	126,780	139,560
$250,000 to $300,000	64	66	158,780	172,560
$300,000 to $400,000	66	68	224,780	240,560
$400,000 to $500,000	68	70	292,780	310,560
$500,000 to $750,000	70	72	467,780	490,560
$750,000 to $1,000,000	72	72	647,780	670,560
$1,000,000 to $2,000,000	73	73	1,377,780	1,400,560
$2,000,000 to $5,000,000	74	74	3,597,780	3,620,560
Over $5,000,000	75	75		

TABLE A-4.—*Comparison of present and proposed individual income taxes on net incomes of selected sizes,[1] married person, no dependents*

Net income before personal exemption [2]	Amount of tax [3]		Effective rates		Increase in tax under proposal
	Present law	Proposal	Present law	Proposal	
			Percent	*Percent*	
$2,500	$11	$72	0.4	2.9	$61
$3,000	31	152	1.0	5.1	121
$4,000	70	312	1.8	7.8	242
$5,000	110	508	2.2	10.1	398
$6,000	150	702	2.5	11.7	552
$8,000	317	1,131	4.0	14.1	814
$10,000	528	1,629	5.3	16.3	1,101
$12,500	858	2,316	6.9	18.5	1,458
$15,000	1,259	3,073	8.4	20.5	1,814
$20,000	2,330	4,800	11.7	24.0	2,470
$25,000	3,843	6,824	15.4	27.3	2,981
$50,000	14,128	19,540	28.3	39.1	5,412
$75,000	27,768	35,137	37.0	46.8	7,369
$100,000	43,476	52,474	43.5	52.5	8,998
$500,000	330,156	346,122	66.0	69.2	15,966
$1,000,000	717,084	738,088	71.8	73.8	21,004
$5,000,000	3,916,548	3,937,000	78.3	78.7	20,452

[1] Under the proposal the attached surtax-rate schedule is substituted for the present schedule.
[2] Maximum earned income assumed.
[3] Includes 10 percent defense tax.

TABLE A-5.—*Estate-tax-rate schedule*

Net estate after specific exemption	Bracket rate	Cumulative tax on higher amount	Net estate after specific exemption	Bracket rate	Cumulative tax on higher amount
	Percent			*Percent*	
Under $5,000	4	$200	$500,000 to $1,000,000	47	$417,000
$5,000 to $10,000	8	600	$1,000,000 to $2,000,000	49	907,000
$10,000 to $20,000	12	1,800	$2,000,000 to $3,000,000	51	1,417,000
$20,000 to $30,000	16	3,400	$3,000,000 to $4,000,000	53	1,947,000
$30,000 to $40,000	20	5,400	$4,000,000 to $5,000,000	55	2,497,000
$40,000 to $60,000	23	10,000	$5,000,000 to $6,000,000	57	3,067,000
$60,000 to $80,000	26	15,200	$6,000,000 to $7,000,000	59	3,657,000
$80,000 to $100,000	29	21,000	$7,000,000 to $8,000,000	61	4,267,000
$100,000 to $150,000	32	37,000	$8,000,000 to $9,000,000	63	4,897,000
$150,000 to $200,000	35	54,500	$9,000,000 to $10,000,000	65	5,547,000
$200,000 to $250,000	38	73,500	$10,000,000 to $20,000,000	67	12,247,000
$250,000 to $300,000	41	94,000	$20,000,000 to $50,000,000	69	32,947,000
$300,000 to $500,000	44	182,000	Over $50,000,000	70	....

TABLE A-6.—*Proposed estate-tax rates compared with present estate-tax rates*

Net estate after specific exemption	Proposed rates [1]		Present rates [1]	
	Bracket rate	Cumulative tax on higher amount	Bracket rate	Cumulative tax on higher amount
	Percent		*Percent*	
Under $5,000	4	$200	2	$100
$5,000 to $10,000	8	600	2	200
$10,000 to $20,000	12	1,800	4	600
$20,000 to $30,000	16	3,400	6	1,200
$30,000 to $40,000	20	5,400	8	2,000
$40,000 to $60,000	23	10,000	10-12	4,200
$60,000 to $80,000	26	15,200	12-14	6,800
$80,000 to $100,000	29	21,000	14	9,600
$100,000 to $150,000	32	37,000	17	18,100
$150,000 to $200,000	35	54,500	17	26,600
$200,000 to $250,000	38	73,500	20	36,600
$250,000 to $300,000	41	94,000	20	46,600
$300,000 to $500,000	44	182,000	20-23	89,600
$500,000 to $1,000,000	47	417,000	23-29	222,600
$1,000,000 to $2,000,000	49	907,000	32-35	557,600
$2,000,000 to $3,000,000	51	1,417,000	38-41	952,600
$3,000,000 to $4,000,000	53	1,947,000	44-47	1,407,600
$4,000,000 to $5,000,000	55	2,497,000	50-53	1,922,600
$5,000,000 to $6,000,000	57	3,067,000	56	2,482,600
$6,000,000 to $7,000,000	59	3,657,000	59	3,072,600
$7,000,000 to $8,000,000	61	4,267,000	61	3,682,600
$8,000,000 to $9,000,000	63	4,897,000	63	4,312,600
$9,000,000 to $10,000,000	65	5,547,000	65	4,962,600
$10,000,000 to $20,000,000	67	12,247,000	67	11,662,600
$20,000,000 to $50,000,000	69	32,947,000	69	32,362,600
Over $50,000,000	70	....	70	....

[1] Exclusive of temporary defense tax.

TABLE A-7.—*Comparison of Federal estate tax (before allowance of credit for State death taxes) under present and proposed rates, upon net estates (before exemption) of selected sizes*[1]

Net estate before exemption	Amount of tax [2]		Effective rate		Increase in tax	
	Present law	Proposal	Present law	Proposal	Amount	Percent
			Percent	*Percent*		
$50,000	$220	$2,860	0.4	5.7	$2,640	1,200.0
$60,000	660	4,840	1.1	8.1	4,180	633.3
$80,000	2,200	9,735	2.8	12.2	7,535	342.5
$100,000	4,620	15,290	4.6	15.3	10,670	231.0
$200,000	21,660	50,205	10.8	25.1	28,545	131.8
$400,000	63,780	139,020	15.9	34.8	75,240	118.0
$600,000	112,340	237,575	18.7	39.6	125,235	111.5
$800,000	167,340	340,095	20.9	42.5	172,755	103.2
$1,000,000	228,780	442,455	22.9	44.2	213,675	93.4
$2,000,000	588,000	974,285	29.4	48.7	386,285	65.7
$4,000,000	1,499,640	2,098,085	37.5	52.5	598,445	40.0
$6,000,000	2,655,140	3,306,945	44.3	55.1	651,805	24.5
$10,000,000	5,323,500	5,977,065	53.2	59.8	653,565	12.3
$20,000,000	12,532,700	13,186,505	62.7	65.9	653,805	5.2
$40,000,000	27,391,820	28,046,045	68.5	70.1	654,225	2.4
$60,000,000	42,361,380	43,015,770	70.6	71.7	654,390	1.5
$100,000,000	72,521,380	73,175,770	72.5	73.2	654,390	.9

[1] Under the proposal, the attached rate schedule is substituted for the present schedule, and the specific exemption is reduced from $40,000 to $25,000. In the computations, the credit for State death taxes is assumed to be 80 percent of the tax imposed under the 1926 act, both under present law and under the proposal. The defense tax is 10 percent of the Federal tax after allowance of the credit for State death taxes.
[2] Includes defense tax.

Mr. BOEHNE. I have just two questions, Mr. Sullivan. On page 9 of your prepared statement, in reference to liquor taxation, you have three of them together with an estimated yield of $178,000,000. Could you break that down into what you think the yield would be for each one of the three?

Mr. SULLIVAN. Yes, sir; I can. Distilled spirits, at the rate of an increase of $1 per gallon, $122,300,000; fermented malt liquors, an increase of $1 a barrel, $52,800,000; wines, cordials, and liqueurs, an increase of 16⅔ percent, or $2,500,000, making a total of $177,000,000.

Mr. BOEHNE. The other question relates to your statement at the bottom of page 3 and the top of page 4. I wonder how you arrived at that difference between $4,000,000,000 and $3,600,000,000.

Mr. SULLIVAN. If you will turn to table A-1, you will notice that there is listed in this column the various amounts of money that we propose to raise from various sources. Now, if the corporation taxes are increased, out of their earnings corporations will have that much less money to distribute to stockholders, who, in turn, will have that much less income upon which to pay individual income tax. This is an illustration of the way that many of these taxes affect the receipts from other taxes, thereby producing that shrinkage. We do not attempt to tell you that that is going to be exactly $451,300,000. We could not estimate that as closely as that. If we are within 10 or 15 percent, we are doing a very good job.

Mr. BOEHNE. In other words, you did take into consideration each one of these individual taxes, and you did not necessarily take approximately 10 percent of the whole.

Mr. SULLIVAN. No, sir; we did not.

Mr. BOEHNE. That is all.

Mr. TREADWAY. Mr. Sullivan, I am interested in your statement on page 5, in the second paragraph, where you refer to personal exemptions, which you leave as they are. In view of the fact that they were substantially decreased in 1940, you leave them as they are. You mentioned that 8,200,000 new returns would be filed in 1941 as a result of this, and that there will be nearly 4,000,000 new taxpayers.

Mr. SULLIVAN. That is right. I do not think that is an adequate statement. It is not merely the fact that we are having 8,000,000 new returns and an additional number of taxpayers that led us not to recommend lowering the base. The fact of the matter is that today an unmarried person earning $15.38 has to file a tax return. If he is earning $16.92——

Mr. BOEHNE. In what period of time?

Mr. SULLIVAN. A week. If he is earning $16.92 a week, that is the equivalent of $880, his personal exemption plus his earned income credit. Earning anything more than that, if it was not offset by other deductions, he would have to pay a tax. I am not convinced that it would be wise at this time, facing the danger of an increase in the cost of living, to try to take income taxes from a person earning as little as $17 a week. I can give you the comparable figures for married people, if you would like to have them.

Mr. TREADWAY. Yes; I think that would be valuable.

Mr. SULLIVAN. A married person now earning $38.46 a week is required to file a return. If he or she earns $42.30 per week, that is the equivalent of $2,200 a year, which equals the personal exemption of $2,000 plus the earned income credit of $200. Accordingly, any married person earning $43 a week would be obliged to pay a tax.

Mr. TREADWAY. You say you have added nearly 4,000,000 new taxpayers. Have you any estimate as to the amount that those 4,000,000 will pay?

Mr. SULLIVAN. We will get those this afternoon.

Mr. TREADWAY. You do not have any computation of those yet?

Mr. SULLIVAN. They have not yet arrived.

(The estimate made during the hearings on the Revenue Act of 1940 was $14,000,000.)

Mr. TREADWAY. You also referred to the fact that the man going into the service is making a much bigger contribution, in a way, than is the taxpayer who is still employed. If that idea is carried out, why should there not be a reduction in the exemptions, more or less, to equalize the sacrifices that the man in the service is making?

Mr. SULLIVAN. That involves, I think, two questions. One is making the income tax apply to people whose income is now less than $800, if single, or $2,000 if married.

Mr. TREADWAY. You are practically defending the fact that you are not including a recommendation for lowering of the base.

Mr. SULLIVAN. That is right.

Mr. TREADWAY. And then you go on to argue that the men in the service are making a greater sacrifice than the men who stay home and who may be earning money.

Mr. SULLIVAN. That is correct.

Mr. TREADWAY. Which I think is more or less correct. Therefore, why should there not be some equalization as between the man in the service, what he is giving up, and the idea of lowering the tax base of those who stay at home and earn money?

Mr. SULLIVAN. I think, the man in the service, with his pay, his shelter, his food, his clothing, his medical attention, is receiving probably altogether in the aggregate almost as much and will have as much left at the end of the year as the single man who is earning $880.

Mr. TREADWAY. Assuming that is true—and, of course, that is a matter of argument, more or less——

Mr. SULLIVAN. Yes; it is.

Mr. TREADWAY. Nevertheless, considering the age limitations of the Selective Draft Act, you are getting a group of men in the service that probably have already gotten started in their life calling, either professionally or in a business way.

Mr. SULLIVAN. That is right.

Mr. TREADWAY. Therefore, even though you are equalizing the matter in dollars and cents, you are not equalizing it from the standpoint of future prospects.

Mr. SULLIVAN. No. There is a very marked disparity of sacrifice.

Mr. TREADWAY. Then there is still more of an argument why the base should be lowered.

Mr. SULLIVAN. There is an argument there; there is, sir.

Mr. DINGELL. Mr. Sullivan, in the tentative proposals submitted here by the Treasury, I take it that the Treasury Department had in mind the fastest possible liquidation of the debt. In other words, a reduction of the debt-liquidation period to an absolute minimum in a number of years; is that right?

Mr. SULLIVAN. We look hopefully to that day.

Mr. DINGELL. What I am trying to explore now is this: Is it wise on our part to tax to the very limit all sources, or would it perhaps be better policy, and more productive in the long run, if we, instead of trying to wipe out the defense costs, which have been accumulated in the form of a national debt, in a short time, do that over a greater period of time?

In other words, what I have in mind is this—I am trying to make myself understood as best I can—supposing that this plan contemplates the wiping out of the defense indebtedness over a period of 8 years, at a certain high tax rate basis, would it be better to do that, or would it be better to proceed on a theory that we liquidate this defense obligation over a period of 12 years?

Mr. SULLIVAN. I think that it might be worth while to devote some time to the thought of amortizing these obligations over a period of years. It would be, I say, if anybody could foresee what the expenditures would be, and if we could forecast beyond the next coming year, with any degree of accuracy, what our revenue was going to be.

I think that those two imponderables are so incapable of being reduced to any well-defined limits, that I rather fear that we would not be accomplishing very much if we pursued that course.

Now, in response to the other question implied in your statement as to whether or not it would be desirable to levy all possible taxes, my answer is that in my opinion it would not be. I believe that we should levy all of the taxes that we can safely levy without interrupting the economy and industry of the nation, and still leave a substantial margin of safety.

Mr. DINGELL. Of course, I think that we are all agreed, and I am sure that you are in agreement with me that every possible penny should be skimmed off which might be gained from this defense program, or that the very maximum should be brought back so far as we are able to bring it back into the Treasury. We are agreed on that?

Mr. SULLIVAN. Yes, sir.

Mr. DINGELL. But what worries me is the question of diminished return, which occurs from time to time on a higher tax rate.

Let us take item A, I will refer to no specific item, let us take item A. Suppose the consumption of product "A" is today bringing $100,000,000, and supposing that we levy an additional tax contemplating $20,000,000 more, but supposing that we reduce the consumption of that particular product so that instead of bringing in $20,000,000 more, it might bring in less than it is bringing in today, it may only bring in $98,000,000 instead of as it is now, $100,000,000, simply because the excessive tax has raised the consumer price so high that the consumer quits buying, or materially reduces his consumption.

In that case we have lost $2,000,000, or $3,000,000, or $5,000,000, instead of having gained $20,000,000, in addition to the fact that we have contributed very materially to the unemployment question by reducing the production in a given industry.

Now, what I want to be certain about in the analysis of the individual item here, submitted by the Treasury, is that we are not going to by diminishing returns increase the tax schedule in the individual case submitted here by you. That might apply to almost anything, it may apply to almost any item on the list, it may apply to liquor and may apply to beer, and may apply to soft drinks and may apply to gasoline; I do not know.

But what I am trying to illustrate, and seeking information on, Mr. Sullivan, is about the question of diminished returns, where the tax rate is lifted too high; over and above that I want to make sure, too, that most of this money is going to be used for defense, because that is exactly what we are trying to do. You are in agreement with me on that?

Mr. SULLIVAN. Yes; we are.

Mr. DINGELL. Thank you; that is all, Mr. Chairman.

Mr. CROWTHER. Mr. Sullivan, you spoke of the use of the surtax instead of raising the normal tax, and this paragraph here reads that no change is proposed in the normal tax because any increase in that tax would not affect the interest received on partially tax-exempted Federal securities.

Mr. SULLIVAN. That is right.

Mr. CROWTHER. Now, as a matter of long-drawn-out discussion over a number of years, about us losing so much revenue from that type of securities, what is the total of those securities presumably that is held; that is, the Federal securities?

Mr. SULLIVAN. There are $29,500,000,000 Federal partially exempt securities.

Mr. CROWTHER. That is around $30,000,000,000?

Mr. SULLIVAN. Yes, and there are $5,700,000,000 partially exempt securities of Federal agencies, also.

Mr. CROWTHER. Now, you say that we are going to impose a surtax. The thought comes to me that we are collecting an awful lot of tax, a great amount of tax from other sources in order to be able to get at that through this same surtax. We are loading all of the other fellows pretty heavy in order to get a comparatively small amount.

Mr. SULLIVAN. It is not going to make any difference to them whether you call it a surtax or a normal tax, you are going to take it away just the same.

Mr. CROWTHER. Do you think that we have got to keep the rates as high as that?

Mr. SULLIVAN. Yes; to get that amount of money.

Mr. CROWTHER. Of course, it seems to me that you are commencing the surtax right at the first of the net income; is that where it commences?

Mr. SULLIVAN. That is correct.

Mr. CROWTHER. That is 11.4 percent?

Mr. SULLIVAN. That is 16.5 percent.

Mr. CROWTHER. That is commencing with the first crack out of the box?

Mr. SULLIVAN. That is right. Now, it is not going to make any difference to that fellow whether you call it a surtax or whether you call it a normal tax.

Mr. CROWTHER. Well, I just got that idea from this schedule because it says any increase in that tax would not affect the interest received. It looks as though we are using it particularly to get at that fellow for the partially tax-exempt securities, on the interest.

Mr. SULLIVAN. That is why we are using it, Doctor.

Mr. CROWTHER. It seems as though you are burning the barn down to kill the rats.

Mr. SULLIVAN. I do not think that that is so; and I think that you will agree with me. Now, whether you decide on this schedule, or any other schedule, you are going to tax the fellow who has the small amount of income a very much larger amount than you are taxing him now. In order to raise substantial additional revenue, you will have to do that.

If you are going to make the fellow who works in a shoe shop and gets $21 or $20 a week, pay a tax it is not going to make him feel very good when he discovers that in the same law there is an exemption in favor of partially exempt securities of which the President of the local bank has a sizeable amount, and this bill was worked out in such a way that the banker is not going to pay any tax on the income from these securities.

Mr. CROWTHER. I am not opposed to taxing partially exempt securities, I have aways been against tax-exempt securities, together with my colleague, Mr. Treadway. We have had a bill in here for years to do away with them. I think that the Congress has passed a bill twice, if I remember correctly, to do away with them entirely, but they lost out on the other side, in the other body. I think that we have passed it at least once, and I think twice.

Mr. COOPER. You mean passed the House.

Mr. CROWTHER. Yes; the House. Has the Treasury given any consideration in figuring on getting some new revenue to put a 5 or 10 percent increase on imports, on import duties?

Mr. SULLIVAN. No; I think not.

Mr. CROWTHER. We are taxing all of these domestic things, why should we not tax what is coming into the country?

Mr. SULLIVAN. I doubt if that is going to amount to very much for some time to come.

Mr. CROWTHER. Are our imports so small that it will not amount to much?

Mr. SULLIVAN. Of course, all of these excise taxes apply to those commodities when they come into the country.

Mr. CROWTHER. That is all.

The CHAIRMAN. I think Mr. Knutson is next.

Mr. KNUTSON. Originally we were told that the President wanted to raise a billion and a half dollars.

Mr. SULLIVAN. There was no statement made by anybody connected with the Treasury, as to the amount we hoped to have raised at this session of the Congress, until the Secretary gave out his statement after the meeting with the ranking majority and minority members of both houses, last Thursday. The only recommendation that has come from the Treasury is $3,500,000,000. I, too, saw all of those estimates but nothing came from the Treasury.

Mr. KNUTSON. I think it came from some Senators who are rather close to the Administration.

You figured that on the basis of $90,000,000,000 national income, that will raise $3,500,000,000?

Mr. SULLIVAN. We figure that this bill will raise $3,500,000,000. That is, that amount of new tax liabilities will be created in fiscal 1942.

Mr. KNUTSON. If the national income is reached in this figure of $90,000,000,000 as was estimated this morning I think by one of the Treasury representatives, would there be need for this $3,500,000,000 at this time?

Mr. SULLIVAN. Yes, sir; there would be. We do not tax national income as such but only specific segments of the national income. In the Secretary's Annual Report for the fiscal year 1940 it was estimated that under certain assumptions the existing tax structure would produce approximately $11,200,000,000 in annual tax liabilities if the national income were to achieve an annual level of $90,000,000,000 for several years. The estimates that I have given you in table A-1 accompanying my statement are, as indicated in the footnote in the case of the income taxes and gift taxes, based on the income levels for calendar year 1941. The other estimates are based on income levels estimated for fiscal year 1942.

Mr. KNUTSON. That is on the basis of $90,000,000,000.

Mr. SULLIVAN. That is approximately correct for those estimates which were based on income levels estimated for fiscal year 1942.

Mr. KNUTSON. Now, if we continue to take the income away from business through taxation, where are they going to get money with which to expand and provide jobs, new jobs?

Mr. SULLIVAN. Well, after they pay their corporate tax, if this proposal is adopted, 70 percent of their income will be left to them.

Mr. KNUTSON. It will be left to them?

Mr. SULLIVAN. Yes.

Mr. KNUTSON. What becomes of the dividends?

Mr. SULLIVAN. The dividends and the expansion will have to come out of that 70 percent, just as this year the dividends and expansion had to come out of the 76 percent.

Mr. KNUTSON. Now, I have in mind one of the biggest war contract concerns in the country, located in up-State New York. They have tremendously large war contracts, and have had for a year and a half. The company is well operated, economically operated, and yet they are not paying a thing on their common stock, and the last financial statement that they issued was that there was not any hope, notwithstanding that this concern was awarded over $150,000,000 in war contracts.

Mr. SULLIVAN. I am glad that the Government is figuring those war contracts so closely, sir.

Mr. KNUTSON. It is not very good for business, though, is it? What is that concern going to do when the war contracts are over if they are not earning anything now?

Mr. SULLIVAN. What they did before, I guess.

Mr. KNUTSON. They did not pay anything before.

Mr. SULLIVAN. What is their business?

Mr. KNUTSON. I will tell you confidentially when the hearing is over.

Mr. SULLIVAN. Of course, if they did not make any money, they do not pay any income tax.

Mr. KNUTSON. They are making money, but the Government is taking it all.

Mr. SULLIVAN. Well, as between the stockholders and the Federal Government, you cannot expect me to make but one choice now.

Mr. KNUTSON. Let me ask you this. We will have this situation: After all the people who live in this country have got to live as well as Uncle Sam, and if you bleed them white, of course Uncle Sam will bleed along with them ultimately.

Mr. SULLIVAN. Yes, indeed.

Mr. KNUTSON. Now, suppose rates like this had been in effect when the International Harvester Co., that made jobs for forty or fifty thousand people, or have made them at the present time, suppose that those rates had been in effect, they never could have attained the size, their great size; and neither could Henry Ford; you could not develop a Henry Ford under this new tax system. He probably has created as many jobs as any two or three individuals in all of the history of the world.

Mr. SULLIVAN. I think the earning record of those companies that you have named would show that they could handle expansion and pay their taxes and expand just as much as they have expanded. There would be that much less for the stockholders, that is quite true, Mr. Knutson.

Mr. KNUTSON. These concerns that are not showing any appreciable earnings over and above their tax requirements, would have to look to the Government hereafter for financing, would they not, rather than the banks?

Mr. SULLIVAN. I do not know. You would not expect us to give a partial exemption to a corporation that was only paying a certain amount to its stockholders, would you?

Mr. KNUTSON. That is not the point I am trying to get at. The point I am trying to make is this: That with these enormous taxes that we are getting ready to load on to business, it will be 30 percent, that is with the surtax on corporations?

Mr. SULLIVAN. Yes; the present rate is 24 percent; yes, that is right.

Mr. KNUTSON. And they found that burdensome in many instances, so what is going to become of the expansion program in the future, to provide new jobs, and new markets for raw materials?

Mr. SULLIVAN. Of its total net income, the corporation will have 6 percent less left to give to stockholders and for expansion.

Mr. KNUTSON. Why do not they do it if they have 6 percent left?

Mr. SULLIVAN. Why do they not do what?

Mr. KNUTSON. Distribute the 6 percent?

Mr. SULLIVAN. You asked me what was going to happen if these rates went into effect, and a corporation that is not subject to these excess profits tax earning $100,000 in 1940, paid $24,000 in corporate taxes, and had $76,000 for expansion and distribution of dividends to stockholders. This year that same corporation earning $100,000 will have available for distribution to stockholders and expansion, not $76,000, but $70,000.

Mr. KNUTSON. Well, that $70,000, that is not only for expansion, but that is for replacement, is it not, they must use it for replacement?

Mr. SULLIVAN. No; replacements are taken out in computing their net income, Mr. Knutson, that is deducted before their taxable net income is determined.

Mr. KNUTSON. I have here a telegram that was sent to the Chairman—I presume that all of the members of the committee received it—it is signed by the president of the National Small Business Men's Association:

> Suggest your committee give careful consideration to a tax of 5 or 10 percent on salaries, wages, and fees up to $3,000 per year. Such a tax would apply to everyone in direct proportion to his ability to pay, and would be easy to collect at the source each day, the same as the Social Security taxes are now collected. Further, it would take some of the profit out of the profiteering labor is doing at the expense of national defense, and therefore would be in line with the President's statement that no one should be permitted to profit by reason of the emergency.

What have you got to say to those recommendations?

Mr. SULLIVAN. You mean to the proposal for a gross income tax of 5 percent or 10 percent?

Mr. KNUTSON. Yes.

Mr. SULLIVAN. We have considered that, and the outstanding virtue of the proposal, in our opinion, is that it enables the wage-earner to pay as he goes, or to set aside as he goes, sums that will discharge his tax liability the following March.

On the other side of the ledger is the discrimination against the wage-earner, the inability to enforce that same proposal on agricultural labor, on professional people, and on self-employers.

Mr. KNUTSON. Would not they make the same report as anyone else?

Mr. SULLIVAN. I beg your pardon, I did not catch that.

Mr. KNUTSON. Would not they be required to make the same report as you and I have to make?

Mr. SULLIVAN. Well, this is something else. This is a tax that is held out of a fellow's weekly pay check.

Mr. KNUTSON. Well, you could use the "check-off," the same as the unions; they collect theirs at the source.

Mr. SULLIVAN. But there would not be any check-off against agricultural labor, and there would not be any check-off on self-employers and professional people.

Mr. KNUTSON. Agricultural labor is on a slave basis at the present time, they are not taking in anything, of course, they would not pay anything, I am talking of a laborer that is getting $30, $40, or $50, or $60 a week, and maybe $80 to $100 a week.

Mr. SULLIVAN. They will be paying exactly the same income tax that a music teacher or a school teacher or a policeman who earns the same amount would pay.

Mr. KNUTSON. I understand that, but it looks to me as though we ought to find some new sources.

Mr. SULLIVAN. Excuse me, that is not a new source, Mr. Knutson; that is just a different way of collecting money from a present source. Those men pay income taxes.

Mr. KNUTSON. Well, I presume that they do, but beginning at $2,000 if they are married and have no dependents.

Mr. SULLIVAN. And $800 if they are single; that is correct.

Mr. KNUTSON. Have you given any consideration to a sales tax?

Mr. SULLIVAN. Yes; we have, and as I said in my statement we have concluded that it would not be wise, and that it is better to single out those less important commodities and levy special excises on them.

Mr. KNUTSON. That is all.

Mr. FORD. Following up the questions that Mr. Knutson asked, with reference to the sales taxes, I am aware of your statement, but what I would like to know is if you have any figures as to what percentage of a sales tax might be required to raise $3,500,000,000?

Mr. SULLIVAN. We estimate that if you exempted commodities on which we now levy excise taxes plus food, clothing, fuel, and shelter and medicines, and purchases of finished manufactures by the Federal Government, a 2-percent sales tax would raise nearly $400,000,000. Now, if you wanted to raise $3,600,000,000, you would have to multiply that rate by 9, which would be 18 percent, and then you would have to make a very substantial allowance for shrinkage, caused by the loss of the purchasing power for those commodities. I suppose that the rate would be very considerably in excess of a rate of 18 percent.

Mr. FORD. Have you any way of estimating what would be the cost of the administration of such a sales tax, national sales tax?

Mr. SULLIVAN. No, sir; that would be a very difficult estimate until we know more details of the proposed tax.

Mr. FORD. Then there is another subject that I wanted to touch on; have you given any consideration to a manufacturers' tax, what you might call a manufacturers' excise tax?

Mr. SULLIVAN. That is what I have been talking about.

Mr. FORD. What I wanted to get figures on was a national retail sales tax.

Mr. SULLIVAN. I beg your pardon; I misunderstood your question, and I apologize. I will get figures for the other proposal, and I hope to have them for you Monday, but it may be Tuesday before we get them.

Mr. FORD. That will be all right, but I would like to see some figures on that.

The CHAIRMAN. Mr. Secretary, in your estimate of the yield from sales taxes, the general manufacturers' sales tax, you estimated with the exemption of food and clothing and medicines, those being exempted, and you would raise something like $400,000,000?

Mr. SULLIVAN. That estimate of nearly $400,000,000 also excludes fuel and purchases of finished manufactures by the Federal Government.

The CHAIRMAN. Don't you exempt also these commodities or articles that now bear a heavy excise tax, or would they be included in the $400,000,000? You take liquor and tobacco, and all of those things, such as gasoline, that now bear a very heavy tax, or all of the commodities that bear a very heavy excise tax, are they included to get the $400,000,000, or would you exempt them?

Mr. SULLIVAN. They are exempt in that estimate that I gave you.

Mr. DISNEY. Now, Mr. Sullivan, the income-tax payer would also pay the excise tax, or the sales tax, whichever you chose to call it?

Mr. SULLIVAN. Whoever bought the commodities would pay it.

Mr. DISNEY. So he would not be exempt from it. In a lighter vein, I notice that the excise taxes that you prefer you refer to as excise taxes, and those that you do not approve of you refer to as sales taxes.

I notice that where you refer to taxes that you like on the list, they are excise taxes, but those that you frown on, they are sales taxes. As I understand it, when we think of these things, we are thinking of a manufacturers' excise tax, collected at the source; is that true?

Mr. SULLIVAN. That is true.

Mr. DISNEY. So that there is no virtue in calling them excise taxes and no slander in calling them sales taxes?

Mr. SULLIVAN. You cannot either beautify them or condemn them by hanging an adjective on them.

Mr. DISNEY. I want to congratulate you and my genial friend from Michigan in your complete agreement awhile ago in that fine argument for a general sales tax. I wish that I could repeat his question verbatim, on article "A," and a tax raising $100,000,000, and then adding $20,000,000, and reaching the point of vanishing returns. To me it seems that that is a very splendid argument for spreading the thing over all commodities rather than hitting on a few chosen, carefully selected few.

I believe the gentlemen will agree with me if they read the record and see the conversation that ensued between you.

Mr. SULLIVAN. I will certainly read it.

Mr. DISNEY. Because if any of them do approach the vanishing point—that is, the vanishing point of diminishing returns—then we are getting into bad business.

Mr. SULLIVAN. That is what I said I thought would not happen.

Mr. DISNEY. Then to alleviate that, or to obviate that, spreading it over the whole list would come nearer obviating it than permitting the thing to reach the point of diminishing returns on some few or single ones.

Mr. SULLIVAN. That is correct, assuming that you are reaching the point of diminishing returns.

Mr. DISNEY. Now, to get to the arguments that you use against a general manufacturers' sales tax. You say first that the effective administration of a general sales tax would require the creation of an elaborate administrative structure, entailing more time and expense than is warranted if the sales tax to be used is only a temporary source of revenue.

Now, you do not anticipate that they would be used as a temporary source of revenue during your lifetime and mine; do you?

Mr. SULLIVAN. I would like to hope so.

Mr. DISNEY. It is a forlorn hope, because in 1932 we put an excise tax on gasoline, just for 1 year, if I understand it, with the very definite promise that it would only stick for 1 year, and it is still with us and it is getting old and gray.

Mr. SULLIVAN. I was referring to these proposed increases.

Mr. DISNEY. Well, I am referring to the whole general subject. Now, of course it takes some elaborate process to correct it, but if it gets the money, I would think that the process would be justifiable, so I do not subscribe wholly to that first argument.

Second, the superimposition of a general sales tax on the existing Federal excises would add to the complexity of the Federal tax structure.

I did not know that we could add to its complexity.

Mr. SULLIVAN. I think that we can do that without trying very hard, sir.

Mr. DISNEY. It is here with us now.

Mr. SULLIVAN. Yes.

Mr. DISNEY. And you continue, unless the present excises were exempt from a general sales tax levy, not an excise tax levy, some of the commodities would almost certainly be taxed too heavily; the use of selected excises avoids this complication, and makes possible fitting the rates of tax for each commodity more nearly to its peculiar market situation, and I might add as described by Mr. Dingell a little bit ago, reaching the point of vanishing returns.

So I agree with the language, but not with the reasoning, if you do not mind.

Thirdly, you point out that the Federal-State fiscal conflict involved in the imposition of a Federal sales tax in addition to the existing State and local sales tax is mitigated by the proposed selected excises.

Now, every State in the Union has a tax on gasoline and about 23 States have practically a general excise or sales tax. Now, the matter of duplication is not a thing that we should be horrified about, because the States have estate taxes, and the States have income taxes, and there is a vast system of duplication between the States and the Federal Government, so that of itself would not be a very serious argument against a general manufacturers' excise tax.

Mr. SULLIVAN. I think that I would have to disagree with you there, Mr. Disney.

Mr. DISNEY. You will agree that there is already a tremendous duplication?

Mr. SULLIVAN. To a certain extent there is, but I do not know of many States that have taxes on most of the things in this list, in the proposal. Now, to be sure they all tax liquor, they all tax gasoline, and I think most of them tax tobacco. One of the sources of constant irritation between the Federal Government and local governments is the way our two tax systems overlap each other. That has been a source of worry to the present Secretary of the Treasury for some time, and he has frequently referred to it before the committee.

Mr. DISNEY. But even with that, the exigencies of the occasion have caused Chicago and New York to put on sales taxes, to have the money; is that not so?

Mr. McKEOUGH. Not in Chicago; that is the State tax and not the city tax.

Mr. DISNEY. I thought that they had both, but I see that I am in error. Now, another general reason not numbered here in your remarks, you suggest when possible we avoid experimentation.

Mr. SULLIVAN. That is right.

Mr. DISNEY. Would this be such a serious experimentation after all we have been working on the last few years?

Mr. SULLIVAN. No; I say this, Mr. Disney, if you have two sources of revenue, one with which you had experience and the other with which you had none, and all else being equal, I think that you would prefer to get your additional revenue through that system with which you are familiar.

Mr. DISNEY. But here, here is a whole list that we have had experience with, or going to have experience with, and it is not an experience that does not produce money. Why not level this thing off, and take the heat off some of these by covering the whole subject matter?

Mr. SULLIVAN. Then I think that you are getting into the field of experimentation.

Mr. DISNEY. All right, now. How much money would be raised if you did not exempt all food and clothing, suppose that you exempted luxury clothing, and did not exempt luxury food, nor proprietary medicines, for instance?

Mr. SULLIVAN. If nothing were exempted, I think the figure is about $800,000,000; is that correct?

Mr. O'DONNELL. That figure is correct with no exemptions except for products now subject to manufacturers' excise taxes. With no exemptions of any kind, that is taxing even the purchases by the Federal Government of finished manufactures we estimate that at business levels forecasted for fiscal year 1942 a 2 percent general manufacturers' sales tax would yield about $1,000,000,000.

Mr. DISNEY. Could you give me some break-down on what the amount would be if you exempted, or did not exempt, luxury clothing, say above suits for instance of $35, if some yardstick were arrived at, and luxury foods and proprietary medicines?

Mr. SULLIVAN. We will be glad to get you any estimate, but you had better give us an estimate of where to start, what price hats, and what price shoes, and so on.

Mr. DISNEY. Well, we have done that before. We fixed a $1 value flat on beer, and $1 a gallon on liquor, and we can fix the yardstick.

Mr. SULLIVAN. That is right, and I say if you will fix it, and tell us what price necktie is to be taxed, and what price shoes and what price shirts, we will be able to give you that.

Mr. DISNEY. I am not trying to be ridiculous by any means.

Mr. SULLIVAN. And I am not. I am trying to prevent our estimate from appearing ridiculous, because we cannot make an estimate for you on a general sales tax exempting luxury clothing, when the only yardstick you gave us is a $35 suit; and if you will give that list to us, we will be glad to get you the estimate.

Mr. DISNEY. I will fix up a list. I think that that is as near as we can get together on that for the moment.

Mr. SULLIVAN. All right; we will try together later on.

Mr. DISNEY. Now, have you a break-down on those tax exempts, as to how much of the $29,500,000,000 are held by corporations?

Mr. SULLIVAN. Would you like the entire list, and then it will be in the record?

Mr. DISNEY. I think it would be useful now to have the whole outline.

Mr. SULLIVAN. The total amounts of partially exempt Federal securities, securities of the Federal Government, was $29,500,000,000 on June 30, 1940. Of this amount, $2,300,000,000 is held by mutual savings banks;

$5,100,000,000 is held by insurance companies;

$7,600,000,000 is held by individuals;

$9,500,000,000 by active banks other than mutual savings banks;

$1,000,000,000 by corporations;

$4,000,000,000 by exempt institutions; and

$3,600,000,000 by the United States Government, Federal trust funds and agencies, Federal Reserve banks and State and local trust, investment, and sinking funds.

The total amount of partially exempt securities of Federal agencies is $5,700,000,000. Of this amount $500,000,000 is held by mutual savings banks, and $500,000,000 by insurance companies, and $400,000,000 by individuals, and $3,600,000,000 by active banks and banks other than mutual savings banks, and $200,000,000 by corporations, and $100,000,000 by exempt institutions, and $400,000,000 by the United States Government, Federal Reserve banks, and so forth.

So that in response to your inquiry about corporations, I think it was; was that your original inquiry?

Mr. DISNEY. Yes, that is right.

Mr. SULLIVAN. The answer to that is that they hold $1,000,000,000 of partially exempt Federal Government securities and $200,000,000 of the partially exempt Federal agency securities. That is, of course, excluding banks and insurance companies; that is, just ordinary industrial corporations.

Mr. DISNEY. Now, to go to another subject, have you got a break-down——

Mr. HEALY. Just to have the record show the extent of the tax exempt securities of State and subdivisions, will you yield for me to ask that question?

Mr. DISNEY. I am sorry, the chairman tells me that we cannot do that, Mr. Healey.

The CHAIRMAN. Proceed, Mr. Disney.

Mr. DISNEY. I am sorry that I did not get your question. I would ask it for you.

Do you have a break-down on the estimate for statutory net income below $5,000?

Mr. SULLIVAN. Yes.

Mr. DISNEY. Is that for the fiscal year 1940-41?

Mr. SULLIVAN. I do not know whether we have that for 1941.

Mr. O'DONNELL. We can provide for you an estimate of the statutory net incomes for calendar year 1941, and we will put it in the record. It will be, of course, just an estimate.

Mr. DISNEY. I wish that you would furnish me with a copy of it before it goes in the record.

Mr. SULLIVAN. Yes, sir.

Mr. DISNEY. Can you divide that between individuals and corporations?

Mr. SULLIVAN. Yes, sir.

Mr. DISNEY. Can you furnish it for 1941 and 1942?

Mr. O'DONNELL. We have made no forecasts as yet of the statutory net incomes of individuals or corporations for the calendar year 1942.

Mr. DISNEY. Will the returns for the 1941 tax returns enable you to assemble that?

Mr. O'DONNELL. The returns now being filed represent payments for the calendar year 1940 incomes. We have made a forecast of the statutory net incomes for calendar year 1941, and we will provide it for the record. However, it will be next December, when we are preparing the revenue estimates for the President's Budget message for the fiscal year 1943, that we will forecast statutory net incomes of individuals and corporations for the calendar year 1942.

(The estimate referred to follows:)

Estimated net income of taxable corporations and individuals, calendar year 1941

[In millions of dollars]

	Corporation	Individual	Total
Net income class:			
$5,000 or less	335	37,300	37,635
Over $5,000	14,355	11,125	25,480
Total	14,690	48,425	63,115

Mr. DISNEY. I believe that is all.

The CHAIRMAN. I have one more word, Mr. Secretary, about the estimates that were requested by Mr. Disney. I would like to have an estimate of the yield of a manufacturers' sales tax, with food and clothing and medicines and other than proprietary medicine exempted, but not exempting these articles and commodities that now carry an excise tax.

In other words, if a general manufacturers' sales tax of 2 or 3 percent were applied to those articles, then of course, that would obviate the necessity of raising these present excise taxes, and I think the tax on these articles would be less by 2 or 3 percent, or it would be less than what is proposed now.

Of course, you would not do both. If the general manufacturers' sales tax were enacted, why then it would not be necessary to raise the rates on these present excise taxes, and I would like to know what the estimate of the yield would be, and let that apply to the articles now bearing excise taxes.

Mr. SULLIVAN. Excluding purchases by the Federal Government and exempting food, medicine, clothing, and fuel, but not exempting products now subject to manufacturers' excise tax, we estimate that a 2-percent tax would yield $570,000,000.

The CHAIRMAN. All right, Mr. Reed.

Mr. REED. I just wanted to ask you—I know that you are looking for new sources of revenue, are you not?

Mr. SULLIVAN. We welcome them.

Mr. REED. Have you disclosed to us all of the proposals for getting more revenue that you have in mind, or are you holding some that you might present to the Senate—are we getting the whole story?

Mr. SULLIVAN. I think that you will agree that we have always given this committee all of the picture that we have.

Mr. REED. I was just wondering how much consideration you have given to this complexing problem that has faced the committee for a long time, known as community property taxes.

Mr. SULLIVAN. I think that later in the year there will be a bill in here containing many revisions to the code. I thought that that might be a more appropriate place to consider that question than in this bill.

Mr. REED. I say, have you been considering that question of the amount of revenue that it will produce?

Mr. SULLIVAN. Yes, sir.

Mr. REED. About how much revenue do you figure that you might gain?

Mr. SULLIVAN. I will get that figure for you.

Mr. REED. Will you put that in the record?

Mr. SULLIVAN. Yes; I will.

(The estimate referred to follows:)

Estimated increase in individual income taxes under the suggested Treasury surtax schedule if taxpayers in community-property States are required to allocate community property income to its actual recipient

	Millions of dollars
Income tax	13.8
Defense tax	1.2
Total	15.0

Mr. REED. Now, there is another question floating around, and I just wanted to straighten it out for the benefit of the public; that is, this so-called Glass plan. Are you giving consideration to that?

Mr. SULLIVAN. We have not.

Mr. REED. That is not going to enter into the picture, then. Under this plan—this was proposed away back; I think that it was proposed quite early; it was known as the Senator Glass plan—and under this plan, while the tax-exempt income itself is not taxed, it is used as a measuring stick for applying a higher rate of tax to the taxable income.

Mr. SULLIVAN. That is correct.

Mr. REED. And, for example, suppose that a bank had a nontaxable income of $100,000 and a taxable income of $200,000, the effective rate to be applied to the taxable income of $200,000 would be determined on the basis of an income of $300,000, is that right?

Mr. SULLIVAN. That is correct.

Mr. REED. Then are you giving consideration to that, or has there been any consideration given to that?

Mr. SULLIVAN. No; we have not.

Mr. REED. I just wanted to know, because that is one of the things that is agitating the public more or less, and it was brought to my attention.

Mr. SULLIVAN. The reason we have not, Mr. Reed, is that we believe in the outright repeal of the exemption on future issues of State and municipal securities.

Mr. REED. Now, what about this 18 months capital gains provision, whereby they can write off the capital loss on any high premium Government securities which they have held for more than 18 months. Is there anything to that?

Mr. SULLIVAN. There has been one discussion between the staff of the joint committee and the Treasury in regard to capital gains. The discussion was entirely general. I do not think that the staff has come to conclusions, and we have come to no conclusions in regard to it. It was not addressed to banks or to any particular type of security. Is that a correct statement, Mr. Stam?

Mr. STAM. That is right.

Mr. REED. I thought that you would be in a position to clear that up, and I realize that what you are presenting here is what you hope to have enacted into law.

Mr. SULLIVAN. Yes.

Mr. REED. And not to have something else come along that the public knows nothing about?

Mr. SULLIVAN. That is right.

Mr. REED. Now, are you suggesting that all of the corporations will be reached through the surtaxes?

Mr. SULLIVAN. No, sir; we are not. We are not in any way suggesting that the present corporate normal tax be reduced, but we are saying that any increases beyond this present point should be in the form of surtaxes, rather than normal taxes.

Mr. REED. I just wanted to get those points cleared up.

Mr. SULLIVAN. I am particularly glad that you asked that last question, Mr. Reed, because starting about 2 weeks ago people began to call up from all around to say that they understood we were going to propose eliminating the corporate normal tax and substituting for all of it, a surtax. We had never heard of the proposal until the rumor was telephoned in to us, in the form of inquiry.

Mr. REED. I have been getting those calls, and I assume other members of the committee have, and I think that we can clear the atmosphere now and make it much easier.

Mr. SULLIVAN. There is nothing to it.

Mr. REED. It will save writing a lot of letters.

Mr. SULLIVAN. Yes.

Mr. REED. Now, there is one question that I asked this morning, and then I will not proceed any further. Did I understand this morning that you have no information as regards what effect the high taxes in England have had on the question of the rising prices? We are proceeding on a theory, of course, as you know, and you have stated it very clearly here, that by taking the money away from the people, that they might spend in consumers goods, and putting it away into the Government's expenditures for armament, for our national defense and all of that, and prevent the undue rise in prices. Have you anything on what it has accomplished in England?

Mr. SULLIVAN. We would be very glad to get you what we can on that. I rather fear that it will not be very helpful because of the price control system which I understand has been in effect over there. I do not think that the situation is analogous, but we will look into that, and get you what we can.

Mr. REED. Unless I am misinformed, they have put on not only the controls, but they have put on very high tax rates on precisely the same theory that you are putting them on. It is going to keep the inflationary prices down.

Mr. SULLIVAN. I think that that is true.

Mr. REED. And yet the prices up there have gone up to a very high point, there has been a rather steep rise in prices. Of course, how much higher they might have gone had they not had these methods, I do not know, but any information you have on that subject might be helpful.

Mr. SULLIVAN. We will be very glad to get you all the information that we can.

Mr. REED. That is all.

The CHAIRMAN. All right, Mr. Healey.

Mr. HEALEY. Mr. Sullivan, you stated that the total amount of partially Federal-exempt securities are about $29,500,000,000.

Mr. SULLIVAN. That is of the Federal Government, and that plus the $5,700,000,000 of the Federal agencies.

Mr. HEALEY. That makes a total of about $35,000,000,000, that is the tax-exempt Federals?

Mr. SULLIVAN. Yes, sir; as of June 30, 1940.

Mr. HEALEY. Now, can you give us a figure on State and municipal and county tax-exempt securities?

Mr. SULLIVAN. The last time I looked at it, the outstanding amount was $20,000,000,000, it varied somewhat and I would like to give you an exact figure Monday.

Mr. HEALEY. Then the total is approximately about $55,000,000,000?

Mr. SULLIVAN. Oh, no; to that you would have to add the total amount of wholly exempted Federal securities, so that the total of all of the partially and totally exempted securities—Federal, State, and municipal—runs up very close to $70,000,000,000.

Mr. HEALEY. Now, will you reach that income under your proposal now, the surtax now?

Mr. SULLIVAN. We will reach the income only from the partially exempted Federal securities, we will not be able to touch the income from State and municipal securities, or wholly exempted Federal securities

Mr. HEALEY. That is all.

The CHAIRMAN. Mr. Woodruff, you are next.

Mr. WOODRUFF. Mr. Sullivan, I did not understand whether you gave the committee the figures on a general manufacturers' sales tax, with no exemptions?

Mr. SULLIVAN. I said that it was around $800,000,000, excluding only those articles now subject to manufacturers' excise taxes.

Mr. WOODRUFF. I am very sure that that must be a mistake, and I say that because of the experience we have had in Michigan. We have a 3-percent sales tax, with no exemptions there. That law was passed some years ago, and after it had been on the statute books for a few years, through our laws we by referendum, referred the proposition of taking from the operations of the tax the necessities of life, such as you mentioned.

Mr. SULLIVAN. I think that your tax is on retail sales, is it not?

Mr. WOODRUFF. Retail sales; yes. And very much to the surprise of a great many people in Michigan, when the people voted on removing those articles from the law, the people refused to take such action; they defeated the proposition in the following election.

Now, today we are getting about $70,000,000 a year through that 3-percent retail-sales tax. Do I understand you to say that your figures applied to the manufacturers' sales tax?

Mr. SULLIVAN. That is correct, and it also was taking out purchases of articles now subject to manufacturers; excise taxes. If they were subject to this same Federal tax, our estimate is that the tax, with no exemption for anything, would yield about $1,000,000,000. That would be for everything—the total.

Mr. WOODRUFF. Well, now, Mr. Sullivan, referring to the corporation taxes, competition in this country is rather keen, is it not, between different businesses of like kind?

Mr. SULLIVAN. Yes, sir; I think that it should be.

Mr. WOODRUFF. I think that it should be, and I think that it is. I think the laws of the land have been largely responsible for that, the proper enforcement of the law.

Mr. SULLIVAN. That is right, sir.

Mr. WOODRUFF. And when taxes are placed on corporations, that does not in any degree, does it, change the competitive business conditions as between different business organizations, if the law is applied to all alike?

Mr. SULLIVAN. There might be some situations in which it did, but I cannot think of them. I should say generally the answer is "no."

Mr. WOODRUFF. That is my opinion, and as a matter of fact, is it not a matter of some indifference, not complete indifference but some indifference, to corporations as to how high the tax placed on them is, so long as they know exactly what that tax is?

Mr. SULLIVAN. As long as the other fellow in the same line of business is paying the same tax, I believe that that is so.

Mr. WOODRUFF. And the reason why there is no particular objection to that course is because every good business organization if it hopes to continue in business, and to perhaps make a little profit for its stockholders, and provide employment for the people who need employment, must when it comes to fixing the price of their service, or their product, figure into that price everything that can be considered a legitimate expense in the production of that service or that product?

Mr. SULLIVAN. Yes; and taxes are as much an element of cost as labor or materials.

Mr. WOODRUFF. Just as legitimate a cost, also, is it not?

Mr. SULLIVAN. Yes, sir.

Mr. WOODRUFF. Now, as a matter of fact, is not that done all the way from the beginning of production right down to the point where the man behind the counter hands the finished product across the counter to the ultimate consumer?

Mr. SULLIVAN. I think it is, and I think that those who do not, do not stay in business very long.

Mr. WOODRUFF. I agree with you entirely, and I have been impressed by one thing since I have been on this committee, whenever we have had tax measures up, and that is the willingness of business for instance, to be taxed, provided they know exactly what the tax will be.

So the net result of all of this is that the ultimate consumer pays it eventually?

Mr. SULLIVAN. That is correct, excepting income taxes.

Mr. WOODRUFF. And do you not think that it would have a wholesome effect upon the public, and through the public upon the Congress, if the taxes we paid could all be brought out into the open, so everybody could know exactly the amount of tax that he pays from day to day, when he buys the things that he needs?

Mr. SULLIVAN. Yes; I think so, Mr. Woodruff. In other words I think that a dollar that a person pays in income tax on March 15, does more in promoting that man's tax consciousness than $15 or $20 he would pay in taxes that he does not know so much about.

Mr. WOODRUFF. I agree with you entirely on that, and for that reason I have long believed that if all of the taxes could be brought out to the light of day, and everybody including the poorer people of this country, who have little to spend, could be made to understand how much tax they now pay, would it not make them sufficiently tax conscious to bring pressure upon the Congress to spend with some degree of regard for the taxpayer's money, the money that they spend from day to day?

Mr. SULLIVAN. I can say this, Mr. Woodruff, that since March 15 the tax suggestions and the variety of other suggestions that have been coming into the Treasury Department from the people of the country as a whole, has been very much more voluminous than it was before.

Mr. WOODRUFF. In other words, more people are becoming tax conscious, is that correct?

Mr. SULLIVAN. That is my inference.

Mr. WOODRUFF. That is all, Mr. Chairman.

Mr. ROBERTSON. Mr. Sullivan, you referred to an "ability" tax, that if a man makes $100 and the Government says "Give me $10," he has got the ability to pay the $10, and that makes it an ability tax?

Mr. SULLIVAN. No; I refer as ability taxes to those taxes which are graduated in accordance with the ability of the taxpayer to pay. I think that we are saying the same thing in a different way.

Mr. ROBERTSON. In other words, he has got a profit and he pays a part of that in taxes?

Mr. SULLIVAN. And what he pays depends upon the amount of his profit.

Mr. ROBERTSON. It is graduated, but it is the ability to pay that grows out of the fact that he has a profit, on some transaction?

Mr. SULLIVAN. That is correct.

Mr. ROBERTSON. Then the tax on corporations would be an ability tax, as well as a tax on the income of an individual?

Mr. SULLIVAN. Yes; except that it is a flat rate rather than graduated.

Mr. ROBERTSON. Now we have been collecting, you say, taxes in the ratio of two-thirds on ability taxes, and one-third of consumer taxes? Has that been the ratio for some years, of financing the Government?

Mr. SULLIVAN. Well, the actual experience in 1940 was this: Individual income, estate, gifts, 25.9 percent.

Mr. ROBERTSON. I would rather that you would add the corporation tax to that, because I think that that is just as much an ability tax.

Mr. SULLIVAN. I am about to give you that: The corporation, excess profits, capital stock, and income taxes, 28.3 percent. The excise, customs, excluding employment taxes, 45.8 percent.

Under the proposal in 1942, the individual income, estate and gift taxes would yield 32.4 percent, the corporation excess profits capital stock and back income taxes, 33.9 percent; and excise, customs, excluding in this employment taxes, 33.7 percent.

So that the greatest spread between those three brackets is 1.5 percent.

Mr. ROBERTSON. Do you think that it would be helpful to you if you would insert those tables in the record?

Mr. SULLIVAN. I would be very glad to, we will get a copy to put in.

(The table referred to follows:)

Individual income, estate, and gift taxes, corporate taxes, and commodity excises showing amount derived from each source,[1] fiscal years 1940–42

[Money figures in millions of dollars]

Source	Actual, 1940		Budget estimates 1941		Budget estimates 1942		Treasury proposal		Treasury proposal combined with estimated, 1942	
		Pct.		Pct.		Pct.		Pct.		Pct.
Individual income, estate, and gift taxes	$1,252	25.9	$1,570	25.2	$1,979	25.3	$1,868	46.3	$3,847	32.4
Corporation, excess profits, capital stock, and back income taxes[2]	1,373	28.3	2,000	32.1	3,099	39.6	935	23.1	4,034	34.0
Excise and customs	2,210	45.8	2,658	42.7	2,750	35.1	1,233	30.6	3,989	33.6
Total	4,845	100.0	6,228	100.0	7,828	100.0	4,036	100.0	11,870	100.0

[1] Excludes employment taxes.
[2] Includes back collections for individual income taxes.

SOURCE: Budget estimates for fiscal years 1942 and 1941 and actual data for fiscal year 1940 compiled from the Budget of the United States Government for the fiscal year ending June 30, 1942.

Mr. ROBERTSON. Do I understand that you are preserving the existing ratio between ability taxes and consumer taxes, in this new group?

Mr. SULLIVAN. No; I think that we are shifting the weight more to the ability-to-pay taxes, than they have been.

Mr. ROBERTSON. That is a little bit more?

Mr. SULLIVAN. Yes, sir.

Mr. ROBERTSON. Now, I notice that you propose to get $188,300,000 on new excess-profits taxes?

Mr. SULLIVAN. No, sir; that is on tobacco, the item that you are reading from. That figure of $188,300,000 is the same figure, the sum of the $112,800,000 and $75,500,000.

Mr. ROBERTSON. Is there any extension on excess profits?

Mr. SULLIVAN. Yes, sir; $400,000,000, that is the figure above and to the left of the $188,000,000 that you just referred to.

Mr. ROBERTSON. I see that on this mimeographed copy it got shifted one line, and that is the reason I read it wrong.

Mr. SULLIVAN. There were changes in this from the ones that you had before.

Mr. ROBERTSON. Well, then, the increase on excess profits is $400,000,000?

Mr. SULLIVAN. That is right, sir.

Mr. ROBERTSON. That is a change in the present excess-profits-tax laws?

Mr. SULLIVAN. Yes, sir.

Mr. ROBERTSON. Are you prepared today to give us the details of about how that is to be applied?

Mr. SULLIVAN. No, sir; we are not. You will recall that the amendment to the Excess Profits Tax Act passed the Senate and was concurred in by the House a very few days before March 15. As a result of that, it became desirable to give the taxpayers extensions in their filing dates, and it is only within the last few days that any appreciable number of excess-profit-tax returns have been coming in here to Washington.

Mr. ROBERTSON. Now, I noticed on page 2 of your statement, that you refer to a revenue program designed to meet emergency defense costs, and on page 11 you give as one objection to a general sales tax, the fact that you would have to set up an expensive new administrative agency which you say would not be justified to be used only as a temporary source of revenue.

I assume from those statements that you mean to imply that you are submitting and recommending to us the rates of this $3,500,000,000 bill as a temporary or emergency tax program, and not to be incorporated permanently in our tax law?

Mr. SULLIVAN. That is correct.

Mr. ROBERTSON. That is all.

Mr. DINGELL. Mr. Chairman, I have a question.

The CHAIRMAN. You may proceed.

Mr. DINGELL. Mr. Sullivan, in your discourse with Mr. Disney, and in the discussion about sales taxes, I understood you to say that if food, clothing, medicines, fuel, and rentals were excluded——

Mr. SULLIVAN. I said "shelter," but I did not intend to.

Mr. DINGELL. I did not see how that would come in, but if the first four principal items mentioned were exempt, it would take about an 18 percent tax, sales tax, to produce the amount of revenue which you contemplate raising, through this schedule, which we are now discussing, is that about right?

Mr. SULLIVAN. No; I think that it will take quite a bit more than that. If consumption were not reduced, the 18 percent would do it, but of course with an 18 percent sales tax the consumption would be reduced.

Mr. DINGELL. I am mindful of that, and I was going to get to that. That is if consumption were not reduced, but if consumption were reduced then you would have to raise the rate?

Mr. SULLIVAN. Yes; you would have to raise the rate.

Mr. DINGELL. Then the percentage would be even higher than the 18 percent sales tax.

Mr. SULLIVAN. Then I think it would be quite a little higher, but we will have an estimate for you on Monday.

Mr. DISNEY. That is to raise how much money?

Mr. SULLIVAN. That is to raise $3,500,000,000.

Mr. DISNEY. Do you mean the whole thing, or the excise schedule?

Mr. DINGELL. The entire thing.

Mr. SULLIVAN. The question was on the $3,500,000,000.

Mr. DINGELL. Now, Mr. Sullivan, that sort of brings to my mind a proposal about the equivalent of that which the Townsendites proposed here with their transactions taxes. I think that that would average somewhere in the neighborhood of 20 to 22 percent.

Mr. SULLIVAN. I do not understand that anyone has ever proposed it. Someone merely asked for the estimate.

Mr. DINGELL. Perhaps not, but when we are talking about uniform general sales taxes, or a general manufacturers' excise tax, that is what we are discussing, that is what we are considering, if only tentatively. Now, here is what I want to bring out, and if we levy a uniform general sales tax, or a manufacturers' excise tax, the burden of that tax will fall to the extent of 92 to probably 95 percent upon the average citizen, upon the one who is less able to pay the burden, am I right about that?

Mr. SULLIVAN. I do not know about the percentage or the figures, Mr. Dingell, but of course as a general statement, you are obviously correct.

Mr. DINGELL. At least to the extent that the great bulk of that tax rate would fall upon those who are least able to bear it?

Mr. SULLIVAN. That is correct.

Mr. DINGELL. That is all.

Mr. CROWTHER. Mr. Sullivan, do you know what the gross income of corporations was last year?

Mr. SULLIVAN. You mean the calendar year 1940, or the fiscal year of 1940?

Mr. CROWTHER. For either year?

Mr. SULLIVAN. For 1937, I think that is the most recent tabulation, the gross receipts from operations, that is given as $25,000,000,000.

Mr. CROWTHER. No; what I want is the gross corporate income.

Mr. SULLIVAN. Well, the gross sales are $108,000,000,000.

Mr. CROWTHER. That is the gross sales?

Mr. SULLIVAN. That is what it is called in this table.

Mr. CROWTHER. I am talking about the gross corporate income, and you always have had that figure in there, and we used to comment on the tremendous disparity between the gross income and the final amount of tax that was paid, of course due to obsolescence and materials and wages.

Mr. SULLIVAN. It is the same thing, I think.

Mr. CROWTHER. You say that is all it is, $108,000,000,000?

Mr. SULLIVAN. The $108,000,000,000 gross receipts from sales, plus $25,000,000,000 gross receipts from other operations, plus $9,000,000,000 of all other income in the whole story in 1937.

Mr. CROWTHER. How about a 1 percent gross-income tax on corporations?

Mr. SULLIVAN. Under this it would yield you about $1,400,000,000.

Mr. CROWTHER. It would yield $1,400,000,000, or something like that?

Mr. SULLIVAN. That is right.

Mr. CROWTHER. I remember that 1 year it was $155,000,000,000, quite a few years ago. There is no new thought about that, I have talked about it so much everybody is tired of hearing about it but I have always thought it was the best tax in the world for a corporation tax. I would not know what percent it should be, perhaps it could be an eighth or something up from there.

Mr. SULLIVAN. Frankly I have given no thought to that.

Mr. CROWTHER. How about a turn-over tax of 1 percent?

Mr. SULLIVAN. We have given no thought to that either.

Mr. CROWTHER. A 1 percent gross income tax on corporations would save an awful lot of headaches in figuring obsolescence and depreciation, and all kinds of subtraction that everybody indulges in when they make out a tax return, and we could get just as much money.

Mr. SULLIVAN. I think that that may be true. But I am wondering if for the corporation that is not making any money, or is breaking even, or is losing a little bit, it would not transfer the headache to them?

Mr. CROWTHER. That was one of the arguments always offered in opposition to my request, that in case the company did not make any money it was a capital levy. Of course, that is true in a sense, but I told them that they could not throw that at me as long as we had the capital stock tax on the law books, because that is also a capital levy. The capital stock tax is paid whether they make a dollar or don't, and is the constant diminution of capital year after year.

Mr. SULLIVAN. That is right.

Mr. CARLSON. Has the Treasury made any estimates on the amounts an individual, a single man would pay in excise taxes in a year, hidden taxes, so to speak?

Mr. SULLIVAN. Apparently it is pretty difficult to make an estimate, because it depends pretty much on the type of individual, whether he smokes has something to do with with it, and whether he drinks has something to do with it, and his general habits and so on and so forth. I do not think that we have any estimate on what you have in mind.

Mr. CARLSON. I appreciate it is very hard. I had an inquiry today from one of the schools in the State of Kansas requesting information on hidden taxes, and I wondered if the Treasury had anything to offer on that.

Mr. SULLIVAN. We have some figures.

Mr. CARLSON. Have you some tables? I do not care to have them brought out today, but if you have something on hidden taxes that an individual or a family pays annually in the United States, I think it would be most helpful.

Mr. SULLIVAN. Yes, sir.

Mr. CARLSON. I would like to have that.

Mr. SULLIVAN. Yes, sir.

(The table referred to follows:)

All taxes, personal taxes and taxes on consumption as percent of consumer income 1938–39

Income classes	Taxes as percent of income				
	Total all taxes	Personal taxes [1]		Taxes on consumption [2]	
		Federal	State and local	Federal	State and local
Under $500	21.9	1.1	0.2	6.8	13.8
$500 to $1,000	18.0	.7	.2	5.9	11.2
$1,000 to $1,500	17.3	.7	.3	5.8	10.6
$1,500 to $2,000	17.6	1.0	.5	5.0	10.8
$2,000 to $3,000	17.5	1.0	.3	5.3	10.6
$3,000 to $5,000	17.6	2.3	1.1	4.7	9.5
$5,000 to $10,000	17.9	4.5	1.8	3.7	7.7
$10,000 to $15,000	25.5	12.1	4.8	2.9	6.1
$15,000 to $20,000	31.7	17.3	5.8	2.5	4.2
$20,000 and over	37.8	25.3	7.0	1.6	3.6
Total	20.2	4.3	1.4	4.9	9.6

[1] "Personal taxes" include Federal and State individual income taxes; employees' old-age insurance contributions; Federal and State estate and gift taxes; poll taxes; two-thirds of the personal property taxes; corporate income, declared value excess profits and capital stock taxes.

[2] "Consumption taxes" include customs revenue, Federal manufacturers' excise taxes, State selective and general sales taxes, State and local licenses, general property taxes, and other business cost taxes.

SOURCE: Temporary National Economic Committee, Monograph No. 3: Who Pays The Taxes?, U. S. Government Printing Office, Washington, 1940, tables I and 15.

Mr. CARLSON. How much did we receive this year in excess-profits taxes on the year 1940?

Mr. SULLIVAN. We did not get that on March 15, but not long after that date. I do not think that I have the figures here, but it was in the vicinity of $80,000,000 and I would like to have the opportunity of correcting that, because I am not exact. Through the end of March, there was paid $90,000,000.

Mr. CARLSON. What do you estimate to be the total collections for the excess-profits tax for 1940?

Mr. SULLIVAN. I wish that I could answer that for you. You see, the bulk of the returns are starting to come in now, and we do not know how many of those are represented in this $90,000,000. There are full payments and partial payments, and we do not know how many of the big fellows are in there.

Mr. CARLSON. Have there been enough adjustments on the excess profits tax law, on the basis of the recently enacted act, to state how much the Federal Treasury will lose from this new law that we enacted before March 15?

Mr. SULLIVAN. You mean how much more we will lose in amortization than we are collecting back in excess profits?

Mr. CARLSON. I will be glad to have that figure, but that was not what I had in mind. My idea was that we passed an excess-profits tax, and we ought to raise so many million dollars. Before March 15 we passed a new law amending that previous act, and I wondered how much that cost us, so to speak.

Mr. SULLIVAN. We will get the figures for you which were submitted when the bill was under consideration. I think that the law has been made so much fairer by the amendments and the law is in so much better shape for us to go ahead and strengthen the rates, that whatever we lost was well spent.

(The figures referred to follow:)

Estimated net decrease in income taxes due to the excess-profits-tax amendments of 1941

Year	Millions of dollars
Calendar year 1940	20
Calendar year 1941	73
First full year	105

Mr. CARLSON. Can you give us an estimate of how much we could expect to raise under the excess-profits tax under existing law in 1941?

Mr. SULLIVAN. We will give you that.

Mr. CARLSON. Are you willing to make an estimate, or would you be willing to make an estimate at this time?

Mr. SULLIVAN. This afternoon, no, I would not.

Mr. CARLSON. Could you make any recommendations as to how we are to raise this $400,000,000?

Mr. SULLIVAN. Yes, I expect to very soon.

Mr. CARLSON. You are going to do that later?

Mr. SULLIVAN. Yes, sir; these returns as I told you have been coming in this week.

Mr CARLSON. I just happened to be checking the Canadian law which I have here, on excess profits, and I find that the rate of the excess-profits tax is 75 percent of all profits as reported for income from tax purposes, but the tax shall not be less than 12 percent of the annual profits as computed for these taxes, and I just wondered how much we could expect to raise on the basis of the Canadian law.

Mr. SULLIVAN. We do not have estimates on that basis

Mr. CARLSON. That is all, Mr. Chairman.

Mr. ROBERTSON. I would like to ask one question. Mr. Secretary, do you have any statistics to show what percentage of the families of this Nation have certain incomes? For instance, last fall I saw a statement that three-fifths of the families had an income of less than $2,500.

Mr. SULLIVAN. The statistics are available by individuals and families as published by the National Resources Committee for 1935–36.

Mr. ROBERTSON. Will you insert that in the record at this point?

Mr. SULLIVAN. We will get it for you.

(The statistics referred to follow:)

Distribution of families and of aggregate income received, by income level, 1935–36

Income level	Families			Aggregate income		
	Number	Percent at each level	Cumulative percent	Amount (in thousands)	Percent at each level	Cumulative percent
Under $250	1,162,890	3.95	3.95	$134,838	0.28	0.28
$250 to $500	3,015,284	10.25	14.21	1,186,509	2.48	2.76
$500 to $750	3,799,315	12.92	27.13	2,384,917	5.00	7.76
$750 to $1,000	4,277,048	14.55	41.68	3,738,014	7.84	15.60
$1,000 to $1,250	3,882,446	13.20	54.88	4,346,429	9.12	24.72
$1,250 to $1,500	2,865,472	9.75	64.63	3,907,785	8.20	32.92
$1,500 to $1,750	2,343,358	7.97	72.60	3,777,570	7.92	40.84
$1,750 to $2,000	1,897,687	6.45	79.05	3,499,805	7.27	48.11
$2,000 to $2,250	1,420,893	4.83	83.88	3,002,082	6.30	54.41
$2,250 to $2,500	1,043,977	3.55	87.43	2,471,672	5.18	59.59
$2,500 to $3,000	1,314,199	4.47	91.90	3,568,934	7.48	67.04
$3,000 to $3,500	743,559	2.53	94.43	2,385,959	5.00	72.04
$3,500 to $4,000	438,428	1.49	95.92	1,625,897	3.41	75.45
$4,000 to $4,500	249,948	.85	96.77	1,048,386	2.20	77.65
$4,500 to $5,000	152,647	.52	97.29	719,447	1.51	79.16
$5,000–$7,500	322,950	1.10	98.39	1,900,091	3.99	83.15
$7,500–$10,000	187,060	.64	99.03	1,608,032	3.37	86.52
$10,000–$15,000	131,821	.45	99.48	1,496,600	3.14	89.66
$15,000–$20,000	58,487	.20	99.68	1,012,864	2.12	91.78
$20,000–$25,000	34,208	.12	99.80	762,240	1.60	93.38
$25,000–$30,000	22,233	.08	99.88	627,567	1.32	94.70
$30,000–$40,000	15,881	.05	99.93	560,390	1.18	95.88
$40,000–$50,000	6,508	.02	99.95	314,699	.66	96.54
$50,000–$100,000	10,871	.04	99.99	755,017	1.59	98.13
$100,000–$250,000	3,330	.01	100.00	440,534	.92	99.05
$250,000–$500,000	699	(1)		200,174	.42	99.47
$500,000–$1,000,000	197	(1)		132,954	.28	99.70
$1,000,000 and over	75	(1)		142,650	.30	100.00
All levels	29,400,300	100.00		47,672,238	100.00	

[1] Less than 0.005 percent.

Source: Consumer Incomes in the United States, National Resources Committee, 1938.

NOTE.—Income defined by the National Resources Committee includes wholly tax-exempt interest, certain income in kind, imputed income from rental value of owned homes and amounts allowed as deductions under the Federal Income Tax Laws, but excludes capital gains and losses.

Distribution of single individuals and of aggregate income received, by income level 1935–36

Income level	Single individuals			Aggregate income		
	Number	Percent at each level	Cumulative percent	Amount (in thousands)	Percent at each level	Cumulative percent
Under $250	960,644	9.55	9.55	$159,302	1.37	1.37
$250 to $500	1,571,953	15.63	25.18	600,534	5.19	6.56
$500 to $750	1,972,745	19.62	44.80	1,231,638	10.63	17.19
$750 to $1,000	1,599,090	15.91	60.71	1,391,493	12.01	29.20
$1,000 to $1,250	1,108,551	11.02	71.73	1,240,682	10.71	39.91
$1,250 to $1,500	877,958	8.73	80.46	1,201,347	10.37	50.28
$1,500 to $1,750	546,546	5.43	85.89	883,223	7.63	57.91
$1,750 to $2,000	308,685	3.07	88.96	745,400	6.44	64.35
$2,000 to $2,250	283,452	2.82	92.68	600,779	5.19	69.54
$2,250 to $2,500	210,090	2.09	94.77	497,260	4.29	73.83
$2,500 to $3,000	161,275	1.60	95.97	454,156	3.77	77.60
$3,000 to $3,500	109,360	1.09	97.45	349,494	3.02	80.62
$3,500 to $4,000	62,731	.63	98.08	237,497	2.05	82.67
$4,000 to $4,500	36,105	.36	98.44	154,459	1.33	84.00
$4,500 to $5,000	25,491	.25	98.69	122,219	1.06	85.06
$5,000 to $7,500	57,318	.57	99.26	344,315	2.97	88.03
$7,500 to $10,000	28,582	.29	99.54	242,158	2.09	90.12
$10,000 to $15,000	20,961	.21	99.75	250,525	2.16	92.28
15,000 to $20,000	9,438	.09	99.84	160,910	1.39	93.67
20,000 to $25,000	5,617	.06	99.90	126,874	1.10	94.77
25,000 to $30,000	3,350	.03	99.93	92,701	.80	95.57

Distribution of single individuals and of aggregate income received, by income level, 1935–36—Continued

Income level	Single individuals			Aggregate income		
	Number	Percent at each level	Cumulative percent	Amount (in thousands)	Percent at each level	Cumulative percent
$30,000 to $40,000	2,386	.02	99.95	$80,883	.70	96.27
$40,000 to $50,000	1,797	.02	99.97	75,622	.65	96.92
$50,000 to $100,000	2,470	.02	99.99	153,468	1.32	98.24
$100,000 to $250,000	906	.01	100.00	98,432	.85	99.10
$250,000 to $500,000	217	(1)		64,324	.56	99.66
$500,000 to $1,000,000	45	(1)		25,649	.21	99.87
$1,000,000 and over	12	(1)		14,687	.13	100.00
All levels	10,058,620	100.00		11,579,360	100.00	

[1] Less than 0.005 percent.

Source: Consumer Incomes in the United States, National Resources Committee, 1938.

NOTE.—Income defined by the National Resources Committee includes wholly tax-exempt interest, certain income in kind, imputed income from rental value of owned houses and amounts allowed as deductions under the Federal Income tax laws, but excludes capital gains and losses.

Distribution of families and single individuals and of aggregate income received by income level, 1935–36

Income level	Families and single individuals			Aggregate income		
	Number	Percent at each level	Cumulative percent	Amount (in thousands)	Percent at each level	Cumulative percent
Under $250	2,123,534	5.38	5.38	$294,140	0.50	0.50
$250 to $500	4,587,237	11.63	17.01	1,787,343	2.98	3.48
$500 to $750	5,771,960	14.63	31.64	3,615,653	6.10	9.58
$750 to $1,000	5,876,078	14.90	46.54	5,129,506	8.65	18.23
$1,000 to $1,250	4,990,995	12.65	59.19	5,589,111	9.42	27.65
$1,250 to $1,500	3,743,425	9.49	68.68	5,109,112	8.62	36.27
$1,500 to $1,750	2,889,904	7.32	76.00	4,660,793	7.87	44.14
$1,750 to $2,000	2,296,022	5.82	81.82	4,214,303	7.11	51.25
$2,000 to $2,250	1,704,535	4.32	86.14	3,602,861	6.08	57.33
$2,250 to $2,500	1,254,076	3.18	89.32	2,968,932	5.01	62.34
$2,500 to $3,000	1,475,474	3.74	93.06	4,004,774	6.76	69.10
$3,000 to $3,500	851,919	2.16	95.22	2,733,467	4.62	73.72
$3,500 to $4,000	502,159	1.27	96.49	1,863,384	3.14	76.86
$4,000 to $4,500	286,053	.72	97.21	1,202,536	2.03	78.89
$4,500 to $5,000	178,138	.45	97.66	841,706	1.42	80.31
$5,000 to $7,500	380,268	.96	98.62	2,244,405	3.79	84.10
$7,500 to $10,000	215,642	.55	99.17	1,847,630	3.12	87.22
$10,000 to $15,000	152,682	.39	99.56	1,746,925	2.95	90.17
$15,000 to $20,000	67,923	.17	99.73	1,174,374	1.98	92.15
$20,000 to $25,000	39,525	.10	99.83	889,114	1.50	93.65
$25,000 to $30,000	25,583	.06	99.89	720,268	1.22	94.87
$30,000 to $40,000	17,959	.05	99.94	641,273	1.08	95.95
$40,000 to $50,000	8,340	.02	99.96	390,311	.66	96.61
$50,000 to $100,000	13,041	.03	99.99	908,485	1.53	98.14
$100,000 to $250,000	4,144	.01	100.00	539,006	.91	99.05
$250,000 to $500,000	916	(1)		264,498	.45	99.50
$500,000 to $1,000,000	240	(1)		134,803	.23	99.73
$1,000,000 and over	87	(1)		157,237	.27	100.00
All levels	39,458,300	100.00		59,258,628	100.00	

[1] Less than 0.005 percent.

Source: Consumer Incomes in the United States, National Resources Committee, 1938.

NOTE.—Income defined by the National Resources Committee includes wholly tax-exempt interest, certain income in kind, imputed income from rental value of owned houses and amounts allowed as deductions under the Federal Income Tax laws, but excludes capital gains and losses.

The CHAIRMAN. Thank you, Mr. Secretary, for the information that you have given the committee.

Mr. COOPER. I move that the public hearings be adjourned until 10 o'clock Monday morning.

The CHAIRMAN. Without objection, the public hearings will be continued at 10 o'clock on Monday morning.

(Thereupon, at 4:15 o'clock, a recess was taken, to reconvene on Monday morning, April 28, 1941, at 10 o'clock.)

(The following statement by Mr. Stam was ordered inserted in the record:)

STATEMENT OF COLIN F. STAM, CHIEF OF STAFF OF THE JOINT COMMITTEE ON INTERNAL REVENUE TAXATION

The methods for financing defense expenditures are not necessarily the same as those suitable for financing expenditures under ordinary conditions. In financing expenditures under ordinary conditions, particular emphasis should be placed upon taxes levied according to ability to pay rather than upon articles of consumption. Economists generally agree that this policy is not one which can be fully applied in the financing of a defense program.

In the first stage of a defense program, it is proper to finance a large portion through borrowing from banks so long as unemployment exists and plants remain idle. In this period, the greater part of the tax receipts should come from taxes based upon ability to pay. These taxes consist of income, excess-profits, estate, and gift taxes. This is necessary to avoid a too early curtailment of consumers' expenditures.

It appears that we are now reaching another stage of the defense program. The period of full employment and the absorption of idle facilities is approaching. During this period, the tax base should be broadened to curtail private consumption by either general or specific consumption taxes and thus bring production from a peacetime basis to defense basis. During this period, borrowing should be made through individuals rather than through banks in order to absorb savings. This borrowing program is already under way, having been put in to effect by the authority recently granted to the Secretary of the Treasury in the Public Debt Act to issue United States savings bonds and savings certificates. These will, for the most part, be sold to individuals and not through banks.

Looking at the present status of our ability taxes as compared with our consumption taxes as estimated in the Budget for the fiscal year 1942, we find the following:

	Internal revenue	Percent of total
Total	$7,538,825,000	100.00
Ability to pay taxes	5,077,400,000	67.35
Consumption taxes	2,461,425,000	32.65

In making this computation, I have not included social-security taxes of $961,300,000 for the reason that it is believed that such taxes are in the nature of direct benefits to the individual upon whom they are imposed. However, if such social-security taxes are included, the following result is obtained:

	Internal revenue	Percent of total
Total	$8,500,125,000	100.00
Ability to pay taxes	5,077,400,000	59.73
Consumption taxes	3,422,725,000	40.27

The proposed plan of the Treasury allocates the increased revenue between ability and consumption taxes as follows:

Ability taxes

Income and excess profits taxes:		
Income tax on individuals		$1,517,100,000
Corporations:		
Income tax	$533,500,000	
Excess-profits tax	400,000,000	
		933,500,000
Estate and gift taxes		353,000,000
Total		2,803,600,000

Consumption taxes

Tobacco taxes	200,800,000
Liquor taxes	192,200,000
Other excise taxes	842,600,000
Total	1,235,600,000

	Proposed increases	Percent of total
Total	$4,039,200,000	100.00
Ability to pay taxes	2,803,600,000	69.41
Consumption taxes	1,235,600,000	30.59

If we add these to the total internal revenue for the fiscal year ended June 30, 1942, we find, excluding $961,300,000 of social-security taxes, the following:

	Internal revenue	Percent of total
Total	$11,578,025,000	100.00
Ability to pay taxes	7,881,000,000	68.08
Consumption taxes	3,697,025,000	31.92

When social-security taxes are added to consumption taxes, the following results:

	Internal revenue	Percent of total
Total	$12,539,325,000	100.00
Ability to pay taxes	7,881,000,000	62.85
Consumption taxes	4,658,325,000	37.15

Since we are now approaching the second stage of the defense program, the argument could be made that too great emphasis is being placed upon ability taxes and not enough upon consumption taxes. Moreover, the increases in excess-profits taxes, which should bear a large part of the burden of the tax increase under a defense program, appear much lighter in proportion than the increases in individual income taxes.

It may be desirable to shift a portion of the proposed increased tax burden from the ability to the consumption group. Furthermore, it may also be desirable to shift a portion of the burden within the ability group, namely from the incomes of individuals to the excess profits of corporations.

The following is suggested as a possible approach:

Individual income taxes.—The increase should be limited to $1,100,000,000. Of the difference, namely, 417.1 million, 200 million could be assigned to excess-profits taxes and 217.1 million to consumption taxes. To have the individual income taxes in the lower groups too high may result in severely handicapping many individuals in the discharge of debts already incurred and the meeting of their ordinary expenses of subsistence. Under the Treasury proposal, the burden upon individuals in the various groups may be illustrated as follows:

Income tax, individual, married person with no dependents; all income earned

[New York State tax, existing and proposed [1] Federal tax, and combined tax on specified net incomes]

Net income	New York tax [2]	Total New York and Federal tax	
		Existing	Proposed
$3,000	$15	$46.21	$164.20
$5,000	90	196.44	578.38
$10,000	365	854.96	1,902.28

[1] By the Treasury.
[2] New York allows no deduction or credit for Federal income tax.

If it is desired to raise only an additional $1,100,000,000 from the individual income tax, proposal II will show how the Federal burden may be reduced. Under this proposal, the personal exemptions and credit for dependents are not allowed for surtax purposes but are allowed either for normal tax purposes or as credit against tax computed at the normal rate. The first $2,000 of net income is exempt from surtax under proposal II. Translated in terms of a credit against tax, the credits allowed are as follows:

Existing law.—Single person, $800 credit against net income for normal and surtax purposes; married person, $2,000 credit against net income for normal and surtax purposes; dependents, $400 credit against net income for normal and surtax purposes.

Instead of allowing exemptions as a credit against net income allow them as a credit against the tax. Translated in terms of tax, these credits will be as follows:

Single person, $32; this is 4 percent of $800.
Married person, $80; this is 4 percent of $2,000.
Credit for dependents, $16; this is 4 percent of $400.
Earned income credit, 4 percent of present earned income.

Advantages of this proposal.—1. The exemptions would be fixed regardless of any change in rates. For example, if the tax rate was increased, it would have no effect on the exemptions.

2. Existing law allows these exemptions as a credit against net income. They, therefore, apply not only for the purpose of the normal tax but also for the purpose of the surtax. This makes the exemption unequal with respect to different classes of taxpayers, since it operates to reduce the top bracket of the taxpayer's income.

For example, the $2,000 personal exemption results in a tax savings of only $80 (4 percent of $2,000) to a married man with an income of $4,000. However, to a man in the top bracket (not counting the defense tax) it results in a tax savings of $1,580 (79 percent of $2,000). This inequity is removed under the proposed plan.

The principle of not allowing personal exemptions and credit for dependents in computing surtax was strongly endorsed by Dr. Magill, representing the Treasury Department in his testimony before the committee in 1934. In this connection Dr. Magill made the following statement:

"The Treasury doubts the wisdom of instituting the policy of permitting the personal exemption and credit for dependents to be used as an offset in computing the surtax as well as the normal tax. The basic reason for a personal exemption is to except from income taxation persons whose incomes are so small that they should not be subject to the income tax at all. Obviously this reason has no application to surtax rates, which presumably are levied on taxpayers who are thought to be able to pay not only the flat normal rate but a progressive rate in addition. Moreover, since the amount of the exemption in fact operates to reduce by so much the top bracket of the taxpayer's income, the proposed provision will give the wealthy taxpayer a decidedly greater reduction in actual taxes paid than the smaller taxpayer. Such an arrangement runs directly counter to the progressive rates of surtaxes. In order to preserve the sound principle on which this exemption has been given, it is recommended that it be authorized as heretofore only in the case of the computation of the normal tax, and that the surtax rates be revised accordingly."

Proposal II carries out the above-quoted views of the Treasury.

The estate and gift taxes' increase of 353,000,000 appears high. These are capital levies. The estate and gift taxes for the fiscal year ending June 30, 1942, are estimated to yield under the existing tax system the following:

Estate taxes	$341,700,000
Gift taxes	32,800,000
Total	374,500,000

The Treasury proposal, therefore, more than doubles the estate-tax yield. This makes the estate taxes higher than the British taxes as shown by the following table:

Estate tax—comparison of British with United States existing and proposed tax on specified net estates

Net estate [1]	British tax [2]	Federal tax [3]		Net estate [1]	British tax [2]	Federal tax [3]	
		Existing law	Treasury proposal			Existing law	Treasury proposal
$50,000	$4,320	$800	$4,840	$2,000,000	$632,000	$398,300	$974,255
$60,000	7,680	2,200	9,735	$10,000,000	6,500,000	4,223,100	5,077,065
$100,000	10,800	4,620	15,290	$20,000,000	13,000,000	12,532,700	13,166,565
$200,000	33,600	21,980	56,365	$100,000,000	65,000,000	72,521,380	73,175,770
$1,000,000	239,000	226,780	442,455				

[1] Before specific exemption.
[2] Conversion unit: 1 pound sterling=$4.
[3] After the addition of the defense tax. The maximum credit for State death taxes is included.

In some States, such as New York, where the State death taxes exceed the 80-percent credit allowed for death taxes paid to the States, the burden will be even greater. This is shown by the following table:

Estate tax—Comparison of the combined Federal and New York estate tax on specified net estates under the existing law and under the Treasury proposal

Net estate [1]	New York tax [2]	Existing Federal tax [3]	Proposed Federal tax [3]	Total existing tax [3]	Total proposed tax [3]
$20,000					
$25,000	$50				
$30,000	100		$320	$100	$420
$40,000	200		1,330	300	1,620
$50,000	400	$500	4,840	1,000	3,340
$60,000	600	2,300	8,735	2,600	10,315
$100,000	800	4,030	15,290	3,420	16,060
$150,000	1,300	11,000	31,455	13,290	32,760
$200,000	2,300	20,400	59,035	22,760	51,305
$250,000	3,800	29,820	67,780	37,620	71,590
$300,000	5,300	38,505	92,125	43,900	97,425
$500,000	13,300	77,440	177,100	90,740	190,400
$1,000,000	42,300	195,840	409,255	237,580	451,555
$2,000,000	125,300	488,400	874,665	613,700	890,965
$3,000,000	229,300	829,620	1,344,475	1,057,020	1,572,775
$4,000,000	351,300	1,219,240	1,818,683	1,570,540	2,169,985
$5,000,000	480,300	1,690,780	2,300,615	2,151,080	2,701,115
$6,000,000	609,500	2,144,840	2,796,145	2,759,540	3,426,685
$7,000,000	798,300	2,652,100	3,304,673	3,450,400	4,102,975
$8,000,000	967,300	3,173,500	3,836,405	4,140,800	4,798,720
$9,000,000	1,146,300	3,706,100	4,361,335	4,854,400	5,507,655
$10,000,000	1,325,300	4,255,900	4,909,465	5,601,200	6,244,765
$20,000,000	3,334,300	9,865,900	10,519,795	13,200,200	13,854,095
$50,000,000	9,334,300	27,355,020	28,009,245	36,689,320	37,343,545
$100,000,000	19,334,300	57,034,580	57,708,970	76,368,880	77,043,270
$200,000,000	39,334,300	194,654,580	265,308,970	233,988,880	304,643,270

[1] Before any specific exemption.
[2] It is assumed the sole beneficiary is the widow of the decedent.
[3] Including the defense tax.

Turning to the excise taxes, the following might be considered in addition to those suggested by the Treasury:

	Yield (millions of dollars)
(1) Tax on use of automobiles, yachts, and airplanes (not including those operated by State or Federal Governments), an annual tax of $5 for each	160
(2) Placing second-class postage on a paying basis (exclusive of county free delivery)	78
(3) Tax on parimutuels, with corresponding tax on bookmakers	60
(4) Tax on insurance premiums	45
(5) Tax on electric-light bulbs (1 cent a bulb)	6
(6) Increasing capital-stock tax from $1.10 to $1.50	60
(7) Lease of motion-picture films, 5 percent of rental	12
(8) Coin-operated devices, 5 percent of price for which sold or leased	1.5
(9) 5 cents a pound on coffee	100
(10) 5 cents a pound on cocoa	30
(11) 10 cents a pound on tea	8
(12) 1 cent a pound on sugar (increase one-half cent per pound)	69
(13) Fuel oil used for motor fuel (2 cents a gallon)	
(14) Production and manufacture of gas, except for industrial use, 3½ percent	25

I have been requested by some members of the committee to include a statement as to a manufacturers' excise tax.

Studies made in the early 1930's by the staff of the Joint Committee on Internal Revenue Taxation included the study of sales taxes. This was done at the request of the Subcommittee on Double Taxation of the Committee on Ways and Means, under the direction of the Ways and Means Committee. Such studies were also made by representatives of the Treasury Department, who went to Canada for the purpose. A general manufacturers' excise tax was adopted by the Committee on Ways and Means in 1932.

GENERAL STATEMENT AS TO GENERAL MANUFACTURERS' EXCISE TAX PROPOSED IN 1932

As an emergency depression measure, a general manufacturers' excise tax was proposed in 1932 in H. R. 10236, Report No. 708, Seventy-second Congress, first session, and reported to the House of Representatives by the Committee on Ways and Means. In general, it was modeled on the principles of the Canadian sales tax and was designed to prevent pyramiding, or imposing several taxes as a product passes from manufacturer to manufacturer, dealer to dealer, and so on, resulting in cumulating or duplicating the tax. Manufacturers and producers were to be licensed. Goods passing from a licensed manufacturer, producer, or registered dealer to another manufacturer, producer, or registered dealer were to be free of tax. Foodstuffs, farmers, and small businessmen were to be exempt. Otherwise, it was considered advisable to restrict exemptions and keep the base very broad. The rate proposed at that time was 2¼ percent on the manufacturers' price determined at the factory or place of production and was designed to raise for 1933 about $595,000,000. The proposal was debated in the House and defeated.

Features of 1932 proposal

Rate.—Rate was to be 2¼ percent, to raise, in 1933, $595,000,000.

Imposition of tax.—The tax was to be imposed generally upon the price at which the manufacturer or producer should sell the commodity. Provision was made for determining the sale price which was to be the basis of the tax. In general, it was to be the manufacturer's or producer's price at the factory or the place of production. It was to be imposed upon the sale of every article sold in the United States by the manufacturer or producer thereof, except manufacturers or producers exempt from licensing under the bill, with certain exceptions necessary (1) to prevent pyramiding and (2) exceptions required by the Constitution.

Exceptions to imposition.—1. Exceptions necessary to prevent pyramiding included provision for the tax-free transfers between licensed manufacturers of articles for further manufacture. Licensed manufacturers were to be allowed to sell to registered dealers, free of tax, articles to be resold to licensed manufacturers for further manufacture.

2. Sales for exportation and sales by manufacturers to States and political subdivisions thereof, and agencies thereof, were exempted for constitutional reasons.

(Sales to the United States, the Territories, and the District of Columbia were not exempt.)

Exemptions.—Necessity for a wide base was considered necessary and emphasized. There were a few specified exemptions, including:

1. Farmers.
2. Staple food products.
3. Small manufacturers.

Farm products and foodstuffs exempted are set out in section 602 of the bill H. R. 10236. Farmers were exempted from licensing (sec. 606). Small manufacturers and producers, with gross sales of less than $20,000, were exempted to lessen the administrative burden which would be occasioned by licensing them (sec. 606).

Essential Tests of a Sound Plan

The Committee on Ways and Means set up, as six fundamental tests of a sound manufacturers' tax, the following (Rept. No. 708, 72d Cong., 1st sess.):

(1) The rate should be low, so that undue burdens will not be imposed.

(2) Certainty, both as to liability and amount, must be attainable in advance of the sale.

(3) Pyramiding must be prevented.

(4) The tax must be imposed uniformly and without discrimination.

(5) Provision must be made for the least administrative difficulty (such as classifications arising in connections with exemptions).

(6) Adequate authority must be granted to assure a sound, smoothly functioning, and flexible administration.

Certainty.—It was considered essential that persons required to make returns and pay the tax must know in advance of the sale whether the sale is taxable and the amount of tax liability. Also he must be able to rely on such determination. Retroactive imposition or change in method by which the tax is computed were to be avoided, as likely to result in hardship and break-down of the tax.

Certainty was provided by authorizing advance decisions by the Commissioner by preventing retroactive changes and rulings and regulations, and by authorizing final closing agreements.

Elimination of pyramiding.—Imposition of several taxes with respect to any article (pyramiding) was considered to have been eliminated by a system of licensing, described below.

All manufacturers and producers (other than those whose gross receipts were less than $20,000, who were exempt) were to be licensed. Provision was made for sale of articles tax-free from one licensee to another. By this method, the product of one manufacturer which was to be used as a material by a second manufacturer, could pass through all stages of manufacture without the imposition of a tax. Thus, the tax was to be imposed but once, and that upon the final sale of a finished product as it entered the channels of consumption.

Also, in order that partly manufactured goods could pass through wholesalers, dealers, or importers, the licensing system was applied also to persons of this class, or "registered dealers." They could purchase tax-free articles which they were to resell to licensed manufacturers for further manufacture. In this respect, the 1932 proposal differed from the then existing Canadian system, where all wholesalers were licensed and could make all their purchases tax-free. By this feature of the 1932 proposal the heavy administrative burden of issuing licenses and supervising licensees was to be avoided.

Uniform application of tax.—It was desired that each member of a competitive group pay tax upon substantially the same basis as all of his competitors. Manufacturer's or producer's price at place of manufacture or production was to be the base of the tax.

Avoidance of administrative difficulties.—Such avoidance was considered necessary in order that the tax work fairly. For instance, a large exemption list would have required an administrative agency to pass on proper classification, such determination would involve delay and retroactive application, with hardship on business.

Wide scope of tax.—By section 617 of the bill the articles on the sale or importation of which the tax would be applied included commodities of every description, thus spreading the incidence of the tax over a broad field.

Additional administrative personnel.—Such personnel was authorized.

Effective date of the tax.—It was provided the tax would be effective 30 days from the date of the enactment of the tax.

Sales tax not to apply to articles already taxed.—Articles already subject to Federal excise taxes were not to be subject to the tax.

TABLE I.—*Income tax; comparison of surtax rate schedules under present law and proposals I and II*

Net income classes (in thousands of dollars)	Bracket rate (percent)			Total surtax (cumulative)		
	Present law	Proposal I	Proposal II	Present law	Proposal I	Proposal II
0 to 2		11			$220	
2 to 4		14	6		500	$120
4 to 6	4	16	10	$80	820	320
6 to 8	6	19	14	200	1,200	600
8 to 10	8	21	18	360	1,620	960
10 to 12	10	23	21	560	2,080	1,380
12 to 14	12	25	24	800	2,580	1,860
14 to 16	15	27	27	1,100	3,120	2,400
16 to 18	18	29	30	1,460	3,700	3,000
18 to 20	21	31	33	1,880	4,320	3,660
20 to 22	24	33	36	2,360	4,980	4,380
22 to 26	27	36	39	3,440	6,420	5,940
26 to 32	30	39	43	5,240	8,760	8,520
32 to 38	33	42	46	7,220	11,280	11,280
38 to 44	36	45	48	9,380	13,980	14,160
44 to 50	40	48	50	11,780	16,860	17,160
50 to 60	44	51	52	16,180	21,960	22,360
60 to 70	47	54	54	20,880	27,360	27,760
70 to 80	50	57	57	25,880	33,060	33,460
80 to 90	53	59	59	31,180	38,960	39,360
90 to 100	56	61	61	36,780	45,060	45,460
100 to 150	58	62	62	65,780	76,060	76,460
150 to 200	60	63	63	95,780	107,560	107,960
200 to 250	62	64	64	126,780	139,560	139,960
250 to 300	64	66	66	158,780	172,560	172,960
300 to 400	66	68	68	224,780	240,560	240,960
400 to 500	68	70	70	292,780	310,560	310,960
500 to 750	70	72	72	467,780	490,560	490,960
750 to 1,000	72	72	72	647,780	670,560	670,960
1,000 to 2,000	73	73	73	1,377,780	1,400,560	1,400,960
2,000 to 5,000	74	74	74	3,597,780	3,620,560	3,620,960
5,000 and over	75	75	75			

TABLE II.—*Income tax: Comparison of present and proposed individual income taxes on net incomes of selective sizes; married person, no dependents*

[Maximum earned income credit]

Net income before personal exemption	Amount of tax [1]			Effective rates [1]		
	Present law	Proposal I	Proposal II	Present law	Proposal I	Proposal II
				Percent	*Percent*	*Percent*
$2,500	$11	$72	$44	0.4	2.9	1.8
$3,000	31	152	97	1.0	5.1	3.2
$4,000	70	312	202	1.8	7.8	5.1
$5,000	110	506	352	2.2	10.1	7.0
$6,000	150	700	502	2.5	11.7	8.4
$8,000	317	1,131	889	4.0	14.1	11.1
$10,000	528	1,628	1,384	5.3	16.3	13.8
$12,500	858	2,316	2,013	6.9	18.5	16.1
$15,000	1,258	3,073	2,855	8.4	20.5	19.0
$20,000	2,336	4,800	4,756	11.7	24.0	23.8
$25,000	3,843	6,924	7,055	15.4	27.7	28.2
$50,000	14,138	19,540	20,794	28.3	39.1	41.6
$75,000	27,708	35,127	36,689	37.0	46.8	48.9
$100,000	43,476	52,474	54,124	43.5	52.5	54.1
$500,000	330,158	346,122	347,598	66.0	69.2	69.5
$1,000,000	717,584	735,060	739,898	71.8	73.5	74.0
$5,000,000	3,916,548	3,937,050	3,938,598	78.3	78.7	78.8

[1] Includes 10 percent defense tax.

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Statement of Secretary Morgenthau before the Committee On Ways and Means of the House of Representatives, Thursday, April 24, 1941.

I have come before you today to discuss with you the need of producing three and a half billion dollars annually in additional revenue for the defense of our country. Such an increase is without precedent, but the situation confronting us today is also without parallel.

We are faced with a greater challenge than any in the history of the Republic. It calls for a much greater response than has yet been made. The American people are prepared to make such a response, and to make it willingly.

The Treasury is now proposing an additional diversion through taxation of 3½ billion dollars, which is only four per cent of a rapidly rising national income, to the cause of national defense. This surely is a modest proposal in the present emergency, and with the present level of prosperity. Other countries, free and progressive countries like our own, have uncomplainingly carried far heavier defense burdens in proportion to their size and population.

We are big and rich and strong. We are economically better able to carry this load than any other people in the world. The American taxpayer stands ready to take this burden in his stride.

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We now have a program of about thirty-nine billion dollars for defense expenditures including the Lend-Lease appropriations. Many people assume from this figure that we are going to spend most of these thirty-nine billions in the coming fiscal year. But our studies at the Treasury have shown that unless we greatly speed up our production effort, not much more than twelve billions will be spent for defense purposes in the fiscal year ending June 30, 1942.

The Treasury estimate is that at the start of the new fiscal year we shall be spending no more than 1 billion dollars a month on defense. Almost two years will have passed with the world on fire. The forces of aggression already control all the factories of continental Europe. The danger to our peace and security is mounting hour by hour. Yet we shall find ourselves spending less than fifteen per cent of our national income for the national safety.

The problem of building our defense is fundamentally a problem of production. We cannot build planes and tanks, ships and guns, merely by voting money. We build them with labor and management, with raw materials and machinery. The resources now employed in the defense industries are not enough to produce the guns and tanks and ships and planes that we need to carry out the program to which we are already committed. We must hasten the reemployment of our idle resources. Even this increase will not be enough. As we closely approach full employment of our resources, we must take the next step of diverting to defense production more and more of the resources now engaged in satisfying our civilian needs and wants.

The tax program before you is designed to promote these very objectives.

First of all, it presents a method of paying as we go for a reasonable proportion of our expenditures.

Secondly, it is designed so that all sections of the people shall bear their fair share of the burden.

Third, it will help to mobilize our resources for defense by reducing the amount of money that the public can spend for comparatively less important things.

And finally, it is designed to prevent a general rise in prices by keeping the total volume of monetary purchasing power from outrunning production.

There must, of course, be no stinting of our defense expenditures. But there is another set of expenditures which,as I suggested to this Committee on January 29, we should now "re-examine with a magnifying glass." These are the government expenditures which are neither for purposes of defense nor for purposes of relief and security from want. We are continuing to spend in these non-defense and non-relief fields as if we had no emergency defense program, as if we could superimpose our huge rearmament effort upon government as usual and business as usual. This was all right before the existing emergency and while there continued to be a large volume of available unemployed resources. But we simply cannot carry on business as usual and government as usual from now on and still take adequate care of our defense needs. It would be a tragic error to assume that we can expand our defense production on a colossal scale and still go our usual ways, whether as a Government or as individuals. It would be folly to assume that we can continue to spend now as we did in normal times.

In the past twelve months, we have completely revised our thinking on defense expenditures, as this Committee knows. We are now awake to the need for expenditures on the enlarged scale required to make this country safe and strong. We have not, however, kept pace with events in our thinking about non-defense and non-relief spending. We have remained curiously static in our conceptions of what to spend on those things not directly connected with defense.

Ordinary tr·ffic must now get to one side to let planes and tanks and guns have the right of way. Other traffic can be permitted only if it does not obstruct the National purpose.

Now, I don't want anyone to misunderstand me. I want to make it perfectly clear that we must continue to provide for those in want, those who face old age without means of their own, or who are otherwise in urgent need of relief.

There has been general agreement that much higher taxes are necessary; but one group may urge that new taxes be imposed on labor but not on business, while another group may urge that the rich and prosperous can afford to bear the whole load. Both kinds of advice should be disregarded. The job before us is so big that all the American people must help to carry it out, in proportion to their ability to pay. It is unsound, especially at a time like this, to proceed on the assumption that any group of our people should be penalized or that any section should be exempted from sharing the common task. We all want labor to earn fair wages, the farmer to have his proper share of the national income, and business to make a fair profit.

Please note that I used the term "fair" profit. No business, no American, should make inordinate and excessive profits out of this national emergency. The Congress has tried to deal with the problem of defense profiteering through excess profits taxes. We all know how hard it is to devise any excess profits tax which is 100 per cent protection against defense profiteering, but I hope that the bill to be written by this Committee with be helpful in further reducing the evil. The American people do not intend that any of their number shall grow rich and fat out of this country's danger. They will, in my opinion, support any fair and workable tax that will help to keep this from occurring.

The Treasury is prepared to suggest tax revisions of which the most important features are an increase of income tax rates, a lowering of the minimum income subject to surtax, an increase in excess profits tax, and finally, new excise taxes on a number of commodities which are not essential to the defense program. Mr. Sullivan and the Treasury Staff are here to discuss these suggestions in detail.

In conclusion I should like to make one more observation. The American people, I believe, have outgrown the old idea that taxes were exactions forced upon them by their Government.

We have come to understand, especially in recent years, that taxes are payments for services rendered. We can look about us and see highways, schools, airports, reclamation work and Government activities of all kinds which have been paid for by our own efforts. Our daily lives would be insupportable if it were not for the necessities and the conveniences which our taxes have made possible.

We are now about to pay for the greatest service of all: the safety and protection of our country. How much does it mean to the American taxpayer to have a navy guarding American shores? How much does it mean to him to have an adequate supply of airplanes and other weapons of national defense? How much is it worth to be a free man living in a free land? If we remember always the services we are receiving as individuals, the new taxes will seem a small price to pay. The American people are ready to pay that price.

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Statement of John L. Sullivan, Assistant Secretary of the Treasury, before the Committee on Ways and Means of the House of Representatives, Thursday, April 24, 1941

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In discussing with you the fiscal problems confronting the Nation as a result of the national emergency, the Secretary has pointed to three governing principles; first, that the greater part of the cost of the emergency defense program should be met from current taxes rather than borrowing; second, that these taxes should be collected with a minimum of interference with the effective mobilization of all our man power, managerial capacity, business enterprise, and national resources; and, third, that the additional tax burden necessitated by the emergency should be distributed equitably among the several segments of our population.

In formulating the tax program I am about to outline, we have been guided by these basic principles. I might say, too, that we have proceeded on the assumption that we want the kind of Federal revenue system which can be readily adjusted to the Nation's requirements after this job is done and the emergency is past.

The considerations which have led to the conclusion that the emergency defense program should be financed for the most part from current taxes, are known to you and require only brief mention.

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The dangers of inflationary price movements are real, and must be avoided. Excessive reliance on borrowing, together with increased purchasing power, would exert a strong and dangerous upward influence on prices. To avoid this, the tax program is essential.

This tax program will enable us to distribute the burden of defense costs equitably. Moreover, rising national income carries with it a greater ability to pay taxes. No man can foresee whether the future will bring greater or lesser ability and it is the better part of wisdom to take advantage of the certainty of the present.

With these fundamental considerations in mind, the Treasury has come to the conclusion that current taxes should provide approximately two-thirds of Federal expenditures during the emergency period. In terms of the $19 billion expenditures now indicated for fiscal year 1942, this requires a tax system yielding $12,667,000,000. Present taxes are expected to provide $9,223,000,000, leaving approximately $3.5 billion to be raised by new taxes. The Treasury's program is designed to produce approximately this amount.

In devising this program, it was recognized that despite several recent revisions in the right direction, the Federal revenue system is still heavily weighted with consumer taxes, particularly in view of the extensive use of such taxes by the States. For this reason, we consider it appropriate that a revenue program designed to meet emergency defense costs rely heavily on ability-to-pay taxes so that the entire system might be brought into better balance.

After these changes are superimposed upon the present revenue system, roughly one-third will be derived from each of the three categories -- one-third from ability-to-pay taxes, one-third from corporate taxes, and one-third from commodity excises.

The importance of increasing our reliance upon the ability-to-pay taxes cannot be overstressed. Only through "ability-to-pay" taxes can tax burdens be distributed with careful regard to equity. Consumption taxes burden consumers without regard either to income or to family needs and responsibility and thus fail to meet the test of equity. However, the desirability of ability-to-pay taxes is not only a matter of attaining a fairer distribution of the increased and total tax load. Increasing reliance upon "ability-to-pay" taxes is essential if our economy is to continue at reasonably high levels of national income after the stimulus from our armament expenditures is reduced.

In the first full year of their operation the Treasury's revenue proposals are expected to yield approximately $3,600,000,000 of net additional revenue.

The yields of the individual items add to a total of approximately $4 billion. It should be noted, however, that the estimated yield of each of the items has been computed without reference to the interrelated effects of the several proposals. In some cases the imposition of one tax will decrease the yield of others. Thus an increase in the corporation tax will decrease the excess profits tax. Increases in corporation taxes and excess profits taxes will likewise decrease the yield of the individual income tax. We estimate that after an allowance for this factor the net yield of the proposed program will be approximately $3,600,000,000.

It should be noted that much of the increase in this tax will not be received during fiscal 1942. The lag in payments will delay the collection of about 40 percent of it until fiscal 1943.

This increase, it should be noted, is what we estimate would result from rate changes alone, over and above the higher revenue which the present rates would have yielded on the basis of improved business conditions of 1941 and 1942. The individual and corporation income taxes, the corporate excess profits tax, and the gift tax are estimated on the basis of calendar year 1941 levels of income, whereas the other taxes in general were estimated at business levels forecast for the fiscal year 1942.

Without allowance for the shrinkage (already indicated) the proposed increases in individual surtax rates will raise approximately $1,521,000,000, the increased estate and gift tax rates and reduced exemptions $347 million, and the increased corporation taxes, including both the excess profits tax and the corporation income tax, nearly $935 million. The remaining $1,233,000,000 would be raised from commodity excises, approximately $188 million coming from tobacco, $178 million from liquor, and $867 million from other excise taxes.

In the individual income tax it is proposed to make surtaxes applicable with the first dollar of taxable income and to increase the surtax rates up to the $750,000 income level. No change is proposed in the normal tax because any increase in that tax would not affect the interest received on partially tax-exempt Federal securities.

At the close of the last fiscal year the amount of such securities outstanding totaled $35 billion, $8 billion of which was in the hands of individuals. These securities are exempt from the normal tax but not from the surtax, and any increase in the rates of the normal tax as opposed to the surtax would enhance the value of the tax exemption.

The proposals leave the personal exemptions unchanged. You will recall that the exemptions were substantially decreased by the Revenue Act of 1940. As a result of that Act, approximately 8,200,000 new returns will be filed in 1941, and there will be nearly 4,000,000 new taxpayers.

The proposed increases in the personal income taxes are substantial. On the first bracket of income above personal exemptions, the combined surtax, normal tax and defense tax rate is 16.5 percent as compared with 4.4 percent under present law. Increases are proposed throughout much of the rate schedule but they taper off as the very high rates of the higher brackets are reached. Under present law, a married person with no dependents and a net income before personal exemption of $2,500 pays a tax of $11; the proposed schedule will raise his tax to $72 or 2.9 percent of his net income. The same person with a $5,000 net income pays $110 under the present law. Under the proposal he would pay $506 or an effective rate of 10.1 percent. For a married person having no dependents with a $10,000 income, the proposed schedule will increase the tax from $528 to $1,628, an effective rate of 16.3 percent.

In the consideration of these rates, I suggest that particular attention be paid not to the percentage of increase but to the amount of the tax and the effective rate of tax burden. While in some of the lower brackets the increases are several-fold, the proportion of the income represented by the total tax is not unduly large.

During the past few months hundreds of thousands of young men have been inducted into the armed services of the United States and have entered training camps. In doing so they have foregone earnings in civilian occupations and now receive a basic pay of $30 per month. Whether these men came from farms, factories, banks or professional offices, they have surrendered a far greater part of their potential earnings than will be called for from anyone under this bill. The man who earns a net income of $2,500 outside the armed services has $2,330 left after payment of the proposed income tax. If he is in the armed services his income will be $360. The man who earns $5,000 in civilian life will have $4,252 left, as contrasted to the $360. If he earns $10,000 he will have $8,042 left. The taxes called for by these proposals are light indeed as compared to the sacrifices which large numbers are undergoing in entering military services.

The proposed estate and gift tax revisions are estimated to yield $347 million. This would be obtained by increasing the estate and gift tax rates, and by reducing from $40,000 to $25,000 the specific exemption under the estate tax and the gift tax, and the insurance exclusion under the estate tax.

The adoption of these proposals would increase the tax on a $50,000 net estate before exemption from $220 to $2,860. A net estate of $100,000 now pays $4,620; under the proposal it would pay $15,290. In the case of a million-dollar estate, the tax liability would be increased from $228,780 to $442,455. These figures refer to the Federal tax liability before deductions for taxes paid to States.

The changes in the gift tax would yield small amounts of revenue beginning in fiscal year 1942. The estate tax changes, however, would not begin to yield revenue until fiscal year 1943.

It is suggested that the excess profits tax be made more effective and more productive. In a period like this when, on the one hand, the defense program is giving rise to substantial profit increases and, on the other hand, heavy additional taxes are being imposed on everyone, it is highly desirable that the profits directly or indirectly attributable to the defense program, as well as all excessive profits, should be subject to special taxation.

Due to extensions in the date of return filing necessitated by the recent amendments to the Excess Profits Tax Act the returns are just beginning to be received in Washington. In the light of what is already known, however, it is believed that the revenue can be increased $400 millions through reductions in credit (particularly in the case of invested capital) and increases in rates.

In order that some of the additional tax burden be borne by all corporations with net income, it is proposed also to increase the general corporation income tax. In this connection, however, it is important to keep in mind that in the past many financial corporations have received practical exemption from the income tax due to their ownership of tax-exempt securities. A large volume of these securities is in the form of partially tax-exempt Federal securities. At present, approximately $20 billion of such securities are held by corporations that are subject to the Federal income tax. When these securities were purchased it was not anticipated, either by the Government or by corporations, that the tax benefit from them would be as great as it is. It is undesirable that any additional tax benefit be granted by increasing the normal rate on corporations. Accordingly, it is suggested that an increase in the corporate tax rate be made in the form of a surtax at the rate of 5 percent on the first $25,000 of net income and 6 percent on the balance. This will yield $535 million.

In the field of excise taxation, it is proposed that a number of new taxes be imposed and the rates of some existing taxes be increased. We have endeavored to avoid excises which would fall on the basic necessities of life and excises which, while productive, would constitute an increase in the cost of doing business and thus would be passed on to the Government and to the public in general price increases. We have, however, selected certain luxury articles which, though widely used, are not necessities. It is suggested that in the light of our over-all revenue requirements the users of these articles may now be asked to pay additional taxes. The list of these excises is limited by the difficulty of finding commodities consumed in sufficient quantities to bring in revenue commensurate with the expense of administration. Undoubtedly, the Committee will want to consider the possibility of adding other commodities to the list.

It is suggested that an additional 1½ cents a package be added to the tax on cigarettes and that the rates on cigars, tobacco and snuff, not increased since 1918, be doubled. These increases will yield approximately $200 million.

In the category of liquor taxation, it is proposed to impose an additional tax of $1 per gallon on distilled spirits, $1 per barrel on fermented malt liquors, and a 16-2/3 percent increase on wines, cordials and liqueurs, these three classes to yield collectively $178 million.

Other increases in existing excises and new excises to yield $867 million are proposed in accordance with the following schedule.